Report of Independent Auditors and
Consolidated Financial Statements
(with supplementary information) for

Silverton Health and Affiliates

September 30, 2015 and 2014

MOSS-ADAMS LLP

Certified Public Accountants | Business Consultants

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REPORT OF INDEPENDENT AUDITORS

To the Board of Trustees
Silverton Health and Affiliates

Report on Financial Statements

We have audited the accompanying consolidated balance sheets of Silverton Health and Affiliates (the Organization) as of September 30, 2015 and 2014, and the related consolidated statements of operations, changes in net assets, and cash flows for the years then ended.

Management's Responsibility for the Financial Statements
The Organization's management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with auditing standards 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 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.

REPORT OF INDEPENDENT AUDITORS (continued)

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Silverton Health and Affiliates as of September 30, 2015 and 2014, and the results of its operations, changes in net assets and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Report on Consolidating Information

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The supplementary consolidating balance sheets as of September 30, 2015 and 2014 and the consolidating statements of operations, changes in net assets and cash flows for the years then ended included on pages 27 through 34 are presented for purposes of additional analysis and are not a required part of the consolidated financial statements.

Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

Portland, Oregon
____________, 2016

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SILVERTON HEALTH AND AFFILIATES
CONSOLIDATED BALANCE SHEETS

ASSETS

	September 30, 2015	September 30, 2014
CURRENT ASSETS		
Cash and cash equivalents	$ 10,648,144	$ 10,106,602
Receivables		
Patient accounts receivable, net of allowance for doubtful accounts of $3,290,000 in 2015 and $2,898,000 in 2014	16,491,587	14,866,578
Other receivables	4,895,882	2,312,190
Current portion of physician notes receivable	-	16,702
Supplies inventories	2,055,472	1,665,612
Prepaid expenses	1,824,243	1,252,281
Total current assets	35,915,328	30,219,965
ASSETS LIMITED AS TO USE		
Board designated cash and investments	2,088,850	2,072,150
Investments restricted by State of Oregon	1,095,856	1,094,783
Total assets limited as to use	3,184,706	3,166,933
PROPERTY AND EQUIPMENT, net	33,050,485	34,729,787
OTHER ASSETS		
Physician notes receivable, net of current portion	-	83,298
Investments	3,169,784	3,427,731
Beneficial interest in endowment fund	115,003	125,991
Insurance recoveries and other assets	4,490,386	11,168,047
Total other assets	7,775,173	14,805,067
Total assets	$ 79,925,692	$ 82,921,752

LIABILITIES AND NET ASSETS

	September 30, 2015	September 30, 2014
CURRENT LIABILITIES		
Accounts payable	$ 3,841,635	$ 4,735,672
Accrued payroll	6,121,349	5,746,920
Accrued payroll taxes and withholds	174,953	338,420
Other accrued expenses	4,598,837	4,757,617
Estimated third-party payor settlements	8,923,302	4,475,242
Current portion of long-term debt	-	5,605,989
Current portion of capital lease obligations	1,058,374	1,802,254
Total current liabilities	24,718,450	27,462,114
LONG-TERM LIABILITIES		
Long-term debt, net of current portion	5,125,577	-
Capital lease obligations, net of current portion	413,202	1,718,463
Estimated medical malpractice liability	5,434,830	11,456,119
Total long-term liabilities	10,973,609	13,174,582
Total liabilities	35,692,059	40,636,696
NET ASSETS		
Unrestricted		
Unrestricted	39,662,670	37,676,460
Board designated	2,088,850	2,072,150
Funds functioning as endowments	151,191	169,174
Temporarily restricted	2,305,846	2,342,196
Permanently restricted	25,076	25,076
Total net assets	44,233,633	42,285,056
Total liabilities and net assets	$ 79,925,692	$ 82,921,752

SILVERTON HEALTH AND AFFILIATES
CONSOLIDATED STATEMENTS OF OPERATIONS

	Years Ended September 30, 2015	2014
REVENUES		
Patient service revenue, non-capitated	$ 91,028,302	$ 84,429,698
Patient service revenue, capitated	32,416,418	25,302,090
Provision for bad debts	(2,666,413)	(828,899)
Net patient service revenue, net of contractuals and discounts	120,778,307	108,902,889
Other revenue	8,305,114	6,889,837
Net assets released from restrictions used for operations	156,618	43,596
Total revenues	129,240,039	115,836,322
EXPENSES		
Salaries and benefits	68,186,630	64,107,123
Out of network expenses	18,886,231	15,750,483
Supplies	12,121,660	11,704,829
Purchased services	12,240,403	10,238,524
Building and maintenance	7,784,297	7,291,622
Depreciation and amortization	4,185,440	4,081,301
Insurance	1,971,440	820,746
Interest expense	336,129	481,482
Other	2,052,053	2,596,126
Total expenses	127,764,283	117,072,236
OPERATING LOSS	1,475,756	(1,235,914)
OTHER INCOME (EXPENSE)		
Investment income	333,374	193,359
Other non-operating expense	177,418	(599,633)
Total other income (expense)	510,792	(406,274)
DEFICIENCY OF REVENUES OVER EXPENSES	$ 1,986,548	$ (1,642,188)

 See accompanying notes.

	Years Ended September 30, 2015	2014
UNRESTRICTED NET ASSETS		
Deficiency of revenues over expenses	$ 1,986,548	$ (1,642,188)
Net change in unrealized gains and losses on other-than-trading securities	(1,621)	1,294
Decrease in unrestricted net assets	1,984,927	(1,640,894)
TEMPORARILY RESTRICTED NET ASSETS		
Contributions	156,584	110,339
Investment income	(36,316)	79,738
Donor release from permanently to temporarily restricted	-	-
Net assets released from restrictions	(156,618)	(43,596)
Increase in temporarily restricted net assets	(36,350)	146,481
CHANGE IN NET ASSETS	1,948,577	(1,494,413)
NET ASSETS, beginning of year	42,285,056	43,779,469
NET ASSETS, end of year	$ 44,233,633	$ 42,285,056

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Years Ended September 30, 2015	2014
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	$ 1,948,577	$ (1,494,413)
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation and amortization	4,185,440	4,081,301
Gain on sale of investments	(88,733)	(80,498)
Change in beneficial interest in endowment fund	10,988	(5,861)
Net unrealized (gain) loss on investments	293,301	24,878
(Increase) decrease in assets		
Patient receivables (net)	(1,625,009)	150,430
Supplies inventories	(389,860)	(132,384)
Prepaid expenses	(571,962)	119,590
Other receivables	(2,583,692)	(969,418)
Other assets	6,677,661	(9,176,990)
Increase (decrease) in liabilities:		
Accounts payable	(894,037)	3,496,794
Accrued payroll, taxes, and withholdings	210,962	480,028
Other accrued expenses	(158,780)	1,096,790
Estimated third party payor settlement	4,448,060	2,887,732
Estimated medical malpractice liability	(6,021,289)	9,224,007
Net cash from operating activities	5,441,627	9,701,986
CASH FLOWS USED IN INVESTING ACTIVITIES		
Collections of physician notes receivable	100,000	8,751
Purchase of property and equipment	(2,145,541)	(2,082,809)
Purchase of investments	(2,215,825)	(3,977,861)
Proceeds from sale of investments	2,251,431	3,490,620
Net cash used in investing activities	(2,009,935)	(2,561,299)
CASH FLOWS USED IN FINANCING ACTIVITIES		
Proceeds from long-term debt	5,125,577	-
Payments on capital lease obligations	(1,719,793)	(1,998,270)
Payments on long-term debt	(6,295,934)	(658,435)
Net cash used in financing activities	(2,890,150)	(2,656,705)
CHANGE IN CASH AND CASH EQUIVALENTS	541,542	4,483,982
CASH AND CASH EQUIVALENTS, beginning of year	10,106,602	5,622,620
CASH AND CASH EQUIVALENTS, end of year	$ 10,648,144	$ 10,106,602
SUPPLEMENTAL DISCLOSURE OF NON-CASH INFORMATION		
Equipment acquired through capital leases and long-term debt	$ 360,597	$ 1,663,329

 See accompanying notes.

Note 1 – Description of Organization and Summary of Significant Accounting Policies

Organization – Silverton Health (the Hospital) is a nonprofit organization which primarily earns revenue by providing inpatient, outpatient, and emergency services to patients in Silverton, Oregon and surrounding areas. The Hospital has a fully licensed 48-bed general hospital located in Silverton, Oregon. In addition, the Hospital operates eight clinics in Silverton, Woodburn, and Mt. Angel, Oregon. The Hospital's financial statements have been consolidated with Silverton Hospital Foundation (the Foundation). The Foundation is a non-profit corporation whose primary function is to raise funds to carry out the tax-exempt purpose of the Hospital.

Principles of consolidation – The consolidated financial statements include the accounts of Silverton Health and Silverton Hospital Foundation (the Organization). All significant intercompany transactions have been eliminated.

Use of estimates – The preparation of 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 financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Basis of presentation – The accompanying consolidated financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. Net assets, revenues, expenses, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of the Organization and changes therein are classified and reported as follows:

Unrestricted net assets – Net assets that are not subject to donor-imposed stipulations. Absent any donor stipulations, investment earnings for certain temporarily restricted funds are recorded as unrestricted net assets.

Temporarily restricted net assets – Net assets subject to donor-imposed stipulations that may or will be met, either by actions of the Organization and/or the passage of time. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported as net assets released from restrictions. Donor-restricted contributions whose restrictions are met within the same year as received are reported as unrestricted contributions in the accompanying consolidated financial statements.

Permanently restricted net assets – Net assets subject to donor-imposed stipulations that state they be maintained by the Organization in perpetuity. Generally, the donors of these assets permit the use of all or part of the income earned on any related investments for general or specific purposes.

Note 1 – Description of Organization and Summary of Significant Accounting Policies (continued)

Fair value measurements – Fair value is 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. Market participants are buyers and sellers, who are independent, knowledgeable, and willing and able to transact in the principal (or most advantageous) market for the asset or liability being measured.

Fair value is based on quoted market prices, when available, for identical or similar assets or liabilities. In the absence of quoted market prices, management determines the fair value of the Hospital's assets and liabilities using valuation models or third-party pricing services, both of which rely on market-based parameters when available, such as interest rate yield curves, option volatilities and credit spreads. The valuation techniques used are based on observable and unobservable inputs.

Cash and cash equivalents – Cash and cash equivalents include investments in highly-liquid instruments with original maturities of three months or less, excluding amounts classified as assets limited as to use.

Investments – Investments in equity securities with readily determinable fair values, debt securities, and certificates of deposit are carried at fair value in the balance sheet. Investment income or loss (including realized gains and losses on investments, interest and dividends) is included in the excess of revenues over expenses unless the income or loss is restricted by donor or law. Unrealized gains and losses on investments are excluded from the excess of revenues over expenses unless the investments are trading securities. Investment income that is initially restricted by donor stipulation and for which the restriction will be satisfied in the same year is included in unrestricted net assets. Other investment income is reflected in the consolidated statements of operations and changes in net assets as unrestricted, temporarily restricted, or permanently restricted based upon the existence and nature of any donor or legally imposed restrictions. Investments in joint ventures are accounted for under the equity method of accounting.

Promises to give – Unconditional promises to give cash and other assets to the Organization are reported at fair value at the date the promise is received. Conditional promises to give and indications of intentions to give are reported at fair value at the date the gift is received. The gifts are reported as either temporarily or permanently restricted support if they are received with donor stipulations that limit the use of the donated assets.

Supplies inventories – Supplies inventories are stated at the lower of cost (first–in, first–out) or market value.

Assets limited as to use – Assets limited as to use include cash and investments designated by the board of trustees for capital improvements and restricted for use by the State of Oregon. The Board of Trustees retains control over board designated cash and investments and may, at its discretion, subsequently use it for other purposes.

Note 1 – Description of Organization and Summary of Significant Accounting Policies (continued)

Patient accounts receivable – In the normal course of business, the Hospital provides credit terms to its patients, including billing to third-party insurance carriers, most of whom are local residents and are insured under third-party payor agreements. Patient accounts receivables are reduced by an allowance for doubtful accounts. In evaluating the collectability of receivables, the Hospital analyzes its history and identifies trends for each of its major payor sources of revenue to estimate the appropriate allowance for doubtful accounts and provision for bad debts. Management regularly reviews data about these major payor sources of revenue in evaluating the sufficiency of the allowance for doubtful accounts.

For receivables associated with services provided to patients who have third-party coverage, the Hospital analyzes contractually due amounts and provides an allowance for doubtful accounts and a provision for bad debts, if necessary (for example, for expected uncollectible deductibles and copayments on accounts for which the third-party payor has not yet paid, or for payors who are known to be having financial difficulties that make the realization of amounts due unlikely). For receivables associated with self-pay patients, the Hospital records a significant provision for bad debts in the period of service on the basis of its past experience, which indicates that many patients are unable or unwilling to pay the portion of their bill for which they are financially responsible. The difference between the standard rates (or the discounted rates, if negotiated) and the amounts actually collected after all reasonable collection efforts have been exhausted is charged off against the allowance for doubtful accounts.

There was no change in the methodology used by the Hospital to estimate the allowance for contractual adjustments and bad debt provision in the current year.

Property and equipment – Property and equipment acquisitions in excess of $1,000 are recorded at cost for items purchased and at fair market value for items donated. Expenditures for major renewals and betterments, which extend the useful lives of property and equipment, are capitalized. Expenditures for maintenance and repairs are charged to expense as incurred. Depreciation is computed using the straight–line method using these estimated useful lives:

Buildings	10-50 years
Land improvements	5-20 years
Equipment	3-20 years

Gifts of long-lived assets such as land, buildings, or equipment are reported as unrestricted support, and are excluded from the excess of revenues over expenses, unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor stipulations about how long those long-lived assets must be maintained, expirations of donor restrictions are reported when the donated or acquired long–lived assets are placed in service.

Note 1 – Description of Organization and Summary of Significant Accounting Policies (continued)

Coordinated Care Organization – With the passage of Coordinated Care Organization (CCO) legislation in the State of Oregon, the Hospital and nine other entities developed a new organization, Willamette Valley Community Health LLC (WVCH). WVCH contracted with the State of Oregon to provide capitated health care services to enrollees of OHP in Marion County beginning August 1, 2012 and in Polk County beginning October 1, 2012. The Hospital contributed $272,728 to WVCH during 2012 and has 9% ownership. See Note 5.

Health insurance – The Hospital provides medical, dental, vision, and prescription coverage to its active employees and families through the Silverton Hospital Health Benefit Plan (the Plan). The Plan is self-funded, but is reinsured through Companion Life Insurance Company with a specific attachment point of $100,000 per covered individual annually with unlimited annual maximum specific benefit. The Hospital has established reserve amounts based upon information as to the status of claims plus development factors for incurred but not yet reported claims and anticipated future changes in underlying case reserves. Such reserve amounts are only estimates and there can be no assurance that the Hospital's future obligations will not exceed the amount of its reserves. The Hospital's reserve for health insurance was $1,299,470 and $1,705,785 at September 30, 2015 and 2014, respectively, and is included in other accrued expenses on the consolidated balance sheet.

Net patient service revenue – The Hospital has agreements with third-party payors that provide for payments to the Hospital at amounts different from its established rates. Payment arrangements include prospectively determined rates per discharge, reimbursed costs, discounted charges, and per diem payments. Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined.

Capitated revenue – The Hospital contracts with WVCH and other third parties to provide health care services to plan enrollees. Under the various contracts, the Company receives a per enrollee amount (capitated payment) each month covering all contracted services needed by the plan enrollees. Capitation payments are recognized as premium revenue during the period in which the Company is obligated to provide services to the plan enrollees. Any claims paid to providers outside the Hospital are recorded as out of network expenses on the statements of operations.

Note 1 – Description of Organization and Summary of Significant Accounting Policies (continued)

Other operating revenues – Other operating revenues is substantially comprised of funds received from Centers for Medicare & Medicaid (CMS), pursuant to the Health Information Technology for Economic and Clinical Health Act (HITECH Act), for reimbursement of Electronic Health Records (EHR) capital expenditures made by the Hospital through June 30, 2014, also known as Meaningful Use funds. The Hospital recognizes income associated with these funds when its requirements for reimbursement have been met and application for reimbursement has been submitted to CMS. During the years ended September 30, 2015 and 2014, the Hospital recognized income of $24,271 and $820,000 associated with Meaningful Use funds, respectively. The final HER Incentive payment amounts for Years 2, 3 and 4 will be subject to final settlement determined after submission of annual costs reports and audits by the Medicare fiscal intermediary.

Charity care – The Hospital provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. Because the Hospital does not pursue collection of amounts determined to qualify as charity care, they are not reported as revenue. Charity care provided by the Hospital at cost totaled $5.6 million and $4.1 million for the years ended September 30, 2015 and 2014, respectively.

Donated restricted gifts – Unconditional promises to give cash and other assets to the Organization are reported at fair value at the date the promise is received. Conditional promises to give and indications of intentions to give are reported at fair value at the date the gift is received. The gifts are reported as either temporarily or permanently restricted support if they are received with donor stipulations that limit the use of the donated assets.

Donated services, goods and facilities – Donated non-cash assets are recorded at fair value as of the date of donation. Donated services that create or enhance non-financial assets or that require specialized skills that are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation, are recorded at their fair values in the period received.

Excess (deficiency) of revenues over expenses – The consolidated statements of operations include excess of (expenses over revenues) revenues over expenses. Changes in unrestricted net assets, which are excluded from excess (expenses over revenues) revenues over expenses, consistent with industry practice, include unrealized gains and losses on investments other than trading securities.

Estimated medical malpractice liability – The provision for estimated medical malpractice claims includes estimates of the ultimate costs for both reported claims and claims incurred but not reported.

Income taxes – The Organization is a tax-exempt organization and is not subject to state or federal income taxes, except on unrelated business income, in accordance with Section 501(c)(3) of the Internal Revenue Code.

Note 1 – Description of Organization and Summary of Significant Accounting Policies (continued)

The Organization had no unrecognized tax liabilities at September 30, 2015 and September 30, 2014. The Organization recognizes interest accrued and penalties related to unrecognized tax benefits as an administrative expense. During the years ended September 30, 2015 and 2014, the Organization recognized no interest and penalties.

The Organization files an exempt organization income tax return in the U.S. federal jurisdiction and unrelated business income tax returns in the U.S. federal jurisdiction and with the Oregon Department of Revenue.

The Hospital has unrelated business income that has generated net operating losses to offset future taxable income in the amount of $10.2 million. Management does not believe the net operating losses will be realized, therefore a full valuation allowance has been recorded against the deferred tax asset. Net operating losses will begin expiring in 2027.

Subsequent events – Subsequent events are events or transactions that occur after the consolidated balance sheet date but before consolidated financial statements are issued. The Organization recognizes in the consolidated financial statements the effects of all subsequent events that provide additional evidence about conditions that existed at the date of the consolidated balance sheet, including the estimates inherent in the process of preparing the consolidated financial statements. The Organization's consolidated financial statements do not recognize subsequent events that provide evidence about conditions that did not exist at the date of the consolidated balance sheet but arose after the consolidated balance sheet date and before the consolidated financial statements are issued.

The Organization has evaluated subsequent events through _________, 2016 which is the date the consolidated financial statements were issued.

Note 2 – Net Patient Service Revenue

The Hospital has agreements with third-party payors that provide for payments to the Hospital at amounts different from its established rates. A summary of the payment arrangements with major third-party payors follows:

Medicaid – Inpatient and outpatient services rendered to Medicaid program beneficiaries are paid primarily under a cost reimbursement methodology. The Hospital is reimbursed at a tentative rate with final settlement determined after submission of annual cost reports by the Hospital and audits thereof by the Medicaid fiscal intermediary. The Hospital's Medicaid cost reports have been audited by the Medicaid fiscal intermediary through 2012.

Note 2 – Net Patient Service Revenue (continued)

Medicare – Inpatient acute care services rendered to Medicare program beneficiaries are paid at predetermined, specific rates for each hospital discharge. Discharges are classified according to a list of diagnosis related groups (DRGs). Each DRG has a payment weight assigned to it, based on the average resources used to treat Medicare patients in that DRG. The Hospital's classification of DRGs and the appropriateness of their admission are subject to an independent review by a peer review organization. Those Medicare patient services not subject to prospectively determined rates are paid based on a cost reimbursement methodology. The Hospital is reimbursed for certain services at tentative rates with final settlement determined after submission of annual cost reports by the Hospital and audits thereof by the Medicare fiscal intermediary. The Hospital's cost reports have been reviewed and/or audited by the Medicare fiscal intermediary through 2012.

Approximately 8.38% of net patient service revenues are from participation in the Medicare and state–sponsored Medicaid programs for the years ended September 30, 2015 and 2014. Laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term.

The Hospital also has entered into payment agreements with certain commercial insurance carriers, health maintenance organizations, and preferred provider organizations. The basis for payment to the Hospital under these agreements includes prospectively determined rates per discharge, discounts from established charges, and prospectively determined daily rates.

The difference between the Hospital's standard billing rates and the contracted rates results in contractual deductions, which are recorded as adjustments to patient service revenue.

The following are the components of net patient service revenue for the years ended September 30:

	2015	2014
Patient service revenue, non-capitated	$ 202,476,635	$ 171,643,480
Patent service revenue, capitated	18,886,231	35,367,650
Adjustments to patient service charges		
Contractual discounts	94,961,153	90,034,219
Charity care (at gross charges)	2,956,993	7,245,123
Provision for bad debts	2,666,413	828,899
Total adjustments to patient service charges	100,584,559	98,108,241
Net patient service revenue	$ 120,778,307	$ 108,902,889

Note 3 – Assets Limited as to Use

Assets limited as to use at September 30 include:

	2015	2014
Board designated cash and investments		
Certificates of deposit	$ 1,803,516	$ 1,603,015
Money market accounts	285,334	469,135
	2,088,850	2,072,150
Restricted by the Oregon Department of Human Resources as security for reimbursing unemployment claims		
Certificates of deposit	1,095,856	1,094,783
	1,095,856	1,094,783
Total assets limited as to use	$ 3,184,706	$ 3,166,933

Note 4 – Property and Equipment

A summary of property and equipment at September 30 is as follows:

	2015	2014
Land	$ 2,768,949	$ 2,768,949
Land improvements	812,889	812,889
Buildings and improvements	36,859,822	36,500,954
Equipment	41,856,754	39,713,968
	82,298,414	79,796,760
Less accumulated depreciation	49,705,972	45,713,903
	32,592,442	34,082,857
Construction in progress	458,043	646,930
Property and equipment, net	$ 33,050,485	$ 34,729,787

Depreciation and amortization expense for the years ended September 30, 2015 and 2014 was $4,185,440 and $4,081,301, respectively.

Note 5 – Investments

Investments at September 30 include:

	2015	2014
Mutual funds	$ 2,862,810	$ 3,025,231
Joint venture - Providence/Silverton Rehab, LLC	100,000	100,000
Certificates of deposit	206,974	302,500
Total investments	$ 3,169,784	$ 3,427,731

Investment income and gains for assets limited as to use, cash equivalents, and other investments totaled $33,374 and $145,030 for the years ended September 30, 2015 and 2014, respectively.

Willamette Valley Community Health, LLC – With the passage of CCO legislation in the State of Oregon, the Hospital and nine other entities developed Willamette Valley Community Health, LLC (WVCH). The Company contributed $272,728 to WVCH during 2012 and has 9% ownership. The Hospital does not believe it has significant influence over WVCH and has chosen to record its investment on the cost basis and recognizes income as received.

Providence/Silverton Rehab, LLC – The Hospital formed a joint venture with Providence Health & Services to provide outpatient rehabilitation services. The joint venture is organized as Providence/Silverton Rehab, LLC, dba Wellspring Rehabilitation Services. Silverton Health owns 50% of the joint venture and its interest at September 30, 2015 and 2014 was $100,000.

Note 6 – Fair Value Measurements

Financial Accounting Standards Board (FASB) *Accounting Standards Codification* (ASC) 820, *Fair Value Measurements and Disclosures*, provides the framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurement) and the lowest priority to unobservable inputs (level 3 measurements).

Note 6 – Fair Value Measurements (continued)

The three levels of the fair value hierarchy under FASB ASC 820 are described as follows:

Level 1 – Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Hospital has the ability to access.

Level 2 – Inputs to the valuation methodology are quoted prices in markets that are not considered to be active or financial instruments without quoted market prices, but for which all significant inputs are observable, either directly or indirectly.

Level 3 – Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs. At September 30, 2015 and 2014, the Organization does not have any liabilities that are required to be measured in accordance with the fair value standards.

Following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used at September 30, 2015 and 2014.

Common stocks – Valued at the closing price reported on the active market on which the individual securities are traded.

Corporate bonds and U.S. government securities – Valued at the closing price reported on the major market on which the individual securities are traded or have reported broker trades which may be considered indicative of an active market. Where quoted prices are available in an active market, the investments are classified within level 1 of the valuation hierarchy. If quoted market prices are not available for the specific security, then fair values are estimated by using pricing models, quoted prices of securities with similar characteristics, discounted cash flows and other observable inputs. Such securities are classified within level 2 of the valuation hierarchy.

Mutual funds – Mutual funds and exchange traded mutual funds are carried at fair value based upon quoted market prices for those or similar investments.

Certificates of deposit – Certificates of deposit values are obtained from third party pricing services based on comparable assets.

Beneficial interest in endowment fund – The Organization's beneficial interest in endowment fund is recorded at fair value based on discounted future cashflows expected to be received from the endowment fund. The endowment fund controls the investments in the endowment fund and makes all management and investment decisions.

Note 6 – Fair Value Measurements (continued)

The following tables present the fair value measurements of assets recognized in the accompanying balance sheets measured at fair value on a recurring basis, and indicates the fair value hierarchy of the valuation techniques utilized by the Organization to determine such fair value:

	Fair Value Measurements at September 30, 2014			
	Total Fair Value	Level One	Level Two	Level Three
Money market funds	$ 285,334	$ 285,334		
Mutual funds				
Bond funds	574,754	574,754		
Value funds	844,786	844,786		
Growth funds	1,390,631	1,390,631		
Money market funds	52,639	52,639		
Certificates of deposit	3,106,346		3,106,346	
Beneficial interest in endownment fund	115,003			115,003
	$ 6,369,493	$ 3,148,144	$ 3,106,346	$ 115,003

	Fair Value Measurements at September 30, 2014			
	Total Fair Value	Level One	Level Two	Level Three
Money market funds	$ 469,135	$ 469,135	$ -	$ -
Mutual funds				
Bond funds	953,638	953,638	-	-
Value funds	989,719	989,719	-	-
Growth funds	1,024,238	1,024,238	-	-
Money market funds	57,636	57,636	-	-
Certificates of deposit	3,000,298	-	3,000,298	-
Beneficial interest in endownment fund	125,991	-	-	125,991
	$ 6,620,655	$ 3,494,366	$ 3,000,298	$ 125,991

The Organization's policy is to recognize transfers in and out as of the actual date of the event or change in circumstances that caused the transfer. There were no transfers between Level 1, 2 or 3 for the years ended September 30, 2015 and 2014.

Note 6 – Fair Value Measurements (continued)

The following table provides a reconciliation of assets measured at fair value using significant unobservable inputs (Level 3) on a recurring basis during the years ended September 30, 2015 and 2014:

	Beneficial Interest in Endowment Fund
Balance, October 1, 2014	$ 125,991
Adjustment to fair value included in earnings	(10,988)
Balance, September 30, 2015	$ 115,003

	Beneficial Interest in Endowment Fund
Balance, October 1, 2013	$ 120,130
Adjustment to fair value included in earnings	5,861
Balance, September 30, 2014	$ 125,991

The total amount of gains for the period included in changes in net assets attributable to the net investment income relating to assets still held at September 30, 2015 was $4,648.

Note 7 – Beneficial Interest in Endowment Fund

The Foundation has established the Silverton Hospital Foundation Endowment Fund with the Oregon Community Foundation (OCF). Under the terms establishing the fund, OCF has title and variance power over the assets and, at least annually, OCF can distribute a portion of the value of the fund to the Foundation. These transactions are considered reciprocal in nature and, accordingly, the Hospital recognizes a beneficial interest in the amount of $115,003 and $125,991 at September 30, 2015 and 2014, respectively.

Note 8 – Long–Term Debt

A summary of long-term debt at September 30 consisted of the following:

	2015	2014
Hospital Facility Authority of the City of Silverton, Oregon, this loan was paid in full in 2015.	$ -	$ 5,605,989
Legacy Health, an Oregon nonprofit corporation $15,000,000 line of credit mauturing August 2018 balance due at maturity, with monthly interest only payments at 1.50%.	$ 5,125,577	$ -
Less amounts due within one year	$ -	5,605,989
	$ 5,125,577	$ -

In 2015, the Hospital received a $15,000,000 line of credit from legacy health and used the proceeds to pay off the term loan with Hospital Facility Authority of the City of Silverton, Oregon. At September 30, 2014, the Hospital was not in compliance with various covenants related to their long-term debt. The Hospital has not received a waiver for these violations and caused the Hospital to be in breach of the debt agreement. Accordingly, all related borrowings are classified as current at September 30, 2014.

Note 9 – Capital Leases

The Hospital entered into various equipment lease-purchase agreements. Capital lease obligations consisted of the following at September 30:

	2015	2014
Equipment lease-purchase agreement with First American Finance with monthly payments of $55,007 at 2.69%. Matures March 2016.	$ 327,467	$ 969,331
Equipment lease-purchase agreement with Insight Global Finance with monthly payments of $10,995.72 at 6.50%. Matures June 2018.	331,448	-
Equipment lease-purchase agreement with First American Finance with monthly payments of $40,085 at 2.69%. Matures April 2016.	278,094	744,787
Equipment lease-purchase agreement with Toshiba America Medical Credit with monthly payments of $6,393 at 5.20%. Matures January 2019.	234,306	297,049
Equipment lease-purchase agreement with First American Finance with monthly payments of $14,674 at 2.69%. Matures September 2016.	173,543	342,478
Equipment lease-purchase agreement with US Bank with monthly payments of $15,081 at 2.76%. Matures December 2015.	45,034	222,100
Equipment lease-purchase agreement with Med One Capital Funding with monthly payments of $7,995 at 6.33%. Matures January 2016.	31,425	122,235
Equipment lease-purchase agreement with Insight Global Finance with monthly payments of $2,996 at 9.03%. Matures March 2017.	50,259	80,183
Equipment lease-purchase agreements with various companies paid in full in during 2015.	-	98,920
Equipment lease-purchase agreement with Webstar ASC, LLC with interest only payments ranging from $6,242 and $6,636 through January 2015 and principal and interest payments beginning February 2015 of $14,317 at 12.00%. Matures January 2020.	-	643,634
Total capital lease obligations	1,471,576	3,520,717
Less amounts due within one year	1,058,374	1,802,254
Capital lease obligations, net of current portion	$ 413,202	$ 1,718,463

Note 9 – Capital Leases (continued)

Scheduled payments on capital lease obligations for the years ending September 30 are as follows:

2016	$ 1,108,418
2017	226,645
2018	175,677
2019	25,571
2020	-
Thereafter	-
Total minimum lease payments	1,536,311
Less: Amount representing interest	(64,735)
Present value of net minimum lease payments	$ 1,471,576

For many of the capital leases, the related equipment serves as collateral on the obligation.

Note 10 – Functional Expenses

The Hospital provides healthcare services to residents within its geographic location. Expenses related to providing these services for the years ended September 30, are as follows:

	2015	2014
Healthcare services	$ 94,562,329	$ 87,447,616
General and administrative	33,201,954	29,624,620
Total operating expenses	$ 127,764,283	$ 117,072,236

Note 11 – Restrictions on Net Assets

Temporarily restricted net assets at September 30 are available for the following purposes or periods:

	2015	2014
Community outreach fund	$ 1,972,634	$ 2,020,619
Building fund	123,114	123,114
Community Outreach Clinic fund	43,166	40,148
Seniors plus fund	37,912	35,829
Equipment fund	33,398	-
Volunteer support fund	24,604	24,354
Employee emergency fund	22,242	20,647
Medical advancement fund	11,988	11,988
Healthcare navigation support fund	11,568	11,568
Wellspring health management fund	9,823	9,169
Scholarship fund	5,092	6,092
Outreach and support fund	4,846	4,577
Annual fund	4,271	19,418
Winter nursing education fund	1,188	7,088
Family birth center fund	-	4,085
Hospital matching fund	-	3,500
Total temporarily restricted net assets	$ 2,305,846	$ 2,342,196

Permanently restricted net assets consist of endowment fund investments of $25,076 at September 30, 2015 and 2014, are to be held indefinitely, the income from which is expendable to support the general operations of the Foundation.

Note 12 – Employee Retirement Plan

The Hospital has a defined contribution retirement plan covering substantially all employees under the guidelines of Internal Revenue Code (IRC) 403(b) Tax Deferred Annuity Plan. The employees may elect to contribute, according to a salary reduction agreement, a percentage of their annual compensation. The Hospital will contribute $.50 for every dollar contributed up to a maximum of six percent of the employee's compensation. There is also an additional discretionary contribution of up to five percent of employee gross wages based on completed years of service. Employer contributions determined in accordance with the plan formula were $2,110,960 and $2,084,118 for the years ended September 30, 2015 and 2014, respectively.

Note 13 – Operating Leases

The Hospital leases clinics and other property under various long-term operating leases. Rental expense for the years ended September 30, 2015 and 2014 was approximately $3,805,000 and $3,749,000, respectively. Generally, these leases include escalation clauses based on increases in the local Consumer Price Index and renewal options.

The Hospital has a lease for a 90,000 square-foot medical center located in Woodburn, Oregon that expires in 2021. The Woodburn Health Center lease provides the option for the Hospital to buy the medical center at a floating price below fair market value at the time the option is exercised.

Following is a schedule of future minimum rental payments required under the operating leases that have initial or remaining terms in excess of one year as of September 30, 2015:

2016	$ 3,288,567
2017	3,197,973
2018	3,197,973
2019	3,197,973
2020	2,699,455
Thereafter	15,690,268
	$ 31,272,209

Note 14 – Community Benefits

The Hospital's mission is to provide quality healthcare services and leadership in promoting health improvement to all persons in its service area on a non-discriminatory basis and without regard to ability to pay. The Hospital recognizes that not all individuals possess the ability to purchase essential medical services, and that its mission includes serving the community with respect to providing healthcare service and healthcare education. In keeping with its commitment to serve all members of the community, the Hospital provides:

- Free and/or subsidized care,
- Care to persons covered by governmental programs at or below cost, and
- Health activities and programs to support the community, which are considered in the context of the individual's ability to pay, and/or community need.

These activities include wellness programs, community education programs, health screenings, special programs for the elderly, handicapped, medically underserved, and a wide variety of broad community support activities. Additionally, the Hospital's Board of Trustees has designated funds for charitable causes.

Note 14 – Community Benefits (continued)

The Hospital provides care to persons covered by governmental programs, such as Medicare and Medicaid, which reimburse at levels below actual cost. The amount of charges written off by the Hospital under these programs was approximately $68,962,000 and $63,894,000 for the years ended September 30, 2015 and 2014, respectively.

The Hospital also provides additional free care under its charity care policy. The amount of charges forgone for charity care provided by the Hospital for the years ended September 30, 2015 and 2014 was $2,956,993 and $7,245,123, respectively.

Note 15 – Concentrations of Credit Risk

Cash and cash equivalents – Financial instruments potentially subjecting the Organization to concentrations of credit risk consist primarily of bank demand deposits in excess of FDIC limits.

Assets limited as to use – Financial instruments potentially subjecting the Hospital to concentrations of credit risk consist primarily of money market funds with one financial institution of approximately $1 million.

Accounts receivable – The Hospital grants credit without collateral to its patients, most of whom are local residents and are insured under third-party payor agreements. The mix of receivables from patients and third-party payors at September 30 was as follows:

	2015	2014
Medicare	22%	25%
Medicaid	29%	23%
Other third-party payors	21%	24%
Patients (self-pay)	28%	28%
	100%	100%

Note 16 – Commitments and Contingencies

Professional liability claims – The Hospital purchases professional liability insurance to cover medical malpractice claims. There are known claims and incidents that may result in the assertion of additional claims, as well as claims from unknown incidents that may be asserted arising from services provided to patients. To reduce its risk and related monetary exposures, the Hospital has established a comprehensive quality assurance program. Management is aware of no potential professional liability claims whose settlement, if any, would have a material adverse effect on the Hospital's consolidated financial position.

Note 16 – Commitments and Contingencies (continued)

Compliance with laws and regulations – The Hospital is subject to many complex federal, state and local laws and regulations. Compliance with these laws and regulations is subject to government review and interpretation, and unknown or unasserted regulatory actions. Government activity with respect to investigations and allegations regarding possible violations of these laws and regulations by health care providers, including those related to medical necessity and coding and billing for services, has increased significantly. Violations of these laws can result in large fines and penalties, sanctions on providing future services, and repayment of past patient service revenue. The Hospital has implemented a voluntary corporate compliance program which includes guidance for all Hospital employees' adherence to applicable laws and regulations. Management believes any actions that may result from investigations of non-compliance with laws and regulations will not have a material effect on the Hospital's future financial position or results of operations.

Risk management – The Hospital is exposed to various risks of loss from torts; theft of, damage to, and destruction of assets; business interruption; errors and omissions; employee injuries and illnesses; natural disasters; and employee health, dental, and accident benefits. Commercial insurance coverage is purchased for claims arising from such matters.

Collective bargaining agreement –The Hospital has a three–year collective bargaining agreement with the Oregon Nurses Association (ONA) through June 2016. ONA members represented approximately 23% of the Hospital's salaries and wages during the year ended September 30, 2015.

Note 17 – Healthcare Reform

In March 2010, President Obama signed the Health Care Reform Legislation (the "Affordable Care Act") into law. The new law resulted in sweeping changes across the health care industry. The primary goal of this comprehensive legislation is to extend health care coverage to approximately 32 million uninsured legal U.S. residents through a combination of public program expansion and private sector health insurance reforms. To fund the expansion of insurance coverage, the legislation contains measures designed to promote quality and cost efficiency in health care delivery and to generate budgetary savings in the Medicare and Medicaid programs. The Organization saw a significant increase in its Medicaid population during the current year. 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 have impacted the Organization as of 2015, such as the expansion of the Medicaid program. Further legislative policies are required for several provisions that will be effective in future years. The effects of the changes that will be required in future years are not determinable at this time.

SUPPLEMENTARY INFORMATION

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SILVERTON HEALTH AND AFFILIATES
CONSOLIDATING BALANCE SHEET
SEPTEMBER 30, 2015

ASSETS

	Silverton Hospital	Silverton Hospital Foundation	Total	Elimination Entries	Consolidated
CURRENT ASSETS					
Cash and cash equivalents	$ 10,567,107	$ 81,037	$ 10,648,144	$ -	$ 10,648,144
Patient accounts receivable, net	16,491,587	-	16,491,587	-	16,491,587
Current portion of physician notes receivable	-	-	-	-	-
Supplies inventories	2,055,472	-	2,055,472	-	2,055,472
Prepaid expenses	1,824,243	-	1,824,243	-	1,824,243
Other receivables	4,869,418	26,464	4,895,882	-	4,895,882
Total current assets	35,807,827	107,501	35,915,328	-	35,915,328
ASSETS LIMITED AS TO USE					
Board designated cash and investments	2,088,850	-	2,088,850	-	2,088,850
Investments restricted by State of Oregon	1,095,856	-	1,095,856	-	1,095,856
Total assets limited as to use	3,184,706	-	3,184,706	-	3,184,706
PROPERTY AND EQUIPMENT, net	33,050,485	-	33,050,485	-	33,050,485
OTHER ASSETS					
Physician notes receivable, net	-	-	-	-	-
Investments	100,000	3,069,784	3,169,784	-	3,169,784
Beneficial interest in endowment fund		115,003	115,003	-	115,003
Insurance recoveries and other assets	4,490,386	-	4,490,386	-	4,490,386
Total other assets	4,590,386	3,184,787	7,775,173	-	7,775,173
Total assets	$ 76,633,404	$ 3,292,288	$ 79,925,692	$ -	$ 79,925,692

See report of independent auditors.

LIABILITIES AND NET ASSETS

	Silverton Hospital	Silverton Hospital Foundation	Total	Elimination Entries	Consolidated
CURRENT LIABILITIES					
Accounts payable	$ 3,841,635	$ -	$ 3,841,635	$ -	$ 3,841,635
Accrued payroll	6,121,349	-	6,121,349	-	6,121,349
Accrued payroll taxes and withholds	174,953	-	174,953	-	174,953
Other accrued expenses	4,598,837	-	4,598,837	-	4,598,837
Estimated third-party payor settlements	8,923,302	-	8,923,302	-	8,923,302
Current portion of long-term debt	-	-	-	-	-
Current portion of capital lease obligations	1,058,374	-	1,058,374	-	1,058,374
Total current liabilities	24,718,450	-	24,718,450	-	24,718,450
LONG-TERM LIABILITIES					
Long term debt, net of current portion	5,125,577		5,125,577		5,125,577
Capital lease obligations, net of current portion	413,202	-	413,202	-	413,202
Estimated medical malpractice liability	5,434,830	-	5,434,830	-	5,434,830
Total long-term liabilities	10,973,609	-	10,973,609	-	10,973,609
Total liabilities	35,692,059	-	35,692,059	-	35,692,059
NET ASSETS					
Unrestricted					
Unrestricted	38,852,495	810,175	39,662,670	-	39,662,670
Board designated	2,088,850	-	2,088,850	-	2,088,850
Funds functioning as endowments	-	151,191	151,191	-	151,191
Temporarily restricted	-	2,305,846	2,305,846	-	2,305,846
Permanently restricted	-	25,076	25,076	-	25,076
Total net assets	40,941,345	3,292,288	44,233,633	-	44,233,633
Total liabilities and net assets	$ 76,633,404	$ 3,292,288	$ 79,925,692	$ -	$ 79,925,692

SILVERTON HEALTH AND AFFILIATES
CONSOLIDATING STATEMENT OF OPERATIONS
FOR THE YEAR ENDED SEPTEMBER 30, 2015

	Silverton Hospital	Silverton Hospital Foundation	Total	Elimination Entries	Consolidated
REVENUES					
Patient service revenue, non-capitated net of contractuals and discounts	$ 91,028,302	$ -	$ 91,028,302	$ -	$ 91,028,302
Patient service revenue, capitated	32,416,418		$ 32,416,418		$ 32,416,418
Provision for bad debts	(2,666,413)	-	(2,666,413)	-	(2,666,413)
Net patient service revenue	120,778,307	-	120,778,307	-	120,778,307
Contributions	-	412,310	412,310	(412,310)	-
Other revenue	8,856,525	(133,167)	8,723,358	(418,244)	8,305,114
Net assets released from restrictions used for operations	-	156,618	156,618	-	156,618
Total revenues	129,634,832	435,761	130,070,593	(830,554)	129,240,039
EXPENSES					
Salaries and benefits	68,186,630	228,789	68,415,419	(228,789)	68,186,630
Out of network expenses	18,886,231	-	18,886,231	-	18,886,231
Supplies	12,121,660	-	12,121,660	-	12,121,660
Purchased services	12,240,403	-	12,240,403	-	12,240,403
Building and maintenance	7,784,297	-	7,784,297	-	7,784,297
Depreciation and amortization	4,185,440	-	4,185,440	-	4,185,440
Insurance	1,971,440	-	1,971,440	-	1,971,440
Interest expense	336,129	-	336,129	-	336,129
Other	1,998,114	382,656	2,380,770	(328,717)	2,052,053
Total expenses	127,710,344	611,445	128,321,789	(557,506)	127,764,283
OPERATING LOSS	1,924,488	(175,684)	1,748,804	(273,048)	1,475,756
OTHER INCOME (EXPENSE)					
Investment income	239,815	-	239,815	93,559	333,374
Other non-operating expense	(2,071)	-	(2,071)	179,489	177,418
Total other income (expense)	237,744	-	237,744	273,048	510,792
DEFICIENCY OF EXPENSES OVER REVENUES	$ 2,162,232	$ (175,684)	$ 1,986,548	$ -	$ 1,986,548

See report of independent auditors.

SILVERTON HEALTH AND AFFILIATES
CONSOLIDATING STATEMENT OF CHANGES IN NET ASSETS
FOR THE YEAR ENDED SEPTEMBER 30, 2015

	Silverton Hospital	Silverton Hospital Foundation	Total	Eliminating Entries	Consolidated Totals
UNRESTRICTED NET ASSETS					
Excess of expenses over revenues	$ 2,162,232	$ (175,684)	$ 1,986,548	$ -	$ 1,986,548
Net change in unrealized gains and losses on other-than-trading securities	(1,621)	-	(1,621)	-	(1,621)
Decrease in unrestricted net assets	2,160,611	(175,684)	1,984,927	-	1,984,927
TEMPORARILY RESTRICTED NET ASSETS					
Contributions	-	156,584	156,584	-	156,584
Investment income	-	(36,316)	(36,316)	-	(36,316)
Net assets released from restrictions	-	(156,618)	(156,618)	-	(156,618)
Increase in temporarily restricted net assets	-	(36,350)	(36,350)	-	(36,350)
PERMANENTLY RESTRICTED NET ASSETS					
Transfers to temporarily restricted	-	-	-	-	-
Increase in permanently restricted net assets	-	-	-	-	-
DECREASE IN NET ASSETS	2,160,611	(212,034)	1,948,577	-	1,948,577
NET ASSETS, beginning of year	38,780,734	3,504,322	42,285,056	-	42,285,056
NET ASSETS, end of year	$ 40,941,345	$ 3,292,288	$ 44,233,633	$ -	$ 44,233,633

SILVERTON HEALTH AND AFFILIATES
CONSOLIDATING BALANCE SHEET
SEPTEMBER 30, 2014

ASSETS

	Silverton Hospital	Silverton Hospital Foundation	Total	Elimination Entries	Consolidated
CURRENT ASSETS					
Cash and cash equivalents	$ 10,059,656	$ 46,946	$ 10,106,602	$ -	$ 10,106,602
Patient accounts receivable, net	14,866,578	-	14,866,578	-	14,866,578
Current portion of physician notes receivable	16,702	-	16,702	-	16,702
Supplies inventories	1,665,612	-	1,665,612	-	1,665,612
Prepaid expenses	1,252,281	-	1,252,281	-	1,252,281
Other receivables	2,308,536	3,654	2,312,190	-	2,312,190
Total current assets	30,169,365	50,600	30,219,965	-	30,219,965
ASSETS LIMITED AS TO USE					
Board designated cash and investments	2,072,150	-	2,072,150	-	2,072,150
Investments restricted by State of Oregon	1,094,783	-	1,094,783	-	1,094,783
Total assets limited as to use	3,166,933	-	3,166,933	-	3,166,933
PROPERTY AND EQUIPMENT, net	34,729,787	-	34,729,787	-	34,729,787
OTHER ASSETS					
Physician notes receivable, net	83,298	-	83,298	-	83,298
Investments	100,000	3,327,731	3,427,731	-	3,427,731
Beneficial interest in endowment fund		125,991	125,991	-	125,991
Other	11,168,047	-	11,168,047	-	11,168,047
Total other assets	11,351,345	3,453,722	14,805,067	-	14,805,067
Total assets	$ 79,417,430	$ 3,504,322	$ 82,921,752	$ -	$ 82,921,752

See report of independent auditors.

LIABILITIES AND NET ASSETS

	Silverton Hospital	Silverton Hospital Foundation	Total	Elimination Entries	Consolidated
CURRENT LIABILITIES					
Accounts payable	$ 4,735,672	$ -	$ 4,735,672	$ -	$ 4,735,672
Accrued payroll	5,746,920	-	5,746,920	-	5,746,920
Accrued payroll taxes and withholds	338,420	-	338,420	-	338,420
Other accrued expenses	4,757,617	-	4,757,617	-	4,757,617
Estimated third-party payor settlements	4,475,242	-	4,475,242	-	4,475,242
Current portion of long-term debt	5,605,989	-	5,605,989	-	5,605,989
Current portion of capital lease obligations	1,802,254	-	1,802,254	-	1,802,254
Total current liabilities	27,462,114	-	27,462,114	-	27,462,114
LONG-TERM LIABILITIES					
Long term debt, net of current portion	-	-	-	-	-
Capital lease of obligations, net of current portion	1,718,463	-	1,718,463	-	1,718,463
Estimated medical malpractice liability	11,456,119	-	11,456,119	-	11,456,119
Total long-term liabilities	13,174,582	-	13,174,582	-	13,174,582
Total liabilities	40,636,696	-	40,636,696	-	40,636,696
NET ASSETS					
Unrestricted					
Unrestricted	36,708,584	967,876	37,676,460	-	37,676,460
Board designated	2,072,150	-	2,072,150	-	2,072,150
Funds functioning as endowments	-	169,174	169,174	-	169,174
Temporarily restricted	-	2,342,196	2,342,196	-	2,342,196
Permanently restricted	-	25,076	25,076	-	25,076
Total net assets	38,780,734	3,504,322	42,285,056	-	42,285,056
Total liabilities and net assets	$ 79,417,430	$ 3,504,322	$ 82,921,752	$ -	$ 82,921,752

SILVERTON HEALTH AND AFFILIATES
CONSOLIDATING STATEMENT OF OPERATIONS
FOR THE YEAR ENDED SEPTEMBER 30, 2014

	Silverton Hospital	Silverton Hospital Foundation	Total	Elimination Entries	Consolidated
REVENUES					
Patient service revenue, non-capitated net of contractuals and discounts	$ 84,429,698	$ -	$ 84,429,698	$ -	$ 84,429,698
Patient service revenue, capitated	25,302,090		25,302,090		$ 25,302,090
Provision for bad debts	(828,899)	-	(828,899)	-	(828,899)
Net patient service revenue	108,902,889	-	108,902,889	-	108,902,889
Contributions	-	436,085	436,085	(436,085)	-
Other revenue	7,162,902	111,391	7,274,293	(384,456)	6,889,837
Net assets released from restrictions used for operations	-	43,596	43,596	-	43,596
Total revenues	116,065,791	591,072	116,656,863	(820,541)	115,836,322
EXPENSES					
Salaries and benefits	64,107,123	232,261	64,339,384	(232,261)	64,107,123
Out of network expenses	15,750,483	-	15,750,483	-	15,750,483
Supplies	11,704,829	-	11,704,829	-	11,704,829
Building and maintenance	10,238,524	-	10,238,524	-	10,238,524
Purchased services	7,291,622	-	7,291,622	-	7,291,622
Depreciation and amortization	4,081,301	-	4,081,301	-	4,081,301
Insurance	820,746	-	820,746	-	820,746
Interest expense	481,482	-	481,482	-	481,482
Other	2,546,790	378,392	2,925,182	(329,056)	2,596,126
Total expenses	117,022,900	610,653	117,633,553	(561,317)	117,072,236
OPERATING LOSS	(957,109)	(19,581)	(976,690)	(259,224)	(1,235,914)
OTHER INCOME (EXPENSE)					
Investment income	116,957	-	116,957	76,402	193,359
Other non-operating expense	(779,121)	-	(779,121)	179,488	(599,633)
Total other income (expense)	(662,164)	-	(662,164)	255,890	(406,274)
DEFICIENCY OF EXPENSES OVER REVENUES	$ (1,619,273)	$ (19,581)	$ (1,638,854)	$ (3,334)	$ (1,642,188)

See report of independent auditors.

SILVERTON HEALTH AND AFFILIATES
CONSOLIDATING STATEMENT OF CHANGES IN NET ASSETS
FOR THE YEAR ENDED SEPTEMBER 30, 2014

	Silverton Hospital	Silverton Hospital Foundation	Total	Eliminating Entries	Consolidated Totals
UNRESTRICTED NET ASSETS					
Excess of expenses over revenues	$ (1,619,273)	$ (19,581)	$ (1,638,854)	$ (3,334)	$ (1,642,188)
Net change in unrealized gains and losses on other-than-trading securities	(2,040)	-	(2,040)	3,334	1,294
Increase in unrestricted net assets	(1,621,313)	(19,581)	(1,640,894)	-	(1,640,894)
TEMPORARILY RESTRICTED NET ASSETS					
Contributions	-	110,339	110,339	-	110,339
Investment income	-	79,738	79,738	-	79,738
Transfer from permanently restricted	-	-	-	-	-
Net assets released from restrictions	-	(43,596)	(43,596)	-	(43,596)
Decrease in temporarily restricted net assets	-	146,481	146,481	-	146,481
PERMANENTLY RESTRICTED NET ASSETS					
Transfers to temporarily restricted	-	-	-	-	-
Increase in permanently restricted net assets	-	-	-	-	-
DECREASE IN NET ASSETS	(1,621,313)	126,900	(1,494,413)	-	(1,494,413)
NET ASSETS, beginning of year	40,402,047	3,377,422	43,779,469	-	43,779,469
NET ASSETS, end of year	$ 38,780,734	$ 3,504,322	$ 42,285,056	$ -	$ 42,285,056