COMMUNITY CARE COLLABORATIVE

Financial Statements
as of and for the Years Ended
September 30, 2016 and 2015 and
Independent Auditors' Report

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
Community Care Collaborative:

Report on the Financial Statements

We have audited the accompanying financial statements of the Community Care Collaborative (the "CCC"), (a nonprofit organization), which comprise the statements of financial position as of September 30, 2016 and 2015, and the related statements of activities 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 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.

Auditors' 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 audit 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 auditors' 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.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the CCC as of September 30, 2016 and 2015, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Maxwell Locke + Ritter LLP

Austin, Texas
January 20, 2017

COMMUNITY CARE COLLABORATIVE

STATEMENTS OF FINANCIAL POSITION
SEPTEMBER 30, 2016 AND 2015

	2016	2015
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 47,509,294	$ 41,556,275
Other receivable	280,199	-
Prepaids and other current assets	269,877	-
TOTAL ASSETS	$ 48,059,370	$ 41,556,275
LIABILITIES AND NET ASSETS		
LIABILITIES:		
Accounts payable	$ 1,253,936	$ 712,779
Accrued expenses	12,252,122	5,297,323
Deferred revenue	2,801,052	-
Due to affiliate	435,262	762,997
TOTAL LIABILITIES	16,742,372	6,773,099
NET ASSETS:		
Unrestricted	31,316,998	34,783,176
TOTAL LIABILITIES AND NET ASSETS	$ 48,059,370	$ 41,556,275

See notes to financial statements.

COMMUNITY CARE COLLABORATIVE

STATEMENTS OF ACTIVITIES
YEARS ENDED SEPTEMBER 30, 2016 AND 2015

	2016	2015
REVENUES:		
Delivery System Reform Incentive Payment	$ 61,752,704	$ 60,775,973
Seton member payment	33,100,000	51,700,000
Central Health member payment	24,632,814	13,903,320
Personnel services received from an affiliate	695,435	899,367
Other revenue	27,594	10,693
Total revenues	120,208,547	127,289,353
EXPENSES:		
Health care delivery	69,853,078	58,067,816
Payment per the University of Texas affiliation agreement	35,000,000	35,000,000
Delivery System Reform Incentive Payment projects	18,821,647	14,853,324
Total expenses	123,674,725	107,921,140
CHANGE IN NET ASSETS	(3,466,178)	19,368,213
NET ASSETS, beginning of year	34,783,176	15,414,963
NET ASSETS, end of year	$ 31,316,998	$ 34,783,176

See notes to financial statements.

COMMUNITY CARE COLLABORATIVE

STATEMENTS OF CASH FLOWS
YEARS ENDED SEPTEMBER 30, 2016 AND 2015

	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	$ (3,466,178)	$ 19,368,213
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Changes in operating assets and liabilities that provided (used) cash:		
Accounts receivable	(280,199)	12,435
Prepaids and other current assets	(269,877)	-
Accounts payable	541,157	477,820
Accrued expenses	6,954,799	1,822,716
Deferred revenue	2,801,052	-
Due to affiliate	(327,735)	587,199
Net cash provided by operating activities	5,953,019	22,268,383
CASH AND CASH EQUIVALENTS, beginning of year	41,556,275	19,287,892
CASH AND CASH EQUIVALENTS, end of year	$ 47,509,294	$ 41,556,275

See notes to financial statements.

1. ORGANIZATION AND MISSION

The Community Care Collaborative (the “CCC”) is a 501(c)(3) corporation formed on October 4, 2012. Pursuant to a Master Agreement between the Travis County Healthcare District, (doing business as and herein after referred to as “Central Health”), and the Seton Healthcare Family (“Seton”), the CCC was created to better organize and integrate the safety net population healthcare delivery system in Travis County and to provide a framework for participating in the Texas Healthcare and Quality Improvement Program, a statewide Medicaid 1115 waiver program (“the 1115 waiver”).

The CCC is owned by its two members, Central Health, which owns 51% of the CCC, and Seton, which owns 49%. The CCC is governed by a five-member Board of Directors, three of which are appointed by Central Health and two of which are appointed by Seton. However, each of the two owners has certain powers and material decisions reserved to it that preclude either party from imposing its will on the other.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation - The financial statements are presented in accordance with accounting principles generally accepted in the United States of America (“U.S. GAAP”) as defined by the Financial Accounting Standards Board (“FASB”) Accounting Standards Codification (“ASC”). Under the accrual basis of accounting, revenue is recognized when earned regardless of when collected, and expenses are recognized when an obligation is incurred regardless of when paid.

Classification of Net Assets - The CCC is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. Net assets, revenues, expenses, gains and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of the CCC and changes therein are classified as follows:

> <u>Unrestricted net assets</u> **-** Net assets not subject to donor-imposed stipulations. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in unrestricted net assets unless their use is restricted by explicit donor stipulation or by law.
>
> <u>Temporarily restricted net assets</u> **-** Net assets subject to donor-imposed stipulations that may or will be met by actions of the CCC and/or the passage of time or the occurrence of a specific event. The CCC has not received any temporarily restricted contributions as of September 30, 2016 and 2015.

Permanently restricted net assets **-** Net assets whose amounts are not currently available for use in the operations of the CCC and whose limitations neither expire by passage of time nor can be fulfilled or otherwise removed by actions of the CCC. The CCC has not received any permanently restricted contributions as of September 30, 2016 and 2015.

Use of Estimates - The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from these estimates.

Cash and Cash Equivalents - The CCC defines cash and cash equivalents as cash and investments that are highly liquid with less than three-month maturities when purchased.

Revenues and Expenses Related to the Delivery System Reform Incentive Payment - The CCC receives Delivery System Reform Incentive Payment (“DSRIP”) funds as a performing provider in the 1115 waiver to implement programs or strategies to enhance access to health care and improve the associated outcomes of care provided for the patients and families served. Revenue received from Central Health provides the local share in the form of an Intergovernmental Transfer to draw federal funds upon achieving specific health improvement metrics and milestones as determined by Texas Health and Human Services Commission (“HHSC”). DSRIP project revenue is recognized by the CCC upon HHSC approval of project metrics and milestones, which are submitted to HHSC on a semi-annual basis.

The CCC is performing 15 DSRIP projects that will serve as demonstration programs that will assist in the implementation of an Integrated Delivery System (“IDS”). The IDS is intended to coordinate the delivery of healthcare services of Travis County’s health care providers to serve the safety net population. Expenses are recognized based upon achieving specific health improvement metrics and milestones as determined by management. Any amounts received prior to earning are included in deferred revenue.

Seton and Central Health Member Payments - The CCC receives member payments from Central Health and Seton that fund healthcare services related to primary care, specialty care, and related patient care management. Member payments are subject to provisions of the Master Agreement, which require the parties to collaborate to adequately fund the CCC. The amount of payment from each member is solely discretionary. Revenue is recognized upon receipt of member payments.

Personnel Services Received from An Affiliate - The CCC receives services provided at no cost to the CCC by employees of Central Health and Seton. These services are recognized at the cost recognized by Central Health and Seton in providing the services.

Income Tax Status - The CCC is a nonprofit entity that is exempt from federal income taxes under section 501(c)(3) of the Internal Revenue Code, except for income tax related to unrelated business income. The CCC did not incur any significant tax liabilities due to unrelated business income during the years ended September 30, 2016 and 2015. The CCC files a Form 990 tax return in the U.S. federal jurisdiction, and is subject to routine examinations of its returns; however, there are no examinations currently in progress.

Recently Issued Accounting Pronouncements - In May 2014 and August 2015, the FASB issued Accounting Standards Updates ("ASU") No. 2014-09 and No. 2015-14, *Revenue from Contracts with Customers*, which supersede the revenue recognition requirements in ASC 605, *Revenue Recognition*, and most industry-specific guidance included in the ASC. The standard requires entities to recognize revenue in a way that depicts the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled to in exchange for those goods or services. The standard is effective retrospectively for fiscal years beginning after December 15, 2018 and early adoption is permitted. The CCC is currently evaluating the impact the new standard will have on its financial statements.

In February 2016, the FASB issued ASU No. 2016-02, *Leases (Topic 842)*, which requires the recognition of lease assets and lease liabilities by lessees for all leases, including leases previously classified as operating leases, and modifies the classification criteria and accounting for sales-type and direct financing leases by lessors. Leases continue to be classified as finance or operating leases by lessees and both classifications require the recognition of a right-of-use asset and a lease liability, initially measured at the present value of the lease payments in the statement of financial position. Interest on the lease liability and amortization of the right-of-use asset are recognized separately in the statement of operations for finance leases and as a single lease cost recognized on the straight-line basis over the lease term for operating leases. The standard is effectively using a modified retrospective approach for fiscal years beginning after December 15, 2019 and early adoption is permitted. The CCC is currently evaluating the impact the standard will have on its consolidated financial statements.

In August 2016, the FASB issued ASU No. 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*, which requires presentation on the face of the statements of financial position the amounts for two classes of net assets at the end of the period, net assets with donor restrictions and net assets without donor restrictions, rather than the currently required three classes. The standard also requires the presentation on the face of the statements of activities the amount of the change in each of these two classes of net assets. The standard will no longer require the presentation or disclosure of the indirect method of reporting cash flows if an entity elects to use the direct method, however it will be required for an entity to provide enhanced disclosures about liquidity in the footnotes to the financial statements. The standard is effective for fiscal years beginning after December 15, 2017 and early adoption is permitted. The CCC is currently evaluating the impact the standard will have on its financial statements.

3. CONCENTRATION OF CREDIT RISK

Financial instruments that potentially subject the CCC to credit risk consist of cash and cash equivalents and receivables. The CCC places its cash and cash equivalents with a limited number of high quality financial institutions and at times may exceed the amount of insurance provided on such deposits. Management believes no significant risk exists with respect to cash and cash equivalents. The CCC does not maintain collateral for its receivables.

4. RELATED PARTY TRANSACTIONS

Both Central Health and Seton provide staffing support to carry out the activities of the CCC through its medical providers, using Central Health automated systems. The value of the services received from Central Health and Seton have been recognized as revenue for services received from an affiliate and as an expense included in health care delivery on the statements of activities. In addition to in kind services, the CCC contracts with Seton affiliates for healthcare professional services to be provided by Seton at fair market value negotiated through arms' length transactions.

5. THE UNIVERSITY OF TEXAS AT AUSTIN AFFILIATION AGREEMENT

On July 10, 2014, Central Health, the CCC, and the University of Texas at Austin ("UT") entered into an affiliation agreement under which UT will assist Central Health and the CCC in the support of the Integrated Delivery System including:

- Serving low-income communities by training residents in community based settings;
- Developing appropriate levels of clinical services at community clinics;
- Promoting effective and efficient medical practice by training professionals to work together in multi-disciplinary teams;
- Providing medical care and clinical services with a focus on preventative health care and factors that impact health outcomes and utilizing data to educate physicians and patients on methods to achieve better health outcomes and reduce disparities; and
- Providing women's health services

Pursuant to the affiliation agreement, the CCC funds may only be used by UT to fund Permitted Investments related to transforming and improving health care for Travis County residents. Permitted Investments are defined as the continuing investment in programs, projects, operations and providers that furthers the missions of the CCC and Central Health, benefits UT, and complies with all laws that apply to each party, and shall include, but not be limited to:

- The enhancement of medical services for residents of Travis County;
- Directly or indirectly increasing health care resources available to provide services to Travis County residents;
- The discovery and development of new procedures, treatments, drugs, and medical devices that will augment the medical options available to Travis County residents;
- Development and operation of collaborative and integrated health care for Travis County residents; and

- Direct operating support to UT to be used for:

  - The development, accreditation, and ongoing operation of the Dell Medical School and its administrative infrastructure;

  - Recruitment, retention, and work of Dell Medical School faculty, residents, medical students, researchers, administrators, staff, and other clinicians;

  - Related activities and functions as described in the affiliation agreement.

The CCC paid UT annual Permitted Investment Payments in the amount of $35 million each year in 2016 and 2015. Central Health will guarantee these payments to be made by the CCC, to the extent it is permitted to do so by the Constitution and the Laws of the State of Texas. The initial term of the affiliation agreement is 25 years from the effective date, with an automatic renewal for a successive 25 year term.

6. DUE TO AFFILIATE

The balance presented as due to affiliate on the statements of financial position as of September 30, 2016 and 2015 were due in their entirety to Central Health. These funds were provided by Central Health for the CCC's operations during the respective fiscal years. The balance outstanding as of September 30, 2016 was repaid during fiscal year 2017. The balance outstanding as of September 30, 2015 was repaid during fiscal year 2016.

7. EXPENSES BY FUNCTIONAL ALLOCATION OF EXPENSES

The statements of activities present the expenses of the CCC by natural classification. The costs of providing services by the CCC have been summarized on a functional basis below. Certain expenses are allocated between program and general and administrative based on actual use or estimates made by management. The following are the expenses by functional classifications for the years ended September 30:

	2016	2015
Program	$ 122,132,270	$ 106,499,798
General and administrative	1,542,455	1,421,342
Total	$ 123,674,725	$ 107,921,140

8. COMMITMENTS AND CONTINGENCIES

The CCC may be involved in litigation arising in the normal course of business; however, there were no known actions or claims pending against the CCC at September 30, 2016 and 2015.

The timing and nature of the DSRIP projects in the 1115 waiver will require that the CCC incurs expenses on projects prior to the approval of related project milestone payments by the Centers for Medicare and Medicaid Services and/or the HHSC.

During fiscal year 2016, the CCC entered into a long-term, non-cancelable operating lease agreement for an office facility. The lease requires additional payments for operating expenses. Rent expense, including operating expenses, totaled $303,462 for the fiscal year ended September 30, 2016. Future minimum rental payments consisted of the following as of September 30, 2016:

2017	$ 270,446
2018	278,519
2019	286,592
2020	294,665
2021	149,351
Total	$ 1,279,573

9. MEDICAID 1115 WAIVER

The initial Medicaid 1115 Waiver was for a five year period ending September 30, 2016. In May 2016, the Centers for Medicare & Medicaid Services (“CMS”) approved a temporary fifteen month extension through December 2017 at the current annual funding levels. Based on the current waiver terms, funding will decrease by twenty-five percent each year beginning January 2018, unless an alternative agreement is reached.

10. SUBSEQUENT EVENTS

The CCC has evaluated subsequent events through January 20, 2017 (the date the financial statements were available to be issued) and no events have occurred from the statement of financial position date through that date that would impact the financial statements.