KPMG

SALEM HEALTH HOSPITALS AND CLINICS

Consolidated Financial Statements
and Additional Information

June 30, 2016 and September 30, 2015

(With Independent Auditors' Report Thereon)

SALEM HEALTH HOSPITALS AND CLINICS

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

Independent Auditors' Report

The Board of Trustees
Salem Health Hospitals and Clinics:

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Salem Health Hospitals and Clinics and its subsidiaries (Oregon nonprofit corporations), which comprise the consolidated balance sheets as of June 30, 2016 and September 30, 2015, and the related consolidated statements of operations, changes in net assets, and cash flows for the 9-month period ended June 30, 2016 and the year ended September 30, 2015, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with 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 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 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.

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Salem Health Hospitals and Clinics and its subsidiaries as of June 30, 2016 and September 30, 2015, and the results of their operations and their cash flows for the 9-month period ended June 30, 2016 and the year ended September 30, 2015 in accordance with U.S. generally accepted accounting principles.

Other Matter

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The supplementary consolidating information included in schedules I and II 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 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 taken as a whole.

KPMG LLP

Portland, Oregon
October 7, 2016

SALEM HEALTH HOSPITALS AND CLINICS

Consolidated Balance Sheets

June 30, 2016 and September 30, 2015

(In thousands)

Assets		**June 30, 2016**	**September 30, 2015**
Current assets:			
Cash and cash equivalents	$	5,413	7,873
Patient accounts receivable, less allowance for doubtful accounts of $15,199 in 2016 and $15,243 in 2015		79,325	74,010
Other receivables		20,919	15,374
Supplies inventory		6,861	6,522
Prepaid expenses and other		6,329	7,728
Total current assets		118,847	111,507
Assets limited as to use		537,699	496,850
Property and equipment, net		475,541	454,920
Rental and other property held for future development, net of accumulated depreciation of $4,046 and 2016 and $3,821 in 2015		13,480	13,697
Other noncurrent assets		10,182	7,333
Total assets	$	1,155,749	1,084,307
Liabilities and Net Assets			
Current liabilities:			
Accounts payable	$	44,295	37,299
Accrued liabilities:			
Payroll, payroll taxes, and withholdings		14,689	11,465
Paid time off		18,989	16,263
Other		10,259	8,337
Estimated third-party payor settlements, net		2,107	3,150
Current portion of long-term debt		5,660	5,661
Current portion of estimated professional liability		1,834	1,664
Total current liabilities		97,833	83,839
Long-term debt, net of current portion		291,050	291,234
Accrued postretirement healthcare benefits		6,453	6,535
Fair value of interest rate swap agreement		18,828	15,992
Other long-term liabilities		12	36
Estimated professional liability, net of current portion		7,482	5,327
Total liabilities		421,658	402,963
Net assets:			
Unrestricted		727,907	675,590
Temporarily restricted		3,907	3,479
Permanently restricted		2,277	2,275
Total net assets		734,091	681,344
Total liabilities and net assets	$	1,155,749	1,084,307

See accompanying notes to consolidated financial statements.

SALEM HEALTH HOSPITALS AND CLINICS

Consolidated Statements of Operations

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

(In thousands)

		9 months ended June 30, 2016	12 months ended September 30, 2015
Operating revenue:			
Patient service revenue, net of contractual allowances and discounts	$	541,503	683,887
Provision for bad debts		(19,389)	(26,595)
Net patient service revenue, less provision for bad debts		522,114	657,292
Other revenue		33,347	36,164
Net assets released from restriction used for operations		301	280
Total operating revenue		555,762	693,736
Operating expenses:			
Labor and benefits		290,436	358,803
Medical and other supplies		78,764	104,873
Purchased services and other		88,702	92,971
Depreciation		31,185	39,687
Professional fees		23,173	30,586
Interest and amortization		9,362	12,837
Total operating expenses		521,622	639,757
Excess of revenue over expenses from operations		34,140	53,979
Other income:			
Investment income (loss), net		18,207	(1,190)
Other, net		(539)	(1,259)
Total other income (loss), net		17,668	(2,449)
Excess of revenue over expenses		51,808	51,530
Change in net unrealized gain or loss on non fair value option investments		3,211	(3,308)
Change in fair value of interest rate swap agreement		(2,836)	(3,171)
Change in postretirement benefit obligation		(325)	418
Net assets released from restriction used for property and equipment		459	21
Change in unrestricted net assets	$	52,317	45,490

See accompanying notes to consolidated financial statements.

SALEM HEALTH HOSPITALS AND CLINICS

Consolidated Statements of Changes in Net Assets

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

(In thousands)

		Unrestricted	Temporarily restricted	Permanently restricted	Total
Net assets at September 30, 2014	$	630,100	3,416	2,275	635,791
Excess of revenue over expenses		51,530	—	—	51,530
Change in net unrealized gain (loss) on other-than-trading securities		(3,308)	(50)	—	(3,358)
Change in fair value of interest rate swap agreement		(3,171)	—	—	(3,171)
Change in postretirement benefit obligation		418	—	—	418
Net assets released from restriction used for property and equipment		21	(21)	—	—
Restricted contributions		—	400	—	400
Temporarily restricted investment and other income, net		—	14	—	14
Net assets released from restrictions for operations		—	(280)	—	(280)
Change in net assets		45,490	63	—	45,553
Net assets at September 30, 2015		675,590	3,479	2,275	681,344
Excess of revenue over expenses		51,808	—	—	51,808
Change in net unrealized gain (loss) on other-than-trading securities		3,211	1	—	3,212
Change in fair value of interest rate swap agreement		(2,836)	—	—	(2,836)
Change in postretirement benefit obligation		(325)	—	—	(325)
Net assets released from restriction used for property and equipment		459	(459)	—	—
Restricted contributions		—	892	2	894
Temporarily restricted investment and other income, net		—	295	—	295
Net assets released from restrictions for operations		—	(301)	—	(301)
Change in net assets		52,317	428	2	52,747
Net assets at June 30, 2016	$	727,907	3,907	2,277	734,091

See accompanying notes to consolidated financial statements.

SALEM HEALTH HOSPITALS AND CLINICS

Consolidated Statements of Cash Flows

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

(In thousands)

		9 months ended June 30, 2016	12 months ended September 30, 2015
Cash flows from operating activities:			
Change in net assets	$	52,747	45,553
Adjustments to reconcile change in net assets to net cash provided by operating activities:			
Depreciation and amortization		31,482	40,254
Change in net unrealized (gains) losses on non fair value option investments		(3,212)	3,358
Change in net unrealized (gains) losses on fair value option investments and realized (gains) losses on sales of investments		(9,929)	10,880
Change in fair value of interest rate swap agreement		2,836	3,171
Restricted contributions for property and equipment		(484)	(3)
Impairment loss		—	725
Permanently restricted contributions		(2)	—
Loss on disposal of property and equipment		18	—
Changes in operating assets and liabilities:			
Patient accounts receivable		(5,315)	(911)
Other receivables		(5,545)	2,022
Supplies inventory		(339)	85
Prepaid expenses		1,399	432
Other noncurrent assets		(3,062)	(1,060)
Accounts payable		6,493	(7,297)
Accrued liabilities		7,872	4,826
Estimated third-party payor settlements, net		(1,043)	(130)
Accrued postretirement healthcare benefits		(82)	(867)
Other long-term liabilities		(24)	13
Estimated professional liability		2,325	(4,246)
Net cash provided by operating activities		76,135	96,805
Cash flows from investing activities:			
Purchases of investments		(43,896)	(122,497)
Proceeds from sales of investments		16,187	86,472
Purchases of property and equipment and rental and other property		(51,327)	(47,232)
Net cash used in investing activities		(79,036)	(83,257)
Cash flows from financing activities:			
Repayment of tax-exempt bonds		—	(10,054)
Repayment of other long-term debt		(45)	—
Restricted contributions for property and equipment		484	3
Permanently restricted contributions		2	—
Net cash provided by (used in) financing activities		441	(10,051)
Net (decrease) increase in cash and cash equivalents		(2,460)	3,497
Cash and cash equivalents at beginning of year		7,873	4,376
Cash and cash equivalents at end of year	$	5,413	7,873
Supplemental disclosure of cash flow information:			
Cash paid for interest	$	7,212	12,679
Change in construction related payables		504	2,194

See accompanying notes to consolidated financial statements.

(1) Organization and Principles of Consolidation

Salem Health Hospitals and Clinics and subsidiaries (collectively, the Corporation) are Oregon nonprofit corporations providing a comprehensive system of healthcare services to the communities of Salem and Dallas, Oregon, and the surrounding Marion and Polk Counties.

The accompanying consolidated financial statements include the accounts and transactions of the Corporation and its subsidiaries, of which the Corporation is the parent holding company and sole member. The subsidiaries are Oregon nonprofit corporations and consist of Salem Health (Salem) and Salem Health West Valley (West Valley) (collectively, the Hospitals); Salem Hospital Foundation (SHF) and West Valley Hospital Foundation (WVHF) (collectively, the Foundations); Willamette Valley Insurance Corporation (WVIC), a captive insurance company formed in November 2004 domiciled in Hawaii; and Willamette Valley Professional Services (WVPS), whose principal purpose is to provide professional billing services to the Hospitals, which are included in the consolidated financial statements. All significant intercompany accounts and transactions have been eliminated in consolidation. The Corporation has formed an Obligated Group which is responsible for paying hospital revenue bond debt. Currently Salem is the only member of the Obligated Group.

The Hospitals provide healthcare and healthcare-related services to patients in their service areas. The Hospitals' mission is to improve the health and well-being of the people and the communities they serve. The Foundations are dedicated to raising, managing, and distributing funds to help the Hospitals achieve their mission.

For the 9-month period ended June 30, 2016, the Corporation affiliated with OHSU clinical enterprises (note 2). As a result of this affiliation, the Corporation has changed its fiscal year to end on June 30. Therefore the 2016 consolidated financial statements reflect the results of the Corporation as of June 30, 2016 and for the 9-month period from October 1, 2015 through June 30, 2016.

(2) OHSU Affiliation

On November 19, 2015, the Corporation affiliated with OHSU clinical enterprises through the execution of a Joint Management Agreement (the Management Agreement) among the two organizations and OHSU Partners, LLC, a newly formed limited liability company (OHSU Partners). OHSU and Salem Health are the sole members of OHSU Partners. Under the terms of the Management Agreement, which is described in more detail below, each of the Corporation and OHSU remain separate legal entities and own their own assets. OHSU Partners, however, will manage the combined clinical enterprises of the Corporation and OHSU as a single economic entity and unified health system. The total operating results of the integrated health system will be apportioned to the Corporation and OHSU consistent with an allocation method based on each party's historical operating income. The Management Agreement provides that 81% of the excess of revenue over expenses from operations will be apportioned to OHSU and 19% will be apportioned to the Corporation.

OHSU Partners and OHSU are not members of the obligated group securing indebtedness issued for the benefit of the Corporation and has no responsibility for the payment of the principal of or interest on indebtedness issued or incurred by or for the benefit of the Corporation. Likewise, the Corporation is not a member of the obligated group securing indebtedness issued for the benefit of OHSU and has no responsibility for the payment of the principal of or interest on indebtedness issued or incurred by or for the benefit of OHSU.

The following is a brief description of the Management Agreement and the method of apportioning operating results between OHSU and the Corporation.

Summary of the Management Agreement. Key elements of the affiliation and provisions of the Management Agreement include, but are not limited to, the following:

- The Corporation and OHSU delegate to OHSU Partners the responsibility and authority to oversee and manage each party’s clinical enterprises as a part of a unified, integrated health system while each party retains its separate legal identity and Board of Directors/Trustees.
- OHSU maintains its responsibilities to manage and oversee activities related to its education and research missions.
- Each party (1) is and will continue to be the licensed operator of its facilities and (2) will continue to perform all functions legally required to be performed directly by such licensed entity.
- Each party retains the authority, consistent with OHSU Partners’ right to oversee and manage the integrated health system, to (1) enter into contracts, (2) employ agents and employees, (3) acquire, construct and operate property, and (4) incur debt.
- Each party retains the authority, among other things, to: (1) approve the integrated health system’s operating and capital budgets and (2) approve certain of the other party’s material third-party transactions.
- The initial term of the Management Agreement is 40 years and it may be renewed or extended by written agreement of the parties. The Management Agreement is subject to termination in the event of material breaches of the Management Agreement or for certain other reasons specified in the Management Agreement.

Calculation of Apportionment of Operating Results. The Management Agreement provides for the combined net operating results of the integrated health system to be apportioned to the parties consistent with the allocation method established in the Management Agreement. Each of the parties is assigned an “Allocation Percentage,” which is a fixed percentage established in the Management Agreement based on each party’s aggregate historical operating income during an approximately six year period prior to the commencement of the Management Agreement. OHSU’s Allocation Percentage is 81% and Salem Health Allocation Percentage is 19%. If a party’s allocation amount is less than that party’s clinical enterprise operating results for any period, such party has a “due to” amount payable to the other party. If a party’s allocation amount is more than such party’s clinical enterprise operating results for any period, that party has a “due from” receivable from the other party. The Management Agreement provides that the due to/due from amounts shall be settled by cash transfers no later than 45 days following the end of each fiscal quarter; provided that no such action shall be taken if the parties believe it would result in a material default under any current or future debt-related agreement.

For the 9-month period ended June 30, 2016, the Corporation incurred an expense of $8,260 payable to OHSU under the allocation calculation, which is included in purchased services and other in the consolidated statements of operations. Of this amount $6,624 was paid and $1,636 is included in accounts payable at June 30, 2016.

The Corporation and OHSU share the expenses of OHSU Partners equally as a management fee. For the 9-months ended June 30, 2016, the corporation paid $2,026 in management fees which is included in purchased services and other in the statements of operations.

(3) Summary of Significant Accounting Policies

(a) Use of Estimates

The preparation of consolidated financial statements in conformity with U.S. 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. Significant items subject to such estimates include uncollectible and contractual reserves on patient accounts receivable, valuation of investments, assignment of useful lives to property and equipment, third-party payor cost report settlements, self-insured liabilities, interest rate swap valuation, and postretirement liabilities.

(b) Cash and Cash Equivalents

Cash equivalents include investments in highly liquid instruments with original maturities of three months or less, excluding assets limited as to use. Cash equivalents totaled $874 and $739 at June 30, 2016 and September 30, 2015, respectively.

The Corporation maintains bank accounts at several financial institutions. The Corporation's bank balances at each financial institution are insured by the Federal Deposit Insurance Corporation (FDIC) up to $250. At June 30, 2016 and September 30, 2015, the Corporation's bank balances at certain financial institutions exceeded FDIC coverage.

(c) Patient Accounts Receivable and Allowance for Doubtful Accounts

Patient accounts receivable are recorded at an estimated contractual arrangement and do not bear interest. Amounts collected on patient accounts receivable are included in net cash provided by operating activities in the consolidated statements of cash flows. The primary risk of noncollection of patient accounts receivable relates to uninsured patient accounts and patient accounts for which the primary insurance payor has paid, but patient responsibility amounts (generally, deductibles and copayments) remain outstanding.

The allowances for doubtful accounts are primarily estimated based upon the Hospitals' historical collection experience, the age of the patient's account, the patient's economic ability to pay, and the effectiveness of collection efforts. Patient accounts receivable balances are routinely reviewed in conjunction with historical collection rates and other economic conditions that might ultimately affect the collectibility of patient accounts when considering the adequacy of the amounts recorded in the allowance for doubtful accounts. Actual write-offs historically have approximated management's expectations.

(In thousands)

The mix of gross receivables from significant third-party payors as of June 30, 2016 and September 30, 2015 was as follows:

	June 30, 2016	**September 30, 2015**
Medicare	41%	42%
Medicaid	18	17
Private pay	5	5
Commercial and other payors	36	36

The mix of gross patient service revenue from significant third-party payors for the 9-month period ended June 30, 2016 and year ended September 30, 2015 was as follows:

	9 months ended June 30, 2016	**12 months ended September 30, 2015**
Medicare	47%	48%
Medicaid	23	21
Private pay	2	2
Commercial and other payors	28	29

Significant changes in payor mix, business office operations, economic conditions, or trends in federal and state governmental healthcare coverage could affect the Hospitals' collection of accounts receivable, cash flows, and results of operations. The Hospitals' patient responsibility write-offs were $19,433 and $28,824 during the 9-month period ended June 30, 2016 and year ended September 30, 2015. The Hospitals also maintain an allowance for doubtful accounts for third-party payors, which has been determined based on historical bad debt expense on those account types. As a result of the actual write-offs and estimated uncollectible amounts, total bad debt expense, which is a reduction in net patient service revenue, for the 9-month period ended June 30, 2016 and year ended September 30, 2015 was $19,389 and $26,595, respectively.

(d) Supplies Inventory

Supplies inventory is stated at the lower of cost (as determined by the first-in, first-out method) or market.

(e) Assets Limited as to Use

Assets limited as to use consist of investments designated by the Corporation's Board of Trustees (the Board) for future capital acquisitions and other purposes, investments held by the Foundations whose use has been restricted by donors, and assets held by a trustee under a bond indenture agreement (notes 5 and 13). Funds held by trustee are set aside in separate trust accounts for future capital projects and debt service reserve funds.

Investments in equity and debt securities are reported at fair value in the accompanying consolidated balance sheets. The fair values are based on quoted market prices at the reporting date for those or similar investments. Investment income or loss (including realized gains and losses on investments, unrealized gains and losses on investments for which the Corporation has designated the fair value option, interest, and dividends) is included in the excess of revenue over expenses unless the income or loss is restricted by the donor or law. All of the Corporation's investments are classified as other-than-trading securities at June 30, 2016 and September 30, 2015 except those for which the fair value option was elected. The Corporation has elected the fair value option under FASB ASC 825-10 *Financial Instruments* for certain of its investment securities as discussed at note 13. Unrestricted unrealized gains and losses on other-than-trading investments for which the fair value option has not been elected are excluded from excess of revenue over expenses unless they are considered other-than-temporarily impaired.

For each of the investment categories for which the fair value option has not been elected, the Corporation continually monitors investment performance and the potential need for recording an impairment on investments. A number of criteria are considered during this process including, but not limited to: whether the Corporation intends to sell the security; the current fair value as compared to cost of the security; the length of time the security's fair value has been below cost; the likelihood that the Corporation will be required to sell the security before recovery of its cost basis; objective information supporting recovery in a reasonable period of time; specific credit issues related to the issuer; and current economic conditions.

For debt securities that the Corporation does not intend to sell and more likely than not would not be required to sell prior to recovery of the cost basis, the Corporation recognizes other-than-temporary losses in accordance with the provisions of the ASC 320 *Investments – Debt and Equity Securities*. The amount of the other-than-temporary loss is separated into the amount that is credit related (credit loss component) and the amount due to all other factors. The credit loss component is recognized in earnings and is the difference between a security's cost basis and the present value of expected future cash flows discounted at the security's effective interest rate. The amount due to all other factors is recognized in other changes in net assets. For the 9-month period ended June 30, 2016 and fiscal year ended September 30, 2015, the Corporation recognized no other-than-temporary losses.

The Corporation holds investments in corporate bonds, fixed income mutual funds, U.S. Treasury and government agency securities, money market funds and equity mutual funds (note 13). Management believes that the Corporation's credit risk with respect to these investments is minimized due to the diversity of the individual investments and the financial strength of the entities, which have issued the securities or instruments. However, due to changes in economic conditions, interest rates, and common stock prices, the market value of the Corporation's investments can be volatile. Consequently, the fair value of the Corporation's investments could change significantly in the near term as a result of such volatility.

(f) Property and Equipment

Property and equipment (including acquisitions of rental and other property held for future development) are stated at cost. Donated property and equipment are recorded at estimated fair value on the date of donation. Improvements and replacements of property and equipment are capitalized. Routine maintenance and repairs are charged to expense as incurred.

Depreciation is computed using the straight-line method over the shorter of the lease term or estimated useful life of each class of depreciable asset. The estimated useful life of buildings and improvements is 5 to 50 years while the estimated useful life of equipment is 2 to 20 years. Net interest cost incurred on borrowed funds during the period of construction of capital assets is capitalized as a component of the cost of acquiring those assets.

(g) Temporarily and Permanently Restricted Net Assets

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

(h) Consolidated Statements of Operations

Excess of revenue over expenses from operations includes amounts generated from direct patient care, other revenue related to the operation of the Hospitals' facilities, unrestricted contributions received by the Foundations, and gains (losses) on disposals of property and equipment. Other activities that result in income or expenses unrelated to the Hospitals' and the Foundations' primary missions are excluded from excess of revenue over expenses from operations. Other income (loss) includes net investment income; change in unrealized gains and losses on investment securities for which the fair value option is elected; any other-than-temporary impairment losses on investment securities; rental income and expenses related to nonoperating real estate properties; gain (loss) on disposals of rental and other property held for future development; loss on extinguishment of debt; and other incidental transactions.

The consolidated statements of operations include the excess of revenue over expenses. Changes in unrestricted net assets that are excluded from the excess of revenue over expenses, consistent with industry practice, include the change in net unrealized gains (losses) on securities for which the fair value option was not elected; change in net benefit obligation related to postretirement benefits; change in fair value of interest rate swap agreement for an effective hedging relationship; contributions of long-lived assets (including assets acquired using contributions, which, by donor restriction, are to be used for the purpose of acquiring such assets); and discontinued operations.

(i) Net Patient Service Revenue

Services are rendered to patients under contractual arrangements with Medicaid and Medicare programs and various other payors including preferred provider organizations (PPOs) and health maintenance organizations (HMOs), which provide for payment or reimbursement at amounts different from established rates. Contractual adjustments represent the difference between established rates for services and amounts reimbursed by these third-party payors.

The Medicare program reimburses Salem at prospectively determined rates for the majority of inpatient and outpatient services rendered to patients, primarily on the basis of Medicare severity diagnosis-related groups (MS-DRGs) and Ambulatory Payment Classification Groups (APCs), respectively. West Valley is a “critical access hospital” (CAH) for Medicare program purposes. As a CAH, West Valley may not operate more than 25 beds and the average length of stay for acute care patients may not exceed 96 hours. The Medicare and Medicaid program reimburses West Valley on the basis of its current allowable costs. When paid under cost reimbursement, the Hospitals are reimbursed at an interim rate with final settlement determined after submission of annual cost reports and audits thereof by the fiscal intermediaries, subjecting the Hospitals to retroactive settlements for prior year cost reports. Actual settlements historically approximated management’s expectations.

Salem’s cost reports have both been audited and final settled by the Medicare fiscal intermediaries through September 30, 2014 and the Medicaid fiscal intermediaries through September 30, 2013. West Valley’s cost reports have both been audited and final settled by the Medicare fiscal intermediaries through September 30, 2014 and the Medicaid fiscal intermediaries through September 30, 2013.

The Hospitals have also entered into payment agreements with certain commercial insurance carriers, HMOs, and PPOs to provide medical services to subscribing participants. The basis for payment to the Hospitals under these agreements includes prospectively determined rates per discharge, actual charges, and fee schedules.

(j) Contributions Received

Unconditional promises to give cash and other assets to the Corporation are recorded as other revenue and other receivables 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 or at which point the conditions have been substantially met. Gifts are reported as either temporarily or permanently restricted contributions if they are received with donor stipulations that limit the use of the donated assets. When the terms of a donor restriction are met, temporarily restricted net assets are reclassified as unrestricted net assets and reported in the consolidated statements of operations and consolidated statements of changes in net assets as net assets released from restrictions.

Contributions of long-lived assets such as property and equipment are reported as unrestricted, and are excluded from the excess of revenue over expenses. Contributions of long-lived assets with explicit restrictions that specify how the assets are to be used and contributions 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, the Corporation reports expirations of donor restrictions when the donated or acquired long-lived assets are placed in service.

SHF is a beneficiary under various wills and trust agreements, the total realizable amounts of which are not presently estimable. SHF’s share of such bequests is recorded when the probate court has declared the testamentary instrument valid and the proceeds are measurable.

(k) Income Taxes

The Corporation, Salem, West Valley, SHF, WVHF, WVPS, and WVIC are tax-exempt organizations pursuant to Internal Revenue Code (IRC) Section 501(c)(3). As such, only unrelated business income is subject to federal or state income taxes. The Corporation accounts for uncertainty in income taxes in accordance with FASB ASC 740-10, *Income Taxes*. Management has not recorded a provision as unrelated business income, if any, is immaterial to the consolidated financial statements.

Accounting principles generally accepted in the United States of America require the Corporation to evaluate tax positions taken by the Corporation and recognize a tax liability (or asset) if the Corporation has taken an uncertain position that more likely than not would not be sustained upon examination by the IRS. Management has analyzed tax positions taken by the Corporation 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. The Corporation is subject to routine audits by taxing jurisdictions; however, there are currently no audits for any tax periods in progress. The Corporation management believes it is no longer subject to income tax examinations for years prior to fiscal year 2010.

(l) Reclassifications

Certain prior period amounts in the accompanying consolidated financial statements and notes thereto have been reclassified to conform to current period presentation. These reclassifications had no material effect on the results of operations or financial position for any period presented.

(4) Benefits to the Community

The Corporation provides services to the community both for people in need and to enhance the health status of the broader community as part of its charitable mission.

(a) Services for People in Need

The following represents the estimated cost of providing certain services to the community, along with a description of selected activities sponsored by the Hospitals during 2016 and 2015. The costs in the first table below represent the estimated cost of providing certain services to the community for the 9-month period ended June 30, 2016. Had the amounts been projected over twelve months, the amount of services provided to people in need would have been comparable to those provided for the year ended September 30, 2015.

(In thousands)

	9-month period ended June 30, 2016		
	Estimated costs to provide care	**Offsetting revenue**	**Estimated net cost**
Services for people in need:			
Charity care	$ 7,583	—	7,583
Medicaid	131,509	101,130	30,379
Medicare	220,056	188,930	31,126
	$ 359,148	290,060	69,088
Percentage of total operating expenses			13.2%

	Year ended September 30, 2015		
	Estimated costs to provide care	**Offsetting revenue**	**Estimated net cost**
Services for people in need:			
Charity care	$ 9,312	—	9,312
Medicaid	159,237	118,741	40,496
Medicare	276,709	239,388	37,321
	$ 445,258	358,129	87,129
Percentage of total operating expenses			13.6%

In support of its mission, the Hospitals voluntarily provide medically necessary patient care services that are discounted or free of charge to persons who have insufficient resources and/or who are uninsured. The criteria for charity care are determined based on eligibility for insurance coverage, household income, qualified assets, catastrophic medical events, or other information supporting a patient's inability to pay for services provided. Specifically, the Hospitals provide an uninsured discount of 15% to all uninsured patients. Further discounts are available for patients, on a sliding scale, whose household income is less than 400% of the federal poverty level or roughly $97 for a family of four in Salem, Oregon. For patients whose household income is at or below 200% of the federal poverty level, a full subsidy is available. In addition to the household income criteria, the patients' qualified assets (e.g., assets and investments excluding patient's primary residence), and other catastrophic or economic circumstances are considered in determining eligibility for charity care.

In addition to charity care, the Hospitals provide services under various states' Medicaid programs for financially needy patients and to Medicare beneficiaries. The aggregate cost of providing services to Medicaid and Medicare beneficiaries exceeds the aggregate reimbursements from these programs.

The cost of services provided to beneficiaries of the Medicaid and Medicare programs and cost of charity care is estimated based on the relationship of costs (excluding the provision for doubtful accounts and those costs associated with medical education, research, community health services, and other contributions) to billed charges for Medicaid and Medicare patient accounts and for patient charges written off as charity deductions.

The Hospitals also employ financial counselors and social workers, who assist patients in obtaining coverage for their healthcare needs. This includes assistance with workers compensation, motor vehicle accident policies, COBRA, veterans' assistance, and public assistance programs, such as Medicaid. During 2016 and 2015, the Corporation assisted patients many of which received coverage through a third party, reducing the patients' financial responsibility. The costs associated with this program were $242 and $318 during the 9-month period ended June 30, 2016 and fiscal year ended September 30, 2015, respectively.

(b) Benefits to Community

Community health services include classes provided to the community at minimal or no cost, health education for children and parents with young families, resource centers, support groups, health screenings, senior wellness, volunteer programs, caregivers respite, and support for parish nursing programs.

Community benefit activities include activities that develop community health programs and partnerships.

Donations to charitable organizations include direct support provided to community organizations through cash or in-kind donations that support organizations' missions of supporting health and human services, civic and community causes, and business development efforts.

In-kind contributions provided by the Corporation include the following: facility space, staff availability for training and education opportunities, supplies, and professional services in collaboration with charitable, educational, and government organizations throughout the community.

(c) Other Benefits

In furtherance of its mission, the Corporation also commits significant time and resources to endeavors and critical services that meet unfilled community needs. Many of these activities are sponsored with the knowledge that they will not be self-supporting or financially viable. Such programs include hospice, mental and behavioral health, primary care clinics in underserved neighborhoods, free patient transportation, lodging, meals, and medications for transient patients when needed, participation in blood drives, and the provision of educational opportunities for students interested in pursuing medical-related careers.

(In thousands)

The Corporation also provides additional benefits to the community through the advocacy of community service by employees. Employees of the Corporation serve numerous organizations through board representation, membership in associations, and other related activities.

(5) Assets Limited as to Use

Assets limited as to use consisted of the following at June 30, 2016 and September 30, 2015:

		June 30, 2016	September 30, 2015
Board designated for capital acquisitions and other purposes:			
Cash and cash equivalents	$	32,623	17,121
Low duration fixed income		120,347	116,087
Core fixed income mutual funds		136,081	129,360
Domestic equity mutual funds		185,106	171,252
International equity mutual funds		50,376	49,524
Accrued interest receivable		347	402
Total internally designated for capital acquisitions and other purposes		524,880	483,746
Held by the Foundations:			
Cash and cash equivalents		135	74
Core fixed income mutual funds		2,433	2,614
Domestic equity mutual funds		3,733	3,942
International equity mutual funds		320	364
Accrued interest receivable		6	4
Total held by the Foundations		6,627	6,998
Held by trustee:			
Cash and cash equivalents		181	141
Low duration fixed income		5,994	5,952
Accrued interest receivable		17	13
Total held by trustee		6,192	6,106
Total assets limited as to use	$	537,699	496,850

Cash and short-term fixed income investments consist primarily of separately held U.S. Treasury and agency securities, corporate bonds, and money market funds with an average duration of one year or less.

Low duration fixed income investments consist primarily of separately held U.S. Treasury and agency securities, corporate bonds, money market funds, and fixed income focused mutual funds with an investment strategy to hold securities with an average duration of one to three years.

Core fixed income investments consist of fixed income mutual funds with investment strategies of holding securities with an average duration of three to five years.

(Continued)

(In thousands)

Investment income (losses), net, consisted of the following for the 9-month period ended June 30, 2016 and fiscal year ended September 30, 2015:

		9 months ended June 30, 2016	12 months ended September 30, 2015
Investment income:			
Interest and dividend income	$	7,652	8,706
Realized gains on sales of investments, net		19,925	11,174
Net unrealized losses on fair value investments		(9,250)	(20,869)
Investment expenses		(120)	(201)
Investment (loss) income, net	$	18,207	(1,190)
Changes in net assets:			
Change in net unrealized gain (loss) on other-than-trading securities	$	3,212	(3,358)

The following tables summarize the Corporation’s investments that are not accounted for under the fair value option and had unrealized losses as of June 30, 2016:

For less than 12 months		Fair value	Cost basis	Gross unrealized loss
Fixed income mutual funds	$	792	793	1
Total	$	792	793	1

For 12 months or longer		Fair value	Cost basis	Gross unrealized loss
Corporate bonds	$	322	327	5
Fixed income mutual funds		55,086	57,471	2,385
U.S. government agency securities		2,898	2,900	2
Total	$	58,306	60,698	2,392

(In thousands)

Total		Fair value	Cost basis	Gross unrealized loss
Corporate bonds	$	322	327	5
Fixed income mutual funds		55,878	58,264	2,386
U.S. government agency securities		2,898	2,900	2
	$	59,098	61,491	2,393

The following tables summarize the Corporation's investments that are not accounted for under the fair value option and had unrealized losses as of September 30, 2015:

For less than 12 months		Fair value	Cost basis	Gross unrealized loss
Corporate bonds	$	3,380	3,435	55
Fixed income mutual funds		172,269	175,203	2,934
U.S. Treasury securities		97	103	6
U.S. government agency securities		59	59	—
Total	$	175,805	178,800	2,995

For 12 months or longer		Fair value	Cost basis	Gross unrealized loss
Corporate bonds	$	300	307	7
Fixed income mutual funds		38,848	39,202	354
U.S. government agency securities		5,951	5,990	39
Total	$	45,099	45,499	400

Total		Fair value	Cost basis	Gross unrealized loss
Corporate bonds	$	3,680	3,742	62
Fixed income mutual funds		211,117	214,405	3,288
U.S. Treasury securities		97	103	6
U.S. government agency securities		6,010	6,049	39
	$	220,904	224,299	3,395

The individual securities included in the above tables have been assessed by management and do not require an adjustment for other-than-temporary impairment because the Corporation does not intend to sell and do not believe they would be required to sell the securities prior to maturity or market recovery. The unrealized losses were primarily driven by changes in interest rates and overall market conditions.

(In thousands)

(6) Property and Equipment, Net

Property and equipment consisted of the following at June 30, 2016 and September 30, 2015:

		June 30, 2016	September 30, 2015
Land and improvements	$	43,004	42,933
Buildings and improvements		554,832	532,211
Equipment		338,642	339,497
		936,478	914,641
Less accumulated depreciation		(494,335)	(487,017)
		442,143	427,624
Construction in progress		33,398	27,296
Property and equipment, net	$	475,541	454,920

(7) Investments in Health Related Activities

The following is a summary of the Corporation's related-party investments which are included in other noncurrent assets in the accompanying consolidated balance sheets at June 30, 2016 and September 30, 2015:

Entity	Basis of accounting	Ownership percentage		Investment balance included in the accompanying consolidated balance sheets as of June 30, 2016 and September 30, 2015		The Corporation's share of income (losses) included in the accompanying consolidated statements of operations for the 9-month period ended June 30, 2016 and fiscal year ended September 30, 2015	
				2016	2015	2016	2015
PPP	Equity method	0.25%	$	3,262	2,571	1,284	2,032
WVCH	Cost method	18.20		545	545	1,726	—
PHA	Equity method	14.30		1,858	1,099	(46)	(901)

(a) *Premier Purchasing Partners, L.P. (PPP)*

PPP is a California limited partnership formed to allow its partners to obtain discounts by pooling certain purchases. Salem purchased 9,518 shares of PPP for $75. Premier is a public company and a portion of the Corporation's shares vest into Class B stock each year. The Corporation's investment in PPP is accounted for under the equity method of accounting as the original shares purchased become vested and converted into Class B stock. Salem also receives periodic distributions of its share of PPP's profits.

(In thousands)

(b) Willamette Valley Community Health (WVCH)

The Corporation, on behalf of the Hospitals, cofounded WVCH with nine other providers of healthcare in Marion and Polk Counties. WVCH is an Oregon limited liability company and is certified by the Oregon Health Authority as a coordinated care organization (CCO). Section 26 of H.B. 3650 provides that CCOs will be responsible for providing fully integrated physical health services, chemical dependency, mental health services, and beginning dental health services. CCOs will initially provide the foregoing health services to Medicaid beneficiaries. The Corporation's investment in WVCH is accounted for under the cost method.

(c) Population Health Alliance of Oregon, LLC (PHA)

The Corporation cofounded PHA with eight other organizations. PHA was established with the intent to be a third party provider of services to effectively manage the population health risks of its members. The Corporation's investment in PHA is accounted for under the equity method due to the significant influence the Corporation has with the organization.

(8) Long-Term Debt

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

		June 30, 2016	September 30, 2015
Hospital Revenue Bonds, Series 2006A; payable in installments from $1,780 to $17,040 beginning in 2014 through 2036; interest at rates ranging from 4.50% to 5.00%	$	113,724	113,823
Hospital Revenue Bonds, Series 2008A; payable in installments from $760 to $7,900 beginning in 2015 through 2023; interest rates ranging from 5.25% to 5.75%		39,376	39,417
Hospital Revenue Bonds, Series 2008B; payable in installments from $3,575 to $6,000 beginning in 2019 through 2034; interest at rates resetting every 7 days; the rates were 0.42% and 0.02% as of June 30, 2016 and September 30, 2015, respectively		75,000	75,000
Hospital Revenue Bonds, Series 2013A; payable in installments from $420 to $2,935 beginning in 2014 through 2036; interest rate is 2.30% through June 1, 2020		34,155	34,155
Hospital Revenue Bonds, Series 2013B; payable in installments from $415 to $2,935 beginning in 2014 through 2036; interest rate is 2.57% through June 1, 2020		34,160	34,160
Other		295	340
		296,710	296,895
Less current portion		(5,660)	(5,661)
	$	291,050	291,234

In November 2006, Salem entered into a Loan Agreement (the 2006 Agreement) with the Authority whereby the Authority issued $120,000 of paramount fixed-rate tax-exempt Revenue Bonds and $38,025 of paramount tax-exempt variable rate Revenue and Refunding Bonds (Salem Hospital Project), Series 2006A (2006A Bonds) and Series 2006B (2006B Bonds) (collectively, the 2006 Bonds), respectively. The proceeds from Series 2006A were used to finance various capital projects at Salem. The proceeds from Series 2006B were used to advance refund $36,175 of remaining Series 1998 Bonds. In April 2008, Salem purchased the 2006B Bonds in lieu of redemption and defeased the entire amount of the bonds. This transaction was financed by a nonrevolving taxable line of credit discussed below. The 2006A Bonds were issued at a premium in the amount of $3,123, of which $1,328 and $1,230 has been cumulatively amortized and recorded as a reduction of interest expense in the accompanying consolidated statements of operations for the 9-month period ended June 30, 2016 and fiscal year ended September 30, 2015, respectively. The remaining amount of unamortized premium included in long-term debt was $1,794 and $1,893 at June 30, 2016 and September 30, 2015, respectively.

In October 2008, Salem entered into a Loan Agreement (the October 2008 Agreement) with the Authority, whereby the Authority issued $59,710 of par amount fixed-rate tax-exempt Revenue Bonds, Series 2008A (the 2008A Bonds) with a final maturity of 2023. The proceeds from 2008A Bonds were used in part to refinance a portion of a nonrevolving line of credit that existed at that time, to finance various capital projects at Salem, and the remaining $5,971 was deposited into a debt service reserve fund. The 2008A Bonds were issued at a premium of $778, of which $587 and $545 have been cumulatively amortized and recorded as a reduction of interest expense in the accompanying consolidated statements of operations for the 9-month period ended June 30, 2016 and fiscal year ended September 30, 2015, respectively. The remaining unamortized premium included in long-term debt was $191 and $233 at June 30, 2016 and September 30, 2015, respectively. The 2008A Bonds maturing in 2023 are subject to optional redemption on or before 2018; the bonds maturing prior to 2023 are not subject to this optional redemption. The 2008A Bonds are subject to annual mandatory sinking fund redemption prior to maturity, beginning in 2015 ranging from $760 to $7,900, to special sinking fund redemption and to optional and mandatory tender for purchase and remarketing in certain circumstances as described in the October 2008 Agreement.

In November 2008, Salem entered into a Loan Agreement (the November 2008 Agreement) with the Authority, whereby the Authority issued $75,000 of par amount variable-rate tax-exempt Revenue Bonds (the 2008B Bonds) with a final maturity of 2034 and $50,000 of par amount variable-rate tax-exempt Revenue Bonds (the 2008C Bonds) with a final maturity of 2036. The 2008C Bonds were refinanced in 2014. The 2008B Bonds bear interest at rates that change weekly. The combined proceeds from the 2008B and 2008C Bonds were used to fully refund the remaining balance on a nonrevolving line of credit that existed at that time and to finance various capital projects at Salem. The Series 2008B Bonds are subject to purchase from time to time at the option of the owners thereof and are required to be purchased in certain events. In order to assure the availability of funds for the payment of the purchase price, Salem has provided for the purchase of such 2008B Bonds under a direct-pay letter-of-credit agreement (the Letter of Credit). The maximum commitment under this Letter of Credit is $76,048 for the 2008B Bonds. The 2008B Bonds are subject to annual mandatory sinking fund redemptions beginning in 2019 ranging from $3,575 to $6,000. The 2008B Bonds are subject to optional and special redemption prior to maturity at the direction of Salem under certain circumstances as described in the November 2008 Agreement. The 2008B Letter of Credit has an 18-month repayment term and expires in April 2018. A direct-pay letter-of-credit agreement (2008C

(In thousands)

Letter of Credit) which provided for the purchase of the 2008C Bonds was terminated in 2014 upon refinance of the 2008C Bonds.

In June 2013, Salem entered into a Loan Agreement (the June 2013 Agreement) with the Authority, whereby the Authority privately placed issuances to two banks a total of $70,000 of par amount fixed rate tax exempt Revenue Bonds in the amounts of $35,000 and $35,000 (the 2013A and 2013B Bonds) with final maturities of 2036 and 2036, respectively. The proceeds of the 2013A and 2013B Bonds were used in part to refinance the 2008C Bonds and to finance various capital projects at Salem. The 2013A and 2013B Bonds were issued at par value with stated interest rates of 2.30% and 2.57%, respectively that are fixed under an initial rate period until June 1, 2020. Subsequent to this initial rate period, the bonds are convertible to one of several different fixed or variable interest rate options based on market conditions at that time. The bonds are subject to combined annual mandatory sinking fund redemptions beginning in 2015 ranging from $835 to $5,870.

Additionally, Salem entered into an interest rate management transaction in November 2004 to hedge the 2004B Bonds. In 2008, Salem amended this swap to be a cash flow hedge of the 2008B Variable Rate Bonds. The swap agreement maintains the total notional amount of $75,000 and converts the variable interest rate to a fixed rate of approximately 3.541%. See note 9 for further information related to Salem's interest rate management transactions.

Scheduled principal repayments of long-term debt are as follows:

	Revenue bonds	Other	Total
2017	$ 5,415	63	5,478
2018	9,645	68	9,713
2019	10,870	72	10,942
2020	11,270	78	11,348
2021	11,735	14	11,749
Thereafter	245,495	—	245,495
	$ 294,430	295	294,725

Interest costs, including amortization of bond premium, in the amounts of $9,362 and $12,837 were charged to operations during the 9-month period ended June 30, 2016 and fiscal year ended September 30, 2015, respectively.

(9) Derivative Instruments and Hedging Activities

Salem has an interest-rate-related derivative instrument to manage its exposure on its debt instruments. The Corporation does not enter into derivative instruments for any purpose other than cash flow hedging purposes. The Corporation follows FASB ASC 815-10, *Derivatives and Hedging*. ASC 815-10 provides accounting and reporting standards for derivative instruments and hedging activities and requires that Salem recognize these as either assets or liabilities in the consolidated balance sheets and measure them at fair value.

(In thousands)

In 2008, Salem entered into an interest rate swap transaction to effectively convert the 2008B variable rate debt to a fixed rate of 3.541% through August 15, 2034. The interest rate swap has a notional amount of $75,000. Salem evaluated the interest rate swap transaction and determined that it met the criteria to be classified as a cash flow hedge and the changes in fair value have been recorded as a change in unrestricted net assets in the accompanying consolidated financial statements.

The interest rate swap transaction allows Salem to terminate the financial instrument by requiring full settlement of any interest or termination value, upon five days' written notice given to Salem's bond insurer and counterparty. The fair value of the interest rate swap agreement is determined by or based on the spread in interest rates with consideration of credit risk to both Salem and its counterparty. The estimated fair value of the interest rate swap at June 30, 2016 and September 30, 2015 was a liability of $18,828 and $15,992, respectively. Salem was not required to post collateral against the liability of its interest rate swap during the 9-month period ended June 30, 2016 and fiscal year ended September 30, 2015 and has not been required to post any collateral to date for the life of the swap.

(10) Temporarily Restricted Net Assets

Temporarily restricted net assets were restricted for the following purposes at June 30, 2016 and September 30, 2015:

		June 30, 2016	September 30, 2015
Acquisition or construction of property and equipment for the Hospitals	$	630	420
Specific programs of the Hospitals		2,351	2,263
Scholarships		713	558
Other		213	238
	$	3,907	3,479

(11) Retirement and Postretirement Plans

(a) Defined Contribution Retirement Plan

The Hospitals have a contributory, defined contribution retirement plan (the Retirement Plan) covering substantially all full-time employees. All eligible employees are allowed to contribute to the Retirement Plan on the first day of the month following their date of hire. The Hospitals contribute 5.5% to 8.5% of participating employees' annual compensation to the Retirement Plan. To receive the benefit of the Hospitals' contributions, employees must have one year or more of service at one of the Hospitals and contribute at least 1.0% of their annual compensation to the Retirement Plan. Retirement Plan costs were $12,056 and $14,269 for the 9-month period ended June 30, 2016 and fiscal year ended September 30, 2015, respectively, and are included in labor and benefits in the accompanying consolidated statements of operations.

(b) Postretirement Healthcare Plan

The Hospitals also sponsor a postretirement healthcare plan (the Postretirement Plan) that provides healthcare benefits to certain retirees and their dependents until the retirees reach the age of Medicare eligibility. Generally, retirees are eligible to participate in the Postretirement Plan if they retire from one of the Hospitals at age 55 years or older with 10 years of service. Retirees can convert 25% of their unused extended illness bank (EIB) balance to an equivalent dollar amount, which may then be used to purchase medical, dental, or vision coverage for the retiree and/or dependents. Any unused balance will be forfeited when the retiree reaches the age of Medicare eligibility.

The Corporation accounts for the Postretirement Plan in accordance with FASB ASC 715, *Compensation – Retirement Benefits*, which requires the employer to recognize the overfunded or underfunded status of a plan as an asset or liability in its balance sheet and to recognize changes in that funded status in the year in which the changes occur through changes in unrestricted net assets. Under ASC 715 *Compensation – Retirement Benefits*, the measurement of the funded status is the difference between the fair value of the plan assets compared to the benefit obligation of the plan. ASC 715 also required the Corporation to recognize in unrestricted net assets any unrecognized net actuarial gains or losses and any unrecognized prior service costs or credits as they arise and disclose in the notes to the consolidated financial statements additional information about the effect on net periodic benefit cost on the next fiscal year that arises from the delayed recognition of these items. The Corporation's measurement date for plan assets and benefit obligation is for the periods ended June 30, 2016 and September 30, 2015. For the 9-month period ended June 30, 2016 and fiscal year ended September 30, 2015 the Corporation utilized the RP-2014 mortality tables, for estimating the actuarial values.

(In thousands)

The accrued liability for postretirement benefits at June 30, 2016 and September 30, 2015 was as follows:

		June 30, 2016	September 30, 2015
Change in benefit obligation:			
Benefit obligation at beginning of year	$	6,992	7,850
Service cost		169	318
Interest cost		152	229
Participants' contributions		316	464
Actuarial loss (gain)		(76)	(957)
Benefits paid		(656)	(912)
Benefit obligation at end of year	$	6,897	6,992
Change in plan assets:			
Fair value of plan assets at beginning of year	$	—	—
The Hospitals' contributions		340	448
Participants' contributions		316	464
Benefits paid		(656)	(912)
Fair value of plan assets at end of year	$	—	—

A reconciliation of the Postretirement Plan's funded status at June 30, 2016 and September 30, 2015 to the Hospitals' accrued postretirement healthcare benefits at June 30, 2016 and September 30, 2015 was as follows:

		June 30, 2016	September 30, 2015
Funded status	$	(6,897)	(6,992)
Current portion of accrued postretirement healthcare benefits		444	457
Long-term portion of accrued postretirement healthcare benefits	$	(6,453)	(6,535)

The current portion of accrued postretirement healthcare benefits is included in accrued liabilities in the accompanying consolidated balance sheets.

(In thousands)

The components of the Hospitals' net periodic postretirement benefit cost (benefit) included in labor and benefits in the accompanying consolidated statements of operations for the 9-month period ended June 30, 2016 and fiscal year ended September 30, 2015 were as follows:

		9 months ended June 30, 2016	12 months ended September 30, 2015
Service cost	$	169	318
Interest cost		152	229
Amortization of prior service credit		(382)	(539)
Amortization of net gain		(18)	—
Net periodic postretirement benefit cost (benefit)	$	(79)	8

Gains accumulated in unrestricted net assets in the accompanying consolidated statements of changes of net assets through the 9-month period as of June 30, 2016 and fiscal year September 30, 2015 were $1,018 and $1,343, respectively. The components of the Hospitals' other changes in plan assets and benefit obligations recognized in unrestricted net assets in the accompanying consolidated statements of changes of net assets for the 9-month period ended June 30, 2016 and fiscal year September 30, 2015 were as follows:

		9 months ended June 30, 2016	12 months ended September 30, 2015
Net loss (gain)	$	(76)	(957)
Amortization of net loss (gain)		19	—
Amortization of prior service cost		382	539
Total recognized in unrestricted net assets	$	325	(418)

Weighted average assumptions used to determine benefit obligations for June 30, 2016 and September 30, 2015 were as follows:

	June 30, 2016	September 30, 2015
Discount rate	2.25%	3.00%
Rate of compensation increase	3.75	3.75

(In thousands)

For actuarial measurement purposes, an 8.0% annual rate of increase in the per capita cost of covered healthcare benefits was assumed for 2016 through 2017. Thereafter, the rate was assumed to decrease by approximately 0.5% percentage point on an annual basis to 5.6% in 2024 and then decrease gradually to 4.2%.

Assumed healthcare cost trend rates have a significant effect on the amounts reported for postretirement healthcare plans. A one-percentage-point change in assumed healthcare cost trend rates would have the following effects for the 9-month period ended June 30, 2016 and fiscal year ended September 30, 2015:

		9 months ended June 30, 2016	**12 months ended September 30, 2015**
One-percentage-point increase:			
Increase in total of service and interest cost components	$	23	43
Increase in postretirement benefit obligation		380	395
One-percentage-point decrease:			
Decrease in total of service and interest cost components	$	(21)	(39)
Decrease in postretirement benefit obligation		(357)	(370)

Benefit payments funded by Salem Health, which reflect future service, as appropriate, are expected to be paid as follows for the future fiscal years ending June 30:

2017	$	444
2018		477
2019		573
2020		621
2021		680
2022–2026		3,826

These estimates are based on assumptions about future events. Actual benefit payments may vary significantly from these estimates.

(In thousands)

(12) Functional Classification of Expenses

Expenses on a functional basis for the 9-month period ended June 30, 2016 and fiscal year ended September 30, 2015 were as follows:

		9 months ended June 30, 2016	12 months ended September 30, 2015
Healthcare services	$	457,580	569,310
General and administrative		64,042	70,447
	$	521,622	639,757

(13) Fair Value Measurements and the Fair Value Option

(a) Fair Value of Financial Instruments

The carrying amounts for each class of financial instrument noted below are included in the consolidated balance sheets under the indicated captions.

The fair values of the financial instruments as discussed below at June 30, 2016 and September 30, 2015 represent management’s best estimates of the amounts that would be received to sell those assets or that would be paid to transfer those liabilities in an orderly transaction between market participants at the measurement date. Those fair value measurements maximize the use of observable inputs. However, in situations where there is little, if any, market activity for the asset or liability at the measurement date, the fair value measurement reflects the Corporation’s own judgments about the assumptions that market participants would use in pricing the asset or liability. Those judgments are developed by the Corporation based on the best information available in the circumstances.

The following methods and assumptions were used to estimate the fair value of each class of financial instruments:

Cash and cash equivalents; patient accounts receivable; estimated third-party payor settlements; other receivables; accounts payable; construction accounts payable; and accrued liabilities: The carrying value of these financial instruments is equal to the carrying amounts, at face value or cost plus accrued interest, and approximates fair value because of the short maturity of these instruments.

Assets limited as to use: All equity securities are classified as available-for-sale and measured using quoted market prices at the reporting date multiplied by the quantity held. Debt securities classified as available-for-sale are measured using quoted market prices multiplied by the quantity held when quoted market prices are available. If quoted market prices for those debt securities are not available, the fair value is determined using matrix pricing, which is based on quoted prices for securities with similar coupons, ratings, and maturities, rather than on specific bids and offers for the designated security.

Interest rate swap agreement: The carrying value of the interest rate swap agreement is equal to the estimated fair value of the agreement. The fair value of interest rate swap is determined using pricing models developed based on the LIBOR swap rate and other observable market data. The value was determined after considering the potential impact of collateralization and netting agreements, adjusted to reflect nonperformance risk of both the counterparty and Salem.

Long-term debt: The carrying amount and fair value of long-term debt were $296,710 and $298,492, respectively, at June 30, 2016, and $296,895 and $300,866, respectively, at September 30, 2015. The fair value of the Corporation's long-term debt is measured using quoted offered-side prices when quoted market prices are available. If quoted market prices are not available, the estimated fair value is determined by discounting the future cash flows of each instrument at rates that reflect, among other things, market interest rates and the Corporation's credit standing. In determining an appropriate spread to reflect its credit standing, the Corporation considers credit default swap spreads, bond yields of other long-term debt offered by the Corporation, and interest rates currently offered to the Corporation for similar debt instruments of comparable maturities by the Corporation's bankers as well as other banks that regularly compete to provide financing to the Corporation.

(b) Fair Value Hierarchy

FASB ASC 820-10, *Fair Value Measurement*, establishes 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) and the lowest priority to measurements involving significant unobservable inputs (Level 3). The three levels of the fair value hierarchy are as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the Corporation has the ability to access at the measurement date.
- Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.
- Level 3 inputs are unobservable inputs for the asset or liability.

The level in the fair value hierarchy within which a fair value measurement in its entirety falls is based on the lowest-level input that is significant to the fair value measurement in its entirety. There were no reclassification of securities between Level 1 and Level 2 during the 9-month period ended June 30, 2016 and fiscal year ended September 30, 2015. There were no Level 3 securities at June 30, 2016 or September 30, 2015.

(In thousands)

The following table presents assets and liabilities that are measured at fair value on a recurring basis (including items that are required to be measured at fair value and items for which the fair value option has been elected) at June 30, 2016:

			Fair value measurements at reporting date using	
		June 30, 2016	**Quoted prices in active markets for identical assets (Level 1)**	**Significant other observable inputs (Level 2)**
Assets:				
Corporate bonds	$	4,365	—	4,365
Fixed income mutual funds		248,108	248,108	—
U.S. Treasury securities		4,111	—	4,111
Equity mutual funds		239,536	239,536	—
U.S. government agency securities		8,270	—	8,270
Total	$	504,390	487,644	16,746

			Fair value measurements at reporting date using	
		June 30, 2016	**Quoted prices in active markets for identical assets (Level 1)**	**Significant other observable inputs (Level 2)**
Liabilities:				
Interest rate swap	$	18,828	—	18,828
Total	$	18,828	—	18,828

(In thousands)

The following table presents assets and liabilities that are measured at fair value on a recurring basis (including items that are required to be measured at fair value and items for which the fair value option has been elected) at September 30, 2015:

			Fair value measurements at reporting date using	
		September 30, 2015	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)
Assets:				
Corporate bonds	$	5,351	—	5,351
Fixed income mutual funds		237,202	237,202	—
U.S. Treasury securities		3,119	—	3,119
Equity mutual funds		225,082	225,082	—
U.S. government agency securities		8,341	—	8,341
Total	$	479,095	462,284	16,811
Liabilities:				
Interest rate swap	$	15,992	—	15,992
Total	$	15,992	—	15,992

(14) Commitments and Contingencies

(a) General and Professional Liability Insurance

On a claims-made basis, WVIC provides excess insurance coverage up to a $1,000 self-insured retention limit per occurrence and $6,000 annual aggregate limit for healthcare professional liability ($1,000/$6,000 limits) for Salem effective November 1, 2004. WVIC provided insurance coverage for West Valley between May 1, 2005 and September 30, 2007 and for the 9-month period ended June 30, 2016 and fiscal year ended September 30, 2015. In excess of the $1,000/$6,000 limits, the Hospitals annually purchase reinsurance coverage for claims up to $34,000 in aggregate on a claims-made basis. Reinsurance contracts do not relieve the Corporation from its obligations to claimants. Failure of reinsurers to honor their obligations could result in losses to the Corporation. The Corporation evaluates the financial condition of its reinsurers and monitors concentrations of credit risk arising from similar geographic regions, activities, or economic characteristics of the reinsurer to manage its exposure to significant losses from reinsurer insolvencies.

General and professional liability costs are accrued based upon an actuarial determination with estimated future professional liability losses recorded at the expected, undiscounted level. The Corporation has recorded estimated liabilities for incurred but not reported professional liability claims and for deductibles on reported claims aggregating $7,703 and $6,991 as of June 30, 2016 and

September 30, 2015, respectively. The estimated liabilities for incurred but not reported medical claims are recorded on the Hospitals' books. WVIC carries the estimated liabilities for deductibles on reported claims. Management believes that these estimated liabilities are adequate; however, the establishment of estimated liabilities for incurred but not reported medical malpractice claims and for deductibles on reported claims is an inherently uncertain process, and there can be no assurance that currently established reserves will prove adequate to cover actual ultimate expenses. Subsequent actual experience could result in reserves being too high or too low, which could positively or negatively impact operations in future periods.

The Corporation adheres to FASB ASU No. 2010-24, *Health Care Entities* (Topic 954): *Presentation of Insurance Claims and Related Insurance Recoveries*. ASU No. 2010-24 requires claim liabilities to be reported without consideration of insurance recoveries and receivables for insurance recoveries to be reported separately subject to a valuation allowance as appropriate. In accordance with ASU No. 2010-24, the Corporation recorded an asset for insurance recoveries receivable and estimated liabilities, which are not net of any estimated recoveries in amount, of $1,612 and $250, as of June 30, 2016 and September 30, 2015, respectively. The insurance recovery receivable and insured claims liability are included in other noncurrent assets and estimated medical malpractice claims liability in the accompanying consolidated balance sheets. No valuation allowance was recorded related to reinsurance receivables as of June 30, 2016 or September 30, 2015.

(b) Self-Insured Employee Benefits

The Corporation is self-insured for employee medical and dental claims. Claims are accrued as the incidents become known. The Corporation has recorded an accrual for the estimated claims including estimates of the ultimate costs for both reported claims and claims incurred but not reported of $2,920 and $2,303 as of June 30, 2016 and September 30, 2015, respectively. Management believes that these amounts, which have been included within other accrued liabilities in the accompanying consolidated balance sheets, are adequate to cover estimated employee medical and dental claims.

(c) Risk Management

In the ordinary course of business, the Corporation 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; and natural disasters. Management believes that adequate commercial insurance coverage has been purchased for claims arising from such matters. Settled claims have not exceeded this commercial coverage for the 9-month period ended June 30, 2016 and fiscal year ended September 30, 2015. The Corporation is self-insured for workers' compensation claims. The Corporation has recorded estimated liabilities for claims in the amount of $2,622 and $2,383 as of June 30, 2016 and September 30, 2015, respectively.

(d) Regulation and Litigation

The healthcare industry is governed by various laws and regulations of federal, state, and local governments. These laws and regulations are subject to ongoing government review and interpretation, and include matters such as licensure, accreditation, reimbursement for patient services, and referrals for Medicare and Medicaid beneficiaries. Compliance with these laws and regulations is required for participation in government healthcare programs and have become more complicated in recent years due to changes resulting from the Health Reform Law and the introduction of health benefit exchanges and coordinated care organizations into the local marketplace. Certain governmental agencies routinely investigate and pursue allegations concerning possible overpayments resulting from violation of fraud and abuse statutes by healthcare providers. These types of investigations may result in settlements involving fines and penalties as well as repayment of improper reimbursement. The Corporation has implemented procedures for monitoring and enforcing compliance with laws and regulations and is not aware of significant instances of noncompliance.

(In thousands)

(e) Operating Leases

The Corporation has certain noncancelable operating leases for office space and equipment. The Corporation recorded lease expense of $1,865 and $2,305, which is included in purchased services and other in the consolidated statements of operations for the 9-month period ended June 30, 2016 and fiscal year ended September 30, 2015, respectively.

The following is a schedule of future minimum payments required under the Corporation's operating leases at June 30, 2016:

2017	$	2,091
2018		1,843
2019		1,626
2020		1,551
2021		1,005
Thereafter		1,600
	$	9,716

(15) Subsequent Events

The Corporation evaluated subsequent events after the consolidated balance sheet date of June 30, 2016 through October 7, 2016, which was the date the consolidated financial statements were issued.

Schedule I

SALEM HEALTH HOSPITALS AND CLINICS

Supplemental Schedule – Consolidating Balance Sheet

June 30, 2016

(In thousands)

	Salem Health	Salem Hospital Foundation	Salem Health West Valley	West Valley Hospital Foundation	Parent Holding Company	Willamette Valley Insurance Corporation	Willamette Valley Professional Services	Consolidating entries	Consolidated
Current assets:									
Cash and cash equivalents	$ 3,435	712	278	18	126	844	—	—	5,413
Patient accounts receivable, net	76,208	—	3,117	—	—	—	—	—	79,325
Intercompany and other receivables	19,845	122	1,571	3	2,108	711	—	(3,441)	20,919
Supplies inventory	6,494	—	367	—	—	—	—	—	6,861
Prepaid expense and other	6,277	—	50	—	—	2	—	—	6,329
Total current assets	112,259	834	5,383	21	2,234	1,557	—	(3,441)	118,847
Due from Salem Health West Valley, net	—	—	—	—	—	—	—	—	—
Due from Willamette Valley Professional Svc	—	—	—	—	—	—	—	—	—
Due from Parent Holding Company	545	—	—	—	—	—	—	(545)	—
Assets limited as to use, net of current portion	515,710	6,355	—	272	—	15,362	—	—	537,699
Property and equipment, net	462,310	—	12,313	—	917	—	1	—	475,541
Rental and other property held for future development, net	12,788	692	—	—	—	—	—	—	13,480
Other noncurrent assets	23,558	—	460	—	545	—	—	(14,381)	10,182
Total assets	$ 1,127,170	7,881	18,156	293	3,696	16,919	1	(18,367)	1,155,749

See accompanying independent auditors' report.

(Continued)

Schedule I

SALEM HEALTH HOSPITALS AND CLINICS

Supplemental Schedule – Consolidating Balance Sheet

June 30, 2016

(In thousands)

	Salem Health	Salem Hospital Foundation	Salem Health West Valley	West Valley Hospital Foundation	Parent Holding Company	Willamette Valley Insurance Corporation	Willamette Valley Professional Services	Consolidating entries	Consolidated
Current liabilities:									
Accounts and intercompany payable	$ 46,482	60	1,084	3	545	107	—	(3,986)	44,295
Accrued liabilities:									
Payroll, payroll taxes, and withholdings	14,147	—	542	—	—	—	—	—	14,689
Paid time off	18,241	—	748	—	—	—	—	—	18,989
Other	10,029	—	230	—	—	—	—	—	10,259
Estimated third-party payor settlements, net	1,628	—	479	—	—	—	—	—	2,107
Current portion of long-term debt	5,660	—	—	—	—	—	—	—	5,660
Current portion of estimated medical malpractice claims liability	541	—	41	—	—	1,252	—	—	1,834
Total current liabilities	96,728	60	3,124	3	545	1,359	—	(3,986)	97,833
Due to Salem Health, net	—	—	—	—	—	—	—	—	—
Long-term debt, net of current portion	291,050	—	—	—	—	—	—	—	291,050
Accrued postretirement healthcare benefits	6,150	—	303	—	—	—	—	—	6,453
Fair value of interest rate swap agreement	18,828	—	—	—	—	—	—	—	18,828
Other long-term liabilities	11	—	1	—	—	559	—	(559)	12
Estimated medical malpractice claims liability	3,343	—	133	—	—	4,006	—	—	7,482
Total liabilities	416,110	60	3,561	3	545	5,924	—	(4,545)	421,658
Net assets:									
Unrestricted	707,715	1,710	14,554	217	3,151	10,995	1	(10,436)	727,907
Temporarily restricted	3,345	3,842	41	65	—	—	—	(3,386)	3,907
Permanently restricted	—	2,269	—	8	—	—	—	—	2,277
Total net assets	711,060	7,821	14,595	290	3,151	10,995	1	(13,822)	734,091
Total liabilities and net assets	$ 1,127,170	7,881	18,156	293	3,696	16,919	1	(18,367)	1,155,749

See accompanying independent auditors' report.

Schedule I

SALEM HEALTH HOSPITALS AND CLINICS

Supplemental Schedule – Consolidating Balance Sheet

September 30, 2015

(In thousands)

	Salem Health	Salem Hospital Foundation	Salem Health West Valley	West Valley Hospital Foundation	Parent Holding Company	Willamette Valley Insurance Corporation	Willamette Valley Professional Services	Consolidating entries	Consolidated
Current assets:									
Cash and cash equivalents	$ 6,303	594	259	8	126	583	—	—	7,873
Patient accounts receivable, net	71,163	—	2,847	—	—	—	—	—	74,010
Intercompany and other receivables	16,329	51	27	1	308	762	—	(2,104)	15,374
Supplies inventory	6,153	—	369	—	—	—	—	—	6,522
Prepaid expense and other	7,619	—	109	—	—	—	—	—	7,728
Total current assets	107,567	645	3,611	9	434	1,345	—	(2,104)	111,507
Due from Salem Health West Valley, net	1,391	—	—	—	—	—	—	(1,391)	—
Due from Willamette Valley Professional Svc	—	—	—	—	—	—	—	—	—
Due from Parent Holding Company	545	—	—	—	—	—	—	(545)	—
Assets limited as to use, net of current portion	474,160	6,755	—	243	—	15,692	—	—	496,850
Property and equipment, net	441,518	—	12,483	—	917	—	2	—	454,920
Rental and other property held for future development, net	13,012	685	—	—	—	—	—	—	13,697
Other noncurrent assets	19,960	—	487	—	545	—	—	(13,659)	7,333
Total assets	$ 1,058,153	8,085	16,581	252	1,896	17,037	2	(17,699)	1,084,307

See accompanying independent auditors’ report.

(Continued)

Schedule I

SALEM HEALTH HOSPITALS AND CLINICS

Supplemental Schedule – Consolidating Balance Sheet

September 30, 2015

(In thousands)

	Salem Health	Salem Hospital Foundation	Salem Health West Valley	West Valley Hospital Foundation	Parent Holding Company	Willamette Valley Insurance Corporation	Willamette Valley Professional Services	Consolidating entries	Consolidated
Current liabilities:									
Accounts and intercompany payable	$ 36,550	576	991	2	545	521	—	(1,886)	37,299
Accrued liabilities:									
Payroll, payroll taxes, and withholdings	11,051	—	414	—	—	—	—	—	11,465
Paid time off	15,623	—	640	—	—	—	—	—	16,263
Other	8,422	—	187	—	—	—	—	(272)	8,337
Estimated third-party payor settlements, net	2,255	—	895	—	—	—	—	—	3,150
Current portion of long-term debt	5,661	—	—	—	—	—	—	—	5,661
Current portion of estimated medical malpractice claims liability	494	—	35	—	—	1,135	—	—	1,664
Total current liabilities	80,056	576	3,162	2	545	1,656	—	(2,158)	83,839
Due to Salem Health, net	—	—	1,391	—	—	—	—	(1,391)	—
Long-term debt, net of current portion	291,234	—	—	—	—	—	—	—	291,234
Accrued postretirement healthcare benefits	6,247	—	288	—	—	—	—	—	6,535
Fair value of interest rate swap agreement	15,992	—	—	—	—	—	—	—	15,992
Other long-term liabilities	33	—	2	—	—	752	—	(751)	36
Estimated medical malpractice claims liability	1,582	—	110	—	—	3,635	—	—	5,327
Total liabilities	395,144	576	4,953	2	545	6,043	—	(4,300)	402,963
Net assets:									
Unrestricted	660,390	1,825	11,583	179	1,351	10,994	2	(10,734)	675,590
Temporarily restricted	2,619	3,417	45	63	—	—	—	(2,665)	3,479
Permanently restricted	—	2,267	—	8	—	—	—	—	2,275
Total net assets	663,009	7,509	11,628	250	1,351	10,994	2	(13,399)	681,344
Total liabilities and net assets	$ 1,058,153	8,085	16,581	252	1,896	17,037	2	(17,699)	1,084,307

See accompanying independent auditors' report.

Schedule II

SALEM HEALTH HOSPITALS AND CLINICS

Supplemental Schedule – Consolidating Statement of Operations

9 - month period ended June 30, 2016

(In thousands)

	Salem Health	Salem Hospital Foundation	Salem Health West Valley	West Valley Hospital Foundation	Parent Holding Company	Willamette Valley Insurance Corporation	Willamette Valley Professional Services	Consolidating entries	Consolidated
Operating revenue:									
Patient service revenue, net of contractual allowances and discounts	$ 520,001	—	21,502	—	—	—	—	—	541,503
Provision for bad debts	(17,902)	—	(1,487)	—	—	—	—	—	(19,389)
Net patient service revenue, less provision for bad debts	502,099	—	20,015	—	—	—	—	—	522,114
Other revenue	31,358	600	586	36	1,726	2,415	893	(4,267)	33,347
Net assets released from restriction used for operations	—	275	—	26	—	—	—	—	301
Total operating revenue	533,457	875	20,601	62	1,726	2,415	893	(4,267)	555,762
Operating expenses:									
Labor and benefits	278,832	—	10,779	—	—	—	825	—	290,436
Medical and other supplies	76,597	4	2,183	1	—	—	3	(24)	78,764
Purchased services and other	86,824	1,526	2,679	27	—	2,966	28	(5,348)	88,702
Depreciation	30,229	—	956	—	—	—	—	—	31,185
Professional fees	22,037	20	1,011	—	—	69	36	—	23,173
Interest and amortization	9,362	—	—	—	—	—	—	—	9,362
Total operating expenses	503,881	1,550	17,608	28	—	3,035	892	(5,372)	521,622
Operating income (loss)	29,576	(675)	2,993	34	1,726	(620)	1	1,105	34,140
Other income (loss):									
Investment income (loss), net	17,689	81	2	2	—	433	—	—	18,207
Other, net	(604)	—	(8)	—	74	—	—	(1)	(539)
Total other income (loss), net	17,085	81	(6)	2	74	433	—	(1)	17,668
Excess (deficit) of revenue over (under) expenses	46,661	(594)	2,987	36	1,800	(187)	1	1,104	51,808
Change in net unrealized gain (loss) on other-than-trading securities	3,002	20	—	2	—	187	—	—	3,211
Change in fair value of interest rate swap agreement	(2,836)	—	—	—	—	—	—	—	(2,836)
Change in postretirement benefit obligation	(309)	—	(16)	—	—	—	—	—	(325)
Contributions for property and equipment	807	—	—	—	—	—	—	(807)	—
Net assets released from restriction used for property and equipment	—	459	—	—	—	—	—	—	459
Change in unrestricted net assets	$ 47,325	(115)	2,971	38	1,800	—	1	297	52,317

See accompanying independent auditors' report.

Schedule II

SALEM HEALTH HOSPITALS AND CLINICS

Supplemental Schedule – Consolidating Statement of Operations

Fiscal year ended September 30, 2015

(In thousands)

	Salem Health	Salem Hospital Foundation	Salem Health West Valley	West Valley Hospital Foundation	Parent Holding Company	Willamette Valley Insurance Corporation	Willamette Valley Professional Services	Consolidating entries	Consolidated
Operating revenue:									
Patient service revenue, net of contractual allowances and discounts	$ 656,073	—	27,814	—	—	—	—	—	683,887
Provision for bad debts	(24,726)	—	(1,869)	—	—	—	—	—	(26,595)
Net patient service revenue, less provision for bad debts	631,347	—	25,945	—	—	—	—	—	657,292
Other revenue	36,198	1,051	613	65	—	1,853	666	(4,282)	36,164
Net assets released from restriction used for operations	—	265	—	15	—	—	—	—	280
Total operating revenue	667,545	1,316	26,558	80	—	1,853	666	(4,282)	693,736
Operating expenses:									
Labor and benefits	343,843	—	13,586	—	—	—	1,374	—	358,803
Medical and other supplies	102,188	2	2,715	1	—	—	10	(43)	104,873
Purchased services and other	92,204	1,613	3,259	154	—	789	79	(5,127)	92,971
Depreciation	38,469	—	1,217	—	—	—	1	—	39,687
Professional fees	28,897	24	1,532	3	—	72	58	—	30,586
Interest and amortization	12,837	—	—	—	—	—	—	—	12,837
Total operating expenses	618,438	1,639	22,309	158	—	861	1,522	(5,170)	639,757
Operating income (loss)	49,107	(323)	4,249	(78)	—	992	(856)	888	53,979
Other income (loss):									
Investment income (loss), net	(1,264)	19	3	17	—	35	—	—	(1,190)
Other, net	431	(725)	(1)	—	84	—	—	(1,048)	(1,259)
Total other income (loss), net	(833)	(706)	2	17	84	35	—	(1,048)	(2,449)
Excess (deficit) of revenue over (under) expenses	48,274	(1,029)	4,251	(61)	84	1,027	(856)	(160)	51,530
Change in net unrealized gain (loss) on other-than-trading securities	(3,306)	(24)	—	1	—	21	—	—	(3,308)
Change in fair value of interest rate swap agreement	(3,171)	—	—	—	—	—	—	—	(3,171)
Change in postretirement benefit obligation	293	—	125	—	—	—	—	—	418
Contributions for property and equipment	525	—	—	100	—	—	—	(625)	—
Net assets released from restriction used for property and equipment	—	16	—	5	—	—	—	—	21
Change in unrestricted net assets	$ 42,615	(1,037)	4,376	45	84	1,048	(856)	(785)	45,490

See accompanying independent auditors' report.