



Report of Independent Auditors and  
Financial Statements for

**Willamette Valley Community  
Health, LLC**

December 31, 2014 and 2013

**MOSS-ADAMS<sub>LLP</sub>**

Certified Public Accountants | Business Consultants

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## REPORT OF INDEPENDENT AUDITORS

To the Board of Directors  
Willamette Valley Community Health, LLC

### **Report on the Financial Statements**

We have audited the accompanying financial statements of Willamette Valley Community Health, LLC (WVCH), which comprise the balance sheets as of December 31, 2014 and 2013, and the related statements of income and changes in members' equity, and cash flows for the years ended December 31, 2014 and 2013, 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 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 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 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 audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the 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 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 financial statements.

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

## REPORT OF INDEPENDENT AUDITORS (continued)

### *Opinion*

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

Moss Adams LLP

Portland, Oregon

June 12, 2015

**WILLAMETTE VALLEY COMMUNITY HEALTH, LLC**  
**BALANCE SHEETS**

**ASSETS**

	December 31,	
	2014	2013
<b>CURRENT ASSETS</b>		
Cash	\$ 22,533,101	\$ 3,617,438
Capitation receivable	-	2,977,614
Maternity case rate receivable	2,101,174	3,224,922
Quality incentive receivable	6,738,021	3,234,700
Receivables from members	5,313,256	971,590
Pharmacy risk sharing receivable	-	586,858
Other receivables	9,318	741,101
Other assets	5,241	-
Prepaid expenses	39,466	32,085
	<b>36,739,577</b>	<b>15,386,308</b>
<b>ASSETS LIMITED AS TO USE</b>		
Cash and cash equivalents – contractual reserves	5,268,554	5,261,075
	<b>5,268,554</b>	<b>5,261,075</b>
<b>TOTAL ASSETS</b>	<b>\$ 42,008,131</b>	<b>\$ 20,647,383</b>

**LIABILITIES AND MEMBERS' EQUITY**

<b>CURRENT LIABILITIES</b>		
Hospital reimbursement adjustment liability	\$ 326,020	\$ 592,443
Medical and pharmacy claims payable	3,279,936	1,658,875
Special needs risk group payable	1,970,031	-
Pharmacy risk share payable	3,246,471	-
Capitation payable	-	2,555,208
Maternity case rate payable	1,442,759	4,052,889
Quality incentive payable	5,929,458	2,695,584
Withhold risk pool return payable	2,123,232	1,069,932
Case rate payable	466,375	-
Accounts payable and accrued expenses	384,256	133,772
Unearned revenue	844,985	-
	<b>20,013,523</b>	<b>12,758,703</b>
<b>MEMBERS' EQUITY</b>	<b>21,994,608</b>	<b>7,888,680</b>
<b>TOTAL LIABILITIES AND MEMBERS' EQUITY</b>	<b>\$ 42,008,131</b>	<b>\$ 20,647,383</b>

**WILLAMETTE VALLEY COMMUNITY HEALTH, LLC**  
**STATEMENTS OF INCOME AND CHANGES IN MEMBERS' EQUITY**

	Years Ended December 31,	
	2014	2013
<b>REVENUE</b>		
Capitation and case rate contract revenue	\$ 407,853,469	\$ 233,030,686
Quality incentive revenue	8,490,565	3,234,700
Grant revenue	1,139,615	-
Interest income	7,479	4,996
Hospital reimbursement adjustment	(48,626,938)	(34,240,003)
Managed care organization taxes	-	(1,697,666)
	<u>368,864,190</u>	<u>200,332,713</u>
<b>COST OF SERVICES</b>		
Purchased healthcare	265,879,243	128,202,578
Claims expense, net of reinsurance recoveries	17,546,259	28,250,659
Pharmacy expense	39,043,790	22,562,064
Quality incentive expense	7,428,071	2,702,809
Exceptional needs care coordination (ENCC) expense	426,884	423,345
	<u>330,324,247</u>	<u>182,141,455</u>
	<u>38,539,943</u>	<u>18,191,258</u>
<b>EXCESS OF REVENUE OVER COST OF SERVICES</b>		
<b>GENERAL AND ADMINISTRATIVE EXPENSES</b>		
Purchased administration services	22,480,546	14,092,976
Salaries and payroll benefits	218,649	-
Grant expenses	1,139,615	-
Other expenses	595,205	556,918
	<u>24,434,015</u>	<u>14,649,894</u>
	<u>14,105,928</u>	<u>3,541,364</u>
<b>NET INCOME</b>		
MEMBERS' EQUITY, beginning of the year	<u>7,888,680</u>	<u>4,347,316</u>
MEMBERS' EQUITY, end of the year	<u><u>\$ 21,994,608</u></u>	<u><u>\$ 7,888,680</u></u>

**WILLAMETTE VALLEY COMMUNITY HEALTH, LLC**  
**STATEMENTS OF CASH FLOWS**

	Years Ended December 31,	
	2014	2013
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net income	\$ 14,105,928	\$ 3,541,364
Changes in assets and liabilities:		
Capitation receivable	2,977,614	(2,977,614)
Maternity case rate receivable	1,123,748	140,109
Quality incentive receivable	(3,503,321)	(3,234,700)
Receivable from members	(4,341,666)	1,687,672
Risk sharing receivable	586,858	(586,858)
Other receivables	731,783	(635,788)
Other assets	(5,241)	
Prepaid expenses	(7,381)	(8,595)
Hospital reimbursement adjustment liability	(266,423)	(2,787,848)
Medical and pharmacy claims payable	1,621,061	(9,968,792)
Special needs risk group payable	1,970,031	-
Pharmacy risk share payable	3,246,471	-
Capitation payable	(2,555,208)	2,555,208
Maternity case rate payable	(2,610,130)	4,052,889
Quality incentive payable	3,233,874	2,695,584
Withhold risk pool return payable	1,053,300	1,069,932
Case rate payable	466,375	(522,572)
Accounts payable and accrued expenses	250,484	(42,726)
Deferred revenue	844,985	-
	<u>18,923,142</u>	<u>(5,022,735)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Cash and cash equivalents - contractual reserves	<u>(7,479)</u>	<u>(176,405)</u>
<b>NET CHANGE IN CASH AND CASH EQUIVALENTS</b>	18,915,663	(5,199,140)
<b>CASH AND CASH EQUIVALENTS, beginning of year</b>	<u>3,617,438</u>	<u>8,816,578</u>
<b>CASH AND CASH EQUIVALENTS, end of year</b>	<u><u>\$ 22,533,101</u></u>	<u><u>\$ 3,617,438</u></u>

# **WILLAMETTE VALLEY COMMUNITY HEALTH, LLC**

## **NOTES TO FINANCIAL STATEMENTS**

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### **Note 1 – Description of Operations**

Willamette Valley Community Health, LLC (WVCH) is an Oregon limited liability company organized in April 2012 as a Coordinated Care Organization (CCO) as defined in the Oregon statutes. The purpose of WVCH is to integrate community-based healthcare to achieve better care, better health, and lower costs for the Medicaid population in the Marion and Polk counties of Oregon. WVCH began operations August 1, 2012.

WVCH entered into a risk contract with the State of Oregon, acting by and through Oregon Health Authority (OHA), effective August 1, 2012, to provide physical and mental health coverage for Marion County and Polk County enrollees of the Oregon Health Plan (OHP), which is administered by the Division of Medical Assistance Program (DMAP) of the Oregon Department of Human Services. These services were expanded to include dental coverage under a new OHA contract expiring on December 31, 2018. WVCH started to offer dental coverage to three Dental Care Organization (DCO)'s on October 1, 2013 and subsequently added the fourth DCO on July 1, 2014. During 2014, the OHA contract was further amended, and WVCH assumed responsibility for an additional service, non-emergent medical transportation (NEMT). This benefit was implemented on July 1, 2014.

In 2012, the Centers for Medicaid & Medicare (CMS) approved Oregon's 1115 Medicaid Waiver that was necessary to implement Medicaid transformation in Oregon, in conjunction with the Patient Protection and Affordable Care Act (ACA). Changes under the CMS Medicaid Waiver and ACA significantly increased Medicaid eligibility in the state of Oregon beginning in 2014. As a result, WVCH experienced a significant increase in membership due to increased Medicaid eligibility in the state of Oregon.

WVCH contracts with several providers through fee-for-service and sub-capitation arrangements, to provide covered health services to enrollees.

### **Note 2 – Summary of Significant Accounting Policies**

**Basis of accounting and presentation** – The accompanying financial statements have been prepared in accordance with Generally Accepted Accounting Principles in the United States of America (U.S. GAAP), whereby revenues are recognized when earned and expenses are recognized when an obligation is incurred.

**Use of estimates** – In preparing the financial statements in conformity with U.S. GAAP, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the date of the balance sheet, and revenues and expenses for the reporting period. Actual results could differ from those estimates and assumptions.

Significant estimates in these financial statements include maternity case rate receivable and payable, Special Needs Rate Group (SNRG) payable, quality incentive receivable and payable, and medical and pharmacy claims payable.

**WILLAMETTE VALLEY COMMUNITY HEALTH, LLC**  
**NOTES TO FINANCIAL STATEMENTS**

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**Note 2 – Summary of Significant Accounting Policies (continued)**

**Concentrations of risk** – Financial instruments, which potentially subject WVCH to concentrations of credit risk, consist of cash and cash equivalents. WVCH maintains its cash in accounts that, at times, may exceed federally insured limits. WVCH makes such deposits with high credit quality entities and has not incurred any losses in such accounts.

WVCH's revenues are received almost entirely from the contract with OHA. A reduction in rates paid under this contract or a loss of the contract due to non-renewal, federal or state policy changes or decreased legislative funding could materially affect the financial position of WVCH. The current OHA contract is effective through December 31, 2018.

WVCH delegates the insurance risk and administration of the assigned enrollees to the other member entities. Loss of a contract with one of these entities, most notably WVP Health Authority, who manages approximately 79.7% of WVCH's members, could materially affect the WVCH's ability to serve the assigned members.

WVCH's personnel, members, and provider networks are geographically concentrated in the Marion and Polk counties of Oregon.

**Cash and cash equivalents** – Management considers cash and cash equivalents to include cash in the bank or short-term investments in highly liquid instruments such as money market accounts and commercial paper purchased with an original maturity of three months or less from the date of purchase.

**Cash and cash equivalents – contractual reserves** – These contractual reserves are maintained to meet the primary and secondary reserves requirements under the OHA contract. OHA requires the reserves to be held and used for the purpose of making payments to providers in the event of WVCH's insolvency.

**Receivables** – Receivables consist primarily of amounts owed to WVCH for patient centered maternity case rate premiums, quality incentive, and capitated contract claims. WVCH does not require collateral or other security to support the recorded receivables amounts. Management has determined no allowance is deemed necessary for uncollectible accounts.

**Medical and pharmacy claims payable** – The medical and pharmacy claims payable liability represents an estimate of claims incurred but not reported and is based on experience statistics related to the nature and volume of work performed. Management periodically evaluates the estimated liability in order to maintain it at a level that is sufficient to absorb probable incurred, but not reported, claims. Management's evaluation of the adequacy of the estimate is based on an analysis of claims paid after the balance sheet date and an actuarial review of historical claims experience.

## **WILLAMETTE VALLEY COMMUNITY HEALTH, LLC**

### **NOTES TO FINANCIAL STATEMENTS**

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#### **Note 2 – Summary of Significant Accounting Policies (continued)**

Actual results from estimates of accrued medical claims payable resulted in an increase of 2013 claims expenses of approximately \$150,000. This increase has been appropriately included as an increase in claims expense during 2014. Actual results from estimates of accrued medical claims payable resulted in unreported income of approximately \$1,900,000 in 2012. This change has been appropriately included as a reduction claims expense during 2013.

**Pharmacy risk share receivable and payable** – As part of the sub-capitation arrangements with various members, WVCH has a 50% risk sharing arrangement for pharmacy expenses with members. WVCH pays pharmacy expenses throughout the year and also retains the revenue received from OHA as part of the capitation payments. At yearend pharmacy expenses are compared to the capitation payments received from OHA and any payments received in excess of expenses are shared 50% with the sub-capitation members. If expenses are in excess of the payments received from OHA, the expenses are shared 50% with participating sub-capitation members. As of December 31, 2014 capitation payments received exceeded pharmacy expenses therefore a liability was recorded of \$3,246,471 and as of December 31, 2013 a receivable was recorded of \$586,858 due to pharmacy expenses exceeding capitation payments received from OHA.

**Withhold risk pool return payable** – WVCH has entered into withhold arrangements with sub-capitated members whereby amounts are withheld from provider payments as claims are processed. At yearend if revenue exceeds claims expense, the withhold is returned to the providers. As of December 31, 2014 and 2013 \$2,123,232 and \$1,069,932, respectively, was recorded as a liability to be returned to providers.

**Revenue recognition** – Premiums and administration fees earned from capitation payments received from the OHA contract are recognized in the period in which WVCH is obligated to provide services to members. Maternity case rate premiums are recognized in the period that a birth occurs.

Hospital Reimbursement Adjustment (HRA) and Managed Care Organization (MCO) tax revenue are received as part of the premium payment and are recorded in capitated revenue when received. HRA and MCO received are to be paid in full to designated entities and are also recorded as a liability and expense upon receipt. The expense is netted with the capitated revenue.

HRA and MCO tax receipts for the years ended December 31, 2014 and 2013 are \$48,626,938 and \$35,937,669, respectively. HRA and MCO taxes received but not paid out prior to December 31, 2014 and 2013 are recorded as hospital reimbursement adjustment liability. The MCO tax was discontinued on September 30, 2013. There are no remaining unpaid amounts related to the MCO tax at December 31, 2014.

**WILLAMETTE VALLEY COMMUNITY HEALTH, LLC**  
**NOTES TO FINANCIAL STATEMENTS**

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**Note 2 – Summary of Significant Accounting Policies (continued)**

Special Needs Rate Groups (SNRG) – WVCH receives a specific case rate for patients who have been identified with specific high-risk medical conditions. The Special Needs Rate Groups case rates are paid to the CCOs and then monitored against actual claims, to provide a revenue risk corridor protection for the CCOs and State as this newer rate group risk was transferred to the CCOs in 2013. The SNRG risk corridor is structured to reimburse CCOs with actual claims costs that exceed revenues, and inversely to recoup revenues exceeding actual claims costs. Completion for data submissions to OHA for the SNRG risk corridor are due no later than June 30, 2015 for both calendar year 2013 and 2014 risk corridor periods. Initial settlement estimates for 2014 and 2013 include a payable due to OHA of \$1,970,031 and \$0, respectively.

CCO Minimum Medical Loss Ratio requirements for the ACA Expansion Population – Effective July 1, 2014 the State requires a minimum medical loss ratio (MMLR) of 80% on the ACA expansion population rate groups. Specifically, WVCH is required to expend at least 80% of the capitation revenue received for this population on allowable medical expenses. The initial reporting period under the CCO contract for this new requirement is 18 months: July 1, 2014 – Dec 31, 2015, with claims run-out through March 31, 2016 and final reporting submissions due by June 30, 2016. Subsequent years are to be calculated based upon the calendar year. The terms of the ACA MMLR requirement is pending CMS approval, so the terms and conditions of the requirement are subject to change. Reliable estimates for any potential recoupments owed by WVCH for the initial 6 months are not currently determinable. Should the CCO be below the required MMLR for the measurement period, the CCO will need to recoup the funds from the members to remit back to the State. Total ACA premium revenues from July 1, 2014 to December 31, 2014 total \$166,499,764.

**Grant revenue** – Grant revenue is recognized when qualifying costs are incurred for cost-reimbursement grants or contracts or when a unit of service is provided for performance grants.

Assertive Community Treatment (ACT) and System of Care Wraparound Initiative (Wraparound) – Effective March 2014, WVCH began participating in the expansion of Assertive Community Treatment (ACT) and System of Care Wraparound Initiative (Wraparound) programs. These programs were implemented to improve community's capacity to provide ACT and Wraparound treatment services for adults suffering from serious and persistent mental illness and children with complex behavioral health issues. Under OHA agreement, the maximum award for the period of March 1, 2014 through June 30, 2015 is \$575,000. These grants are accounted for as revenue in the period the conditions are satisfied. The related program expenses are accrued as incurred. For the year ended December 31, 2014, WVCH recognized \$537,500 in revenue and expense related to this grant.

## **WILLAMETTE VALLEY COMMUNITY HEALTH, LLC**

### **NOTES TO FINANCIAL STATEMENTS**

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#### **Note 2 – Summary of Significant Accounting Policies (continued)**

Transformation Funds – Effective December 2013, WVCH entered into a grant award contract with the Oregon Health Authority (OHA), for the purpose of funding health care transformational projects designed to support the Triple Aim of better health, better care, and lower costs. The award will be received between March 1, 2014 and June 30, 2015, with a total maximum funding amount of \$2,067,286. The funds are to be utilized by December 31, 2015. The grant is accounted for as revenue in the period the conditions are satisfied. The related program expenses are accrued as incurred. For the year ended December 31, 2014, WVCH recognized \$602,115 in revenue and expense related to this grant. As of December 31, 2014, WVCH had \$844,985 recorded as unearned revenue.

**Quality incentive revenue** – OHA established a quality pool as part of the agreement with CMS as required by the Special Term and Conditions (STCs) of Oregon’s Section 1115 demonstration. The quality pool holds CCOs responsible for spending on health care as well as quality of care provided. The total funding allocated to the 2013 quality pool was 2% of aggregate premium payments for the calendar year 2013 services paid through March 31, 2014. In 2014, quality pool increased to 3% of aggregate premium payments for the calendar year 2014 services paid through March 31, 2015. Quality Management Performance Measures revenues are recognized when earned and when management can reasonably estimate related metrics have been met.

Each CCO is eligible for a maximum amount of quality pool funds up to 3% and 2% of their actual paid premiums for the calendar year 2014 and 2013, respectively. In addition, the CCOs have the opportunity to share in any remaining unallocated statewide quality pool funds on an annual basis, known as challenge pool funds.

To qualify for 100% of the 2014 quality pool funds each CCO must fulfill all of the following requirements: (a) meet or exceed the benchmark or the improvement target, or the measurement and reporting requirements for the clinical measures, on at least 75% of the incentive measures (12 of 16 measures); (b) meet or exceed the benchmark or improvement target for the Electronic Health Record adoption measure as one of the 12 measures; and (c) score at least 0.60 on the PCPCH enrollment measure using the tiered formula. As of December 31, 2014, WVCH estimates it met 10 of the metrics and recorded an estimate of \$6,738,021 in revenue for metrics met, of which \$5,929,458 will be paid out to the members for distribution. The total available quality pool funds to be earned by the WVCH is \$11,230,036.

To qualify for 100% of the 2013 quality pool funds each CCO had to meet 13 of the 17 specified incentive measures and benchmarks (metrics), of which 25% was paid out if the technology plan was submitted prior to February 1, 2014 and was approved. To qualify for the 2013 challenge pool funds CCOs had to meet a subset of four incentive measures that focused on the integration of care and health outcomes, rather than measuring levels of services provided. WVCH met 13.6 of the 2013 quality management performance measures, including 3 challenge pool measures, and received 100% of total quality pool funds of \$4,987,244, of which \$4,448,128 was paid out to the members and providers for distribution. The remaining \$539,116 was retained to support continued improvements and expansion of three technology plan measures, to be overseen by WVCH. As of December 31, 2013, WVCH recorded an estimate of \$3,234,700. The additional quality pool funds received for 2013 metrics of \$1,752,544 was recorded as revenue during 2014.

**WILLAMETTE VALLEY COMMUNITY HEALTH, LLC**  
**NOTES TO FINANCIAL STATEMENTS**

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**Note 2 – Summary of Significant Accounting Policies (continued)**

**Purchased healthcare** – Purchased healthcare consists of sub-capitation and maternity case rate paid or due to the contracted members. Purchased healthcare expenses are recognized in the period the services are provided. Amounts paid in purchased healthcare to the contracted members are intended to cover all related physical, mental, and dental health care costs, any administrative costs, and any net gain or losses realized by the member.

**Income taxes** – WVCH is a limited liability company. Accordingly, all federal income tax attributes are passed through to WVCH's shareholders or partners. Therefore, no provision is made in the accompanying financial statements for liabilities for federal, state or local income taxes since such liabilities are the responsibility of the individual partners.

WVCH accounts for uncertain tax positions in accordance with ASC 740-10. WVCH does not have any entity level uncertain tax positions. WVCH files income tax returns in the U.S. federal jurisdiction and the State of Oregon. Generally, WVCH is subject to examination by U.S. federal (or state and local) income tax authorities for three years from the filing of a tax return.

**Member contributions** – WVCH received member contributions during 2012 from entities that maintain contractual agreements or have had other transactions with WVCH. WVCH received \$272,728 per member, which provided each member a 9.09% ownership in WVCH. The initial member contributions were received for the purpose of the establishment of WVCH and the required primary and secondary reserves under the OHA contract. The liability of the members is limited to the members' total capital contributions. There were no additional contributions for the years ended December 31, 2014 and 2013.

**Reclassifications** – Certain amounts were reclassified in the prior year for consistency and comparison with the current year presentation.

**Subsequent events** – Subsequent events are events or transactions that occur after the balance sheet date but before financial statements are issued. WVCH recognizes in the financial statements the effect of all subsequent events that provide additional evidence about conditions that existed at the date of the balance sheet, including the estimates inherent in the process of preparing the financial statements (see Note 6). WVCH's financial statements do not recognize subsequent events that provide evidence about conditions that did not exist at the date of the balance sheet but arose after the balance sheet date and before the financial statements are available to be issued.

WVCH has evaluated subsequent events through June 12, 2015, which is the date the financial statements were available to be issued.

# WILLAMETTE VALLEY COMMUNITY HEALTH, LLC

## NOTES TO FINANCIAL STATEMENTS

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### Note 3 – Related Party Transactions

**Board of Directors** – WVCH's Board of Directors includes representatives from the following entities that either have ownership in WVCH, maintain contractual agreements, and/or have had other transactions with WVCH: Atrio Health Plans, Inc., Capitol Dental Care, Inc. Mid-Valley Behavioral Care Network, Mid-Valley IPA, Inc. (dba WVP Health Authority), Northwest Human Services, Inc., Salem Clinic Medical Foundation, Salem Health/Salem Hospital, Santiam Memorial Hospital, Silverton Health, West Valley Hospital, Yakima Valley Farm Workers Clinic, Marion County Health Department, and Polk County Human Services. Included on the Board of Directors are two County Commissioners from Marion and Polk Counties who have been appointed by Marion and Polk Counties to represent their respective Counties.

The contractual agreements include medical service arrangements, a management services agreement, and capital contributions.

**Purchased administrative services** – WVCH has contracted with three related organizations for management services, technology, and behavioral health administration and management. Those amounts were paid to related parties as follows:

	Years Ended December 31,	
	2014	2013
WVP Health Authority	\$ 12,729,324	\$ 8,116,684
Performance Health Technology	7,240,428	4,387,057
Mid-Valley Behavioral Care Network	2,510,794	1,589,235
	<u>\$ 22,480,546</u>	<u>\$ 14,092,976</u>

Management service agreement – WVCH signed a management services agreement with WVP Health Authority, a member of WVCH, for WVP Health Authority to provide certain management services including, but not limited to, the following: human resources, financial services, information technology services, customer service, space, furnishings, and supplies. The agreement can be terminated without cause by either party upon 120 days written notice.

Technology – Claims processing and administrative services are provided by Performance Health Technology, Ltd., an Oregon corporation that is 33% owned by an employee of WVP Health Authority. Charges for these services are based on a percentage of the capitation received from various agencies.

Behavioral health administration and management – Behavioral health administration and management services are provided by Mid-Valley Behavioral Care Network, a member of WVCH,

**Receivables from members** – As of December 31, 2014 and 2013, WVCH had \$5,313,256 and \$971,590, respectively, due from members of WVCH for the payment of claims on its behalf.

**WILLAMETTE VALLEY COMMUNITY HEALTH, LLC**  
**NOTES TO FINANCIAL STATEMENTS**

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**Note 3 – Related Party Transactions (continued)**

**Quality Management Performance Measures incentive payments** – WVCH paid \$3,210,931 to the members in distribution of the quality management funds during 2014. Payments to members were:

Salem Clinic Medical Foundation	\$ 1,094,597
Mid-Valley Behavioral Care Network	596,061
WVP Health Authority and Associated Clinics	411,476
Salem Health and Associated Clinics/Hospitals	373,857
Silverton Hospital and Associated Clinics	252,537
Yakima Valley Farm Workers Clinic	193,862
Northwest Human Services	161,240
Santiam Memorial Hospital and Associated Clinics	127,301

**ACT and Wraparound grants** –Wraparound expense paid to related parties was \$537,500 to Mid-Valley Behavioral Care Network.

**Note 4 – Restricted Reserve and Net Worth Requirements**

Under the OHA contract, WVCH is required to meet financial solvency requirements on a quarterly basis. Financial solvency is demonstrated by two key measures: the restricted reserve requirement and the net worth requirement. The restricted reserve requirement has WVCH establish a Restricted Reserve Account and maintain adequate funds in the account to meet OHA's primary and secondary restricted reserve requirements. The restricted reserve requirement is approximately half of a month's average medical costs and includes \$250,000 for the primary restricted reserve, and all amounts in excess of \$250,000 as the secondary restricted reserve. The net worth requirement is approximately 5% of the medical costs for the year.

Management calculated the restricted reserve requirement as of December 31, 2014 and 2013 to be \$3,191,088 and \$2,647,979, respectively. As of December 31, 2014 and 2013, WVCH had restricted reserves of \$5,268,554 and \$5,261,075, respectively. The net worth requirement as of December 31, 2014 and 2013 was determined to be \$3,362,244 and \$6,002,331, respectively. As of December 31, 2014 and 2013, WVCH had net worth of \$21,994,608 and \$7,888,680, respectively. Management asserts they are in compliance with the requirements as of December 31, 2014.

## **WILLAMETTE VALLEY COMMUNITY HEALTH, LLC**

### **NOTES TO FINANCIAL STATEMENTS**

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#### **Note 5 – Contingencies**

**Reinsurance** – In the normal course of business, WVCH seeks to limit its exposure to loss on any single insured member to recover a portion of benefits paid by ceding reinsurance to a third-party insurance company under excess coverage agreements. The policy requires monthly premium payments on a per member per month basis. In return, the insurer assumes up to 90% of the risk for hospital and physician claims in excess of stop-loss limits. Reinsurance agreements do not relieve WVCH from its obligation to providers. Amounts recoverable from the reinsurance policy are estimated based upon experienced claims in a manner consistent with the policy terms. Reinsurance premiums are included as a component of cost of services. Recoveries under the policy are reported as a reduction of claims expense. The terms of the policy include a \$2,000,000 maximum benefit per member per policy period, a \$250,000 deductible per member per policy period, and reimbursement of 90% of institutional and professional services.

**Litigation** – In the general course of operations, WVCH may be named as a defendant in legal proceedings, claims and investigations related to malpractice, employee fair labor laws and other contracting matters. Significant legal proceedings are generally related to matters covered by insurance. WVCH may be liable for payment of a deductible or differences in contract interpretations in some cases.

**Industry regulations** – The healthcare industry is subject to numerous laws and regulations of federal, state, and local governments. These laws and regulations include, but are not necessarily limited to, matters such as licensure, accreditations, government healthcare program participation requirements, reimbursement for patient services, and Medicare and Medicaid fraud and abuse. Government activity continues with respect to investigations and allegations concerning possible violations of fraud, abuse statutes, and regulations by healthcare providers. Violations of these laws and regulations could result in expulsion from government healthcare programs together with the imposition of significant fines and penalties, as well as significant repayments for patient services previously billed. Management believes WVCH is in compliance with government laws and regulations. While no regulatory inquiries have been made, compliance with such laws and regulations can be subject to future government review and interpretation, as well as regulatory actions known or unasserted at this time.

**Healthcare reform** – On March 23, 2010, the Patient Protection and Affordable Care Act (PPACA) was signed into law. On March 30, 2010, the Health Care and Education Reconciliation Act of 2010 was signed, amending the PPACA (collectively the “Affordable Care Act”). The Affordable Care Act addresses a broad range of topics affecting the healthcare industry, including a significant expansion of healthcare coverage. The expansion is accomplished primarily through incentives to individuals to obtain and employers to provide healthcare coverage and an expansion in Medicaid eligibility. The Affordable Care Act also includes incentives for medical research and the use of electronic health records, changes designed to curb fraud, waste and abuse, and creates new agencies and demonstration projects to promote the innovation and efficiency in the healthcare delivery system. Some provisions of the healthcare reform legislation were effective immediately; others will be phased in through 2016. Further legislative policies are required for several provisions that will be effective in future years. The impact of this legislation will likely affect WVCH. The effect of the changes that will be required in future years are not determinable at this time.

**WILLAMETTE VALLEY COMMUNITY HEALTH, LLC**  
**NOTES TO FINANCIAL STATEMENTS**

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**Note 6 – Subsequent Events**

Since December 31, 2014, WVCH has met the year two requirements for three technology metrics of the Quality Management Performance Measures incentive pool and received \$990,886 in Quality Management Performance Measures incentive revenue.