

Western Oregon Advanced Health, LLC

CONSOLIDATED FINANCIAL STATEMENTS
(Stand-alone financial statements)

For the Years Ended December 31, 2015 & 2014

Western Oregon Advanced Health, LLC (WOAH)
CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2015 & 2014

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INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying consolidated financial statements of Western Oregon Advanced Health, LLC (an Oregon limited liability company) and subsidiary, which comprise the consolidated balance sheet as of December 31, 2015, and the related consolidated statements of comprehensive income, members' equity, and cash flows for the year then ended, and the related notes to the consolidated 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 audit. We conducted our audit 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 Western Oregon Advanced Health, LLC and subsidiary as of December 31, 2015, and the results of their operations and their cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Prior Period Financial Statements

The consolidated financial statements of Western Oregon Advanced Health, LLC as of December 31, 2014, were audited by other auditors whose report dated June 23, 2015, expressed an unmodified opinion on those statements.



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Bend, Oregon
June 27, 2016

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WESTERN OREGON ADVANCED HEALTH, LLC (WOAH)
CONSOLIDATED BALANCE SHEETS
December 31, 2015 and 2014

	<u>2015</u>	<u>2014</u>
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 6,588,139	\$ 4,273,743
Healthcare and other accounts receivable	1,390,523	587,915
Prepays and other assets	<u>50,815</u>	<u>658,917</u>
Total current assets	<u>8,029,477</u>	<u>5,520,575</u>
Assets Limited as to Use		
Cash and cash equivalents - contractual reserves	18,985	364,000
Investments - contractual reserves	1,502,834	1,148,051
Accrued interest - contractual reserves	<u>6,945</u>	<u>10,979</u>
Total assets limited as to use	<u>1,528,764</u>	<u>1,523,030</u>
TOTAL ASSETS	<u><u>\$ 9,558,241</u></u>	<u><u>\$ 7,043,605</u></u>
LIABILITIES AND MEMBERS' EQUITY		
Current Liabilities		
Accounts payable and accrued expenses	\$ 232,989	\$ 479,514
Healthcare and incentive payables	3,969,180	1,370,836
Distribution payable	495,126	428,931
Deferred revenue	<u>-</u>	<u>792,565</u>
Total current liabilities	<u>4,697,295</u>	<u>3,071,846</u>
Members' Equity		
Member capital	4,971,000	4,051,494
Accumulated other comprehensive loss	<u>(110,054)</u>	<u>(79,735)</u>
Total members' equity	<u>4,860,946</u>	<u>3,971,759</u>
TOTAL LIABILITIES AND MEMBERS' EQUITY	<u><u>\$ 9,558,241</u></u>	<u><u>\$ 7,043,605</u></u>

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

WESTERN OREGON ADVANCED HEALTH, LLC (WOAH)
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
For the Years Ended December 31, 2015 and 2014

	<u>2015</u>	<u>2014</u>
REVENUES:		
Medicaid premium, net of pass thru expenses	\$ 109,122,110	\$ 96,758,725
Quality incentive payments	3,449,486	1,282,648
IT project revenue	1,395,453	170,247
Investment income, net of investment expenses	40,344	40,481
Realized losses on sales of investments	-	(4,440)
	<u>114,007,393</u>	<u>98,247,661</u>
MEDICAL EXPENSES:		
Quality incentive payouts	3,208,022	1,226,397
Capitated claims expenses, net of recoveries	98,491,141	87,361,942
	<u>101,699,163</u>	<u>88,588,339</u>
ADMINISTRATIVE EXPENSES:		
Physical health medical management	6,323,782	5,745,017
Mental health medical management	1,079,278	738,924
Dental health medical management	491,386	436,674
Legal and professional services	224,418	191,200
IT project expense	1,395,493	170,247
Medical program expenses	65,000	51,306
Administrative contract services	1,221,233	976,783
Office and administrative expenses	2,083	35,511
Leased employees and stipends	72,000	72,000
Insurance	16,425	11,945
Contributions	2,500	12,210
	<u>10,893,598</u>	<u>8,441,817</u>
Net Income	\$ <u>1,414,632</u>	\$ <u>1,217,505</u>
OTHER COMPREHENSIVE LOSS		
Unrealized losses on investments:		
Unrealized holding losses arising during the year	(30,319)	(21,255)
Reclassification adjustment for losses included in net income	-	4,440
	<u>(30,319)</u>	<u>(16,815)</u>
Total comprehensive income	\$ <u><u>1,384,313</u></u>	\$ <u><u>1,200,690</u></u>

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

WESTERN OREGON ADVANCED HEALTH, LLC (WOAH)
CONSOLIDATED STATEMENTS OF MEMBERS' EQUITY
For the Years Ended December 31, 2015 and 2014

	Ownership/Member Capital		Units Subscribed		Accumulated Other Comprehensive Loss	Retained Earnings	Total Equity
	Units	Amount	Units	Amount			
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
Distribution		(495,126)					(495,126)
Change in unrealized investments					(30,319)		(30,319)
Net income		1,414,632					1,414,632
Balance, December 31, 2015	100,000	\$ 4,971,000	-	\$ -	\$ (110,054)	\$ -	\$ 4,860,946

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

WESTERN OREGON ADVANCED HEALTH, LLC (WOAH)
CONSOLIDATED STATEMENTS OF CASH FLOWS
For the Years Ended December 31, 2015 and 2014

	<u>2015</u>	<u>2014</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	\$ 1,414,632	\$ 1,217,505
Adjustments to reconcile net income to net cash provided by operating activities:		
Loss on sale of investments - contractual reserves	-	4,440
Loss on investments - contractual reserves	(26,285)	(33,554)
Changes in operating assets and liabilities:		
Healthcare and other accounts receivable	(802,608)	(117,074)
Prepays and other assets	608,102	(464,990)
Accounts payable and accrued expenses	(246,525)	298,625
Healthcare and incentive payables	2,598,344	668,985
Deferred revenue	<u>(792,565)</u>	<u>673,228</u>
Net cash provided by operating activities	<u>2,753,095</u>	<u>2,247,165</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Redemption (purchase) of investments - contractual reserves	(354,783)	270,000
(Increase) decrease in cash and cash equivalents - contractual reserves	<u>345,015</u>	<u>(270,000)</u>
Net cash used by investment activities	<u>(9,768)</u>	<u>-</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from capital contributions	-	992,000
Distribution to members	<u>(428,931)</u>	<u>(724,012)</u>
Net cash provided (used) by financing activities	<u>(428,931)</u>	<u>267,988</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	2,314,396	2,515,153
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>4,273,743</u>	<u>1,758,590</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	\$ <u><u>6,588,139</u></u>	\$ <u><u>4,273,743</u></u>

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

WESTERN OREGON ADVANCED HEALTH, LLC (WOAH)
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2015 & 2014

1. Organization and Summary of Significant Accounting Policies:

Western Oregon Advanced Health, LLC (WOAH) was organized in the State of Oregon in May of 2012 and began operations in August of 2012. WOA is currently under contract with the State of Oregon Department of Human Resources, Division of Medical Assistance Programs (DMAP) and the Oregon Health Authority to provide prepaid services to Coos County and northern Curry County, Oregon as a fully capitated health plan as a Coordinated Care Organization (CCO). The contract has been renewed through December 2016. South Coast Technical Innovations, LLC (SCOTI) is 100% owned by WOA and is combined in these consolidated financial statements. SCOTI is developing electronic records imaging for medical services. SCOTI is funded through a transformation grant.

Use of Estimates

The preparation of the consolidated financial statements in conformity with accounting principles generally accepted in the United States of America 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 consolidated 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 and 2015, WOA bank balances exceeded Federal Deposit Insurance Corporation (FDIC) limits. The company has purchased additional collateral certificates to support amounts exceeding FDIC limits.

Healthcare and Other Accounts Receivable

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

Fair Value Measurements

WOA has various financial instruments that must be measured at fair value on a recurring basis, including certain marketable securities. See Note 3 "Investments," for further information. WOA 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). WOA measures its assets and liabilities using inputs from the following three levels of the fair value hierarchy:

WESTERN OREGON ADVANCED HEALTH, LLC (WOAH)
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2015 & 2014

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

Fair Value Measurements (continued)

Level 1 inputs are unadjusted quoted prices in active markets for identical assets or liabilities that WOAAH 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 reflect WOAAH's assumptions about what factors market participants would use in pricing the asset or liability. WOAAH develops these inputs based on the best information available, including WOAAH's own data.

All financial instruments are valued at Level 1 inputs.

Investments

Investments held by WOAAH 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, WOAAH must establish restricted reserve funds to cover claims liability in case WOAAH becomes insolvent. WOAAH 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 WOAAH. This restricted reserve balance is required to be zero at year-end and thus no amount is reported in the consolidated financial statements as restricted on the consolidated balance sheets.

Revenue, Medical Cost and Administrative Cost Recognition

Revenue is recognized over the period in which services are agreed to be provided. WOAAH is fully capitated for Medicaid premium in Coos and Northern Curry Counties. WOAAH is also paid quality incentive revenues based on medical data and outcomes.

WOAH contracts with Southern Oregon IPA dba Doctors of the Oregon Coast South (DOCS) for fully capitated services for the medical budget based on a % of premium for all physical health. WOAAH contracts with Coos and Curry mental health departments under a fully capitated model based on a % of premium for mental health. WOAAH contracts with Advantage Dental under a fully capitated model based on a % of premium for dental health. WOAAH contracts with Rogue Valley Transit District under a fully capitated model based on a % of premium for non-emergent medical transportation services.

WESTERN OREGON ADVANCED HEALTH, LLC (WOAH)
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2015 & 2014

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

Revenue, Medical Cost and Administrative Cost Recognition (continued)

The cost of administrative services for certain medical management and administrative functions is also paid based on % of premium to DOCS and county mental health departments. Other direct costs are paid directly to consultants for management of the company.

WOAH also has developed risk contracts that allow additional medical dollars based on an income target set by the Board of Directors.

Quality Management Performance Measures Incentive Revenue

Oregon Health Authority has established a quality pool as part of the agreement with the Center for Medicare and Medicaid Services. The quality pool holds CCOs responsible for spending on healthcare as well as quality of care provided. Each CCO is eligible for a maximum amount of quality pool funds up to three percent of their actual paid premiums computed based on incentive measures and benchmarks. 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, WOAHA records any revenue received from these incentive pools in the period determined and paid by the Oregon Health Authority.

Capitated Claims Expense

Capitated claims expense consists of sub-capitation, maternity case rate, and patient centered primary care home paid or due to medical providers. The amount paid is based upon the revenue earned less an administrative fee. Amounts paid to the medical providers are intended to cover all related physical, dental, and mental health costs, any administrative costs, and any net gain or losses realized by the medical providers.

Income Taxes

Effective January 1, 2014, WOAHA became a partnership for tax purposes. Prior to January 1, 2014, WOAHA was a single member limited liability company. As any taxable income or losses are passed through to the member owners, there is no provision for federal or state income taxes recorded on these consolidated financial statements. WOAHA has evaluated its income tax positions as of December 31, 2015 and 2014, and determined that it does not have any uncertain income tax positions for which unrecognized tax liability should be recorded. WOAHA'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. WOAHA has declared a distribution payment of \$495,126 and \$428,931, respectively for 2015 and 2014 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.

WESTERN OREGON ADVANCED HEALTH, LLC (WOAH)
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2015 & 2014

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

Principles of Consolidation

The consolidated financial statements include the accounts of SCOTI, 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:

Management evaluates events and transactions that occur after the consolidated balance sheet date as potential subsequent events. Management has performed this evaluation through the date of the independent auditor's report.

3. Investments:

Investments consisted of the following at December 31:

	2015			Fair Value
	Cost	Unrealized Gains	Unrealized Losses	
Municipal debentures	\$ 1,612,888	\$ -	\$ (110,054)	\$ 1,502,834
Total investments	\$ 1,612,888	\$ -	\$ (110,054)	\$ 1,502,834

	2014			Fair Value
	Cost	Unrealized Gains	Unrealized Losses	
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

Municipal debentures have contractual maturities ranging from April 2016 to June 2019.

As stated in Note 1, the state contract requires WOA to establish a restricted reserve fund to cover claim liabilities in case WOA becomes insolvent. As of December 31, 2015 and 2014, there were no restricted investments required by the State of Oregon.

**WESTERN OREGON ADVANCED HEALTH, LLC (WOAH)
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2015 & 2014**

4. Prepays and Other Assets:

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

	2015	2014
Note receivable	\$ 50,815	\$ 153,264
Prepaid service contracts	-	505,653
	\$ 50,815	\$ 658,917

5. Related Party Transactions:

As noted above, one of the owners of WOA, DOCS, is also a local individual practice association that provides the majority of health care and administrative services under the medical services agreement between WOA and the State of Oregon. These physicians receive payments for services rendered to patients covered by the agreement. At the discretion of the DOCS Board of Directors and the WOA board, they may also receive member distributions or other profit-sharing payments.

WOA's medical services, medical management and administrative services for the year are paid to related parties, which are also member owners of WOA. At December 31, 2015 and 2014, WOA owed DOCS \$1,431,929 and \$1,033,869, respectively, for services provided. At December 31, 2015 and 2014, WOA owed member owners \$693,636 and \$428,207 for bonuses related to medical services.

6. 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 the contract.

Concentration of Credit Risk

WOA conducts business only providing medical services to patients in Coos and Curry Counties, Oregon. WOA's contracts with the State of Oregon, as stated in Note 1, represent 100% of total revenues.