TUALITY HEALTHCARE AND SUBSIDIARIES

Consolidated Financial Statements and Supplementary Information

June 30, 2016 and September 30, 2015

(With Independent Auditors' Report Thereon)

TUALITY HEALTHCARE AND SUBSIDIARIES

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KPMG LLP
Suite 3800
1300 South West Fifth Avenue
Portland, OR 97201

Independent Auditors' Report

The Board of Directors
Tuality Healthcare:

We have audited the accompanying consolidated balance sheet of Tuality Healthcare and its subsidiaries as of June 30, 2016, and the related consolidated statements of operations, changes in net assets, and cash flows for the nine-month period then ended. These consolidated financial statements are the responsibility of Tuality's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Tuality Healthcare and its subsidiaries as of June 30, 2016, and the changes in their net assets and their cash flows for the nine-month period then ended in accordance with U.S. generally accepted accounting principles.

Other Matters

The accompanying consolidated financial statements of Tuality Healthcare as of and for the year ended September 30, 2015, were audited by other auditors whose report thereon dated January 25, 2016, expressed an unmodified opinion on those statements.

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The consolidating information on pages 35 through 37 is presented for purposes of additional analysis and is 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 audits 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.

KPMG LLP

Portland, Oregon
October 10, 2016

TUALITY HEALTHCARE AND SUBSIDIARIES

Consolidated Balance Sheets

June 30, 2016 and September 30, 2015

Assets	**2016**	**2015**
Current assets:		
Cash and cash equivalents	$ 11,845,900	10,096,400
Short-term investments	2,126,500	27,643,900
Patient accounts receivable, net of allowance for uncollectible accounts of $3,760,800 and $5,446,000	23,590,000	23,282,200
Other receivables	6,740,800	4,705,100
Inventory of supplies	3,402,800	3,309,700
Prepaid expenses and other	2,782,000	2,426,000
Current portion of assets whose use is limited	915,700	—
Total current assets	51,403,700	71,463,300
Assets whose use is limited:		
Board-designated funds	36,400,200	15,209,600
Under bond indenture agreement – held by Trustee	3,589,500	3,588,400
Donor-restricted – specific purpose	2,846,900	2,771,600
Donor-restricted – endowment	2,777,300	2,536,500
Required for current liabilities	(915,700)	—
Total assets whose use is limited	44,698,200	24,106,100
Property and equipment:		
Property and equipment net of accumulated depreciation and amortization	42,102,400	40,969,900
Other assets:		
Other receivables – noncurrent	1,003,400	1,511,900
Investments in unconsolidated affiliates	2,650,500	2,853,700
Deferred compensation plan	1,773,300	1,515,900
Cash value of life insurance	446,800	446,800
Deferred costs and other	535,500	558,000
Intangible assets	1,907,300	1,981,200
Goodwill	318,500	318,500
Total other assets	8,635,300	9,186,000
Total assets	$ 146,839,600	145,725,300

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TUALITY HEALTHCARE AND SUBSIDIARIES

Consolidated Balance Sheets

June 30, 2016 and September 30, 2015

Liabilities and Net Assets		**2016**	**2015**
Current liabilities:			
Accounts payable	$	10,942,300	11,342,000
Accrued payroll and employee benefits		13,334,300	10,296,400
Estimated liabilities for Medicare and Medicaid settlements		623,000	525,100
Long-term debt due within one year		1,116,100	403,000
Accrued bond interest payable		115,700	—
Total current liabilities		26,131,400	22,566,500
Long-term liabilities:			
Long-term debt, net of amount due within one year		15,766,300	16,836,800
Liability for pension benefits		54,706,200	44,561,800
Other long-term liabilities		3,574,600	3,709,800
Total long-term liabilities		74,047,100	65,108,400
Total liabilities		100,178,500	87,674,900
Net assets:			
Unrestricted		41,017,900	52,714,200
Temporarily restricted by donors		2,865,900	2,799,700
Permanently restricted by donors		2,777,300	2,536,500
Total net assets		46,661,100	58,050,400
Total liabilities and net assets	$	146,839,600	145,725,300

See accompanying notes to consolidated financial statements.

TUALITY HEALTHCARE AND SUBSIDIARIES

Consolidated Statements of Operations

Nine-month period ended June 30, 2016 and year ended September 30, 2015

	2016	2015
Net patient service revenue:		
Patient service revenue (net of contractual allowances and discounts)	$ 130,735,900	164,954,600
Provision for bad debts	(7,708,200)	(7,792,300)
Total net patient service revenue	123,027,700	157,162,300
Other revenue	12,672,900	13,888,700
Total revenue	135,700,600	171,051,000
Operating expenses:		
Salaries and wages	67,189,800	85,070,400
Employee benefits	16,378,900	21,104,800
Supplies and other expenses	45,566,200	56,622,900
Professional fees	3,148,400	3,574,600
Depreciation and amortization	5,819,100	7,415,200
Interest	488,500	1,081,600
Total operating expenses	138,590,900	174,869,500
Loss from operations	(2,890,300)	(3,818,500)
Other income:		
Realized income on investments whose use is limited by board designation	643,300	56,500
Gain on investments in affiliated companies	991,600	1,231,400
(Loss) gain on disposal of property and equipment	(357,500)	3,400
Loss on extinguishment of debt	—	(432,700)
Other nonoperating expenses	(165,900)	(92,300)
Total other income	1,111,500	766,300
Deficit of revenue in excess of expenses	(1,778,800)	(3,052,200)
Contributions for property and equipment acquisition	387,000	180,300
Change in net unrealized gain (loss) on other-than-trading securities	639,400	(870,300)
Pension-related changes	(10,943,900)	(12,571,700)
Decrease in unrestricted net assets	$ (11,696,300)	(16,313,900)

See accompanying notes to consolidated financial statements.

TUALITY HEALTHCARE AND SUBSIDIARIES

Consolidated Statements of Changes in Net Assets

Nine-month period ended June 30, 2016 and year ended September 30, 2015

		2016	2015
Unrestricted net assets:			
Deficit of revenue in excess of expenses	$	(1,778,800)	(3,052,200)
Contributions for property and equipment acquisition		387,000	180,300
Change in net unrealized gain (loss) on other-than-trading securities		639,400	(870,300)
Pension-related changes		(10,943,900)	(12,571,700)
Decrease in unrestricted net assets		(11,696,300)	(16,313,900)
Temporarily restricted net assets:			
Gifts, grants and bequests		788,500	965,800
Investment income (loss)		380,600	(243,500)
Net assets released from restrictions		(1,102,900)	(1,126,400)
Increase (decrease) in temporarily restricted net assets		66,200	(404,100)
Permanently restricted net assets:			
Contributions for endowment funds		240,800	(1,100)
Increase (decrease) in permanently restricted net assets		240,800	(1,100)
Decrease in net assets		(11,389,300)	(16,719,100)
Net assets, beginning of year		58,050,400	74,769,500
Net assets, end of year	$	46,661,100	58,050,400

See accompanying notes to consolidated financial statements.

TUALITY HEALTHCARE AND SUBSIDIARIES

Consolidated Statements of Cash Flows

Nine-month period ended June 30, 2016 and year ended September 30, 2015

	2016	2015
Cash flows from operating activities:		
Change in net assets	$ (11,389,300)	(16,719,100)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	5,819,100	7,415,100
Amortization of finance costs	—	16,000
Provision for bad debts	7,708,200	7,792,300
Net realized and unrealized gain on investments	(1,275,700)	1,787,000
Distributions in excess of undistributed earnings of affiliated companies	203,200	(1,231,300)
(Gain) loss on sale of assets	357,500	(3,000)
Increase in cash value of life insurance	—	(28,100)
Restricted contributions and investment income received	(1,409,900)	(721,200)
Changes in assets and liabilities that provided (used) cash:		
Accounts receivable	(9,543,200)	(8,653,000)
Inventories	(93,100)	(218,100)
Prepaid expenses and other	(333,500)	(132,300)
Accounts payable	(792,400)	62,900
Accrued payroll and employee benefits	13,182,300	11,213,400
Estimated liabilities for Medicare and Medicaid settlements	97,900	632,000
Accrued bond interest	115,700	(382,800)
Net cash provided by operating activities	2,646,800	829,800
Cash flows from investing activities:		
Purchase of property and equipment	(7,236,400)	(8,945,600)
Proceeds from sales of property and equipment	1,100	4,100
Purchases of securities	(7,720,400)	(6,767,500)
Proceeds from sales of securities	12,748,500	5,879,800
Net investment in cash value life insurance	257,400	—
Cash received from corporate joint venture	—	1,340,300
Net cash used in investing activities	(1,949,800)	(8,488,900)
Cash flows from financing activities:		
Proceeds from restricted contributions and investment income	1,409,900	721,200
Proceeds from issuance of long-term debt	—	2,120,000
Principal payments on long-term debt	(357,400)	(1,013,700)
Net cash provided by financing activities	1,052,500	1,827,500
Net increase (decrease) in cash and cash equivalents	1,749,500	(5,831,600)
Cash and cash equivalents, beginning of year	10,096,400	15,928,000
Cash and cash equivalents, end of year	$ 11,845,900	10,096,400
Supplementary disclosure of cash flow information:		
Cash paid during the year for interest	$ 458,000	1,404,000
Supplementary schedule of noncash investing and financing activities:		
Bond refunding	$ —	14,005,000

See accompanying notes to consolidated financial statements.

(1) Summary of Organization and Accounting Policies

Tuality Healthcare (Tuality) is a licensed 215-bed hospital and health services provider operating in Washington County, Oregon. Tuality operates hospitals at two locations, Tuality Community Hospital in Hillsboro, Oregon and Tuality Forest Grove Hospital in Forest Grove, Oregon. In addition to acute care hospital services, Tuality provides a wide array of outpatient diagnostic and treatment services throughout western Washington County.

Tuality Healthcare is the parent company and sole member or stockholder of the following companies:

Tuality Management Systems, Inc. (TMSI), which owns taxable affiliated corporations and corporate joint ventures, including Tuality Medical Equipment Supply (TMES) that sells and rents medical durable goods.

Tuality Property Management, Inc., holding title to certain hospital-related real estate and property acquired for future hospital expansion or investment.

Tuality Healthcare Foundation, Inc., a foundation established for charitable and educational purposes for the benefit of the Tuality Healthcare health care system.

The organizations are nonprofit corporations under the laws of the State of Oregon, maintaining tax-exempt status, except for Tuality Management Systems, Inc., which is a for-profit, taxable corporation.

(a) Principles of Consolidation

The accompanying consolidated financial statements include the accounts of Tuality and all majority-owned subsidiary companies. Subsidiaries in which Tuality has less than a majority interest are generally accounted for by the equity method, which approximates Tuality's equity in their underlying net book value. All significant intercompany accounts and transactions have been eliminated.

(b) Use of Estimates

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

(c) Subsequent Events

Management has evaluated subsequent events through October 10, 2016, the date the consolidated financial statements were available to be issued.

(d) Accounts Receivable

Accounts receivable are stated at unpaid balances (net of contractual allowances) and are reduced by an allowance for amounts that could become uncollectible in the future. Substantially all of Tuality's receivables are related to providing healthcare services to its hospitals' patients.

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Tuality estimates the allowance for doubtful accounts by reserving a percentage of all self-pay accounts receivable without regard to aging category, based on collection history, adjusted for expected recoveries and, if present, anticipated changes in trends. The percentage used to reserve for all self-pay accounts is based on Tuality's recent collection history. Tuality collects substantially all of its contractually expected payments related to its third-party insured receivables, including receivables from governmental agencies.

Collections are impacted by the economic ability of patients to pay and the effectiveness of Tuality's collection efforts. Significant changes in payor mix, business office operations, economic conditions, or trends in federal and state governmental healthcare coverage could affect Tuality's collection of accounts receivable and the estimates of the collectibility of current accounts receivable. The process of estimating the allowance for doubtful accounts requires Tuality to estimate the collectibility of self-pay accounts receivable, which is primarily based on its collection history, adjusted for expected recoveries and, if available, anticipated changes in collection trends. Tuality also continually reviews its overall reserve adequacy by analyzing current period net revenue and admissions by payor classification, aged accounts receivable by payor, and days revenue outstanding.

The allowance for uncollectible accounts is decreased by write-offs (net of recoveries). Accounts receivable are written off after collection efforts have been followed in accordance with Tuality's policies.

(e) Net Patient Service Revenue

Net patient service revenue is reported as 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.

(f) Investments and Assets Whose Use is Limited

Gifts of investment property are reported at fair value at the date of receipt.

Investments in equity securities with readily determinable fair values and all investments in debt securities are measured at fair value in the consolidated balance sheets.

Tuality's investments in affiliated companies are reported on the equity method of accounting that approximates Tuality's equity in the underlying net book value of affiliated companies. Short-term investments are stated at cost, which approximates fair value.

Investment income or loss (including realized gains and losses on investments, interest, and dividends) is included in the excess of revenue over expenses unless the income or loss is restricted by donor or law. Investment income (loss) on investments of donor-restricted funds are added to (deducted from) the appropriate restricted fund balance. Unrealized gains and losses on investments are excluded from the performance indicator unless the investments are trading securities.

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(g) Inventories

Inventories, consisting of supplies, are valued at the lower of cost (first-in, first-out) or market.

(h) Property and Equipment

Property and equipment are carried at cost. Any purchases of land, buildings, and equipment that have an expected useful life greater than one year and a cost greater than $5,000 are capitalized. Refurbishments or improvements that extend the useful life of an existing asset are also capitalized subject to the same cost materiality threshold of $5,000. Donated assets are carried at fair market value at date of donation. Leased assets under capital leases are carried at the present value of future lease payments. The carrying amounts of assets sold, retired, or otherwise disposed of and the related allowances for depreciation are eliminated from the accounts, and any resulting gain or loss is included in nonoperating income or expense. Depreciation of property and equipment is provided by annual charges to expense on a straight-line basis over the expected useful lives of the assets. Equipment under capital lease obligations is amortized on the straight-line method over the shorter period of the lease term or the estimated useful life of the equipment. The range of annual lives used in computing depreciation is as follows:

Buildings	10–50 years
Fixed equipment	15–20 years
Movable equipment	3–20 years

(i) Intangible Assets

Intangible assets are recorded at cost and are amortized on a straight-line basis over the estimated useful life of the asset.

(j) Goodwill

Goodwill is not subject to amortization. Management tests goodwill for impairment on an annual basis. No adjustment for impairment was made for the nine-month period ended June 30, 2016 or the year ended September 30, 2015.

(k) Federal and State Income Taxes

Tuality is a nonprofit corporation and it is management’s opinion that substantially none of its activities are subject to unrelated business income taxes. Certain subsidiaries, however, are subject to income taxes, although no significant amounts have been incurred to date.

U.S. generally accepted accounting principles require management of Tuality to evaluate tax positions taken by the organization and recognize a tax liability (or asset) if the organization has taken an uncertain position that more likely than not would not be sustained upon examination by the Internal Revenue Service. Management has analyzed tax positions taken by the organization and has concluded that as of June 30, 2016, there are no uncertain positions taken or expected to be taken that would require recognition of a liability (or asset) or disclosure in the consolidated financial statements. Tuality is subject to routine audits by taxing jurisdictions but no audits are currently in process.

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Management believes that Tuality is no longer subject to income tax examinations for years prior to 2013.

(l) Cash and Cash Equivalents

Tuality considers all highly liquid short-term investments with maturities of three months or less, at date of purchase or acquisition, to be cash equivalents except for cash and cash equivalents included in assets whose use is limited.

(m) Estimated Malpractice Claims

Tuality purchases professional and general liability insurance to cover medical malpractice claims on a claims-made basis. 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. Tuality accrues an estimate of the ultimate costs for both reported claims and claims incurred but not reported as well as an estimated receivable for expected insurance reimbursements.

(n) Temporarily and Permanently Restricted Net Assets

Temporarily restricted net assets are those whose use by Tuality has been limited by donors to a specific time period or purpose. Permanently restricted net assets have been restricted by donors to be maintained by Tuality in perpetuity.

(o) Donor-Restricted Funds

Unconditional promises to give cash and other assets to Tuality 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. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified as unrestricted net assets and reported in the consolidated statements of operations 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.

(p) Income from Operations

Income from operations includes income from provision of patient services as well as other revenue consisting primarily of management fees, rental income, and realized investment income on other than board-designated assets. Income from operations excludes certain items that Tuality deems to be outside the scope of its primary business.

(q) Excess of Revenue over Expenses

The consolidated statements of operations includes excess of revenue over expenses. Changes in unrestricted net assets, which are excluded from excess of revenue over expenses, consistent with industry practice, include unrealized gains and losses on investments other-than-trading securities, permanent transfers of assets to and from affiliates for other than goods and services, and contributions

(Continued)

of long-lived assets (including assets acquired using contributions which by donor restriction were to be used for the purpose of acquiring such assets).

(r) OHSU Affiliation

On February 1, 2016, Tuality Healthcare (Tuality) affiliated with Oregon Health & Science University (OHSU) through the execution of a Management Agreement (the Tuality Agreement) between the organizations. Tuality Healthcare owns and operates 215 licensed hospital beds at two locations. Tuality Community Hospital, a 167 bed acute care hospital located in Hillsboro, Oregon, and Tuality Forest Grove Hospital, a 48 bed acute care hospital located in Forest Grove, Oregon. Under the Tuality Agreement, OHSU agrees to oversee the unified and integrated clinical enterprises of OHSU and Tuality as a single, integrated economic unit. OHSU and Tuality remain as separate entities, own their own assets and continue to be the licensed operators of their own facilities. Per the Tuality Agreement, OHSU has guaranteed operating income and operating cash flow support. Operating income support amounted to $2.6 million and operating cash flow support amounted to $2.9 million for the period from February 1, 2016 through June 30, 2016.

(s) New Accounting Pronouncements

In May 2014, the FASB issued Accounting Standards Update (ASU) 2014-09, *Revenue from Contracts with Customers*. The ASU will replace most existing revenue recognition guidance in U.S. generally accounting principles when it becomes effective. The new standard is effective for Tuality on July 1, 2019. Management does not anticipate the adoption of this new ASU to have a material impact on Tuality’s consolidated financial statements.

In January 2016, the FASB issued ASU 2016-01, *Recognition and Measurement of Financial Assets and Financial Liabilities*. The ASU will require that changes in the value of equity investments with readily determinable market values be recognized through revenue in excess of expenses. The new standard is effective for Tuality on July 1, 2018. Management is in the process of evaluating the impact the adoption of this new ASU on Tuality’s consolidated financial statements.

In February 2016, the FASB issued ASU 2016-02, *Leases*. The ASU applies to all leases of tangible assets and the new standard is effective for Tuality on July 1, 2020. Management is evaluating the effect that ASU 2016-02 will have on its financial statements and related disclosures. Management has not yet selected a transition method nor has it determined the effect of the standard on its ongoing financial reporting.

In April 2015, the FASB issued ASU No. 2015-03, *Interest – Imputation of Interest (Subtopic 835-30)*. The new guidance changes the presentation of debt issuance costs in the financial statements to present such costs as a direct deduction from the related debt liability rather than as an asset. Amortization of debt issuance costs will be reported as interest expense. This standard is effective for Tuality on July 1, 2017. Management does not expect the adoption to have a material impact on the consolidated financial position, and will have no impact on results of operations or cash flows.

In May 2015, the FASB issued ASU 2015-07, *Fair Value Measurement (Topic 820) – Disclosures for Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent)*, which eliminates the requirement to categorize investments in the fair value hierarchy if their fair value is measured at net asset value (NAV) per share, or its equivalent, using the practical expedient in the FASB's fair value measurement guidance. This standard is effective for Tuality on July 1, 2017. Tuality does not expect the adoption to have a material impact on the consolidated financial position, and will have no impact on results of operations or cash flows.

(2) Investments

(a) Assets Whose Use Is Limited

The Board of Directors has limited the use of certain assets by designation for the specific purpose of facilities expansion, renovation and equipment acquisitions. Other assets are held in Trust under bond indenture agreements. The use of certain assets is restricted by donors for specific purposes or permanent endowment. The composition of assets whose use is limited at June 30, 2016 and September 30, 2015 is set forth in the following table. Investments are shown at estimated fair value at June 30, 2016 and September 30, 2015.

		June 30, 2016	September 30, 2015
Board-designated funds:			
Cash and short-term investments	$	167,400	4,600
Marketable equity securities		8,082,600	5,124,600
Interest in limited partnerships		28,150,200	10,080,400
	$	36,400,200	15,209,600
Under bond indenture agreement:			
Cash and short-term investments	$	3,589,500	3,588,400

		June 30, 2016	September 30, 2015
Donor-restricted – specific purpose:			
Common collective trusts	$	2,846,900	2,771,600
Donor-restricted – endowment:			
Common trust funds	$	2,777,300	2,536,500

(b) Temporarily and Permanently Restricted Net Assets

Restricted net assets are available for the following purposes:

		June 30, 2016	September 30, 2015
Temporarily restricted net assets:			
Education	$	879,400	852,700
Patient care		98,200	84,200
Other		1,888,300	1,862,800
	$	2,865,900	2,799,700

		June 30, 2016	September 30, 2015
Permanently restricted net assets:			
Education	$	1,349,500	1,349,500
Other		1,427,800	1,187,000
	$	2,777,300	2,536,500

(c) Other Investments

Short-term investments consist of the following at June 30, 2016 and September 30, 2015:

		June 30, 2016	September 30, 2015
Mutual funds	$	1,001,700	26,375,900
Common trust funds – unrestricted		1,124,800	1,268,000
	$	2,126,500	27,643,900

Donor-restricted and unrestricted funds include investments in common trust funds. Common trust fund investments consist of the following at June 30, 2016 and September 30, 2015:

		June 30, 2016	September 30, 2015
Long-term investment pool (includes endowment funds):			
Cash and cash equivalents	$	566,300	616,500
Equity securities		3,820,100	3,507,600
Fixed income securities		2,362,600	2,452,000
	$	6,749,000	6,576,100

Noncurrent investments consist of the following at June 30, 2016 and September 30, 2015:

		June 30, 2016	September 30, 2015
Tuality Health Alliance, at cost		250,000	250,000
	$	250,000	250,000

Other investments recorded using the equity method of accounting include the following:

	June 30, 2016			September 30, 2015		
	Percentage of ownership		Investments	Percentage of ownership		Investments
Raines Dialysis Center	20.0%	$	216,700	20.0%	$	283,000
Northwest Hospital Partnership, Inc.	50.0		232,800	50.0		263,800
Mountain States Healthcare	5.0		310,200	5.0		310,200
Noble Woods	22.0		353,900	22.0		351,700
West Coast Sourcing	1.0		5,000	1.0		5,000
Tuality/OHSU Cancer Center	50.0		1,281,900	50.0		1,390,000
		$	2,400,500		$	2,603,700

Tuality/OHSU Cancer Center – Tuality owns a 50% equity interest in Tuality/OHSU Cancer Center (TOCC), an Oregon Limited Liability Company operating a radiation treatment center. Tuality made this investment in February 2001, and accounts for the investment under the equity method.

Tuality Healthcare charged TOCC management fees of $629,500 and $810,100 for the 9-month and 12-month periods ended June 30, 2016 and September 30, 2015, respectively.

TOCC leases its building from Tuality under an agreement expiring in March 2017. Monthly rent payments were $10,700 under the old lease thru March 2016 and $11,000 beginning in April 2016. Total rents received on this property amounted to $97,300 for the nine-month period ended June 30, 2016 and $128,400 for the year ended September 30, 2015.

Summarized financial information from the unaudited financial statements of TOCC is below, as of and for the nine-month period ended June 30, 2016 and year ended September 30, 2015:

	Tuality/OHSU Cancer Center	
	Nine-month period ended June 30, 2016	**Year ended September 30, 2015**
Current assets	$ 1,514,600	1,501,900
Noncurrent assets	1,690,100	2,050,100
Current liabilities	113,500	80,300
Noncurrent liabilities	527,800	692,000
Partners' equity	2,563,400	2,780,100
Revenues	$ 1,651,300	2,431,600
Net loss	(216,700)	(67,100)

Tuality Health Alliance – Tuality contributed initial capital of $250,000 to Tuality Health Alliance (the Alliance), an Oregon taxable, not-for-profit corporation organized to create an association of hospitals and physicians to coordinate the delivery of comprehensive, affordable, quality integrated healthcare services to communities served by the incorporator's hospital and physician members as well as other corporate purposes. Tuality has a 33-1/3% representation on the board of the Alliance and is carrying their contribution as an investment at $250,000 (the cost of the initial capital contribution).

Tuality charged the Alliance management fees of $2,986,400 and $4,543,000 for the 9-month period ended June 30, 2016 and the fiscal year ended September 30, 2015, respectively. Management fees receivable were $309,900 and $27,200 at June 30, 2016 and September 30, 2015, respectively.

The Alliance members provide medical care under the Oregon Health Plan (OHP) to certain patients who qualify under criteria established by the State of Oregon. The agreement under which these services are provided requires the Alliance to maintain certain levels of net worth. Based on interim financial statements for the nine-month period ended June 30, 2016, management believes the net worth requirements have been met.

The following table summarizes investment income and gains and losses for assets limited as to use, cash equivalents, and other investments for the nine-month period ended June 30, 2016:

		Unrestricted	Temporarily restricted	Total
Interest and dividend income	$	531,000	96,600	627,600
Net realized and unrealized gains		352,300	284,000	636,300
Gain on investments in affiliated companies		991,600	—	991,600
Total investment income	$	1,874,900	380,600	2,255,500
Other changes in unrestricted net assets:				
Change in net unrealized gain on other-than-trading securities	$	639,400	—	639,400

The following table summarizes investment income and gains and losses for assets limited as to use, cash equivalents, and other investments for the year ended September 30, 2015:

		Unrestricted	Temporarily restricted	Total
Interest and dividend income	$	563,000	113,200	676,200
Net realized and unrealized losses		(559,900)	(356,700)	(916,600)
Gain on investments in affiliated companies		1,231,400	—	1,231,400
Total investment income	$	1,234,500	(243,500)	991,000
Other changes in unrestricted net assets:				
Change in net unrealized loss on other-than-trading securities	$	(870,300)	—	(870,300)

Investment income on board-designated funds is included in nonoperating activities on the consolidated statements of operations. All other investment income is included in operating activities.

Investment expenses were $49,800 and $70,000 for the nine-month period ended June 30, 2016 and year ended September 30, 2015, respectively.

Investments made by the Tuality Healthcare Foundation shall be managed in accordance with the laws of the State of Oregon, and in ways that maximize overall return on investment with minimal risk to the investment, while promoting stability, flexibility, diversification, and liquidity. The Foundation is the recipient of many donor-restricted gifts, the expenditure of which occurs over time for a variety of charitable purposes. These funds, in addition to miscellaneous unrestricted funds, shall not be pooled with the endowed funds for investment purposes, as the investment objectives for these funds differ from the long-term objective of the endowed funds. These funds will be individually accounted for and will accrue pro-rata investment income until the principal amounts are distributed for their specific purposes. Nonendowed funds shall be invested in a combination of bonds and cash, with the goal of exposing the funds to very low risk. For nonendowed funds, any bonds held will be subject to limited maturity (three years). It is the Foundation's intention to hold these bonds to maturity whenever possible.

The Foundation will spend up to six percent of a three-year moving average of the total market value of the endowment assets annually to support community education programs and specific scholarships as designated by the various endowments. For purposes of determining the amount available to spend, the average will be calculated from the market value of the endowments on June 30 of each year.

Changes in endowment net assets for the 9-month period ended June 30, 2016 and the year ended September 30, 2015 are as follows:

		Unrestricted	Temporarily restricted	Permanently restricted	Total
Balance as of September 30, 2014	$	345,400	3,203,800	2,537,600	6,086,800
Investment income		(14,600)	(243,500)	—	(258,100)
Contributions		—	965,800	(1,100)	964,700
Appropriated for expenditure		(12,900)	(1,126,300)	—	(1,139,200)
Balance as of September 30, 2015		317,900	2,799,800	2,536,500	5,654,200
Investment income		22,800	380,600	—	403,400
Contributions		—	788,500	100	788,600
Appropriated for expenditure		(10,300)	(1,103,000)	240,700	(872,600)
Balance as of June 30, 2016	$	330,400	2,865,900	2,777,300	5,973,600

(3) Fair Value Measurements

Generally accepted accounting principles define fair value, establish a framework for measuring fair value, and establish a fair value hierarchy that prioritizes the inputs to valuation techniques. 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. A fair value measurement assumes that the transaction to sell the asset or transfer the liability occurs in the principal market for the asset or liability or, in the absence of a principal market, the most advantageous market. Valuation techniques that are consistent with the market, income or cost approach are used to measure fair value.

The fair value hierarchy prioritizes the inputs to valuation techniques used to measure fair value into three broad levels:

- Level l inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities Tuality has the ability to access.
- Level 2 inputs are inputs (other than quoted prices included within Level l) that are observable for the asset or liability, either directly or indirectly.
- Level 3 are unobservable inputs for the asset or liability.

The level in the fair value hierarchy within which a fair measurement in its entirety falls is based on the lowest level input that is significant to the fair value measurement in its entirety.

Financial assets valued using Level 1 inputs are based on unadjusted quoted market prices within active markets. Financial assets valued using Level 2 inputs are based primarily on quoted prices for similar assets in active or inactive markets.

Fair values of assets measured on a recurring basis at June 30, 2016 are as follows:

		Fair value measurements at reporting date using		
	Fair value	**Quoted prices in active markets for identical assets (Level l)**	**Significant other observable inputs (Level 2)**	**Significant unobservable inputs (Level 3)**
Short-term investments:				
Cash and cash equivalents	$ 94,400	94,400	—	—
Equity securities	636,700	636,700	—	—
Fixed income securities	393,700	—	393,700	—
Municipal income securities	1,001,700	—	1,001,700	—
Assets whose use is limited:				
Board-designated funds:				
Cash and cash equivalents	167,400	167,400	—	—
Equity securities	8,082,600	8,082,600	—	—
Fixed income securities	20,154,700	20,154,700	—	—
Under bond indenture:				
Cash and cash equivalents	3,589,500	3,589,500	—	—
Donor-restricted:				
Cash and cash equivalents	471,900	471,900	—	—
Equity securities	3,183,500	3,183,500	—	—
Fixed income securities	1,968,800	—	1,968,800	—
	39,744,900	36,380,700	3,364,200	—
Investments valued at NAV as a practical expedient	7,995,500			
Total	$ 47,740,400			

Fair values of assets measured on a recurring basis at September 30, 2015 are as follows:

		Fair value measurements at reporting date using		
	Fair value	**Quoted prices in active markets for identical assets (Level l)**	**Significant other observable inputs (Level 2)**	**Significant unobservable inputs (Level 3)**
Short-term investments:				
Cash and cash equivalents	$ 118,900	118,900	—	—
Equity securities	676,300	676,300	—	—
Fixed income securities	20,367,300	—	20,367,300	—
Municipal income securities	6,481,400	—	6,481,400	—
Assets whose use is limited:				
Board-designated funds:				
Cash and cash equivalents	4,600	4,600	—	—
Equity securities	5,124,600	5,124,600	—	—
Under bond indenture:				
Cash and cash equivalents	3,588,400	3,588,400	—	—
Donor-restricted:				
Cash and cash equivalents	497,600	497,600	—	—
Equity securities	2,831,300	2,831,300	—	—
Fixed income securities	1,979,200	—	1,979,200	—
	$ 41,669,600	12,841,700	28,827,900	—
Investments valued at NAV as a practical expedient	10,080,400			
Total	$ 51,750,000			

Investments valued at net asset value per share, and excluded from the fair value hierarchy tables above, include the following:

	Fair value June 30, 2016	**Fair value June 30, 2015**	**Redemption frequency**	**Redememption notice period**
Limited partnerships	$ 7,995,500	10,080,400	Monthly - Annual	34-120 days

For long-term debt, the fair value is estimated based on the discounted value of the future cash flows using the estimates of Tuality's borrowing rates. The carrying value and fair value of long-term debt was $16,882,400 and $16,959,400, respectively, as of June 30, 2016 and $17,239,800 and $15,552,400, respectively, as of September 30, 2015.

The carrying amount of other financial instruments approximates fair value because these items mature in less than one year.

(4) Community Benefits

Tuality's mission is to provide quality healthcare services and leadership in promoting health improvement to all persons in its service area on a nondiscriminatory basis and without regard to ability to pay. Tuality 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 its community, the following are considered in the context of the individual's ability to pay and/or community need:

- free and/or subsidized care,
- care provided to persons covered by governmental programs at below charges, and
- health activities and programs to support the community

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.

Through its hospitals, Tuality provides care to patients covered by governmental programs, such as Medicare and Medicaid, which reimburse at levels below the actual cost to provide this care. The amount of unpaid cost due to inadequate reimbursement under these programs was approximately $34,167,900 and $41,314,000 during nine-month period ended June 30, 2016 and year ended September 30, 2015, respectively. Tuality also provides additional free care under its charity care policy. The cost of care provided under Tuality's charity policy were estimated to be $2,289,200 and $3,031,900 during the nine-month period ended June 30, 2016 and year ended September 30, 2015, respectively. The cost of charity care provided is based on Tuality's estimated relationship of cost to charges.

(5) Net Patient Service Revenue and Patient Receivables

Tuality's net patient service revenue before provision for doubtful accounts by payor for the nine-month period ended June 30, 2016 and year ended September 30, 2015 are as follows:

		Nine-month period ended June 30, 2016	Year ended September 30, 2015
Medicare	$	49,262,037	62,715,700
Medicaid		20,515,007	27,920,600
HMOs, PPOs, and other private insurers		59,968,258	73,429,600
Self-pay		990,598	888,700
Patient service revenue	$	130,735,900	164,954,600

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

(a) Medicare

Inpatient acute care services and outpatient services rendered to Medicare program beneficiaries are paid at prospectively determined rates. These rates vary according to a patient classification system that is based on clinical, diagnostic, and other factors. Inpatient nonacute services, and defined capital costs related to beneficiaries are paid based on a cost reimbursement methodology. Tuality is reimbursed for cost reimbursable items at a tentative rate with final settlement determined after submission of annual cost reports by Tuality and audits thereof by the Medicare fiscal intermediary. Tuality's classification of patients under the Medicare program and the appropriateness of their admission are subject to an independent review by a peer review organization under contract with Tuality. Tuality's Medicare cost reports have been audited by the Medicare fiscal intermediary through September 30, 2013.

(b) Medicaid

Inpatient and outpatient services rendered to the Medicare and Medicaid program beneficiaries are paid based on prospective payment rates with final settlement determined after submission of annual cost reports by the Company and audits thereof by the State Health Services division [Oregon Health Authority] and the Medicare fiscal intermediary respectively.

Tuality's Medicaid cost reports have been audited by the Medicaid fiscal intermediary through September 30, 2012.

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.

There was no material effect on 2016 or 2015 net patient service revenue due to changes in estimated Medicaid settlements during fiscal year 2016.

(c) Other

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

(6) Property and Equipment

A summary of property and equipment at June 30, 2016 and September 30, 2015 follows:

		June 30, 2016	September 30, 2015
Land and land improvements	$	8,898,500	8,624,700
Buildings and fixed equipment		90,157,300	89,101,300
Movable equipment		84,018,900	82,587,700
Equipment under capital leases		8,961,800	8,961,800
		192,036,500	189,275,500
Less accumulated depreciation and amortization		(155,758,100)	(151,169,100)
		36,278,400	38,106,400
Construction in progress		5,824,000	2,863,500
Property and equipment, net	$	42,102,400	40,969,900

(7) Intangible Assets and Goodwill

During the year ended September 30, 2009, Tuality exchanged a parcel of land for parking rights in that same location over the course of 50 years. The value of the license of $1,928,700 is based on the estimated fair value of the transferred land plus cash that was paid as part of the transaction. A gain of $1,724,200 was recognized on the transaction. Tuality began amortizing the license over the 50-year period once the parking spaces became available in August 2010.

Intangibles and accumulated amortization at June 30, 2016 and September 30, 2015 are as follows:

		June 30, 2016	September 30, 2015
Parking license	$	1,928,700	1,928,700
Noncompete covenant and other		380,500	380,500
		2,309,200	2,309,200
Less accumulated amortization		(401,900)	(328,000)
	$	1,907,300	1,981,200

Amortization expense related to intangible assets was $74,000 and $63,200 for the nine-month period ended June 30, 2016 and year ended September 30, 2015, respectively.

(Continued)

Estimated aggregate amortization expense for the next five fiscal years is as follows:

Fiscal year ended June 30:		
2017	$	76,700
2018		76,700
2019		76,700
2020		76,700
2021		60,200

(8) Long-Term Debt

Hospital Revenue Refunding Bond, Series 2015, amounting to $16,125,000 was issued by the Hospital Facility Authority of Hillsboro, Oregon to fund an irrevocable trust to defease scheduled principal and interest payments on the Hospital Revenue Bonds, Series 2001. Funds were also provided for bond issue costs and establishing a project fund of $3,578,300 for hospital capital purchases. On August 28, 2015, Hospital Revenue Bonds, Series 2001, were refunded.

Under the terms of the loan agreements created pursuant to these issuances, Tuality Healthcare (The Obligated Group, which excludes the consolidating entities) agreed to provide funds sufficient to pay the principal and interest on the bonds as they become due and to pay any expenses of the Trustee. The Obligated Group recorded liabilities in the amount of the bonds payable to reflect these agreements. In order to secure the bonds, The Obligated Group granted security interests in the gross revenue from operations, equipment owned or leased located in Tuality facilities, and mortgages on Tuality real property.

The Obligated Group makes periodic payments to the Authority to satisfy the annual debt service requirements under the bond obligations.

Under the Original Master Indenture, as amended, Tuality Healthcare agreed to a number of covenants and conditions. Certain significant covenants, which have been met, are described, as follows:

Annual debt service coverage – Under the Master Indenture, the Obligor is to earn Net Income Available for Debt Service sufficient to achieve an Annual Debt Coverage Ratio of at least 1.15.

Liquidity – This provision requires the Obligor to maintain 60 days of cash on hand. Essentially, this is calculated as the total of unrestricted cash and investments divided by daily operating expenses reduced for depreciation. This test is performed on September 30 of each year.

Long-term debt at June 30, 2016 and September 30, 2015, consist of the following:

		June 30, 2016	September 30, 2015
2015 Series bonds, variable annual payments, including principal and interest at a rate of 2.88% from $1,262,700 to $1,270,600, beginning October 2016 until October 2031		16,065,000	16,125,000
Present value of net minimum capital lease obligations		817,400	1,114,800
Total debt		16,882,400	17,239,800
Less amounts due within one year		(1,116,100)	(403,000)
Long-term debt, due after one year	$	15,766,300	16,836,800

Long-term debt maturing in the next five years consists of:

		Long-term debt	Capital leases	Total
Fiscal years ending:				
2017	$	800,000	316,100	1,116,100
2018		825,000	227,900	1,052,900
2019		850,000	233,800	1,083,800
2020		875,000	39,600	914,600
2021		900,000	—	900,000
Thereafter		11,815,000	—	11,815,000
	$	16,065,000	817,400	16,882,400

(9) Long-Term Leases

All noncancelable leases have been categorized as capital or operating leases. Tuality leases equipment and buildings under noncancelable operating leases, which expire at various dates between November 2016 and 2028.

Tuality has operating leases for several office buildings expiring on five-year terms with various options to renew. Tuality also has capital leases, which consist of the following:

On December 5, 2011, Tuality entered into a 60-month capital lease for digital mammography equipment costing $878,700.

On April 1, 2012, Tuality entered into a 36-month capital lease for CT equipment costing $884,900.

On July 18, 2014, Tuality entered into a 60-month capital lease for imaging equipment costing $1,115,900.

Property and equipment accounts include the following amounts for equipment leases that have been capitalized:

		June 30, 2016	September 30, 2015
Leased equipment	$	8,961,800	8,961,800
Less accumulated amortization (1)		(7,942,000)	(7,504,200)
	$	1,019,800	1,457,600

(1) Amortization is included in depreciation expense.

Minimum future obligations on leases in effect at June 30, 2016, are:

		Capital leases		Operating leases
Fiscal years ending:				
2017	$	333,000		3,682,200
2018		238,100		3,571,100
2019		238,100		3,496,000
2020		39,700		3,540,000
2021		—		3,579,500
Thereafter		—		12,734,800
Total minimum lease payments		848,900	$	30,603,600
Less amounts representing interest		(31,500)		
Present value of net minimum lease payments	$	817,400		

Rental expense under noncancelable operating leases with initial terms of one year or greater was $2,791,900 and $3,808,400 for the nine-month period ended June 30, 2016 and year ended September 30, 2015, respectively.

(10) Retirement Plans

Tuality has a defined-benefit pension plan covering substantially all of its employees. Tuality makes contributions to the plan in amounts sufficient to fund the plan's current service cost and the actuarially computed past service costs over a period of ten years. In August of 2012, the Board of Directors approved an amendment to freeze the defined-benefit pension plan effective August 31, 2012. In conjunction with the freeze, the plan is now closed to new entrants and compensation no longer accrues. Current participants who are not yet vested will continue to accrue retirement benefits according to accumulated years of service for hours worked to become vested if they continue working for Tuality.

Effective September 1, 2012, Tuality established a cash balance retirement plan that covers substantially all of its employees. The plan benefits are based on compensation and years of service. Tuality makes annual contributions and provides a defined interest credit to each employee's account.

The defined-benefit pension plan and the cash balance retirement plan are collectively "the defined-benefit plans."

In addition, during 1994 Tuality established the Tuality Healthcare Performance Retirement Plan under which eligible employees may defer a portion of their annual compensation pursuant to Sections 403 (b) and 401(k) of the Internal Revenue Code. Tuality matches a portion of employee contributions on a discretionary basis. Tuality accrued for contributions of $321,800 and $14,400 for the nine-month period ended June 30, 2016 and year ended September 30, 2015, respectively.

Tuality also has a 457(b) salary deferral plan for key executives. Tuality reports assets and liabilities of equal amounts attributable to the amount deferred and the related investment earnings. Tuality's invested assets of deferred compensation consist of mutual funds. The balance in the deferred compensation plan at June 30, 2016 was $1,773,300 and is included in other long-term liabilities in the accompanying consolidated balance sheets.

The following table sets forth the funded status of the defined-benefit plans and amounts recognized in Tuality's consolidated balance sheets as of June 30, 2016 and September 30, 2015:

		June 30, 2016	September 30, 2015
Change in benefit obligation:			
Projected benefit obligation at October 1,	$	104,800,600	96,091,600
Service cost		2,364,000	2,872,800
Interest cost		3,623,800	4,335,200
Actuarial loss		10,336,600	6,325,400
Expenses paid		(979,700)	(1,283,600)
Benefits paid		(2,895,300)	(3,540,800)
Projected benefit obligation at September 30,		117,250,000	104,800,600
Change in plan assets:			
Fair value of assets at October 1,		60,238,800	63,014,900
Actual return on plan assets		2,868,000	(3,520,700)
Employer contribution		3,312,000	5,569,000
Expenses paid		(979,700)	(1,283,600)
Benefits paid		(2,895,300)	(3,540,800)
Fair value of assets at September 30,		62,543,800	60,238,800
Funded status	$	(54,706,200)	(44,561,800)

Amounts recognized in the consolidated balance sheets as of June 30, 2016 and September 30, 2015 consisted of:

		June 30, 2016	September 30, 2015
Long-term liabilities	$	54,706,200	44,561,800

(Continued)

Amounts recognized as changes in unrestricted net assets but not yet included in net periodic pension cost as of June 30, 2016 and September 30, 2015 consisted of:

		June 30, 2016	September 30, 2015
Net loss	$	61,922,800	51,693,400
Prior service cost		(6,867,800)	(7,691,900)
Total	$	55,055,000	44,001,500

The accumulated benefit obligation for the defined-benefit plans was $116,528,200 and $104,397,700 at June 30, 2016 and September 30, 2015, respectively.

		Nine-month ended June 30, 2016	Year ended September 30, 2015
Components of net periodic benefit cost:			
Service cost	$	2,364,000	2,872,800
Interest cost		3,623,800	4,335,200
Expected return on plan assets		(3,613,200)	(4,685,200)
Amortization of prior service cost		(824,100)	(1,098,800)
Amortization of net actuarial gain		852,500	3,058,500
Net periodic pension cost	$	2,403,000	4,482,500

The estimated net loss and prior service cost that will be amortized from changes in unrestricted net assets into net periodic pension cost over the next fiscal year are $1,512,400 and $1,136,600, respectively.

(a) Assumptions

	June 30, 2016	September 30, 2015	
Weighted average assumptions used to determine benefit obligations at period end:			
Discount rate	4.10%	4.70%	
Rate of compensation increase	4.00	3.50	*
Weighted average assumptions used to determine net periodic benefit cost for year ended period end:			
Discount rate	4.70%	4.60%	
Expected long-term return on plan assets	7.25	7.50	
Rate of compensation increase	3.50	5.00	*

* Compensation increases are not applicable to the defined-benefit pension plan. The annual compensation increase assumption used to determine benefit obligations for the cash balance retirement plan is 4.00% for 2016 and 3.00% for 2017 and thereafter.

The expected long-term rate of return on plan assets reflected the weighted average expected return for the broad categories of investments currently held in the defined-benefit plans (adjusted for expected changes), based on historical rates of return for each broad category, as well as factors that may constrain or enhance returns in the broad categories in the future.

(b) Plan Assets

Tuality's investment policy is to manage the defined-benefit plans with long-term (five years and more) objectives; with little concern for high current income or the need to maintain ready-cash reserves; and with the intent to achieve the highest practicable long-term rate of return without taking excessive risk that could jeopardize the funding policy or cause undue funding volatility. In consideration of this policy, the defined-benefit plans will invest in a variety of asset classes (including short term money-market securities, large-company common stocks, smaller-company common stocks, international common stocks and fixed income securities) and will diversify sufficiently within each asset class or may invest in index funds to minimize the risk of large losses.

Target allocation percentages for each major category of plan assets are as follows:

	Cash balance	Defined benefit
Nontraded alternative	—%	2.50%
Cash	5.00	10.00
Equity	40.00	45.00
Equity income	9.00	7.50
Fixed	16.00	20.00
Hedged	30.00	15.00
Total	100.00%	100.00%

(c) Cash Flows

Tuality expects to contribute $5,396,000 to its pension plan in 2016.

The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid:

Fiscal year ending June 30:	
2017	$ 4,210,000
2018	4,490,000
2019	4,810,000
2020	5,020,000
2021	5,310,000
Following the five years	30,220,000

The following table presents Tuality's pension plan assets measured at fair value at June 30, 2016.

	Fair value	Fair value measurements at reporting date using: Quoted prices in active markets for identical assets (Level l)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Interest-bearing cash	$ 2,377,700	2,377,700	—	—
Equity securities:				
Fixed income	1,073,100	1,073,100	—	—
Large cap	149,400	149,400	—	—
Mid cap	575,800	575,800	—	—
Small cap	—	—		
Investment contract with insurance company	3,449,500	3,449,500	—	—
Corporate bonds and debentures	1,008,500	—	1,008,500	—
Municipal bonds	181,300	—	181,300	—
U.S. Government securities	55,600	55,600	—	—
Registered investment companies:				
Fixed income	12,908,500	12,908,500	—	—
Large cap	34,065,400	34,065,400	—	—
Mid cap	2,334,200	2,334,200	—	—
Small cap	3,006,500	3,006,500	—	—
	61,185,500	59,995,700	1,189,800	—
Investments valued at NAV as a practical expedient	1,358,300			
Total	$ 62,543,800			

The following table presents Tuality's pension plan assets measured at fair value at September 30, 2015.

		Fair value measurements at reporting date using		
	Fair value	**Quoted prices in active markets for identical assets (Level l)**	**Significant other observable inputs (Level 2)**	**Significant unobservable inputs (Level 3)**
Interest-bearing cash	$ 2,428,200	2,428,200	—	—
Equity securities:				
Fixed income	848,400	848,400	—	—
Large cap	3,900,000	3,900,000	—	—
Mid cap	1,214,300	1,214,300	—	—
Small cap	2,132,500	2,132,500	—	—
Investment contract with insurance company	3,673,300	—	—	3,673,300
Corporate bonds and debentures	991,500	—	991,500	—
Municipal bonds	234,200	—	234,200	—
U.S. Government securities	1,689,600	1,689,600	—	—
Registered investment companies:	—			
Fixed income	15,986,600	15,986,600	—	—
Large cap	16,418,800	16,418,800	—	—
Mid cap	5,625,200	5,625,200	—	—
Small cap	3,724,400	3,724,400	—	—
Total	58,867,000	53,968,000	1,225,700	3,673,300
Investments valued at NAV as a practical expedient	1,371,800			
Total	$ 60,238,800			

Investments valued at net asset value per share, and excluded from the fair value hierarchy tables above, include the following:

	Fair value June 30, 2016	**Fair value June 30, 2015**	**Redemption frequency**	**Redememption notice period**
Alternative investments	$ 1,358,300	1,371,800	Event-driven	N/A

The following table reconciles the beginning and ending balances of fair value measurements using significant unobservable inputs for the nine-month period ended June 30, 2016 and year ended September 30, 2015.

	Investment contract with insurance company
Balance at September 30, 2014	$ 3,894,000
Total gains or losses (realized and unrealized) included in income	105,000
Purchases	3,570,800
Sales	(3,896,500)
Balance at September 30, 2015	3,673,300
Transfer to Level 1	(3,673,300)
Balance at June 30, 2016	$ —

The investment contract with the insurance company was reclassified to level 1 in the current year based on management's revised assessment that it has a readily determinable fair value based on active trades occurring at contract value.

(11) Functional Expenses

Tuality Healthcare provides general healthcare services to residents within its geographic location. Expenses related to providing these services are as follows for the nine-month period ended June 30, 2016 and year ended September 30, 2015.

	Nine-month period ended June 30, 2016	Year ended September 30, 2015
Healthcare services	$ 133,425,100	169,924,100
General and administrative	5,165,800	4,945,400
	$ 138,590,900	174,869,500

(12) Concentrations of Credit Risk

Financial instruments, which potentially subject Tuality to concentrations of credit risk consist of the following:

(a) Cash

Tuality maintains its cash balances at several financial institutions located in Washington County, Oregon. As of June 30, 2016, accounts at each institution are insured by the Federal Deposit Insurance Corporation up to $250,000. At June 30, 2016, Tuality's uninsured cash balances totaled $1,343,400.

(b) Patient Receivables

The mix of patient receivables was as follows at June 30, 2016 and September 30, 2015:

	June 30, 2016	September 30, 2015
Medicare and Medicare managed care	45%	42%
Medicaid and Medicaid managed care	24	31
Managed care plans	20	18
Workers' compensation	2	2
Other	9	7
	100%	100%

(c) Promises to Give Receivable

Credit risk for promises to give is concentrated because substantially all of the balances are receivable from individuals located within the same geographic location as Tuality. The receivable for promises to give at June 30, 2016 was $18,700.

(13) Commitments and Contingencies

During the normal course of its operations, Tuality becomes involved in litigation and regulatory investigations.

Effective September 1, 2010, Tuality Healthcare transitioned its status as a subscriber and insured under HFIE, and entered into a different captive insurance arrangement with Mountain States Healthcare Reciprocal Retention Group (MSH) along with other member hospitals. Tuality Healthcare's commitment is for a period to be no less than five years. All claims under the MSH policy are subject to a $25,000 deductible indemnity payment per claim. The limits provided in the primary policy issued by MSH shall be $1,000,000 per claim and $3,000,000 annual aggregate for general and hospital professional liability, and $1,000,000 per claim and $3,000,000 annual aggregate for physician professional liability. An excess/umbrella insurance program exists for general and hospital professional liability and provides limits in four separate layers and is reinsured by CNA (first excess layer), Zurich (next two excess layers), and Chartis (last excess layer) insurance companies. Each layer provides limits of $5,000,000 per claim and $5,000,000 annual aggregate per hospital and $15,000,000 annual aggregate for all hospitals participating in that layer. Total limits for the hospitals that participate in all four layers are $20,000,000 per claim, $20,000,000 annual aggregate per hospital and $60,000,000 annual aggregate for all hospitals combined. During the initial period of Tuality Healthcare's participation, September 1, 2010 through December 31, 2010, only the first three layers apply to Tuality Healthcare. After January 1, 2011, all four excess layers apply. The insurance is on a claims-made basis.

General and professional liability costs, as well as related expected insurance recoveries, have been accrued based on actuarial determination. The amount accrued at June 30, 2016 and 2015 for general and professional liability risks was $3,464,100 and $3,755,500, respectively. The related insurance receivable recorded at June 30, 2016 and 2015 was $1,929,000 and $2,125,500, respectively. After consultation with its legal counsel, management believes that these matters will be resolved without material adverse effect on the Company's future financial position, results of operations, or liquidity.

(Continued)

Tuality Healthcare has an employee medical benefit plan to self-insure claims up to $150,000 per year for each individual covered, with an individual lifetime maximum benefit of $2,000,000. This self-insured medical benefit plan operates on a calendar year basis and is administered by a third-party administrator. Claims above $150,000 per individual are covered by an excess medical indemnity (reinsurance) policy. Tuality Healthcare and its covered employee dependents contribute to the fund to pay medical claims and reinsurance premiums. At June 30, 2016, management has made provisions, which it believes to be sufficient to cover estimated claims, including claims incurred but not yet reported.

Guarantee of Debt

Tuality, jointly with Oregon Health & Science University (OHSU), is a guarantor of debt and lease obligations of TOCC. Tuality's guaranteed portion of TOCC's debt and lease obligations totaled approximately $263,900 at June 30, 2016 and $346,000 at September 30, 2015. The guarantees are scheduled to expire November 2018. Examples of events that would require Tuality to provide a cash payment pursuant to the guarantees include a loan default, which would result from TOCC's failure to service its debt when due or noncompliance with financial covenants. There is currently no recorded liability for potential losses under these guarantees, nor is there any liability for Tuality's obligation to *stand ready* to fund such guarantees, as Tuality does not believe any amount will be payable under the guarantee.

SUPPLEMENTARY INFORMATION

TUALITY HEALTHCARE AND SUBSIDIARIES

Consolidating Schedule of Balance Sheet Information

June 30, 2016 with comparative totals for September 30, 2015

Assets	Tuality Healthcare	TMSI/TMES	Tuality Property Management Co.	Tuality Healthcare Foundation	Total	Intercompany eliminations	Consolidated June 30, 2016	Consolidated September 30, 2015
Current assets:								
Cash and cash equivalents	$ 9,519,100	871,500	1,256,200	199,100	11,845,900	—	11,845,900	10,096,400
Short-term investments	1,001,700	—	—	1,124,800	2,126,500	—	2,126,500	27,643,900
Patient accounts receivable	27,226,200	144,600	—	—	27,370,800	—	27,370,800	28,728,200
Allowance for uncollectible accounts	(3,760,800)	(20,000)	—	—	(3,780,800)	—	(3,780,800)	(5,446,000)
Other receivables	7,631,500	—	(3,600)	18,900	7,646,800	—	7,646,800	5,613,900
Allowance for uncollectible accounts	(905,800)	—	—	(200)	(906,000)	—	(906,000)	(908,800)
Inventory of supplies	3,087,100	315,700	—	—	3,402,800	—	3,402,800	3,309,700
Prepaid expenses and other	2,779,400	2,600	—	—	2,782,000	—	2,782,000	2,426,000
Assets whose use is limited:						—		
Required for current liabilities	915,700	—	—	—	915,700	—	915,700	—
Due from subsidiaries	891,300	81,100	109,800	88,300	1,170,500	(1,170,500)	—	—
Total current assets	48,385,400	1,395,500	1,362,400	1,430,900	52,574,200	(1,170,500)	51,403,700	71,463,300
Assets whose use is limited:								
Board-designated funds	36,400,200	—	—	—	36,400,200	—	36,400,200	15,209,600
Under bond indenture agreement – held by Trustee	3,589,500	—	—	—	3,589,500	—	3,589,500	3,588,400
Donor-restricted – specific purpose	—	—	—	2,846,900	2,846,900	—	2,846,900	2,771,600
Donor-restricted – endowment	—	—	—	2,777,300	2,777,300	—	2,777,300	2,536,500
Less amount required for current liabilities	(915,700)	—	—	—	(915,700)	—	(915,700)	—
Total assets whose use is limited	39,074,000	—	—	5,624,200	44,698,200	—	44,698,200	24,106,100
Property and equipment:								
Property and equipment	175,871,300	379,900	21,609,300	—	197,860,500	—	197,860,500	192,139,000
Accumulated depreciation and amortization	(139,882,600)	(336,500)	(15,539,000)	—	(155,758,100)	—	(155,758,100)	(151,169,100)
Total property and equipment	35,988,700	43,400	6,070,300	—	42,102,400	—	42,102,400	40,969,900
Other assets:								
Other receivables – noncurrent	1,003,100	—	—	300	1,003,400	—	1,003,400	1,511,900
Investments in subsidiaries	11,228,800	—	—	—	11,228,800	(11,228,800)	—	—
Investments in unconsolidated affiliates	2,417,700	232,800	—	—	2,650,500	—	2,650,500	2,853,700
Deferred compensation plan	1,773,300	—	—	—	1,773,300	—	1,773,300	1,515,900
Cash value of life insurance	446,800	—	—	—	446,800	—	446,800	446,800
Deferred costs and other	535,500	—	—	—	535,500	—	535,500	558,000
Intangible assets	197,500	—	1,709,800	—	1,907,300	—	1,907,300	1,981,200
Goodwill	318,500	—	—	—	318,500	—	318,500	318,500
Total other assets	17,921,200	232,800	1,709,800	300	19,864,100	(11,228,800)	8,635,300	9,186,000
Total assets	$ 141,369,300	1,671,700	9,142,500	7,055,400	159,238,900	(12,399,300)	146,839,600	145,725,300

(Continued)

TUALITY HEALTHCARE AND SUBSIDIARIES

Consolidating Schedule of Balance Sheet Information

June 30, 2016 with comparative totals for September 30, 2015

Liabilities and Net Assets	Tuality Healthcare	TMSI/TMES	Tuality Property Management Co.	Tuality Healthcare Foundation	Total	Intercompany eliminations	Consolidated June 30, 2016	Consolidated September 30, 2015
Current liabilities:								
Accounts payable	$ 10,662,000	98,500	172,000	9,800	10,942,300	—	10,942,300	11,342,000
Accrued payroll and employee benefits	13,262,800	71,500	—	—	13,334,300	—	13,334,300	10,296,400
Estimated liabilities for Medicare and Medicaid settlements	623,000	—	—	—	623,000	—	623,000	525,100
Long-term debt due within one year	1,116,100	—	—	—	1,116,100	—	1,116,100	403,000
Accrued bond interest payable	115,700	—	—	—	115,700	—	115,700	—
Due to subsidiaries	270,800	63,400	53,900	782,400	1,170,500	(1,170,500)	—	—
Total current liabilities	26,050,400	233,400	225,900	792,200	27,301,900	(1,170,500)	26,131,400	22,566,500
Long-term liabilities:								
Long-term debt, net of amount due within one year	15,766,300	—	—	—	15,766,300	—	15,766,300	16,836,800
Liability for pension benefits	54,706,200	—	—	—	54,706,200	—	54,706,200	44,561,800
Other long-term liabilities	3,574,600	—	—	—	3,574,600	—	3,574,600	3,709,800
Total long-term liabilities	74,047,100	—	—	—	74,047,100	—	74,047,100	65,108,400
Total liabilities	100,097,500	233,400	225,900	792,200	101,349,000	(1,170,500)	100,178,500	87,674,900
Net assets:								
Unrestricted	41,271,800	1,438,200	8,916,600	620,100	52,246,700	(11,228,800)	41,017,900	52,714,200
Temporarily restricted by donors	—	—	—	2,865,900	2,865,900	—	2,865,900	2,799,700
Permanently restricted by donors	—	—	—	2,777,300	2,777,300	—	2,777,300	2,536,500
Total net assets	41,271,800	1,438,200	8,916,600	6,263,300	57,889,900	(11,228,800)	46,661,100	58,050,400
Total liabilities and net assets	$ 141,369,300	1,671,600	9,142,500	7,055,500	159,238,900	(12,399,300)	146,839,600	145,725,300

See accompanying independent auditors' report.

TUALITY HEALTHCARE AND SUBSIDIARIES

Consolidating Schedule of Operations

Nine-month period ended June 30, 2016 with comparative totals for the year ended September 30, 2015

	Tuality Healthcare	TMSI/TMES	Tuality Property Management Co.	Tuality Healthcare Foundation	Total	Intercompany eliminations	Consolidated June 30, 2016	Consolidated September 30, 2015
Net patient service revenue:								
Patient service revenue (net of contractual allowances and discounts)	$ 129,657,400	1,078,500	—	—	130,735,900	—	130,735,900	164,954,600
Provision for bad debts	(7,683,900)	(24,300)	—	—	(7,708,200)	—	(7,708,200)	(7,792,300)
Total net patient service revenue	121,973,500	1,054,200	—	—	123,027,700	—	123,027,700	157,162,300
Other revenue	13,168,900	600	1,971,600	183,700	15,324,800	(2,651,900)	12,672,900	13,888,700
Total revenue	135,142,400	1,054,800	1,971,600	183,700	138,352,500	(2,651,900)	135,700,600	171,051,000
Operating expenses:								
Salaries and wages	66,809,900	379,900	—	—	67,189,800	—	67,189,800	85,070,400
Employee benefits	16,240,500	138,400	—	—	16,378,900	—	16,378,900	21,104,800
Supplies and other expenses	46,198,000	696,600	454,500	35,000	47,384,100	(1,817,900)	45,566,200	56,622,900
Professional fees	3,148,400	—	—	—	3,148,400	—	3,148,400	3,574,600
Management fees	—	161,100	355,600	—	516,700	(516,700)	—	—
Depreciation and amortization	5,471,600	11,300	336,200	—	5,819,100	—	5,819,100	7,415,200
Interest	488,500	—	—	—	488,500	—	488,500	1,081,600
Total operating expenses	138,356,900	1,387,300	1,146,300	35,000	140,925,500	(2,334,600)	138,590,900	174,869,500
Income from operations	(3,214,500)	(332,500)	825,300	148,700	(2,573,000)	(317,300)	(2,890,300)	(3,818,500)
Other income:								
Realized income on investments whose use is limited by board designation	643,300	—	—	—	643,300	—	643,300	56,500
Gain (loss) on investments in affiliated companies	1,484,600	119,000	—	(317,300)	1,286,300	(294,700)	991,600	1,231,400
Gain (loss) on disposal of property and equipment	(357,500)	—	—	—	(357,500)	—	(357,500)	3,400
Loss on extinguishment of debt	—	—	—	—	—	—	—	(432,700)
Other nonoperating expenses	(165,900)	—	—	—	(165,900)	—	(165,900)	(92,300)
Total other income	1,604,500	119,000	—	(317,300)	1,406,200	(294,700)	1,111,500	766,300
Revenue in excess of expenses	(1,610,000)	(213,500)	825,300	(168,600)	(1,166,800)	(612,000)	(1,778,800)	(3,052,200)
Contributions for property and equipment acquisition	387,000	—	—	—	387,000	—	387,000	180,300
Change in net unrealized gain (loss) on other than trading securities	609,000	—	—	30,400	639,400	—	639,400	(870,300)
Pension-related changes	(10,943,900)	—	—	—	(10,943,900)	—	(10,943,900)	(12,571,700)
Increase (decrease) in unrestricted net assets	$ (11,557,900)	(213,500)	825,300	(138,200)	(11,084,300)	(612,000)	(11,696,300)	(16,313,900)

See accompanying independent auditors' report.