Western Oregon Advanced Health, LLC

FINANCIAL STATEMENTS
(Stand-alone financial statements)

For the Year Ended December 31, 2014 & 2013

Western Oregon Advanced Health, LLC (WOAH)
December 31, 2014 & 2013

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READ & BOSE, PC
CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITOR'S REPORT

TO THE MEMBERS OF
Western Oregon Advanced Health, LLC (WOAH)
Coos Bay, Oregon

We have audited the accompanying consolidated financial statements of Western Oregon Advanced Health, LLC (WOAH) and subsidiary, which comprise the consolidated balance sheets as of December 31, 2014 and 2013, and the related consolidated statements of comprehensive income, members' equity, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of WOAH, LLC and subsidiary as of December 31, 2014 and 2013, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Read & Bose, PC

Pendleton, Oregon
June 23, 2015

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WESTERN OREGON ADVANCED HEALTH, LLC (WOAH)
CONSOLIDATED BALANCE SHEETS
December 31, 2014 and 2013

	2014	2013
ASSETS		
Current Assets		
Cash and cash equivalents	$ 4,273,743	$ 1,758,590
Health care and other accounts receivable	587,915	470,841
Prepaids and other assets	658,917	193,927
Total current assets	5,520,575	2,423,358
Assets Limited as to Use		
Cash and cash equivalents - contractual reserves	364,000	52,911
Investments - contractual reserves	1,148,051	1,446,301
Accrued interest - contractual reserves	10,979	11,519
Total assets limited as to use	1,523,030	1,510,731
TOTAL ASSETS	$ 7,043,605	$ 3,934,089
LIABILITIES AND EQUITY		
Accounts payable and accrued expenses	$ 479,514	$ 180,889
Health care payables	1,370,836	701,851
Distribution payable	428,931	218,101
Deferred revenue	792,565	119,337
Total current liabilities	3,071,846	1,220,178
Members' Equity		
Member capital	4,051,494	2,010,000
Accumulated other comprehensive income	(79,735)	(62,920)
Units subscribed, net of subscriptions receivable	-	288,000
Retained earnings	-	478,831
Total members' equity	3,971,759	2,713,911
TOTAL LIABILITIES AND EQUITY	$ 7,043,605	$ 3,934,089

The accompanying notes are an integral part of these financial statements.

WESTERN OREGON ADVANCED HEALTH, LLC (WOAH)
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
For the years ended December 31, 2014 and 2013

	2014	2013
REVENUES:		
Medicaid premium, net of pass thru expenses	$ 96,758,725	$ 51,938,681
Quality incentive payments	1,282,648	-
IT project revenue	170,247	21,241
Investment income, net of investment expenses	40,481	43,731
Realized losses on sales of investments	(4,440)	-
Total revenues	98,247,661	52,003,653
MEDICAL EXPENSES:		
Quality incentive payouts	1,226,397	-
Capitated claims expenses, net of recoveries	87,361,942	46,709,697
Total medical expenses	88,588,339	46,709,697
ADMINISTRATIVE EXPENSES:		
Physical health medical management	5,745,017	3,072,903
Mental health medical management	738,924	662,989
Dental health medical management	436,674	103,206
Legal and professional services	191,200	144,470
IT project expense	170,247	21,245
Medical program expenses	51,306	65,737
Administrative contract services	976,783	520,055
Office and adminstrative expenses	35,511	-
Leased employees and stipends	72,000	32,500
Insurance	11,945	13,680
Contributions	12,210	5,000
Other expenses	-	906
Total administrative expenses	8,441,817	4,642,691
Net Income	$ 1,217,505	$ 651,265
OTHER COMPREHENSIVE INCOME		
Unrealized losses on investments:		
Unrealized holding losses arising during the year	(21,255)	(37,167)
Reclassification adjustment for losses included in net income	4,440	-
Total other comprehensive income	(16,815)	(37,167)
Total comprehensive income	$ 1,200,690	$ 614,098

The accompanying notes are an integral part of these financial statements.

WESTERN OREGON ADVANCED HEALTH, LLC (WOAH)
CONSOLIDATED STATEMENTS OF MEMBERS' EQUITY
For the Years Ended December 31, 2014 and 2013

	Ownership/Member Capital		Units Subscribed		Accumulated other	Retained	Total
	Units	Amount	Units	Amount	Comprehensive income	Earnings	Equity
Balance, December 31, 2012	60,000	$ 2,010,000	-	$ -	$ (25,753)	$ 45,667	$ 2,029,914
Capital contribution							-
Units subscribed			35,000	1,120,000			1,120,000
Subscriptions receivable			(26,000)	(832,000)			(832,000)
Distribution						(218,101)	(218,101)
Change in unrealized investments					(37,167)		(37,167)
Net income						651,265	651,265
Balance, December 31, 2013	60,000	$ 2,010,000	9,000	$ 288,000	$ (62,920)	$ 478,831	$ 2,713,911
Units subscribed			5,000	160,000			160,000
Payment received on subscriptions receivable			26,000	832,000			832,000
Subscriptions converted to units of ownership	40,000	1,280,000	(40,000)	(1,280,000)			-
Distribution of capital to SWOIPA, dba DOCS		(505,911)					(505,911)
Reclassify retained earnings to members' capital		478,831				(478,831)	-
Subtotal after recapitalization	100,000	3,262,920	-	-	(62,920)	-	3,200,000
Distribution		(428,931)					(428,931)
Change in unrealized investments					(21,255)		(21,255)
Reclassification for previously unrealized losses on securities					4,440		4,440
Net income		1,217,505					1,217,505
Balance, December 31, 2014	100,000	$ 4,051,494	-	$ -	$ (79,735)	$ -	$ 3,971,759

The accompanying notes are an integral part of these financial statements.

WESTERN OREGON ADVANCED HEALTH, LLC (WOAH)
CONSOLIDATED STATEMENTS OF CASH FLOWS
For the Years Ended December 31, 2014 and 2013

	2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$ 1,217,505	$ 651,265
Adjustments to reconcile net income to net cash provided by operating activities:		
Loss on sale of investments - contractual reserves	4,440	-
Earnings on investments - contractual reserves	(33,554)	(43,107)
Changes in operating assets and liabilities:		
Healthcare and other accounts receivable	(117,074)	(262,783)
Other assets	(464,990)	(178,189)
Accounts payable and other accrued expenses	298,625	136,880
Healthcare payables	668,985	192,927
Deferred revenue	673,228	119,337
Net cash provided (used) by operating activities	2,247,165	616,330
CASH FLOWS FROM INVESTING ACTIVITIES:		
Redemption of investments - contractual reserves	270,000	-
Increase in cash and cash equivalents - contractual reserves	(270,000)	-
Net cash provided (used) in investment activities	-	-
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from capital contributions	992,000	-
Distribution to members	(724,012)	-
Proceeds from units subscribed	-	288,000
Net cash provided (used) by financing activities	267,988	288,000
NET INCREASE IN CASH AND CASH EQUIVALENTS	2,515,153	904,330
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	1,758,590	854,260
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 4,273,743	$ 1,758,590

The accompanying notes are an integral part of these financial statements.

WESTERN OREGON ADVANCED HEALTH, LLC (WOAH)
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2014 & 2013

1. Organization and Summary of Significant Accounting Policies:

Western Oregon Advanced Health, LLC (WOAH) was organized in the State of Oregon as a Coordinated Care Organization (CCO) in May of 2012 and began operations in August of 2012. WOAH is currently under contract with the State of Oregon Department of Human Resources, Division of Medical Assistance Programs (DMAP) and the Oregon Health Authority (OHA) to provide physical, mental and dental health coverage under the Oregon Health Plan (OHP) to enrollees in Coos County and northern Curry County, Oregon. The contract has been renewed through December 2018. The Organization contracts with independent Risk Accepting Entities (RAE) to provide, or arrange to provide, physical, dental and mental health coverage under Oregon Health Plan (OHP) on a fully capitated basis.

South Coast Technical Innovations, LLC (SCOTI, LLC) is 100% owned by WOAH, LLC and is combined in these financial statements. SCOTI, LLC is developing or leasing electronic records imaging for medical services. SCOTI, LLC is funded through a transformation grant.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents

Cash and cash equivalents include cash on hand and demand deposits with financial institutions. At times during 2014, WOAH bank balances exceeded FDIC limits.

Accounts Receivable

Accounts receivable are stated at the amount management expects to collect from balances outstanding at year end. Management has concluded that realized losses on balances outstanding at year end will be immaterial. Accordingly, no allowance for doubtful accounts has been recorded.

Fair Value Measurements

WOAH has various financial instruments that must be measured at fair value on a recurring basis, including certain marketable securities. See Footnote No. 3 “Investments,” for further information. WOAH also applies the provisions of fair value measurement to various non-recurring measurements for financial and non-financial assets and liabilities.

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (an exit price). The Company measures its assets and liabilities using inputs from the following three levels of the fair value hierarchy:

1. Organization and Summary of Significant Accounting Policies (continued):

Level 1 inputs are unadjusted quoted prices in active markets for identical assets or liabilities that the Company has the ability to access at the measurement date.

Level 2 inputs include quoted prices for similar assets and liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable for the asset or liability (i.e., interest rates, yield curves, etc.), and inputs that are derived principally from or corroborated by observable market data by correlation or other means (market corroborated inputs).

Level 3 includes unobservable inputs that reflects the Company's assumptions about what factors market participants would use in pricing the asset or liability. The Company develops these inputs based on the best information available, including its own data.

Investments

Investments held by WOAH include brokered certificates of deposit and municipal debentures which are classified as available for sale investments. Investments are reported at fair value, with unrealized gains and losses excluded from earnings and reported as other comprehensive income or loss, net of taxes. The certificates of deposit are brokered certificates and are adjusted to fair value.

Under the state contract, WOAH must establish restricted reserve funds to cover claims liability in case the Company becomes insolvent. WOAH must maintain a primary and secondary reserve to cover the minimum reserve requirements and additional reserve requirements based on the average monthly fee for service liabilities of the Company.

Revenue, Medical Cost and Administrative Cost Recognition

Revenue is recognized over the period of which services are agreed to be provided. WOAH is fully capitated for Medicaid premium in Coos and Northern Curry County. WOAH is also paid quality incentive revenues based on medical data and outcomes. Grant revenue on the cost-reimbursement grant received is recognized when qualifying costs are incurred.

WOAH contracts under a fully capitated model, based on a percentage of premium, with the following RAEs: Southwest Oregon IPA (SWOIPA), dba Doctors of the Oregon Coast South (DOCS), Coos County Mental Health Department, Curry County Mental Health Department, and Advantage Dental.

1. Organization and Summary of Significant Accounting Policies (continued):

The cost of administrative services for certain medical management and administrative function is also paid based on a percentage of the premium to DOCS and mental health counties. Other direct costs are paid directly to consultants for management of the company.

WOAH also has developed risk contracts based on an income target set by the Board of Directors.

Quality Management Performance Measures Incentive Revenue

OHA has established a quality pool as part of the agreement with the Center for Medicare and Medicaid Services (CMS). The quality pool holds CCOs responsible for spending on health care as well as quality of care provided. Each CCO is eligible for a maximum amount of quality pool funds up to three percent and two percent of their actual paid premiums for the calendar years 2014 and 2013, respectively, computed based on incentive measures and benchmarks (metrics). In addition, CCOs have the opportunity to share in any remaining unallocated quality pool funds known as challenge pool funds. As these amounts are subject to final determination and approval by the Oregon Health Authority, the Company has chosen to record any revenue received from these incentive pools in the period determined and paid by the Oregon Health Authority.

Capitated Claims Expense

Purchased healthcare consists of sub-capitation, maternity case rate and PCPCH paid or due to the RAEs. The amount paid in purchased healthcare is based upon the revenue earned less an administrative fee. Amounts paid in purchased healthcare to the RAEs are intended to cover all related physical, dental and mental health care costs, any administrative costs, and any net gain or losses realized by the RAEs.

Income Taxes

Effective January 1, 2014, WOAH became a partnership for tax purposes. Prior to January 1, 2014 WOAH was a single member limited liability company. There is no provision for federal or state income taxes for the year recorded on these financial statements. The company has evaluated its income tax positions as of December 31, 2014 and determined that it does not have any uncertain income tax positions for which unrecognized tax liability should be recorded. The Company's federal and state income tax returns are subject to possible examination by the taxing authorities until the expiration of the related statutes of limitations on those tax returns. In general, the federal and state income tax returns have a three year statute of limitations. WOAH has declared a distribution payment of $ 428, 931 and $218,101, respectively for 2014 an 2013 for taxes to member owners.

Deferred Revenue

The balance in this account consists of amounts collected from a grantor in connection with IT project expenditures to be incurred in subsequent years.

Reclassifications

Certain prior year amounts have been reclassified to conform with the current year presentation.

WESTERN OREGON ADVANCED HEALTH, LLC (WOAH)
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2014 & 2013

Principles of Consolidation

The consolidated financial statements include the accounts of SCOTI, LLC, a wholly owned subsidiary, which is undertaking an information technology project funded by the state. All significant intercompany accounts and transactions have been eliminated in consolidation.

2. Subsequent Events

Subsequent events have been evaluated through June 23, 2015, which is the date the financial statements were available to be issued. Subsequent to year end WOAH approved a distribution payment of $428, 931 and $218,101, respectively for 2014 and 2013, based on an established formula. Additionally, WOAH is in negotiations with Milliman to finalize a license agreement which would provide WOAH access to Milliman's PRM analytics software over a three year period beginning with the 2015 year. WOAH prepaid the initial startup fee and the first year's license fee prior to December 31, 2014.

3. Investments:

Investments consisted of the following at December 31:

	2014			
	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Municipal debentures	$ 1,027,761	$ -	$ (79,936)	$ 947,825
Certificates of deposit	200,025	201	-	200,226
Total investments	$ 1,227,786	$ 201	$ (79,936)	$ 1,148,051

	2013			
	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Municipal debentures	$ 1,109,171	$ -	$ (64,100)	$ 1,045,071
Certificates of deposit	400,050	1,180	-	401,230
Total investments	$ 1,509,221	$ 1,180	$ (64,100)	$ 1,446,301

3. Investments (continued):

Municipal debentures have contractual maturities ranging from April 2016 to June 2019. Certificates of deposit have contractual maturities to March 2015.

As stated in Note 1, the contract with OHA requires WOAH to establish a restricted reserve fund to cover claim liabilities in case the Company becomes insolvent. As of December 31, 2014 and 2013, there were no violations of this requirement.

4. Fair Value Measurements:

The table below shows WOAH's investments as of December 31, 2014 and 2013 measured at fair value on a recurring basis, and indicates the fair value hierarchy of the valuation techniques utilized by WOAH to determine such fair value. Assets and liabilities are considered to be "fair value on a recurring basis" if fair value is regularly measured.

	Fair Value Measurements at December 31, 2014			
	Level 1	Level 2	Level 3	Total Fair Value
Municipal debentures	$ -	$ 947,825	$ -	$ 947,825
Certificates of deposit	-	200,226	-	200,226
Total investments	$ -	$ 1,148,051	$ -	$ 1,148,051

	Fair Value Measurements at December 31, 2013			
	Level 1	Level 2	Level 3	Total Fair Value
Municipal debentures	$ -	$ 1,045,071	$ -	$ 1,045,071
Certificates of deposit	-	401,230	-	401,230
Total investments	$ -	$ 1,446,301	$ -	$ 1,446,301

While estimates of fair value are based on management's judgment of the most appropriate factors, there can be no assurance that, had WOAH disposed of such items at December 31, 2014 and 2013, the estimated fair values would necessarily have been achieved at that date. Since market values may differ depending on various circumstances, the estimated fair values as of December 31, 2014 and 2013 should not necessarily be considered to apply to subsequent dates.

5. Prepaids and Other Assets:

Prepaid expenses and other assets at December 31 consisted of the following:

	2014	2013
Note recievable	$ 153,264	$ -
Prepaid service contracts	505,653	193,927
Total prepaids and other assets	$ 658,917	$ 193,927

6. Note Receivable

Other assets include a note receivable from Waterfall Clinic, Inc. WOAH is providing financing to the clinic to provide cash flow for expanded operations while the clinic awaits payment on additional services performed. The note bears an interest rate of 4% and requires 24 monthly installments of $8,787 commencing on July 3, 2014, with the final payment plus accumulated interest due and payable on or before June 3, 2016.

7. Related Party Transactions:

The member owners of WOAH also provide the great majority of health care and administrative services under the medical services agreement between WOAH and the State of Oregon. They receive payments for services rendered to patients covered by the agreement. At the discretion of the WOAH board, they may also receive member distributions or other profit-sharing payments.

Medical services, and medical management and administrative services, incurred by WOAH for the year are paid to related parties, which are also member owners of the company. At December 31, 2014 and 2013, WOAH owed the member owners $ 1,090,265 and $627,870, respectively, for services provided. At December 31, 2014 and 2013 WOAH owed the member owners $ 423,020 and $180,889, respectively, for bonuses related to medical services.

8. Commitments and Contingent Liabilities:

Regulatory

There are significant financial and regulatory reporting requirements under the State of Oregon Contract. Management believes they are in compliance with all significant requirements material to contract.

8. Commitments and Contingent Liabilities (continued):

Concentration of Credit Risk

WOAH conducts business providing medical services only to patients in Coos and Curry Counties, Oregon.

WOAH's contracts with State of Oregon, as stated in Note 1, represent 100% of total revenues, with the exception of investment income.

WOAH delegates the insurance risk and administration of the assigned enrollees to the RAEs. Loss of a contract with one of the RAEs, most notably SWOIPA, which manages all of the physical health members, could materially affect the Company's ability to serve the assigned members.