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Form **990**

Department of the Treasury
Internal Revenue Service

# Return of Organization Exempt From Income Tax

**Under section 501(c), 527, or 4947(a)(1) of the Internal Revenue Code (except black lung benefit trust or private foundation)**

▶ The organization may have to use a copy of this return to satisfy state reporting requirements

OMB No 1545-0047

**2010**

**Open to Public Inspection**

**A For the 2010 calendar year, or tax year beginning 10-01-2010 and ending 09-30-2011**

**B** Check if applicable
- ☐ Address change
- ☐ Name change
- ☐ Initial return
- ☐ Terminated
- ☐ Amended return
- ☐ Application pending

**C** Name of organization
SALEM HOSPITAL

Doing Business As

Number and street (or P O box if mail is not delivered to street address) | Room/suite
890 OAK STREET SE

City or town, state or country, and ZIP + 4
SALEM, OR 97301

**D Employer identification number**
93-0579722

**E Telephone number**
(503) 561-5535

**G** Gross receipts $ 584,158,111

**F** Name and address of principal officer
AARON R CRANE
890 OAK STREET SE
SALEM, OR 97301

**H(a)** Is this a group return for affiliates? ☐ Yes ☑ No

**H(b)** Are all affiliates included? ☐ Yes ☐ No
If "No," attach a list (see instructions)

**H(c)** Group exemption number ▶

**I** Tax-exempt status ☑ 501(c)(3) ☐ 501(c) ( ) ◀ (insert no ) ☐ 4947(a)(1) or ☐ 527

**J Website:** ▶ WWW SALEMHOSPITAL ORG

**K** Form of organization ☑ Corporation ☐ Trust ☐ Association ☐ Other ▶

**L** Year of formation 1970

**M** State of legal domicile OR

## Part I Summary

**1** Briefly describe the organization's mission or most significant activities
TO IMPROVE THE HEALTH AND WELL BEING OF THE PEOPLE IN THE COMMUNITIES WE SERVE

**2** Check this box ▶☐ if the organization discontinued its operations or disposed of more than 25% of its net assets

| | | | |
|---|---|---|---|
| **3** | Number of voting members of the governing body (Part VI, line 1a) | **3** | 12 |
| **4** | Number of independent voting members of the governing body (Part VI, line 1b) | **4** | 10 |
| **5** | Total number of individuals employed in calendar year 2010 (Part V, line 2a) | **5** | 4,304 |
| **6** | Total number of volunteers (estimate if necessary) | **6** | 325 |
| **7a** | Total unrelated business revenue from Part VIII, column (C), line 12 | **7a** | 2,662,679 |
| **b** | Net unrelated business taxable income from Form 990-T, line 34 | **7b** | 0 |

| | | Prior Year | Current Year |
|---|---|---|---|
| **Revenue** | | | |
| **8** | Contributions and grants (Part VIII, line 1h) | 1,312,170 | 1,359,173 |
| **9** | Program service revenue (Part VIII, line 2g) | 533,056,532 | 571,229,821 |
| **10** | Investment income (Part VIII, column (A), lines 3, 4, and 7d ) | 4,936,879 | 8,871,160 |
| **11** | Other revenue (Part VIII, column (A), lines 5, 6d, 8c, 9c, 10c, and 11e) | 3,092,356 | 1,268,159 |
| **12** | Total revenue—add lines 8 through 11 (must equal Part VIII, column (A), line 12) | 542,397,937 | 582,728,313 |
| **Expenses** | | | |
| **13** | Grants and similar amounts paid (Part IX, column (A), lines 1–3 ) | 242,960 | 313,397 |
| **14** | Benefits paid to or for members (Part IX, column (A), line 4) | 0 | 0 |
| **15** | Salaries, other compensation, employee benefits (Part IX, column (A), lines 5–10) | 260,454,764 | 279,602,377 |
| **16a** | Professional fundraising fees (Part IX, column (A), line 11e) | 0 | 0 |
| **b** | Total fundraising expenses (Part IX, column (D), line 25) ▶0 | | |
| **17** | Other expenses (Part IX, column (A), lines 11a–11d, 11f–24f) | 257,903,734 | 271,553,207 |
| **18** | Total expenses Add lines 13–17 (must equal Part IX, column (A), line 25) | 518,601,458 | 551,468,981 |
| **19** | Revenue less expenses Subtract line 18 from line 12 | 23,796,479 | 31,259,332 |

| | | Beginning of Current Year | End of Year |
|---|---|---|---|
| **Net Assets or Fund Balances** | | | |
| **20** | Total assets (Part X, line 16) | 852,373,971 | 861,384,227 |
| **21** | Total liabilities (Part X, line 26) | 397,485,365 | 393,996,073 |
| **22** | Net assets or fund balances Subtract line 21 from line 20 | 454,888,606 | 467,388,154 |

## Part II Signature Block

**Under penalties of perjury, I declare that I have examined this return, including accompanying schedules and statements, and to the best of my knowledge and belief, it is true, correct, and complete. Declaration of preparer (other than officer) is based on all information of which preparer has any knowledge.**

**Sign Here**

****** | 2012-08-13
Signature of officer | Date

AARON R CRANE CHIEF FINANCE & STRATEGY OFFICER
Type or print name and title

**Paid Preparer Use Only**

| Print/Type preparer's name | Preparer's signature | Date | Check if self-employed ▶☐ | PTIN |
|---|---|---|---|---|
| JOYLYN M ANKENEY CPA | JOYLYN M ANKENEY CPA | | | |

Firm's name ▶ AKT LLP — Firm's EIN ▶

Firm's address ▶ 680 HAWTHORNE AVE SE 140, SALEM, OR 97301 — Phone no ▶ (503) 585-7774

May the IRS discuss this return with the preparer shown above? (see instructions) ☑ Yes ☐ No

## Part III Statement of Program Service Accomplishments

Check if Schedule O contains a response to any question in this Part III . . . . . ☐

**1** Briefly describe the organization's mission

TO IMPROVE THE HEALTH AND WELL-BEING OF THE PEOPLE AND COMMUNITIES WE SERVE

**2** Did the organization undertake any significant program services during the year which were not listed on the prior Form 990 or 990-EZ? . . . . . ☐ Yes ☑ No

If "Yes," describe these new services on Schedule O

**3** Did the organization cease conducting, or make significant changes in how it conducts, any program services? . . . . . ☐ Yes ☑ No

If "Yes," describe these changes on Schedule O

**4** Describe the exempt purpose achievements for each of the organization's three largest program services by expenses Section 501(c)(3) and 501(c)(4) organizations and section 4947(a)(1) trusts are required to report the amount of grants and allocations to others, the total expenses, and revenue, if any, for each program service reported

**4a** (Code ) (Expenses $ 112,459,182 including grants of $ ) (Revenue $ 317,121,582 )

SALEM HOSPITAL IS ONE OF THE LARGEST OF OREGON'S 58 ACUTE CARE HOSPITALS AND OPERATES THE BUSIEST EMERGENCY DEPARTMENT IN OREGON THERE ARE 442 PHYSICIANS ON THE ACTIVE MEDICAL STAFF, REPRESENTING 46 DIFFERENT SPECIALTIES, WHO ADMIT PATIENTS TO THE HOSPITAL MORE THAN 447 VOLUNTEERS PROVIDE NON-MEDICAL SUPPORT FOR THE HOSPITAL 2010 STATISTICS BIRTHS - 3,199, DIAGNOSTIC IMAGING PROCEDURES - 168,414, ED AND URGENT CARE VISITS - 118,982, INPATIENT ADMISSIONS - 23,275, LABORATORY PROCEDURES - 1,494,514, SURGERIES - 13,545 THE PRIMARY SERVICE AREA IS THE GREATER WILLAMETTE VALLEY WITH APPROXIMATELY 500,000 RESIDENTS

**4b** (Code ) (Expenses $ 347,108,468 including grants of $ ) (Revenue $ 243,197,076 )

SALEM HOSPITAL PROVIDES HEALTHCARE TO PEOPLE IN OUR COMMUNITY REGARDLESS OF THEIR ABILITY TO PAY IN FY2011, PROVISION OF SERVICES TO INDIVIDUALS WHO CANNOT AFFORD TO PAY ACCOUNTED FOR THE LARGEST PORTION OF THE COMMUNITY BENEFIT, $103 9 MILLION CHARITY CARE TOTALED $37 8 MILLION, MEDICARE UNDERPAID SALEM HOSPITAL BY $47 8 MILLION MEDICAID UNDERPAID BY $18 3 MILLION SALEM HOSPITAL DOES NOT PURSUE LEGAL ACTION FOR NON-PAYMENT OF BILLS AGAINST CHARITY CARE PATIENTS WHO HAVE DEMONSTRATED THAT THEY HAVE NEITHER SUFFICIENT INCOME NOR ASSETS TO MEET THEIR FINANCIAL OBLIGATIONS

**4c** (Code ) (Expenses $ 22,455,701 including grants of $ ) (Revenue $ 9,205,424 )

SALEM HOSPITAL ACTIVELY PARTICIPATES IN COMMUNITY HEALTH IMPROVEMENT SERVICES IN FY2011, SALEM HOSPITAL GAVE $9 1 MILLION FOR UNFUNDED OR UNDERFUNDED HEALTH SERVICES, INCLUDING IMPROVING ACCESS TO CARE THROUGH PHYSICIAN RECRUITING, COMMUNITY HEALTH EDUCATION AND PREVENTION PROGRAMS THE HOSPITAL HAS AN ACTIVE SPEAKERS BUREAU PROVIDING FREE HEALTH LECTURES TO COMMUNITY GROUPS HEALTH SCREENINGS, SUPPORT GROUPS AND EDUCATION CLASSES ARE OFFERED ON AN ON-GOING BASIS IN FY2011, SALEM HOSPITAL PROVIDED MORE THAN $786 THOUSAND IN CASH AND IN-KIND DONATIONS TO COMMUNITY HEALTH PROGRAMS SUCH AS MEDASSIST, SALEM FREE CLINIC AND NORTHWEST HUMAN SERVICES

**4d** Other program services (Describe in Schedule O )

(Expenses $ including grants of $ ) (Revenue $ )

**4e** **Total program service expenses** ▶ $ 482,023,351

## Part IV Checklist of Required Schedules

| | | | Yes | No |
|---|---|---|---|---|
| 1 | Is the organization described in section 501(c)(3) or 4947(a)(1) (other than a private foundation)? *If "Yes," complete Schedule A* | 1 | Yes | |
| 2 | Is the organization required to complete Schedule B, Schedule of Contributors (see instruction)? | 2 | Yes | |
| 3 | Did the organization engage in direct or indirect political campaign activities on behalf of or in opposition to candidates for public office? *If "Yes," complete Schedule C, Part I* | 3 | | No |
| 4 | **Section 501(c)(3) organizations.** Did the organization engage in lobbying activities, or have a section 501(h) election in effect during the tax year? *If "Yes," complete Schedule C, Part II* | 4 | | No |
| 5 | Is the organization a section 501(c)(4), 501(c)(5), or 501(c)(6) organization that receives membership dues, assessments, or similar amounts as defined in Revenue Procedure 98-19? *If "Yes," complete Schedule C, Part III* | 5 | | |
| 6 | Did the organization maintain any donor advised funds or any similar funds or accounts where donors have the right to provide advice on the distribution or investment of amounts in such funds or accounts? *If "Yes," complete Schedule D, Part I* | 6 | | No |
| 7 | Did the organization receive or hold a conservation easement, including easements to preserve open space, the environment, historic land areas or historic structures? *If "Yes," complete Schedule D, Part II* | 7 | | No |
| 8 | Did the organization maintain collections of works of art, historical treasures, or other similar assets? *If "Yes," complete Schedule D, Part III* | 8 | | No |
| 9 | Did the organization report an amount in Part X, line 21, serve as a custodian for amounts not listed in Part X, or provide credit counseling, debt management, credit repair, or debt negotiation services? *If "Yes," complete Schedule D, Part IV* | 9 | | No |
| 10 | Did the organization, directly or through a related organization, hold assets in term, permanent,or quasi-endowments? *If "Yes," complete Schedule D, Part V* | 10 | | No |
| 11 | If the organization's answer to any of the following questions is 'Yes,' then complete Schedule D, Parts VI, VII, VIII, IX, or X as applicable | | | |
| a | Did the organization report an amount for land, buildings, and equipment in Part X, line10? *If "Yes," complete Schedule D, Part VI.* | 11a | Yes | |
| b | Did the organization report an amount for investments—other securities in Part X, line 12 that is 5% or more of its total assets reported in Part X, line 16? *If "Yes," complete Schedule D, Part VII.* | 11b | | No |
| c | Did the organization report an amount for investments—program related in Part X, line 13 that is 5% or more of its total assets reported in Part X, line 16? *If "Yes," complete Schedule D, Part VIII.* | 11c | | No |
| d | Did the organization report an amount for other assets in Part X, line 15 that is 5% or more of its total assets reported in Part X, line 16? *If "Yes," complete Schedule D, Part IX.* | 11d | | No |
| e | Did the organization report an amount for other liabilities in Part X, line 25? *If "Yes," complete Schedule D, Part X.* | 11e | Yes | |
| f | Did the organization's separate or consolidated financial statements for the tax year include a footnote that addresses the organization's liability for uncertain tax positions under FIN 48 (ASC 740)? *If "Yes," complete Schedule D, Part X.* | 11f | | No |
| 12a | Did the organization obtain separate, independent audited financial statements for the tax year? *If "Yes," complete Schedule D, Parts XI, XII, and XIII* | 12a | | No |
| b | Was the organization included in consolidated, independent audited financial statements for the tax year? *If "Yes," and if the organization answered 'No' to line 12a, then completing Schedule D, Parts XI, XII, and XIII is optional* | 12b | Yes | |
| 13 | Is the organization a school described in section 170(b)(1)(A)(ii)? *If "Yes," complete Schedule E* | 13 | | No |
| 14a | Did the organization maintain an office, employees, or agents outside of the United States? | 14a | | No |
| b | Did the organization have aggregate revenues or expenses of more than $10,000 from grantmaking, fundraising, business, and program service activities outside the United States? *If "Yes," complete Schedule F, Parts I and IV* | 14b | | No |
| 15 | Did the organization report on Part IX, column (A), line 3, more than $5,000 of grants or assistance to any organization or entity located outside the U S ? *If "Yes," complete Schedule F, Parts II and IV* | 15 | | No |
| 16 | Did the organization report on Part IX, column (A), line 3, more than $5,000 of aggregate grants or assistance to individuals located outside the U S ? *If "Yes," complete Schedule F, Parts III and IV* | 16 | | No |
| 17 | Did the organization report a total of more than $15,000, of expenses for professional fundraising services on Part IX, column (A), lines 6 and 11e? *If "Yes," complete Schedule G, Part I (see instructions)* | 17 | | No |
| 18 | Did the organization report more than $15,000 total of fundraising event gross income and contributions on Part VIII, lines 1c and 8a? *If "Yes," complete Schedule G, Part II* | 18 | | No |
| 19 | Did the organization report more than $15,000 of gross income from gaming activities on Part VIII, line 9a? *If "Yes," complete Schedule G, Part III* | 19 | | No |
| 20a | Did the organization operate one or more hospitals? *If "Yes," complete Schedule H* | 20a | Yes | |
| b | If "Yes" to line 20a, did the organization attach its audited financial statement to this return? **Note.** Some Form 990 filers that operate one or more hospitals must attach audited financial statements (see instructions) | 20b | Yes | |

**Part IV Checklist of Required Schedules** *(continued)*

| | | | | |
|---|---|---|---|---|
| **21** | Did the organization report more than $5,000 of grants and other assistance to governments and organizations in the United States on Part IX, column (A), line 1? *If "Yes," complete Schedule I, Parts I and II* | **21** | Yes | |
| **22** | Did the organization report more than $5,000 of grants and other assistance to individuals in the United States on Part IX, column (A), line 2? *If "Yes," complete Schedule I, Parts I and III* | **22** | | No |
| **23** | Did the organization answer "Yes" to Part VII, Section A, questions 3, 4, or 5, about compensation of the organization's current and former officers, directors, trustees, key employees, and highest compensated employees? *If "Yes," complete Schedule J* | **23** | Yes | |
| **24a** | Did the organization have a tax-exempt bond issue with an outstanding principal amount of more than $100,000 as of the last day of the year, that was issued after December 31, 2002? *If "Yes," answer lines 24b–24d and complete Schedule K. If "No," go to line 25* | **24a** | Yes | |
| **b** | Did the organization invest any proceeds of tax-exempt bonds beyond a temporary period exception? | **24b** | | No |
| **c** | Did the organization maintain an escrow account other than a refunding escrow at any time during the year to defease any tax-exempt bonds? | **24c** | | No |
| **d** | Did the organization act as an "on behalf of" issuer for bonds outstanding at any time during the year? | **24d** | | No |
| **25a** | **Section 501(c)(3) and 501(c)(4) organizations.** Did the organization engage in an excess benefit transaction with a disqualified person during the year? *If "Yes," complete Schedule L, Part I* | **25a** | | No |
| **b** | Is the organization aware that it engaged in an excess benefit transaction with a disqualified person in a prior year, and that the transaction has not been reported on any of the organization's prior Forms 990 or 990-EZ? *If "Yes," complete Schedule L, Part I* | **25b** | | No |
| **26** | Was a loan to or by a current or former officer, director, trustee, key employee, highly compensated employee, or disqualified person outstanding as of the end of the organization's tax year? *If "Yes," complete Schedule L, Part II* | **26** | | No |
| **27** | Did the organization provide a grant or other assistance to an officer, director, trustee, key employee, substantial contributor, or a grant selection committee member, or to a person related to such an individual? *If "Yes," complete Schedule L, Part III* | **27** | | No |
| **28** | Was the organization a party to a business transaction with one of the following parties? (see Schedule L, Part IV instructions for applicable filing thresholds, conditions, and exceptions) | | | |
| **a** | A current or former officer, director, trustee, or key employee? *If "Yes," complete Schedule L, Part IV* | **28a** | | No |
| **b** | A family member of a current or former officer, director, trustee, or key employee? *If "Yes," complete Schedule L, Part IV* | **28b** | | No |
| **c** | An entity of which a current or former officer, director, trustee, or key employee (or a family member thereof) was an officer, director, trustee, or direct or indirect owner? *If "Yes," complete Schedule L, Part IV* | **28c** | | No |
| **29** | Did the organization receive more than $25,000 in non-cash contributions? *If "Yes," complete Schedule M* | **29** | | No |
| **30** | Did the organization receive contributions of art, historical treasures, or other similar assets, or qualified conservation contributions? *If "Yes," complete Schedule M* | **30** | | No |
| **31** | Did the organization liquidate, terminate, or dissolve and cease operations? *If "Yes," complete Schedule N, Part I* | **31** | | No |
| **32** | Did the organization sell, exchange, dispose of, or transfer more than 25% of its net assets? *If "Yes," complete Schedule N, Part II* | **32** | | No |
| **33** | Did the organization own 100% of an entity disregarded as separate from the organization under Regulations sections 301 7701-2 and 301 7701-3? *If "Yes," complete Schedule R, Part I* | **33** | | No |
| **34** | Was the organization related to any tax-exempt or taxable entity? *If "Yes," complete Schedule R, Parts II, III, IV, and V, line 1* | **34** | Yes | |
| **35** | Is any related organization a controlled entity within the meaning of section 512(b)(13)? | **35** | Yes | |
| **a** | Did the organization receive any payment from or engage in any transaction with a controlled entity within the meaning of section 512(b)(13)? *If "Yes," complete Schedule R, Part V, line 2* ☐ **Yes** ☑ **No** | | | |
| **36** | **Section 501(c)(3) organizations.** Did the organization make any transfers to an exempt non-charitable related organization? *If "Yes," complete Schedule R, Part V, line 2* | **36** | | No |
| **37** | Did the organization conduct more than 5% of its activities through an entity that is not a related organization and that is treated as a partnership for federal income tax purposes? *If "Yes," complete Schedule R, Part VI* | **37** | | No |
| **38** | Did the organization complete Schedule O and provide explanations in Schedule O for Part VI, lines 11 and 19? **Note.** All Form 990 filers are required to complete Schedule O | **38** | Yes | |

## Part V Statements Regarding Other IRS Filings and Tax Compliance

Check if Schedule O contains a response to any question in this Part V . . . . . .

| | | | | Yes | No |
|---|---|---|---|---|---|
| 1a | Enter the number reported in Box 3 of Form 1096 Enter -0- if not applicable . . | 1a | 369 | | |
| b | Enter the number of Forms W-2G included in line 1a *Enter -0-* if not applicable | 1b | 0 | | |
| c | Did the organization comply with backup withholding rules for reportable payments to vendors and reportable gaming (gambling) winnings to prize winners? . . . . . | | | 1c | Yes | |
| 2a | Enter the number of employees reported on Form W-3, *Transmittal of Wage and Tax Statements* filed for the calendar year ending with or within the year covered by this return . . . . . | 2a | 4,304 | | |
| b | If at least one is reported on line 2a, did the organization file all required federal employment tax returns? | | | 2b | Yes | |
| | **Note.** If the sum of lines 1a and 2a is greater than 250, you may be required to e-file (see instructions) | | | | | |
| 3a | Did the organization have unrelated business gross income of $1,000 or more during the year? . . . . . | | | 3a | Yes | |
| b | If "Yes," has it filed a Form 990-T for this year? *If "No," provide an explanation in Schedule O* . . . . . | | | 3b | Yes | |
| 4a | At any time during the calendar year, did the organization have an interest in, or a signature or other authority over, a financial account in a foreign country (such as a bank account, securities account, or other financial account)? . . . . | | | 4a | | No |
| b | If "Yes," enter the name of the foreign country ▶ _____ See instructions for filing requirements for Form TD F 90-22 1, Report of Foreign Bank and Financial Accounts | | | | | |
| 5a | Was the organization a party to a prohibited tax shelter transaction at any time during the tax year? . . | | | 5a | | No |
| b | Did any taxable party notify the organization that it was or is a party to a prohibited tax shelter transaction? | | | 5b | | No |
| c | If "Yes" to line 5a or 5b, did the organization file Form 8886-T? . . . . . | | | 5c | | |
| 6a | Does the organization have annual gross receipts that are normally greater than $100,000, and did the organization solicit any contributions that were not tax deductible? . . . . . | | | 6a | | No |
| b | If "Yes," did the organization include with every solicitation an express statement that such contributions or gifts were not tax deductible? . . . . . | | | 6b | | |
| 7 | **Organizations that may receive deductible contributions under section 170(c).** | | | | | |
| a | Did the organization receive a payment in excess of $75 made partly as a contribution and partly for goods and services provided to the payor? . . . . . | | | 7a | | No |
| b | If "Yes," did the organization notify the donor of the value of the goods or services provided? . . . . . | | | 7b | | |
| c | Did the organization sell, exchange, or otherwise dispose of tangible personal property for which it was required to file Form 8282? . . . . . | | | 7c | | No |
| d | If "Yes," indicate the number of Forms 8282 filed during the year . . . . | 7d | | | | |
| e | Did the organization receive any funds, directly or indirectly, to pay premiums on a personal benefit contract? . . . . . | | | 7e | | No |
| f | Did the organization, during the year, pay premiums, directly or indirectly, on a personal benefit contract? . . | | | 7f | | No |
| g | If the organization received a contribution of qualified intellectual property, did the organization file Form 8899 as required? . . . . . | | | 7g | | |
| h | If the organization received a contribution of cars, boats, airplanes, or other vehicles, did the organization file a Form 1098-C? . . . . . | | | 7h | | |
| 8 | **Sponsoring organizations maintaining donor advised funds and section 509(a)(3) supporting organizations.** Did the supporting organization, or a donor advised fund maintained by a sponsoring organization, have excess business holdings at any time during the year? . . . . . | | | 8 | | |
| 9 | **Sponsoring organizations maintaining donor advised funds.** | | | | | |
| a | Did the organization make any taxable distributions under section 4966? . . . . . | | | 9a | | |
| b | Did the organization make a distribution to a donor, donor advisor, or related person? . . . . . | | | 9b | | |
| 10 | **Section 501(c)(7) organizations.** Enter | | | | | |
| a | Initiation fees and capital contributions included on Part VIII, line 12 . . . | 10a | | | | |
| b | Gross receipts, included on Form 990, Part VIII, line 12, for public use of club facilities | 10b | | | | |
| 11 | **Section 501(c)(12) organizations.** Enter | | | | | |
| a | Gross income from members or shareholders . . . . . | 11a | | | | |
| b | Gross income from other sources (Do not net amounts due or paid to other sources against amounts due or received from them ) . . . . . | 11b | | | | |
| 12a | **Section 4947(a)(1) non-exempt charitable trusts.** Is the organization filing Form 990 in lieu of Form 1041? | | | 12a | | |
| b | If "Yes," enter the amount of tax-exempt interest received or accrued during the year | 12b | | | | |
| 13 | **Section 501(c)(29) qualified nonprofit health insurance issuers.** | | | | | |
| a | Is the organization licensed to issue qualified health plans in more than one state? **Note.** See the instructions for additional information the organization must report on Schedule O | | | 13a | | |
| b | Enter the amount of reserves the organization is required to maintain by the states in which the organization is licensed to issue qualified health plans | 13b | | | | |
| c | Enter the amount of reserves on hand | 13c | | | | |
| 14a | Did the organization receive any payments for indoor tanning services during the tax year? . . . . . | | | 14a | | No |
| b | If "Yes," has it filed a Form 720 to report these payments? *If "No," provide an explanation in Schedule O* . . | | | 14b | | |

**Part VI** **Governance, Management, and Disclosure** For each "Yes" response to lines 2 through 7b below, and for a "No" response to lines 8a, 8b, or 10b below, describe the circumstances, processes, or changes in Schedule O. See instructions.

Check if Schedule O contains a response to any question in this Part VI . . . . . ☑

## Section A. Governing Body and Management

| | | | | Yes | No |
|---|---|---|---|---|---|
| 1a | Enter the number of voting members of the governing body at the end of the tax year | 1a | 12 | | |
| b | Enter the number of voting members included in line 1a, above, who are independent | 1b | 10 | | |
| 2 | Did any officer, director, trustee, or key employee have a family relationship or a business relationship with any other officer, director, trustee, or key employee? | | 2 | | No |
| 3 | Did the organization delegate control over management duties customarily performed by or under the direct supervision of officers, directors or trustees, or key employees to a management company or other person? | | 3 | | No |
| 4 | Did the organization make any significant changes to its governing documents since the prior Form 990 was filed? | | 4 | | No |
| 5 | Did the organization become aware during the year of a significant diversion of the organization's assets? | | 5 | | No |
| 6 | Does the organization have members or stockholders? | | 6 | | No |
| 7a | Does the organization have members, stockholders, or other persons who may elect one or more members of the governing body? | | 7a | | No |
| b | Are any decisions of the governing body subject to approval by members, stockholders, or other persons? | | 7b | | No |
| 8 | Did the organization contemporaneously document the meetings held or written actions undertaken during the year by the following | | | | |
| a | The governing body? | | 8a | Yes | |
| b | Each committee with authority to act on behalf of the governing body? | | 8b | Yes | |
| 9 | Is there any officer, director, trustee, or key employee listed in Part VII, Section A, who cannot be reached at the organization's mailing address? If "Yes," provide the names and addresses in Schedule O | | 9 | | No |

## Section B. Policies (This Section B requests information about policies not required by the Internal Revenue Code.)

| | | | Yes | No |
|---|---|---|---|---|
| 10a | Does the organization have local chapters, branches, or affiliates? | 10a | | No |
| b | If "Yes," does the organization have written policies and procedures governing the activities of such chapters, affiliates, and branches to ensure their operations are consistent with those of the organization? | 10b | | |
| 11a | Has the organization provided a copy of this Form 990 to all members of its governing body before filing the form? | 11a | Yes | |
| b | Describe in Schedule O the process, if any, used by the organization to review this Form 990 | | | |
| 12a | Does the organization have a written conflict of interest policy? *If "No," go to line 13* | 12a | Yes | |
| b | Are officers, directors or trustees, and key employees required to disclose annually interests that could give rise to conflicts? | 12b | Yes | |
| c | Does the organization regularly and consistently monitor and enforce compliance with the policy? If "Yes," describe in Schedule O how this is done | 12c | Yes | |
| 13 | Does the organization have a written whistleblower policy? | 13 | Yes | |
| 14 | Does the organization have a written document retention and destruction policy? | 14 | Yes | |
| 15 | Did the process for determining compensation of the following persons include a review and approval by independent persons, comparability data, and contemporaneous substantiation of the deliberation and decision? | | | |
| a | The organization's CEO, Executive Director, or top management official | 15a | Yes | |
| b | Other officers or key employees of the organization | 15b | Yes | |
| | If "Yes" to line 15a or 15b, describe the process in Schedule O (See instructions ) | | | |
| 16a | Did the organization invest in, contribute assets to, or participate in a joint venture or similar arrangement with a taxable entity during the year? | 16a | Yes | |
| b | If "Yes," has the organization adopted a written policy or procedure requiring the organization to evaluate its participation in joint venture arrangements under applicable federal tax law, and taken steps to safeguard the organization's exempt status with respect to such arrangements? | 16b | Yes | |

## Section C. Disclosure

17 List the States with which a copy of this Form 990 is required to be filed ▶ OR

18 Section 6104 requires an organization to make its Form 1023 (or 1024 if applicable), 990, and 990-T (501(c)(3)s only) available for public inspection Indicate how you make these available Check all that apply

☐ Own website ☑ Another's website ☑ Upon request

19 Describe in Schedule O whether (and if so, how), the organization makes its governing documents, conflict of interest policy, and financial statements available to the public See Additional Data Table

20 State the name, physical address, and telephone number of the person who possesses the books and records of the organization ▶

SALEM HOSPITAL
890 OAK STREET SE
SALEM, OR 97301
(503) 561-3500

## Part VII Compensation of Officers, Directors,Trustees, Key Employees, Highest Compensated Employees, and Independent Contractors

Check if Schedule O contains a response to any question in this Part VII . . . . . .☐

### Section A. Officers, Directors, Trustees, Key Employees, and Highest Compensated Employees

**1a** Complete this table for all persons required to be listed Report compensation for the calendar year ending with or within the organization's tax year

- List all of the organization's **current** officers, directors, trustees (whether individuals or organizations), regardless of amount of compensation, and **current** key employees Enter -0- in columns (D), (E), and (F) if no compensation was paid
- List all of the organization's **current** key employees, if any See instructions for definition of "key employee "
- List the organization's five **current** highest compensated employees (other than an officer, director, trustee or key employee) who received reportable compensation (Box 5 of Form W-2 and/or Box 7 of Form 1099-MISC) of more than $100,000 from the organization and any related organizations
- List all of the organization's **former** officers, key employees, and highest compensated employees who received more than $100,000 of reportable compensation from the organization and any related organizations
- List all of the organization's **former directors or trustees** that received, in the capacity as a former director or trustee of the organization, more than $10,000 of reportable compensation from the organization and any related organizations

List persons in the following order individual trustees or directors, institutional trustees, officers, key employees, highest compensated employees, and former such persons

☐ Check this box if neither the organization nor any related organization compensated any current officer, director, or trustee

| (A) Name and Title | (B) Average hours per week (describe hours for related organizations in Schedule O) | (C) Position (check all that apply) | | | | | | (D) Reportable compensation from the organization (W-2/1099-MISC) | (E) Reportable compensation from related organizations (W- 2/1099-MISC) | (F) Estimated amount of other compensation from the organization and related organizations |
|---|---|---|---|---|---|---|---|---|---|---|
| | | Individual trustee or director | Institutional Trustee | Officer | Key employee | Highest compensated employee | Former | | | |
| (1) KATHERINE KEENE TRUSTEE | 10 00 | X | | | | | | 0 | 0 | 0 |
| (2) GEORGE HAPP TRUSTEE | 10 00 | X | | | | | | 0 | 0 | 0 |
| (3) BRUCE CARTER MD TRUSTEE | 10 00 | X | | | | | | 0 | 0 | 0 |
| (4) KENNETH SHERMAN JR CHAIRPERSON | 15 00 | X | | X | | | | 0 | 0 | 0 |
| (5) DAVID ELMGREN MD TRUSTEE | 10 00 | X | | | | | | 0 | 0 | 0 |
| (6) CHUCK HUDKINS TRUSTEE | 10 00 | X | | | | | | 0 | 0 | 0 |
| (7) BONNIE DRIGGERS RN TRUSTEE | 10 00 | X | | | | | | 0 | 0 | 0 |
| (8) THERESA TAAFFE TRUSTEE | 10 00 | X | | | | | | 0 | 0 | 0 |
| (9) ALAN WYNN SECRETARY/TREASURER | 10 00 | X | | X | | | | 0 | 0 | 0 |
| (10) ALAN COSTIC VICE-CHAIRPERSON | 15 00 | X | | X | | | | 0 | 0 | 0 |
| (11) LANE SHETTERLY TRUSTEE | 10 00 | X | | | | | | 0 | 0 | 0 |
| (12) ROBERT WELLS TRUSTEE | 10 00 | X | | | | | | 0 | 0 | 0 |
| (13) NORMAN GRUBER PRESIDENT | 40 00 | | | X | | | | 823,665 | 0 | 53,837 |
| (14) AARON CRANE CHIEF FINANCIAL OFFICER | 40 00 | | | X | | | | 428,267 | 0 | 76,871 |
| (15) WILLIAM HOLLOWAY MD CHIEF MEDICAL OFFICER | 40 00 | | | | X | | | 497,067 | 0 | 79,878 |
| (16) JACK CAYNON GENERAL COUNSEL | 40 00 | | | | X | | | 319,201 | 0 | 67,869 |

**Part VII** **Section A. Officers, Directors, Trustees, Key Employees, and Highest Compensated Employees** (continued)

| (A) Name and Title | (B) Average hours per week (describe hours for related organizations in Schedule O) | (C) Position (check all that apply) | | | | | | (D) Reportable compensation from the organization (W-2/1099-MISC) | (E) Reportable compensation from related organizations (W-2/1099-MISC) | (F) Estimated amount of other compensation from the organization and related organizations |
|---|---|---|---|---|---|---|---|---|---|---|
| | | Individual trustee or director | Institutional Trustee | Officer | Key employee | Highest compensated employee | Former | | | |
| (17) BEVERLY BOW<br>VP HUMAN RESOURCES | 40 00 | | | | X | | | 268,879 | 0 | 52,835 |
| (18) CHERYL NESTER-WOLFE<br>CHIEF NURSING OFFICER | 40 00 | | | | X | | | 405,815 | 0 | 66,235 |
| (19) KENNETH KUDLA<br>CHIEF INFORMATION OFFICER | 40 00 | | | | X | | | 319,357 | 0 | 58,981 |
| (20) ANNE MARIE DIAMOND<br>VP SERVICE LINE OPR | 40 00 | | | | X | | | 61,230 | 0 | 16,259 |
| (21) MARTIN MORRIS<br>EXEC DIR FOUNDATION | 40 00 | | | | X | | | 241,504 | 0 | 55,208 |
| (22) NICOLE VANDERHEYDEN MD<br>TRAUMA SURGEON | 40 00 | | | | | X | | 489,992 | 0 | 72,899 |
| (23) AHMED EBEID MD<br>PHYSICIAN | 40 00 | | | | | X | | 516,751 | 0 | 71,603 |
| (24) TRACY TAGGERT MD<br>GENERAL SURGEON | 40 00 | | | | | X | | 356,493 | 0 | 57,449 |
| (25) NANCY BOUTIN<br>PHYSICIAN | 40 00 | | | | | X | | 362,417 | 0 | 42,699 |
| (26) AMR HEGAZI<br>ANESTHESIOLOGIST | 40 00 | | | | | X | | 515,898 | 0 | 52,126 |
| (27) VIRGINIA POSEY<br>VP/PATIENT CARE | 40 00 | | | | | | X | 196,379 | 0 | 17,543 |
| (28) PATRICIA HARGER<br>VP STRATEGIC PLANNING | 40 00 | | | | | | X | 241,043 | 0 | 38,902 |
| **1b Sub-Total** . . . . . ▶ | | | | | | | | | | |
| **c Total from continuation sheets to Part VII, Section A** . . . . ▶ | | | | | | | | | | |
| **d Total (add lines 1b and 1c)** . . . . . ▶ | | | | | | | | 5,982,728 | 0 | 864,935 |

**2** Total number of individuals (including but not limited to those listed above) who received more than $100,000 in reportable compensation from the organization ▶ 255

| | | | Yes | No |
|---|---|---|---|---|
| **3** | Did the organization list any **former** officer, director or trustee, key employee, or highest compensated employee on line 1a? *If "Yes," complete Schedule J for such individual* . . . . . | **3** | Yes | |
| **4** | For any individual listed on line 1a, is the sum of reportable compensation and other compensation from the organization and related organizations greater than $150,000? *If "Yes," complete Schedule J for such individual* . . . . . | **4** | Yes | |
| **5** | Did any person listed on line 1a receive or accrue compensation from any unrelated organization or individual for services rendered to the organization? *If "Yes," complete Schedule J for such person* . . . . . | **5** | | No |

## Section B. Independent Contractors

**1** Complete this table for your five highest compensated independent contractors that received more than $100,000 of compensation from the organization

| (A) Name and business address | (B) Description of services | (C) Compensation |
|---|---|---|
| PHOENIX HEALTH SYSTEMS INC<br>1130 EAST ARAPAHO ROAD SUITE 500<br>RICHARDSON, TX 75081 | IT SUPPORT SERVICES | 4,598,962 |
| SOUND INPATIENT PHYSICIANS<br>1123 PACIFIC AVE<br>TACOMA, WA 98402 | HOSPITALIST COVERAGE | 1,561,079 |
| CSC AMERICAS OUTSOURCING<br>3170 FAIRVIEW PARK DRIVE<br>FALLS CHURCH, VA 22042 | IT SUPPORT SERVICES | 1,435,909 |
| SHIFTWISE<br>1800 SW 1ST AVE SUITE 510<br>PORTLAND, OR 97201 | CONTRACT LABOR | 1,338,610 |
| OREGON ANESTHESIOLOGY GROUP<br>120 NW 14TH AVE SUITE 300<br>PORTLAND, OR 97209 | ANESTHESIA COVERAGE | 1,272,371 |

**2** Total number of independent contractors (including but not limited to those listed above) who received more than $100,000 in compensation from the organization ▶ 45

## Part VIII Statement of Revenue

| | | | (A) Total revenue | (B) Related or exempt function revenue | (C) Unrelated business revenue | (D) Revenue excluded from tax under sections 512, 513, or 514 |
|---|---|---|---|---|---|---|
| Contributions, gifts, grants and other similar amounts | 1a Federated campaigns . . | 1a | | | | |
| | b Membership dues . . . . | 1b | | | | |
| | c Fundraising events . . . . | 1c | | | | |
| | d Related organizations . . . | 1d | 1,281,110 | | | |
| | e Government grants (contributions) | 1e | | | | |
| | f All other contributions, gifts, grants, and similar amounts not included above | 1f | 78,063 | | | |
| | g Noncash contributions included in lines 1a-1f $ | | | | | |
| | h **Total.** Add lines 1a-1f . . . . . ▶ | | 1,359,173 | | | |
| Program Service Revenue | | Business Code | | | | |
| | 2a PATIENT PAYMENTS | 621110 | 556,069,208 | 556,069,208 | | |
| | b PHARMACY | 446110 | 5,833,969 | 4,958,864 | 875,105 | |
| | c NUTRITION SERVICES | 722210 | 3,960,284 | 3,960,284 | | |
| | d OTHER HOSPITAL SERVICE | 900099 | 3,613,511 | 3,462,099 | 151,412 | |
| | e REGIONAL LAB | 621500 | 1,752,849 | 119,418 | 1,633,431 | |
| | f All other program service revenue | | | | | |
| | g **Total.** Add lines 2a–2f . . . . . ▶ | | 571,229,821 | | | |
| | 3 Investment income (including dividends, interest and other similar amounts) . . . . . ▶ | | 8,098,618 | | | 8,098,618 |
| | 4 Income from investment of tax-exempt bond proceeds . . ▶ | | | | | |
| | 5 Royalties . . . . . ▶ | | | | | |
| | | (i) Real | (ii) Personal | | | |
| | 6a Gross Rents | 1,291,713 | | | | |
| | b Less rental expenses | 980,494 | | | | |
| | c Rental income or (loss) | 311,219 | | | | |
| | d Net rental income or (loss) . . . . . ▶ | | 311,219 | | | 311,219 |
| | | (i) Securities | (ii) Other | | | |
| | 7a Gross amount from sales of assets other than inventory | 520,202 | 701,644 | | | |
| | b Less cost or other basis and sales expenses | | 449,304 | | | |
| | c Gain or (loss) | 520,202 | 252,340 | | | |
| | d Net gain or (loss) . . . . . ▶ | | 772,542 | | | 772,542 |
| Other Revenue | 8a Gross income from fundraising events (not including $ _____ of contributions reported on line 1c) See Part IV, line 18 . . . a | | | | | |
| | b Less direct expenses . . . b | | | | | |
| | c Net income or (loss) from fundraising events . . ▶ | | | | | |
| | 9a Gross income from gaming activities See Part IV, line 19 . a | | | | | |
| | b Less direct expenses . . . . . b | | | | | |
| | c Net income or (loss) from gaming activities . . ▶ | | | | | |
| | 10a Gross sales of inventory, less returns and allowances . a | | | | | |
| | b Less cost of goods sold . . b | | | | | |
| | c Net income or (loss) from sales of inventory . . ▶ | | | | | |
| | Miscellaneous Revenue | Business Code | | | | |
| | 11a PASSTHROUGH INCOME | 541900 | 956,940 | 954,209 | 2,731 | |
| | b | | | | | |
| | c | | | | | |
| | d All other revenue . . . . | | | | | |
| | e **Total.** Add lines 11a–11d . . . . . ▶ | | 956,940 | | | |
| | 12 **Total revenue.** See Instructions . . . ▶ | | 582,728,313 | 569,524,082 | 2,662,679 | 9,182,379 |

## Part IX Statement of Functional Expenses

**Section 501(c)(3) and 501(c)(4) organizations must complete all columns.**
**All other organizations must complete column (A) but are not required to complete columns (B), (C), and (D).**

| Do not include amounts reported on lines 6b, 7b, 8b, 9b, and 10b of Part VIII. | (A) Total expenses | (B) Program service expenses | (C) Management and general expenses | (D) Fundraising expenses |
|---|---|---|---|---|
| 1 Grants and other assistance to governments and organizations in the U S See Part IV, line 21 | 313,397 | 313,397 | | |
| 2 Grants and other assistance to individuals in the U S See Part IV, line 22 | | | | |
| 3 Grants and other assistance to governments, organizations, and individuals outside the U S See Part IV, lines 15 and 16 | | | | |
| 4 Benefits paid to or for members | | | | |
| 5 Compensation of current officers, directors, trustees, and key employees | 1,530,315 | | 1,530,315 | |
| 6 Compensation not included above, to disqualified persons (as defined under section 4958(f)(1)) and persons described in section 4958(c)(3)(B) | | | | |
| 7 Other salaries and wages | 216,352,683 | 198,227,784 | 18,124,899 | |
| 8 Pension plan contributions (include section 401(k) and section 403(b) employer contributions) | | | | |
| 9 Other employee benefits | 46,023,454 | 42,138,188 | 3,885,266 | |
| 10 Payroll taxes | 15,695,925 | 14,295,847 | 1,400,078 | |
| a Fees for services (non-employees) Management | 1,022,489 | 1,021,989 | 500 | |
| b Legal | 923,902 | 14,805 | 909,097 | |
| c Accounting | 350,752 | 25,000 | 325,752 | |
| d Lobbying | | | | |
| e Professional fundraising services *See Part IV, line 17* | | | | |
| f Investment management fees | 115,418 | | 115,418 | |
| g Other | 23,756,576 | 19,027,568 | 4,729,008 | |
| 12 Advertising and promotion | 536,278 | 1,788 | 534,490 | |
| 13 Office expenses | 21,948,673 | 4,053,847 | 17,894,826 | |
| 14 Information technology | 7,016,072 | 614,408 | 6,401,664 | |
| 15 Royalties | | | | |
| 16 Occupancy | 12,316,085 | 10,694,184 | 1,621,901 | |
| 17 Travel | 952,312 | 603,852 | 348,460 | |
| 18 Payments of travel or entertainment expenses for any federal, state, or local public officials | | | | |
| 19 Conferences, conventions, and meetings | 959,641 | 731,304 | 228,337 | |
| 20 Interest | 12,873,767 | 12,873,719 | 48 | |
| 21 Payments to affiliates | | | | |
| 22 Depreciation, depletion, and amortization | 41,572,280 | 41,572,280 | | |
| 23 Insurance | 3,746,861 | 3,746,861 | | |
| 24 Other expenses Itemize expenses not covered above (List miscellaneous expenses in line 24f If line 24f amount exceeds 10% of line 25, column (A) amount, list line 24f expenses on Schedule O ) | | | | |
| a PATIENT SUPPLIES | 90,496,326 | 89,712,121 | 784,205 | |
| b LOSS ON EXTINGUISHMENT | 33,668,797 | 33,668,797 | | |
| c OTHER PURCHASED SERVICE | 14,748,482 | 7,848,570 | 6,899,912 | |
| d RECRUITING | 2,184,233 | 43,706 | 2,140,527 | |
| e SPECIAL EVENTS | 684,157 | 268,505 | 415,652 | |
| f All other expenses | 1,680,106 | 524,831 | 1,155,275 | |
| 25 **Total functional expenses.** Add lines 1 through 24f | 551,468,981 | 482,023,351 | 69,445,630 | 0 |
| 26 **Joint costs.** Check here ▶ ☐ if following SOP 98-2 (ASC 958-720) Complete this line only if the organization reported in column (B) joint costs from a combined educational campaign and fundraising solicitation | | | | |

## Part X Balance Sheet

| | | | | (A) Beginning of year | | (B) End of year |
|---|---|---|---|---|---|---|
| Assets | 1 | Cash—non-interest-bearing | | 23,885 | 1 | 23,955 |
| | 2 | Savings and temporary cash investments | | 10,442,917 | 2 | 335,623 |
| | 3 | Pledges and grants receivable, net | | | 3 | |
| | 4 | Accounts receivable, net | | 69,787,450 | 4 | 71,683,333 |
| | 5 | Receivables from current and former officers, directors, trustees, key employees, and highest compensated employees Complete Part II of Schedule L | | | 5 | |
| | 6 | Receivables from other disqualified persons (as defined under section 4958(f)(1)), persons described in section 4958(c)(3)(B), and contributing employers, and sponsoring organizations of section 501(c)(9) voluntary employees' beneficiary organizations (see instructions) Schedule L | | | 6 | |
| | 7 | Notes and loans receivable, net | | 6,574,010 | 7 | 3,902,837 |
| | 8 | Inventories for sale or use | | 5,688,249 | 8 | 5,943,376 |
| | 9 | Prepaid expenses and deferred charges | | 7,003,379 | 9 | 6,208,152 |
| | 10a | Land, buildings, and equipment cost or other basis *Complete Part VI of Schedule D* | 10a 790,739,293 | | | |
| | b | Less accumulated depreciation | 10b 339,518,455 | 454,726,188 | 10c | 451,220,838 |
| | 11 | Investments—publicly traded securities | | 261,587,017 | 11 | 285,573,040 |
| | 12 | Investments—other securities See Part IV, line 11 | | | 12 | |
| | 13 | Investments—program-related See Part IV, line 11 | | 8,371,401 | 13 | 6,074,189 |
| | 14 | Intangible assets | | | 14 | |
| | 15 | Other assets See Part IV, line 11 | | 28,169,475 | 15 | 30,418,884 |
| | 16 | **Total assets.** Add lines 1 through 15 (must equal line 34) | | 852,373,971 | 16 | 861,384,227 |
| Liabilities | 17 | Accounts payable and accrued expenses | | 57,284,137 | 17 | 51,339,233 |
| | 18 | Grants payable | | | 18 | |
| | 19 | Deferred revenue | | | 19 | |
| | 20 | Tax-exempt bond liabilities | | 307,894,664 | 20 | 306,208,933 |
| | 21 | Escrow or custodial account liability *Complete Part IV of Schedule D* | | | 21 | |
| | 22 | Payables to current and former officers, directors, trustees, key employees, highest compensated employees, and disqualified persons *Complete Part II of Schedule L* | | | 22 | |
| | 23 | Secured mortgages and notes payable to unrelated third parties | | 3,235,865 | 23 | 2,064,133 |
| | 24 | Unsecured notes and loans payable to unrelated third parties | | | 24 | |
| | 25 | Other liabilities Complete Part X of Schedule D | | 29,070,699 | 25 | 34,383,774 |
| | 26 | **Total liabilities.** Add lines 17 through 25 | | 397,485,365 | 26 | 393,996,073 |
| Net Assets or Fund Balances | | **Organizations that follow SFAS 117, check here ▶ ☑ and complete lines 27 through 29, and lines 33 and 34.** | | | | |
| | 27 | Unrestricted net assets | | 452,984,797 | 27 | 465,602,946 |
| | 28 | Temporarily restricted net assets | | 1,903,809 | 28 | 1,785,208 |
| | 29 | Permanently restricted net assets | | | 29 | |
| | | **Organizations that do not follow SFAS 117, check here ▶ ☐ and complete lines 30 through 34.** | | | | |
| | 30 | Capital stock or trust principal, or current funds | | | 30 | |
| | 31 | Paid-in or capital surplus, or land, building or equipment fund | | | 31 | |
| | 32 | Retained earnings, endowment, accumulated income, or other funds | | | 32 | |
| | 33 | Total net assets or fund balances | | 454,888,606 | 33 | 467,388,154 |
| | 34 | Total liabilities and net assets/fund balances | | 852,373,971 | 34 | 861,384,227 |

## Part XI Reconcilliation of Net Assets

Check if Schedule O contains a response to any question in this Part XI . . . . . ☑

| | | | |
|---|---|---|---|
| 1 | Total revenue (must equal Part VIII, column (A), line 12) | 1 | 582,728,313 |
| 2 | Total expenses (must equal Part IX, column (A), line 25) | 2 | 551,468,981 |
| 3 | Revenue less expenses Subtract line 2 from line 1 | 3 | 31,259,332 |
| 4 | Net assets or fund balances at beginning of year (must equal Part X, line 33, column (A)) | 4 | 454,888,606 |
| 5 | Other changes in net assets or fund balances (explain in Schedule O) | 5 | -18,759,784 |
| 6 | Net assets or fund balances at end of year Combine lines 3, 4, and 5 (must equal Part X, line 33, column (B)) | 6 | 467,388,154 |

## Part XII Financial Statements and Reporting

Check if Schedule O contains a response to any question in this Part XII . . . . . ☑

| | | | Yes | No |
|---|---|---|---|---|
| 1 | Accounting method used to prepare the Form 990 ☐ Cash ☑ Accrual ☐ Other _____ If the organization changed its method of accounting from a prior year or checked "Other," explain in Schedule O | | | |
| 2a | Were the organization's financial statements compiled or reviewed by an independent accountant? | 2a | | No |
| b | Were the organization's financial statements audited by an independent accountant? | 2b | Yes | |
| c | If "Yes," to 2a or 2b, does the organization have a committee that assumes responsibility for oversight of the audit, review, or compilation of its financial statements and selection of an independent accountant? If the organization changed either its oversight process or selection process during the tax year, explain in Schedule O | 2c | Yes | |
| d | If "Yes" to line 2a or 2b, check a box below to indicate whether the financial statements for the year were issued on a separate basis, consolidated basis, or both ☐ Separate basis ☑ Consolidated basis ☐ Both consolidated and separated basis | | | |
| 3a | As a result of a federal award, was the organization required to undergo an audit or audits as set forth in the Single Audit Act and OMB Circular A-133? | 3a | | No |
| b | If "Yes," did the organization undergo the required audit or audits? If the organization did not undergo the required audit or audits, explain why in Schedule O and describe any steps taken to undergo such audits | 3b | | |

efile GRAPHIC print - DO NOT PROCESS | As Filed Data - | DLN: 93493227037852

# SCHEDULE A (Form 990 or 990EZ)

Department of the Treasury
Internal Revenue Service

## Public Charity Status and Public Support

**Complete if the organization is a section 501(c)(3) organization or a section 4947(a)(1) nonexempt charitable trust.**

▶ **Attach to Form 990 or Form 990-EZ.** ▶ **See separate instructions.**

OMB No 1545-0047

**2010**

**Open to Public Inspection**

Name of the organization
SALEM HOSPITAL

**Employer identification number**
93-0579722

**Part I Reason for Public Charity Status** (All organizations must complete this part.) See instructions

The organization is not a private foundation because it is (For lines 1 through 11, check only one box )

1 ☐ A church, convention of churches, or association of churches described in **section 170(b)(1)(A)(i).**

2 ☐ A school described in **section 170(b)(1)(A)(ii).** (Attach Schedule E )

3 ☑ A hospital or a cooperative hospital service organization described in **section 170(b)(1)(A)(iii).**

4 ☐ A medical research organization operated in conjunction with a hospital described in **section 170(b)(1)(A)(iii).** Enter the hospital's name, city, and state

_____

5 ☐ An organization operated for the benefit of a college or university owned or operated by a governmental unit described in **section 170(b)(1)(A)(iv).** (Complete Part II )

6 ☐ A federal, state, or local government or governmental unit described in **section 170(b)(1)(A)(v).**

7 ☐ An organization that normally receives a substantial part of its support from a governmental unit or from the general public described in **section 170(b)(1)(A)(vi)** (Complete Part II )

8 ☐ A community trust described in **section 170(b)(1)(A)(vi)** (Complete Part II )

9 ☐ An organization that normally receives (1) more than 33 1/3% of its support from contributions, membership fees, and gross receipts from activities related to its exempt functions—subject to certain exceptions, and (2) no more than 33 1/3% of its support from gross investment income and unrelated business taxable income (less section 511 tax) from businesses acquired by the organization after June 30, 1975 See **section 509(a)(2).** (Complete Part III )

10 ☐ An organization organized and operated exclusively to test for public safety See **section 509(a)(4).**

11 ☐ An organization organized and operated exclusively for the benefit of, to perform the functions of, or to carry out the purposes of one or more publicly supported organizations described in section 509(a)(1) or section 509(a)(2) See **section 509(a)(3).** Check the box that describes the type of supporting organization and complete lines 11e through 11h

**a** ☐ Type I **b** ☐ Type II **c** ☐ Type III - Functionally integrated **d** ☐ Type III - Other

**e** ☐ By checking this box, I certify that the organization is not controlled directly or indirectly by one or more disqualified persons other than foundation managers and other than one or more publicly supported organizations described in section 509(a)(1) or section 509(a)(2)

**f** If the organization received a written determination from the IRS that it is a Type I, Type II or Type III supporting organization, check this box ☐

**g** Since August 17, 2006, has the organization accepted any gift or contribution from any of the following persons?

| | Yes | No |
|---|---|---|
| **(i)** a person who directly or indirectly controls, either alone or together with persons described in (ii) and (iii) below, the governing body of the the supported organization? **11g(i)** | | |
| **(ii)** a family member of a person described in (i) above? **11g(ii)** | | |
| **(iii)** a 35% controlled entity of a person described in (i) or (ii) above? **11g(iii)** | | |

**h** Provide the following information about the supported organization(s)

| (i) Name of supported organization | (ii) EIN | (iii) Type of organization (described on lines 1- 9 above or IRC section (see instructions)) | (iv) Is the organization in col (i) listed in your governing document? Yes | (iv) No | (v) Did you notify the organization in col (i) of your support? Yes | (v) No | (vi) Is the organization in col (i) organized in the U S ? Yes | (vi) No | (vii) Amount of support |
|---|---|---|---|---|---|---|---|---|---|
| | | | | | | | | | |
| | | | | | | | | | |
| | | | | | | | | | |
| | | | | | | | | | |
| | | | | | | | | | |
| **Total** | | | | | | | | | |

**Part II** **Support Schedule for Organizations Described in Sections 170(b)(1)(A)(iv) and 170(b)(1)(A)(vi)**

(Complete only if you checked the box on line 5, 7, or 8 of Part I or if the organization failed to qualify under Part III. If the organization fails to qualify under the tests listed below, please complete Part III.)

## Section A. Public Support

| Calendar year (or fiscal year beginning in) ▶ | (a) 2006 | (b) 2007 | (c) 2008 | (d) 2009 | (e) 2010 | (f) Total |
|---|---|---|---|---|---|---|
| 1 Gifts, grants, contributions, and membership fees received (Do not include any "unusual grants ") | | | | | | |
| 2 Tax revenues levied for the organization's benefit and either paid to or expended on its behalf | | | | | | |
| 3 The value of services or facilities furnished by a governmental unit to the organization without charge | | | | | | |
| 4 **Total.** Add lines 1 through 3 | | | | | | |
| 5 The portion of total contributions by each person (other than a governmental unit or publicly supported organization) included on line 1 that exceeds 2% of the amount shown on line 11, column (f) | | | | | | |
| 6 **Public Support.** Subtract line 5 from line 4 | | | | | | |

## Section B. Total Support

| Calendar year (or fiscal year beginning in) ▶ | (a) 2006 | (b) 2007 | (c) 2008 | (d) 2009 | (e) 2010 | (f) Total |
|---|---|---|---|---|---|---|
| 7 Amounts from line 4 | | | | | | |
| 8 Gross income from interest, dividends, payments received on securities loans, rents, royalties and income from similar sources | | | | | | |
| 9 Net income from unrelated business activities, whether or not the business is regularly carried on | | | | | | |
| 10 Other income Do not include gain or loss from the sale of capital assets (Explain in Part IV ) | | | | | | |
| 11 **Total support** (Add lines 7 through 10) | | | | | | |

12 Gross receipts from related activities, etc (See instructions ) **12**

13 **First Five Years** If the Form 990 is for the organization's first, second, third, fourth, or fifth tax year as a 501(c)(3) organization, check this box and **stop here** ▶☐

## Section C. Computation of Public Support Percentage

14 Public Support Percentage for 2010 (line 6 column (f) divided by line 11 column (f)) **14**

15 Public Support Percentage for 2009 Schedule A, Part II, line 14 **15**

16a **33 1/3% support test—2010.** If the organization did not check the box on line 13, and line 14 is 33 1/3% or more, check this box and **stop here.** The organization qualifies as a publicly supported organization ▶☐

b **33 1/3% support test—2009.** If the organization did not check the box on line 13 or 16a, and line 15 is 33 1/3% or more, check this box and **stop here.** The organization qualifies as a publicly supported organization ▶☐

17a **10%-facts-and-circumstances test—2010.** If the organization did not check a box on line 13, 16a, or 16b and line 14 is 10% or more, and if the organization meets the "facts and circumstances" test, check this box and **stop here.** Explain in Part IV how the organization meets the "facts and circumstances" test The organization qualifies as a publicly supported organization ▶☐

b **10%-facts-and-circumstances test—2009.** If the organization did not check a box on line 13, 16a, 16b, or 17a and line 15 is 10% or more, and if the organization meets the "facts and circumstances" test, check this box and **stop here.** Explain in Part IV how the organization meets the "facts and circumstances" test The organization qualifies as a publicly supported organization ▶☐

18 **Private Foundation** If the organization did not check a box on line 13, 16a, 16b, 17a or 17b, check this box and see instructions ▶☐

**Part III** **Support Schedule for Organizations Described in Section 509(a)(2)**
(Complete only if you checked the box on line 9 of Part I or if the organization failed to qualify under Part II. If the organization fails to qualify under the tests listed below, please complete Part II.)

## Section A. Public Support

| **Calendar year** (or fiscal year beginning in) ▶ | **(a)** 2006 | **(b)** 2007 | **(c)** 2008 | **(d)** 2009 | **(e)** 2010 | **(f)** Total |
|---|---|---|---|---|---|---|
| **1** Gifts, grants, contributions, and membership fees received (Do not include any "unusual grants ") | | | | | | |
| **2** Gross receipts from admissions, merchandise sold or services performed, or facilities furnished in any activity that is related to the organization's tax-exempt purpose | | | | | | |
| **3** Gross receipts from activities that are not an unrelated trade or business under section 513 | | | | | | |
| **4** Tax revenues levied for the organization's benefit and either paid to or expended on its behalf | | | | | | |
| **5** The value of services or facilities furnished by a governmental unit to the organization without charge | | | | | | |
| **6** **Total.** Add lines 1 through 5 | | | | | | |
| **7a** Amounts included on lines 1, 2, and 3 received from disqualified persons | | | | | | |
| **b** Amounts included on lines 2 and 3 received from other than disqualified persons that exceed the greater of $5,000 or 1% of the amount on line 13 for the year | | | | | | |
| **c** Add lines 7a and 7b | | | | | | |
| **8** **Public Support** (Subtract line 7c from line 6 ) | | | | | | |

## Section B. Total Support

| **Calendar year** (or fiscal year beginning in) | **(a)** 2006 | **(b)** 2007 | **(c)** 2008 | **(d)** 2009 | **(e)** 2010 | **(f)** Total |
|---|---|---|---|---|---|---|
| **9** Amounts from line 6 | | | | | | |
| **10a** Gross income from interest, dividends, payments received on securities loans, rents, royalties and income from similar sources | | | | | | |
| **b** Unrelated business taxable income (less section 511 taxes) from businesses acquired after June 30, 1975 | | | | | | |
| **c** Add lines 10a and 10b | | | | | | |
| **11** Net income from unrelated business activities not included in line 10b, whether or not the business is regularly carried on | | | | | | |
| **12** Other income Do not include gain or loss from the sale of capital assets (Explain in Part IV ) | | | | | | |
| **13** **Total support** (Add lines 9, 10c, 11 and 12 ) | | | | | | |

**14** **First Five Years** If the Form 990 is for the organization's first, second, third, fourth, or fifth tax year as a section501(c)(3) organization, check this box and **stop here** ▶☐

## Section C. Computation of Public Support Percentage

| | | | |
|---|---|---|---|
| **15** | Public Support Percentage for 2010 (line 8 column (f) divided by line 13 column (f)) | **15** | |
| **16** | Public support percentage from 2009 Schedule A, Part III, line 15 | **16** | |

## Section D. Computation of Investment Income Percentage

| | | | |
|---|---|---|---|
| **17** | Investment income percentage for **2010** (line 10c column (f) divided by line 13 column (f)) | **17** | |
| **18** | Investment income percentage from **2009** Schedule A, Part III, line 17 | **18** | |

**19a** **33 1/3% support tests—2010.** If the organization did not check the box on line 14, and line 15 is more than 33 1/3% and line 17 is not more than 33 1/3%, check this box and **stop here.** The organization qualifies as a publicly supported organization ▶☐

**b** **33 1/3% support tests—2009.** If the organization did not check a box on line 14 or line 19a, and line 16 is more than 33 1/3% and line 18 is not more than 33 1/3%, check this box and **stop here.** The organization qualifies as a publicly supported organization ▶☐

**20** **Private Foundation** If the organization did not check a box on line 14, 19a or 19b, check this box and see instructions ▶☐

**Part IV** **Supplemental Information.** Supplemental Information. Complete this part to provide the explanations required by Part II, line 10; Part II, line 17a or 17b; and Part III, line 12. Also complete this part for any additional information. (See instructions).

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**SCHEDULE D** (Form 990)

Department of the Treasury
Internal Revenue Service

# Supplemental Financial Statements

▶ Complete if the organization answered "Yes," to Form 990, Part IV, line 6, 7, 8, 9, 10, 11, or 12.
▶ Attach to Form 990. ▶ See separate instructions.

OMB No 1545-0047

**2010**

**Open to Public Inspection**

**Name of the organization**
SALEM HOSPITAL

**Employer identification number**
93-0579722

## Part I Organizations Maintaining Donor Advised Funds or Other Similar Funds or Accounts. Complete if the organization answered "Yes" to Form 990, Part IV, line 6.

| | | (a) Donor advised funds | (b) Funds and other accounts |
|---|---|---|---|
| 1 | Total number at end of year | | |
| 2 | Aggregate contributions to (during year) | | |
| 3 | Aggregate grants from (during year) | | |
| 4 | Aggregate value at end of year | | |

5 Did the organization inform all donors and donor advisors in writing that the assets held in donor advised funds are the organization's property, subject to the organization's exclusive legal control? ☐ Yes ☐ No

6 Did the organization inform all grantees, donors, and donor advisors in writing that grant funds may be used only for charitable purposes and not for the benefit of the donor or donor advisor, or for any other purpose conferring impermissible private benefit ☐ Yes ☐ No

## Part II Conservation Easements. Complete if the organization answered "Yes" to Form 990, Part IV, line 7.

1 Purpose(s) of conservation easements held by the organization (check all that apply)
☐ Preservation of land for public use (e g , recreation or pleasure)
☐ Preservation of an historically importantly land area
☐ Protection of natural habitat
☐ Preservation of a certified historic structure
☐ Preservation of open space

2 Complete lines 2a–2d if the organization held a qualified conservation contribution in the form of a conservation easement on the last day of the tax year

| | | | Held at the End of the Year |
|---|---|---|---|
| a | Total number of conservation easements | 2a | |
| b | Total acreage restricted by conservation easements | 2b | |
| c | Number of conservation easements on a certified historic structure included in (a) | 2c | |
| d | Number of conservation easements included in (c) acquired after 8/17/06 | 2d | |

3 Number of conservation easements modified, transferred, released, extinguished, or terminated by the organization during the taxable year ▶ _____

4 Number of states where property subject to conservation easement is located ▶ _____

5 Does the organization have a written policy regarding the periodic monitoring, inspection, handling of violations, and enforcement of the conservation easements it holds? ☐ Yes ☐ No

6 Staff and volunteer hours devoted to monitoring, inspecting and enforcing conservation easements during the year ▶ _____

7 Amount of expenses incurred in monitoring, inspecting, and enforcing conservation easements during the year ▶ $ _____

8 Does each conservation easement reported on line 2(d) above satisfy the requirements of section 170(h)(4)(B)(i) and 170(h)(4)(B)(ii)? ☐ Yes ☐ No

9 In Part XIV, describe how the organization reports conservation easements in its revenue and expense statement, and balance sheet, and include, if applicable, the text of the footnote to the organization's financial statements that describes the organization's accounting for conservation easements

## Part III Organizations Maintaining Collections of Art, Historical Treasures, or Other Similar Assets. Complete if the organization answered "Yes" to Form 990, Part IV, line 8.

1a If the organization elected, as permitted under SFAS 116, not to report in its revenue statement and balance sheet works of art, historical treasures, or other similar assets held for public exhibition, education or research in furtherance of public service, provide, in Part XIV, the text of the footnote to its financial statements that describes these items

b If the organization elected, as permitted under SFAS 116, to report in its revenue statement and balance sheet works of art, historical treasures, or other similar assets held for public exhibition, education, or research in furtherance of public service, provide the following amounts relating to these items

(i) Revenues included in Form 990, Part VIII, line 1 ▶ $ _____

(ii) Assets included in Form 990, Part X ▶ $ _____

2 If the organization received or held works of art, historical treasures, or other similar assets for financial gain, provide the following amounts required to be reported under SFAS 116 relating to these items

a Revenues included in Form 990, Part VIII, line 1 ▶ $ _____

b Assets included in Form 990, Part X ▶ $ _____

## Part III Organizations Maintaining Collections of Art, Historical Treasures, or Other Similar Assets *(continued)*

3 Using the organization's accession and other records, check any of the following that are a significant use of its collection items (check all that apply)

- a ☐ Public exhibition
- b ☐ Scholarly research
- c ☐ Preservation for future generations
- d ☐ Loan or exchange programs
- e ☐ Other

4 Provide a description of the organization's collections and explain how they further the organization's exempt purpose in Part XIV

5 During the year, did the organization solicit or receive donations of art, historical treasures or other similar assets to be sold to raise funds rather than to be maintained as part of the organization's collection? ☐ Yes ☐ No

## Part IV Escrow and Custodial Arrangements. Complete if the organization answered "Yes" to Form 990, Part IV, line 9, or reported an amount on Form 990, Part X, line 21.

1a Is the organization an agent, trustee, custodian or other intermediary for contributions or other assets not included on Form 990, Part X? ☐ Yes ☐ No

b If "Yes," explain the arrangement in Part XIV and complete the following table

| | | Amount |
|---|---|---|
| c Beginning balance | 1c | |
| d Additions during the year | 1d | |
| e Distributions during the year | 1e | |
| f Ending balance | 1f | |

2a Did the organization include an amount on Form 990, Part X, line 21? ☐ Yes ☐ No

b If "Yes," explain the arrangement in Part XIV

## Part V Endowment Funds. Complete if the organization answered "Yes" to Form 990, Part IV, line 10.

| | (a) Current Year | (b) Prior Year | (c) Two Years Back | (d) Three Years Back | (e) Four Years Back |
|---|---|---|---|---|---|
| 1a Beginning of year balance | 1,903,809 | 2,363,674 | 3,255,208 | | |
| b Contributions | | 527,436 | 987,591 | | |
| c Investment earnings or losses | -118,601 | 246,579 | 57,741 | | |
| d Grants or scholarships | | | | | |
| e Other expenditures for facilities and programs | | 1,233,880 | 1,936,866 | | |
| f Administrative expenses | | | | | |
| g End of year balance | 1,785,208 | 1,903,809 | 2,363,674 | | |

2 Provide the estimated percentage of the year end balance held as

- a Board designated or quasi-endowment ▶ 100 000 %
- b Permanent endowment ▶
- c Term endowment ▶

3a Are there endowment funds not in the possession of the organization that are held and administered for the organization by

| | | Yes | No |
|---|---|---|---|
| (i) unrelated organizations | 3a(i) | | No |
| (ii) related organizations | 3a(ii) | Yes | |
| b If "Yes" to 3a(ii), are the related organizations listed as required on Schedule R? | 3b | Yes | |

4 Describe in Part XIV the intended uses of the organization's endowment funds

## Part VI Investments—Land, Buildings, and Equipment. See Form 990, Part X, line 10.

| Description of investment | (a) Cost or other basis (investment) | (b) Cost or other basis (other) | (c) Accumulated depreciation | (d) Book value |
|---|---|---|---|---|
| 1a Land | | 23,127,024 | | 23,127,024 |
| b Buildings | 16,588,634 | 459,941,721 | 135,410,337 | 341,120,018 |
| c Leasehold improvements | | | | |
| d Equipment | | 272,577,513 | 200,265,653 | 72,311,860 |
| e Other | | 18,504,401 | 3,842,465 | 14,661,936 |
| **Total.** Add lines 1a-1e *(Column (d) should equal Form 990, Part X, column (B), line 10(c).)* ▶ | | | | 451,220,838 |

**Part VII Investments—Other Securities.** See Form 990, Part X, line 12.

| (a) Description of security or category (including name of security) | (b) Book value | (c) Method of valuation Cost or end-of-year market value |
|---|---|---|
| (1) Financial derivatives | | |
| (2) Closely-held equity interests | | |
| Other | | |
| | | |
| | | |
| | | |
| | | |
| | | |
| | | |
| | | |
| | | |
| **Total.** *(Column (b) should equal Form 990, Part X, col (B) line 12 )* ▶ | | |

**Part VIII Investments—Program Related.** See Form 990, Part X, line 13.

| (a) Description of investment type | (b) Book value | (c) Method of valuation Cost or end-of-year market value |
|---|---|---|
| | | |
| | | |
| | | |
| | | |
| | | |
| | | |
| | | |
| | | |
| | | |
| | | |
| **Total.** *(Column (b) should equal Form 990, Part X, col (B) line 13 )* ▶ | | |

**Part IX Other Assets.** See Form 990, Part X, line 15.

| (a) Description | (b) Book value |
|---|---|
| | |
| | |
| | |
| | |
| | |
| | |
| | |
| | |
| | |
| **Total.** *(Column (b) should equal Form 990, Part X, col.(B) line 15.)* . . . . . ▶ | |

**Part X Other Liabilities.** See Form 990, Part X, line 25.

| 1 (a) Description of Liability | (b) Amount |
|---|---|
| Federal Income Taxes | |
| FAIR VALUE INTEREST RATE SWAP AGREEMENT | 17,912,224 |
| ACCRUED POST RETIREMENT HEALTHCARE BENEFITS | 7,920,595 |
| ACCRUED MALPRACTICE INSURANCE | 4,597,467 |
| ESTIMATED LIABILITY TO MEDICARE | 3,868,731 |
| DUE TO SALEM HEALTH | 49,141 |
| OTHER LONG-TERM LIABILITIES | 35,616 |
| | |
| | |
| | |
| **Total.** *(Column (b) should equal Form 990, Part X, col (B) line 25 )* ▶ | 34,383,774 |

**2.** Fin 48 (ASC 740) Footnote In Part XIV, provide the text of the footnote to the organization's financial statements that reports the organization's liability for uncertain tax positions under FIN 48 (ASC740)

## Part XI Reconciliation of Change in Net Assets from Form 990 to Financial Statements

| | | | |
|---|---|---|---|
| 1 | Total revenue (Form 990, Part VIII, column (A), line 12) | 1 | 582,728,313 |
| 2 | Total expenses (Form 990, Part IX, column (A), line 25) | 2 | 551,468,981 |
| 3 | Excess or (deficit) for the year Subtract line 2 from line 1 | 3 | 31,259,332 |
| 4 | Net unrealized gains (losses) on investments | 4 | -11,566,383 |
| 5 | Donated services and use of facilities | 5 | |
| 6 | Investment expenses | 6 | |
| 7 | Prior period adjustments | 7 | |
| 8 | Other (Describe in Part XIV) | 8 | -7,193,401 |
| 9 | Total adjustments (net) Add lines 4 - 8 | 9 | -18,759,784 |
| 10 | Excess or (deficit) for the year per financial statements Combine lines 3 and 9 | 10 | 12,499,548 |

## Part XII Reconciliation of Revenue per Audited Financial Statements With Revenue per Return

| | | | | | |
|---|---|---|---|---|---|
| 1 | Total revenue, gains, and other support per audited financial statements | | | 1 | 587,896,035 |
| 2 | Amounts included on line 1 but not on Form 990, Part VIII, line 12 | | | | |
| a | Net unrealized gains on investments | 2a | | | |
| b | Donated services and use of facilities | 2b | | | |
| c | Recoveries of prior year grants | 2c | | | |
| d | Other (Describe in Part XIV) | 2d | 5,283,140 | | |
| e | Add lines **2a** through **2d** | | | 2e | 5,283,140 |
| 3 | Subtract line **2e** from line **1** | | | 3 | 582,612,895 |
| 4 | Amounts included on Form 990, Part VIII, line 12, but not on line **1** | | | | |
| a | Investment expenses not included on Form 990, Part VIII, line 7b | 4a | 115,418 | | |
| b | Other (Describe in Part XIV) | 4b | | | |
| c | Add lines **4a** and **4b** | | | 4c | 115,418 |
| 5 | Total Revenue Add lines **3** and **4c.** (This should equal Form 990, Part I, line 12 ) | | | 5 | 582,728,313 |

## Part XIII Reconciliation of Expenses per Audited Financial Statements With Expenses per Return

| | | | | | |
|---|---|---|---|---|---|
| 1 | Total expenses and losses per audited financial statements | | | 1 | 575,396,487 |
| 2 | Amounts included on line 1 but not on Form 990, Part IX, line 25 | | | | |
| a | Donated services and use of facilities | 2a | | | |
| b | Prior year adjustments | 2b | | | |
| c | Other losses | 2c | | | |
| d | Other (Describe in Part XIV) | 2d | 24,042,924 | | |
| e | Add lines **2a** through **2d** | | | 2e | 24,042,924 |
| 3 | Subtract line **2e** from line **1** | | | 3 | 551,353,563 |
| 4 | Amounts included on Form 990, Part IX, line 25, but not on line **1:** | | | | |
| a | Investment expenses not included on Form 990, Part VIII, line 7b | 4a | 115,418 | | |
| b | Other (Describe in Part XIV) | 4b | | | |
| c | Add lines **4a** and **4b** | | | 4c | 115,418 |
| 5 | Total expenses Add lines **3** and **4c.** (This should equal Form 990, Part I, line 18 ) | | | 5 | 551,468,981 |

## Part XIV Supplemental Information

Complete this part to provide the descriptions required for Part II, lines 3, 5, and 9, Part III, lines 1a and 4, Part IV, lines 1b and 2b, Part V, line 4, Part X, Part XI, line 8, Part XII, lines 2d and 4b, and Part XIII, lines 2d and 4b Also complete this part to provide any additional information

| Identifier | Return Reference | Explanation |
|---|---|---|
| DESCRIPTION OF INTENDED USE OF ENDOWMENT FUNDS | PART V, LINE 4 | ENDOWMENT FUNDS ARE HELD BY SALEM HOSPITAL FOUNDATION FOR SALEM HOSPITAL SUPPORT |
| PART XI, LINE 8 - OTHER ADJUSTMENTS | | CHANGE IN FAIR VALUE OF INTEREST RATE SWAP AGREEMENT -3,490,707 CHANGE IN NET BENEFIT COST -666,155 CHANGE IN BENEFICIAL INTEREST IN FOUNDATION -118,601 GAIN ON DISCONTINUED OPERATIONS 388,729 EQUITY TRANSFERS -3,306,667 |
| PART XII, LINE 2D - OTHER ADJUSTMENTS | | REIMBURSEMENTS TREATED AS REVENUE ON FINANCIAL STATEMENT 4,894,411 DISCONTINUED OPERATIONS 388,729 |
| PART XIII, LINE 2D - OTHER ADJUSTMENTS | | CHANGE IN FAIR VALUE OF INTEREST RATE SWAP AGREEMENT 3,490,707 CHANGE IN POSTRETIREMENT BENEFIT OBLIGATION 666,155 NET UNREALIZED LOSS ON INVESTMENTS 11,566,383 EQUITY TRANSFERS 3,306,667 REIMBURSEMENTS TREATED AS REVENUE ON FINANCIAL STATEMENT 4,894,411 CHANGE IN BENEFICIAL INTEREST IN FOUNDATION 118,601 |

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SCHEDULE H (Form 990)

Department of the Treasury
Internal Revenue Service

# Hospitals

▶ Complete if the organization answered "Yes" to Form 990, Part IV, question 20.
▶ Attach to Form 990. ▶ See separate instructions.

OMB No 1545-0047

2010

Open to Public Inspection

**Name of the organization**
SALEM HOSPITAL

**Employer identification number**
93-0579722

## Part I Financial Assistance and Certain Other Community Benefits at Cost

| | | | Yes | No |
|---|---|---|---|---|
| 1a | Did the organization have a financial assistance policy during the tax year? If "No," skip to question 6a . | 1a | Yes | |
| b | If "Yes," is it a written policy? . . . . . | 1b | Yes | |
| 2 | If the organization has multiple hospitals, indicate which of the following best describes application of the financial assistance policy to its various hospital facilities during the tax year<br>☑ Applied uniformly to all hospitals ☐ Applied uniformly to most hospitals<br>☐ Generally tailored to individual hospitals | | | |
| 3 | Answer the following based on the the financial assistance eligibility criteria that applied to the largest number of the organization's patients during the tax year | | | |
| a | Does the organization use Federal Poverty Guidelines (FPG) to determine eligibility for providing *free* care to low income individuals? If "Yes," indicate which of the following is the FPG family income limit for eligibility for free care<br>☐ 100% ☐ 150% ☑ 200% ☐ Other ____ % | 3a | Yes | |
| b | Does the organization use FPG to determine eligibility for providing *discounted* care to low income individuals? If "Yes," indicate which of the following is the family income limit for eligibility for discounted care . . . . .<br>☐ 200% ☐ 250% ☐ 300% ☐ 350% ☑ 400% ☐ Other ____ % | 3b | Yes | |
| c | If the organization does not use FPG to determine eligibility, describe in Part VI the income based criteria for determining eligibility for free or discounted care Include in the description whether the organization uses an asset test or other threshold, regardless of income, to determine eligibility for free or discounted care | | | |
| 4 | Did the organization's financial assistance policy that applied to the largest number of its patients during the tax year provide for free or discounted care to the "medically indigent"? . . . . . | 4 | Yes | |
| 5a | Did the organization budget amounts for free or discounted care provided under its financial assistance policy during the tax year? . . . | 5a | Yes | |
| b | If "Yes," did the organization's financial assistance expenses exceed the budgeted amount? . . . . | 5b | Yes | |
| c | If "Yes" to line 5b, as a result of budget considerations, was the organization unable to provide free or discounted care to a patient who was eligibile for free or discounted care? . . . . . | 5c | | No |
| 6a | Does the organization prepare a community benefit report during the tax year? . . . . . | 6a | Yes | |
| 6b | If "Yes," did the organization make it available to the public? . . . . . | 6b | Yes | |
| | Complete the following table using the worksheets provided in the Schedule H instructions Do not submit these worksheets with the Schedule H | | | |

**7** Financial Assistance and Certain Other Community Benefits at Cost

| Financial Assistance and Means-Tested Government Programs | (a) Number of activities or programs (optional) | (b) Persons served (optional) | (c) Total community benefit expense | (d) Direct offsetting revenue | (e) Net community benefit expense | (f) Percent of total expense |
|---|---|---|---|---|---|---|
| a Financial Assistance at cost (from Worksheets 1 and 2) | | 57,498 | 37,609,785 | | 37,609,785 | 7 260 % |
| b Unreimbursed Medicaid (from Worksheet 3, column a) | | 69,279 | 81,279,716 | 63,682,316 | 17,597,400 | 3 400 % |
| c Unreimbursed costs—other means-tested government programs (from Worksheet 3, column b) | | | | | | |
| d **Total** Financial Assistance and Means-Tested Government Programs | | 126,777 | 118,889,501 | 63,682,316 | 55,207,185 | 10 660 % |
| **Other Benefits** | | | | | | |
| e Community health improvement services and community benefit operations (from (Worksheet 4) | | 577,404 | 2,880,195 | 68,919 | 2,811,276 | 0 540 % |
| f Health professions education (from Worksheet 5) | | | 1,129,577 | 0 | 1,129,577 | 0 220 % |
| g Subsidized health services (from Worksheet 6) | | | 15,451,687 | 9,127,713 | 6,323,974 | 1 220 % |
| h Research (from Worksheet 7) | | | 2,199,800 | | 2,199,800 | 0 420 % |
| i Cash and in-kind contributions to community groups (from Worksheet 8) | | | 794,442 | 8,792 | 785,650 | 0 150 % |
| j **Total** Other Benefits | | 577,404 | 22,455,701 | 9,205,424 | 13,250,277 | 2 550 % |
| k **Total.** Add lines 7d and 7j | | 704,181 | 141,345,202 | 72,887,740 | 68,457,462 | 13 210 % |

**Part II** **Community Building Activities** during the tax year, and describe in Part VI how its community building activities during the tax year, and describe in Part VI how its community building activities promoted the health of the communities it serves.

| | | (a) Number of activities or programs (optional) | (b) Persons served (optional) | (c) Total community building expense | (d) Direct offsetting revenue | (e) Net community building expense | (f) Percent of total expense |
|---|---|---|---|---|---|---|---|
| 1 | Physical improvements and housing | | | | | | |
| 2 | Economic development | | | | | | |
| 3 | Community support | | | | | | |
| 4 | Environmental improvements | | | | | | |
| 5 | Leadership development and training for community members | | | | | | |
| 6 | Coalition building | | | | | | |
| 7 | Community health improvement advocacy | | | | | | |
| 8 | Workforce development | | | 417,478 | | 417,478 | 0 080 % |
| 9 | Other | | | | | | |
| 10 | **Total** | | | 417,478 | | 417,478 | 0 080 % |

**Part III** **Bad Debt, Medicare, & Collection Practices**

**Section A. Bad Debt Expense**

| | | | | Yes | No |
|---|---|---|---|---|---|
| 1 | Did the organization report bad debt expense in accordance with Healthcare Financial Management Association Statement No 15? | 1 | | | No |
| 2 | Enter the amount of the organization's bad debt expense (at cost) | 2 | 15,012,638 | | |
| 3 | Enter the estimated amount of the organization's bad debt expense (at cost) attributable to patients eligible under the organization's financial assistance policy | 3 | | | |
| 4 | Provide in Part VI the text of the footnote to the organization's financial statements that describes bad debt expense In addition, describe the costing methodology used in determining the amounts reported on lines 2 and 3, and rationale for including a portion of bad debt amounts as community benefit | | | | |

**Section B. Medicare**

| | | | |
|---|---|---|---|
| 5 | Enter total revenue received from Medicare (including DSH and IME) | 5 | 77,012,846 |
| 6 | Enter Medicare allowable costs of care relating to payments on line 5 | 6 | 94,969,246 |
| 7 | Subtract line 6 from line 5 This is the surplus or (shortfall) | 7 | -17,956,400 |
| 8 | Describe in Part VI the extent to which any shortfall reported in line 7 should be treated as community benefit Also describe in Part VI the costing methodology or source used to determine the amount reported on line 6 Check the box that describes the method used | | |

☑ Cost accounting system ☐ Cost to charge ratio ☐ Other

**Section C. Collection Practices**

| | | | | | |
|---|---|---|---|---|---|
| 9a | Does the organization have a written debt collection policy? | 9a | Yes | | |
| b | If "Yes," does the organization's collection policy contain provisions on the collection practices to be followed for patients who are known to qualify for charity care or financial assistance? Describe in Part VI | 9b | Yes | | |

**Part IV** **Management Companies and Joint Ventures**

| | (a) Name of entity | (b) Description of primary activity of entity | (c) Organization's profit % or stock ownership % | (d) Officers, directors, trustees, or key employees' profit % or stock ownership% | (e) Physicians' profit % or stock ownership % |
|---|---|---|---|---|---|
| 1 | 1 OREGON COMMUNITY IMAGING LLC | MEDICAL IMAGING COOPERATIVE | 50 000 % | 0 % | 50 000 % |
| 2 | | | | | |
| 3 | | | | | |
| 4 | | | | | |
| 5 | | | | | |
| 6 | | | | | |
| 7 | | | | | |
| 8 | | | | | |
| 9 | | | | | |
| 10 | | | | | |
| 11 | | | | | |
| 12 | | | | | |
| 13 | | | | | |

## Part V Facility Information

### Section A. Hospital Facilities

(list in order of size, measured by total revenue per facility, from largest to smallest)

How many hospital facilities did the organization operate during the tax year? 1

| | Name and address | Licensed hospital | General medical & surgical | Children's hospital | Teaching hospital | Critical access hospital | Research facility | ER-24 hours | ER-other | Other (Describe) |
|---|---|---|---|---|---|---|---|---|---|---|
| 1 | SALEM HOSPITAL<br>890 OAK STREET SE<br>SALEM,OR 97301 | X | X | | | | | X | | |
| | | | | | | | | | | |
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**Part V** **Facility Information** *(continued)*

**Section C. Other Facilities That Are Not Licensed, Registered, or Similarly Recognized as a Hospital Facility**
(list in order of size, measured by total revenue per facility, from largest to smallest)

How many non-hospital facilities did the organization operate during the tax year? 6

| | Name and address | Type of Facility (Describe) |
|---|---|---|
| 1 | REHAB<br>2561 CENTER ST<br>SALEM,OR 97301 | REHABILITATION |
| 2 | REHAB<br>2561 CENTER ST<br>SALEM,OR 97301 | REHABILITATION |
| 3 | REHAB<br>2561 CENTER ST<br>SALEM,OR 97301 | REHABILITATION |
| 4 | REHAB<br>2561 CENTER ST<br>SALEM,OR 97301 | REHABILITATION |
| 5 | REHAB<br>2561 CENTER ST<br>SALEM,OR 97301 | REHABILITATION |
| 6 | REHAB<br>2561 CENTER ST<br>SALEM,OR 97301 | REHABILITATION |
| 7 | | |
| 8 | | |
| 9 | | |
| 10 | | |

## Part VI Supplemental Information

Complete this part to provide the following information

1 **Required descriptions.** Provide the description required for Part I, lines 3c, 6a, and 7, Part II, Part III, lines 4, 8, and 9b, and Part V, Section B, lines 1j, 3, 4, 5c, 6i, 7, 11h, 13g, 15e, 16e, 17e, 18d, 19d, 20, and 21

2 **Needs assessment.** Describe how the organization assesses the health care needs of the communities it serves, in addition to any needs assessments reported in Part V, Section B

3 **Patient education of eligibility for assistance.** Describe how the organization informs and educates patients and persons who may be billed for patient care about their eligibility for assistance under federal, state, or local government programs or under the organization's financial assistance policy

4 **Community information.** Describe the community the organization serves, taking into account the geographic area and demographic constituents it serves

5 **Promotion of community health.** Provide any other information important to describing how the organization's hospital facilities or other health care facilities further its exempt purpose by promoting the health of the community (e g , open medical staff, community board, use of surplus funds, etc )

6 **Affiliated health care system.** If the organization is part of an affiliated health care system, describe the respective roles of the organization and its affiliates in promoting the health of the communities served

7 **State filing of community benefit report.** If applicable, identify all states with which the organization, or a related organization, files a community benefit report

| Identifier | ReturnReference | Explanation |
|---|---|---|
| | | PART I, LINE 3C IT IS THE POLICY OF SALEM HOSPITAL TO PROVIDE FINANCIAL COUNSELING TO PATIENTS REGARDING THEIR FINANCIAL OBLIGATION AT THE EARLIEST OPPORTUNITY POSSIBLE SALEM HOSPITAL PROVIDES A VARIETY OF OPTIONS TO ASSIST PATIENTS IN RESOLVING THEIR ACCOUNTS, INCLUDING OREGON HEALTH PLAN (OHP) SCREENING, CHARITY ASSISTANCE, MEDICAL FINANCING CARDS, LOANS, AND EXTENDED PAYMENT PLANS DISCOUNTS MAY BE AVAILABLE ON THE NET BALANCE FOR PATIENTS AT OR BELOW 400% OF THE FEDERAL POVERTY LEVEL PATIENTS AT OR BELOW 200% OF THE POVERTY LEVEL ARE ELIGIBLE FOR 100% CHARITY ASSISTANCE THE HOSPITAL CONSIDERS BOTH INCOME AND/OR ASSETS AVAILABLE TO PAY PATIENT'S MEDICAL EXPENSES1 THE HOSPITAL WILL MULTIPLY THE FAMILY INCOME BY 30%2 THE HOSPITAL WILL DETERMINE THE PATIENT'S ALLOWABLE MEDICAL EXPENSES3 THE HOSPITAL WILL COMPARE 30% OF THE FAMILY INCOME TO THE TOTAL OF THE PATIENT'S ALLOWABLE MEDICAL EXPENSES IF THE TOTAL OF THE ALLOWABLE MEDICAL EXPENSES IS GREATER THAN 30% OF THE FAMILY INCOME, THEN THE PATIENT MEETS THE CATASTROPHIC CHARITY CARE QUALIFICATION THE HOSPITAL WILL LIMIT PATIENT LIABILITY FOR MEDICAL EXPENSES TO 30% OF THE FAMILY'S INCOME AMOUNTS THAT EXCEED THIS LIMIT WILL BE ELIGIBLE FOR CHARITY CARE FOR EXAMPLE FAMILY INCOME OF $70,000 PER YEAR AND MEDICAL EXPENSES OF $45,000 THIRTY-PERCENT OF THE FAMILY'S ANNUAL INCOME IS $21,000, THE FAMILY'S MEDICAL EXPENSES OF $45,000 EXCEED THIS AMOUNT THE FAMILY SHOULD THEREFORE BE ELIGIBLE FOR A CHARITY WRITE-OFF OF $24,000 ORASSET TESTASSETS CONSIDERED AVAILABLE TO PAY PATIENT'S MEDICAL EXPENSES1 EQUITY IN A REAL ESTATE, OTHER THAN THE PATIENT'S PERSONAL RESIDENCE, SECURITIES OR OTHER ASSETS (E G RENTAL PROPERTY, AGRICULTURAL USE) IS CONSIDERED AVAILABLE TO PAY THE PATIENT'S MEDICAL EXPENSES 2 $201,000 REPRESENTS THE MEDIAN VALUE OF A HOME IN SALEM, OREGON AS OF AUGUST 2010 THE HOSPITAL CONSIDERS THIS AMOUNT TO BE PROTECTED FROM CONSIDERATION AS A FUNDING SOURCE EQUITY IN A PATIENT'S PERSONAL RESIDENCE OVER AND ABOVE $201,000 WILL BE CONSIDERED AS AVAILABLE TO PAY MEDICAL LIABILITIES 3 THE CATASTROPHIC LIMIT UNDER THIS TEST WILL BE ESTABLISHED AT 100% OF THE EQUITY IN REAL PROPERTY OVER AND ABOVE THE FIRST $201,000 IN A PRIMARY RESIDENCE, AND 100% OF THE EQUITY IN OTHER REAL PROPERTY PRODUCING INCOME FOR EXAMPLE $280,000 (MARKET VALUE) - $100,000 (MORTGAGE) = $180,000 (NET VALUE), THEREFORE, $201,000 (PROTECTED SO EQUITY WOULD NOT BE CONSIDERED) |

| Identifier | ReturnReference | Explanation |
|---|---|---|
| | | PART I, LINE 7 NET COMMUNITY BENEFIT EXPENSE IS CALCULATED BY TOTAL COSTS OF CARE PROVIDED LESS THE DIRECT, OFFSETTING NET REVENUES FOR THOSE SERVICES THE COSTS TO PROVIDE CHARITY CARE AND MEDICAID SERVICES DISCLOSED IN LINE 7, COLUMN (C) LINES (A) AND (B), RESPECTIVELY, ARE DETERMINED BY APPLYING THE COST TO CHARGE RATIO AS DETERMINED IN WORKSHEET 2 TO THE FULL BILLED CHARGES FOR THE SERVICES RENDERED NET COMMUNITY BENEFIT EXPENSE FOR THE COSTS FOR SUBSIDIZED HEALTH SERVICES DISCLOSED IN PART I, LINE 7(G) USES AN INTERNAL COSTING SYSTEM WHEREBY DIRECT AND INDIRECT EXPENSES ARE ALLOCATED TO DISCRETE OFFSETTING NET REVENUES FOR EACH SERVICE OVERHEAD COSTS ARE ALLOCATED TO REVENUE GENERATING SERVICES BASED ON UTILIZATION STATISTICS SUCH AS SQUARE FOOTAGE FOR MAINTENANCE COSTS |

| Identifier | ReturnReference | Explanation |
| --- | --- | --- |
| | | PART I, L7 COL(F) THE AMOUNT OF BAD DEBT EXPENSE REMOVED FROM TOTAL EXPENSE THAT WAS INCLUDED IN FORM 990, PART IX, LINE 25, COLUMN (A), BUT REMOVED FROM THIS FIGURE FOR THE PURPOSES OF CALCULATING THE PERCENTAGE IN SCHEDULE H, PART I, LINE 7, COLUMN (F) WAS $33,668,797 |

| Identifier | ReturnReference | Explanation |
|---|---|---|
| | | PART II IN 2011, SALEM HOSPITAL PROVIDED EXECUTIVE LEADERSHIP TO THE BOARD OF WALTON HOUSE, A RESPITE HOUSING PROVIDER THE HEALTH EDUCATION DIVISION HOSTED AN ANNUAL UPDATE OF COMMUNITY BENEFIT ACTIVITIES FOR COMMUNITY PARTNERING AGENCIES MARION AND POLK COUNTY MUA/HPSA DESIGNATION, HEALTH ASSESSMENT DATA SETS AND MARION POLK RESIDENT (2008) SURVEY RESULTS DEMONSTRATE HEALTHCARE ACCESS PROBLEMS, SPECIFICALLY LACK OF PHYSICIANS WILLING TO TAKE MEDICARE AND OREGON HEALTH INSURANCE (MEDICAID) LIKEWISE, ACCESS TO HEALTHCARE WAS ALSO ONE OF THE TOP THREE COMMUNITY HEALTH CONCERNS CITED BY PROVIDERS SURVEY RESPONDENTS WHILE REGION 3, WHICH INCLUDES MARION, BENTON, LANE, LINN AND POLK COUNTIES, HAS 94 (OR 111) PRIMARY CARE PROVIDERS PER 100,000 POPULATION, ONLY 86 (OR 98) OF THOSE ACCEPT MEDICARE, AND OF THOSE 86, ONLY A PORTION ARE ACTUALLY ACCEPTING NEW PATIENTS A SIMILAR SITUATION EXISTS FOR OREGON HEALTH PLAN, EVEN WHEN PEOPLE HAVE COVERAGE, THEY MAY NOT HAVE ACCESS TO ESTABLISHING CARE WITH A LOCAL MEDICAL PROVIDER TO EASE THE BURDEN OF ACCESS TO CARE AND TO ENSURE A WELL TRAINED HEALTH PROFESSIONAL WORKFORCE, SALEM HOSPITAL CONTINUES TO MAKE A SIGNIFICANT INVESTMENT IN PHYSICIAN RECRUITMENT AND MEDICAL WORK FORCE DEVELOPMENT |

| Identifier | ReturnReference | Explanation |
| --- | --- | --- |
| | | PART III, LINE 4 BAD DEBT EXPENSE IS RECORDED ON THE BASIS FOR FULL BILLED CHARGES THAT THE HOSPITAL WAS UNABLE TO COLLECT AFTER SUCH PAYOR ALLOWANCES, CHARITY REDUCTIONS AND SELF-PAY DISCOUNTS COST OF BAD DEBT EXPENSE DISCLOSED IN LINES 2 AND 3 ARE CALCULATED BY APPLYING THE RATIO OF COSTS TO CHARGES AS DETERMINED IN WORKSHEET 2 TO THE FULL BILLED CHARGES WRITTEN OFF AS BAD DEBT EXPENSE AS REPORTED IN THE AUDITED FINANCIAL STATEMENTS |

| Identifier | ReturnReference | Explanation |
|---|---|---|
| | | PART III, LINE 8 MEDICARE PAYORS PAY A SIGNIFICANTLY REDUCED AMOUNT FOR MEDICAL SERVICES RENDERED TO THEIR ENROLLEES SUCH THAT THE NET REIMBURSEMENT DOES NOT EVEN COVER THE EXPENSES INCURRED TO PROVIDE THE SERVICE SALEM HOSPITAL CONSIDERS THE DIFFERENCE BETWEEN THE COSTS TO PROVIDE CARE FOR MEDICARE ENROLLEES AND THE NET REIMBURSEMENT AS A BENEFIT TO THE COMMUNITY MEDICARE FEE-FOR-SERVICE COSTS ARE DETERMINED FROM SALEM HOSPITALS FILED MEDICARE COST REPORT THE CALCULATION OF NET BENEFIT IS EQUAL TO TOTAL MEDICARE PAYMENTS LESS MEDICARE COSTS IN ADDITION TO TRADITIONAL MEDICARE FEE-FOR-SERVICE, SALEM HOSPITAL PROVIDES SUBSTANTIAL SERVICES TO OTHER MEDICARE POPULATIONS PARTICIPATING IN MEDICARE ADVANTAGE PLANS AT SIGNIFICANTLY REDUCED REIMBURSEMENT THE NET REVENUES FOR THESE PLANS ARE LESS THAN THE COST TO PROVIDE CARE AND ARE NOT DISCLOSED IN PART III, LINE 8 SALEM HOSPITAL ALSO CONSIDERS THE DIFFERENCE BETWEEN THE NET COST TO PROVIDE CARE FOR MEDICARE ADVANTAGE ENROLLEES AND THE NET REIMBURSEMENT AS A BENEFIT TO THE COMMUNITY THESE NET COSTS HAVE BEEN DETERMINED BY APPLYING THE RATIO OF COSTS TO CHARGES AS DETERMINED IN WORKSHEET 2 TO THE FULL BILLED CHARGES THE CALCULATION OF NET BENEFIT IS EQUAL TO TOTAL MEDICARE ADVANTAGE PAYMENTS OF $102,501,914 LESS MEDICARE ADVANTAGE COSTS OF $131,017,322 FOR A TOTAL ADDITIONAL COMMUNITY BENEFIT IN THE AMOUNT OF $28,515,408 |

| Identifier | ReturnReference | Explanation |
| --- | --- | --- |
| | | PART III, LINE 9B IF THERE IS AN INDICATION THAT A PATIENT MAY BE UNABLE TO PAY THEIR BILL, A FINANCIAL QUESTIONNAIRE IS GIVEN OR SENT TO THE PATIENT UPON RECEIPT OF THE COMPLETED QUESTIONNAIRE, THE PATIENT FINANCIAL COUNSELOR WILL DETERMINE ELIGIBILITY FOR FINANCIAL ASSISTANCE AND NOTIFY THE PATIENT REGARDING THEIR ELIGIBILITY FOR DISCOUNTS UNDER THE HOSPITAL'S FINANCIAL ASSISTANCE POLICY ELIGIBILITY IS DETERMINED BASED ON THE QUESTIONNAIRE AND SUPPORTING DOCUMENTATION IN ACCORDANCE TO THE HOSPITAL'S FINANCIAL ASSISTANCE POLICY |

| Identifier | ReturnReference | Explanation |
| --- | --- | --- |
| SALEM HOSPITAL | | PART V, SECTION B, LINE 19D IT IS THE POLICY OF SALEM HOSPITAL TO PROVIDE EMERGENCY OR OTHER MEDICALLY NECESSARY CARE TO ALL INDIVIDUALS REGARDLESS OF THEIR ABILITY TO PAY THE HOSPITAL WILL USE THE NORMAL BILLING RATES FOR SERVICES PROVIDED AT THE HOSPITAL FACILITY |

| Identifier | ReturnReference | Explanation |
| --- | --- | --- |
| SALEM HOSPITAL | | PART V, SECTION B, LINE 21 IT IS THE POLICY OF SALEM HOSPITAL TO BILL ALL PATIENTS THE NORMAL BILLING RATE REGARDLESS OF THEIR ABILITY TO PAY |

| Identifier | ReturnReference | Explanation |
|---|---|---|
| | | PART VI, LINE 2 A COMPREHENSIVE COMMUNITY NEEDS AND ASSET ANALYSIS IS COMPLETED EVERY THREE TO FIVE YEARS USING PRIMARY AND SECONDARY DATA SETS THE 2008-2009 MARION AND POLK COUNTY HEALTH ASSESSMENTS, SALEM HOSPITAL SERVICE LINE PLANNING DOCUMENTS, DISEASE SPECIFIC AND EMERGENCY DEPARTMENT DATA SETS, AS WELL AS QUALITATIVE INFORMATION GATHERED FROM COMMUNITY FOCUS GROUPS WERE AMONG DATA REVIEWED IN PLANNING 2009-2011 COMMUNITY BENEFIT ACTIVITIES SALEM HOSPITAL USES THESE DATA SETS TO DETERMINE POPULATION HEALTH NEEDS, ANALYZE HEALTHCARE DELIVERY SYSTEMS IN RELATION TO SERVICE DEMAND, AND INTEGRATES THESE ANALYSES, TO IDENTIFY GAPS AND SET PLANNING PRIORITIES THE HOSPITAL IS CURRENTLY WORKING WITH THE COUNTIES TO UNDERTAKE A COMMUNITY HEALTH NEEDS ASSESSMENT (CHNA) THIS NEW ASSESSMENT WILL TAKE INTO CONSIDERATION THE NEW CHNA AND RELATED RULES IMPLEMENTED UNDER THE PATIENT PROTECTION AND AFFORDABLE CARE ACT THE COMMUNITY BENEFIT PROGRAM SUPPORTS THE SALEM HOSPITAL MISSION, VISION, VALUES AND CORE COMMITMENTS THROUGH - ENHANCING CLINICAL OUTCOMES FOR OUR UNDERSERVED POPULATIONS AND CREATING ACCESS TO CARE THAT PREVIOUSLY WAS NOT EASILY ATTAINABLE - INVESTING DOLLARS BACK INTO THE COMMUNITY AS A DEMONSTRATION OF OUR COMMITMENT TO THE COMMUNITY WE SERVE - SUPPORTING COMMUNITY OUTREACH AND COMMUNITY EDUCATION RELATED TO SPECIFIC CLINICAL SERVICE LINES AND INTEGRATING ACTIVITIES PRIMARILY RELATED TO EARLY PREVENTION, DETECTION AND SCREENING AND MANAGEMENT OF CHRONIC DISEASE - SUPPORTING COMMUNITY-BUILDING ACTIVITIES AND WORKFORCE DEVELOPMENT THAT ADDRESSES THE ROOT CAUSES OF HEALTH PROBLEMS, SUCH AS POVERTY, HOMELESSNESS, AND ACCESS TO CARE THESE ACTIVITIES SUPPORT COMMUNITY ASSETS BY OFFERING THE EXPERTISE AND RESOURCES OF THE HEALTH CARE ORGANIZATION THE PLAN ALIGNS WITH A LONG TERM STRATEGY, TO ENSURE THAT SALEM HOSPITAL'S REACH, REPUTATION, AND CORPORATE CITIZENSHIP ARE LEVERAGED TO OPTIMIZE COMMUNITY BENEFIT THE PLAN CONSISTS OF COMMUNITY-BASED ACTIVITIES WHOSE KEY FUNCTION IS SERVICE TO THOSE IN NEED, INCREASING ACCESS TO CARE AND HEALTH PROMOTION, PREVENTION, AND MANAGEMENT OF CHRONIC DISEASE THE SALEM HOSPITAL 2009-2011 COMMUNITY BENEFIT PLAN IDENTIFIES THE FOLLOWING COMMUNITY BENEFIT PRIORITIES BASED ON THE 2008/2009 COMMUNITY NEEDS ASSESSMENT - ADDRESS SOCIOECONOMIC INEQUALITIES IN HEALTH CARE DELIVERY - IMPROVE ACCESS TO CARE THROUGH PHYSICIAN RECRUITMENT AND FINANCIAL AND IN-KIND SUPPORT FOR PRIMARY AND PRENATAL CARE SERVICES - PROMOTE HEALTH IMPROVEMENT AND PREVENTION OF INJURY AND CHRONIC DISEASE- PROVIDE EARLY DETECTION AND SCREENING AND ENABLE SELF-MANAGEMENT OF CHRONIC DISEASE - SUPPORT COMMUNITY AND PROFESSIONAL HEALTH EDUCATION AND CLINICAL AND COMMUNITY HEALTH RESEARCH- BUILD RELATIONSHIPS WITHIN OUR GREATER SERVICE AREA TO ENSURE THAT SALEM HOSPITAL IS IDENTIFIED AS THE COMMUNITY RESOURCE FOR HEALTH SERVICES BY ALL HOSPITAL SENIOR LEADERSHIP, IN CONJUNCTION WITH THE BOARD OF TRUSTEES, REVIEWS AND APPROVES THE COMMUNITY BENEFIT PLAN AND BUDGET |

| Identifier | ReturnReference | Explanation |
|---|---|---|
| | | PART VI, LINE 3 IT IS THE POLICY OF SALEM HOSPITAL TO PROVIDE FINANCIAL COUNSELING TO PATIENTS REGARDING THEIR FINANCIAL OBLIGATION AT THE EARLIEST OPPORTUNITY POSSIBLE SALEM HOSPITAL PROVIDES A VARIETY OF OPTIONS TO ASSIST PATIENTS IN RESOLVING THEIR ACCOUNTS, INCLUDING OREGON HEALTH PLAN (OHP) SCREENING, CHARITY ASSISTANCE, LOANS, AND EXTENDED PAYMENT PLANS DISCOUNTS MAY BE AVAILABLE ON THE NET BALANCE FOR PATIENTS AT OR BELOW 400% OF THE FEDERAL POVERTY LEVEL PATIENTS AT OR BELOW 200% OF THE POVERTY LEVEL ARE ELIGIBLE FOR 100% CHARITY ASSISTANCE ALL UNINSURED PATIENTS WITH BALANCES OVER $500 ARE SCREENED FOR ELIGIBILITY THROUGH THE OREGON HEALTH PLAN (OHP), CONSOLIDATED OMNIBUS BUDGET RECONCILIATION ACT (COBRA) ELIGIBILITY, AND/OR ELIGIBILITY INTO THE FAMILY HEALTH INSURANCE ASSISTANCE PLAN (FHIAP) PROGRAM SALEM HOSPITAL OR ITS REPRESENTATIVE WILL REVIEW THE PATIENT'S CURRENT RESOURCES AND WORK WITH HIM/HER TO GAIN ELIGIBILITY FOR ANY OF THESE PROGRAMS AS APPROPRIATE PATIENTS THAT ARE NOT ELIGIBLE FOR OHP OR THE OTHER PROGRAMS LISTED ABOVE, AND HAVE FINANCIAL CONSTRAINTS THAT INHIBIT THEIR ABILITY TO PAY, WILL BE ASSESSED FOR EITHER CHARITY CARE OR A FINANCIAL DISCOUNT INFORMATION ON THE HOSPITAL'S CHARITY CARE & FINANCIAL POLICY SHALL BE MADE PUBLICLY AVAILABLE IN THE FOLLOWING MANNER - NOTICES ARE POSTED IN KEY AREAS OF THE HOSPITAL, INCLUDING ADMITTING, THE EMERGENCY DEPARTMENT, OUTPATIENT DEPARTMENT REGISTRATION AREAS, AND THE BUSINESS OFFICE - THE CONDITIONS OF ADMISSION FORM INFORMS THE PATIENT OF THEIR RIGHT TO APPLY FOR CHARITY CARE - WRITTEN INFORMATION SHALL BE AVAILABLE IN ENGLISH AND SPANISH THE HOSPITAL WILL PROVIDE THE APPROPRIATE INTERPRETATION SERVICES FOR ALL PATIENTS WHO DO NOT SPEAK ENGLISH - FRONT-LINE STAFF IS TRAINED TO ANSWER CHARITY CARE QUESTIONS EFFECTIVELY AND WILL DIRECT ANY QUESTIONS THAT CANNOT BE ANSWERED TO BUSINESS OFFICE STAFF IN A TIMELY MANNER - THIS POLICY IS POSTED ON SALEM HOSPITAL'S WEB SITE WRITTEN INFORMATION ABOUT THIS POLICY IS MADE AVAILABLE TO ANY PERSON WHO REQUESTS THE INFORMATION - THE FIRST PATIENT STATEMENT WILL INCLUDE A NOTICE THAT CHARITY CARE AND/OR FINANCIAL ASSISTANCE IS AVAILABLE |

| Identifier | ReturnReference | Explanation |
|---|---|---|
| | | PART VI, LINE 4 SALEM HOSPITAL SERVES THE COMMUNITIES WITHIN MARION AND POLK COUNTIES IN THE UPPER WILLAMETTE VALLEY IN THE STATE OF OREGON THE CITIES INCLUDE SALEM (THE CAPITAL OF OREGON), KEIZER, SILVERTON, STAYTON, DALLAS, WOODBURN, MILL CITY, AUMSVILLE, INDEPENDENCE, GRANDE RONDE, MONMOUTH, SUBLIMITY, MT ANGEL AND JEFFERSON THE FOLLOWING ARE SOME OF THE KEY DEMOGRAPHICS IN 2008-2009 MARION AND POLK COUNTIES GENERAL DEMOGRAPHICS - POPULATION 362,990 - POLK COUNTY IS THE 3RD FASTEST GROWING COUNTY IN OREGON - 63% OF THIS GROWTH IS RELATED TO BIRTHS EXCEEDING DEATHS - 37% OF THE GROWTH IS RELATED TO MIGRATION TO MARION/POLK COUNTIES - TOTAL BIRTHS PER YEAR APPROXIMATELY 9,000 - MEDIAN HOUSEHOLD INCOME IS $40,314, SLIGHTLY LOWER THAN THE STATE AVERAGE OF $40,916 - HOME OWNERSHIP RATE IS 62 9% COMPARED TO THE STATE AVERAGE OF 64 3% - LAND AREA FOR MARION AND POLK COUNTIES COMBINED IS 1,925 SQUARE MILES HEALTHCARE DEMOGRAPHICS - 15% OF THE POPULATION HAS HEALTHCARE COVERAGE PROVIDED BY MEDICARE - 13% OF THE POPULATION HAVE HEALTHCARE COVERAGE PROVIDED BY MEDICAID - 15% OF THE POPULATION HAS NO HEALTHCARE COVERAGE AT ALL! HEALTHCARE ACCESS (MEDICAL, DENTAL AND BEHAVIOR HEALTH) IS A SIGNIFICANT CHALLENGE IN MARION AND POLK COUNTY COST OF CARE, LACK OF INSURANCE AND LIMITED PROVIDERS ACCEPTING MEDICAID AND MEDICARE WERE IDENTIFIED IN THE NEEDS ASSESSMENT DATA ANALYSIS IDENTIFIED CHILDHOOD OBESITY, HIGH TEEN PREGNANCY RATES, EARLY TEEN TOBACCO AND ALCOHOL USE, AND THE NEED TO PROVIDE SERVICES THAT SUPPORT FATHERS TO DEVELOP AND STRENGTHEN PARENTING SKILLS, AS OPPORTUNITIES FOR COMMUNITY-BASED INITIATIVES AND ON-GOING PARTNERSHIPS |

| Identifier | ReturnReference | Explanation |
| --- | --- | --- |
| | | PART VI, LINE 6 SALEM HOSPITAL IS GOVERNED BY AN ALL-VOLUNTEER COMMUNITY-BASED BOARD OF TRUSTEES (BOARD) HOSPITAL LEADERSHIP AND EXECUTIVE STAFF SERVE ON COMMUNITY NON-PROFIT ADVISORY BOARDS AND PROFESSIONAL ASSOCIATIONS THE ORGANIZATION EXTENDS MEDICAL STAFF PRIVILEGES TO QUALIFIED PHYSICIANS IN ITS COMMUNITY AND PROVIDES FREE OFFICE SPACE AND OTHER IN-KIND SUPPORT SERVICES TO NON-PROFIT ORGANIZATIONS SALEM HOSPITAL PROVIDES FINANCIAL SUPPORT AND SPONSORSHIP TO NONPROFIT ORGANIZATIONS BY LEVERAGING HOSPITAL RESOURCES AND WORKING IN COLLABORATIVE PARTNERSHIPS, SALEM HOSPITAL IS ABLE TO PROVIDE BENEFITS THAT REACH BEYOND HEALTHCARE DELIVERY AND POSITIVELY IMPACT THE SOCIAL DETERMINANTS OF HEALTH |

| Identifier | ReturnReference | Explanation |
|---|---|---|
| | | PART VI, LINE 7 SALEM HOSPITAL IS AN OREGON NONPROFIT CORPORATION AND A TAX-EXEMPT ORGANIZATION DESCRIBED IN SECTION 501(C)(3) OF THE CODE SALEM HEALTH IS THE "PARENT" CORPORATION AND SOLE CORPORATE MEMBER OF THE CORPORATION, SALEM HOSPITAL FOUNDATION, WEST VALLEY HOSPITAL, WEST VALLEY HOSPITAL FOUNDATION, WILLAMETTE VALLEY INSURANCE CORPORATION, AND WILLAMETTE VALLEY PROFESSIONAL SERVICES ALL ENTITIES WITHIN THE PARENT CORPORATION ARE SEPARATE NONPROFIT CORPORATIONS SALEM HOSPITAL IS AN OREGON NONPROFIT CORPORATION AND A TAX-EXEMPT ORGANIZATION THE CORPORATION ALSO DOES BUSINESS UNDER THE NAME "SALEM HOSPITAL, A PART OF SALEM HEALTH " SALEM HOSPITAL IS ONE OF THE LARGEST ACUTE CARE HOSPITALS IN OREGON LICENSED FOR 454 BEDS, SALEM HOSPITAL OFFERS A BROAD RANGE OF INPATIENT AND OUTPATIENT SERVICES AN AREA OF OVER 500,000 PEOPLE, INCLUDING ALL OF MARION AND POLK AND PORTIONS OF LINN AND YAMHILL COUNTIES INCLUDING THE RESIDENTS OF THE CITY OF SALEM, THE STATE CAPITAL OF OREGON SALEM HOSPITAL IS THE LARGEST PRIVATE EMPLOYER IN SALEM, OREGON, WITH APPROXIMATELY 3,300 FULL AND PART-TIME EMPLOYEES (AS OF JUNE 30, 2008) THE MEDICAL STAFF IS COMPRISED OF APPROXIMATELY 500 PHYSICIANS REPRESENTING MORE THAN 50 SPECIALTIES AND SUBSPECIALTIES, AND MORE THAN 400 VOLUNTEERS PROVIDE NON-MEDICAL SUPPORT FOR SALEM HOSPITAL SALEM HOSPITAL, AS PART OF SALEM HEALTH IS GOVERNED BY AN ALL-VOLUNTEER COMMUNITY-BASED BOARD OF TRUSTEES (BOARD) THE BOARD HAS THE RESPONSIBILITY FOR THE DEVELOPMENT AND OVERSIGHT OF SALEM HEALTH VALUES, VISION, PURPOSE AND LONG-TERM STRATEGY THROUGH THESE DOCUMENTS, THE COMMUNITY BENEFIT STEERING COMMITTEE ASSESSES AND REAFFIRMS SALEM HOSPITAL'S COMMUNITY BENEFIT COMMITMENTS AND CONNECTIONS WITH COMMUNITY NEEDS AND PRIMARY CONSTITUENCIES THE COMMUNITY BENEFIT PLAN ASSURES MEASUREMENT AND COMPARISON OF SALEM HOSPITAL'S COMMUNITY ACTIVITIES TO EVOLVING NORMS AND OVERSEES THE CLEAR AND ACCURATE COMMUNICATION OF THESE ACTIVITIES TO KEY CONSTITUENCIES |

| Identifier | ReturnReference | Explanation |
|---|---|---|
| REPORTS FILED WITH STATES | PART VI, LINE 7 | OR |

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**Schedule I (Form 990)**

Department of the Treasury
Internal Revenue Service

# Grants and Other Assistance to Organizations, Governments and Individuals in the United States

**Complete if the organization answered "Yes," to Form 990, Part IV, line 21 or 22.**
**▶ Attach to Form 990**

OMB No 1545-0047

**2010**

**Open to Public Inspection**

Name of the organization
SALEM HOSPITAL

**Employer identification number**
93-0579722

## Part I General Information on Grants and Assistance

1 Does the organization maintain records to substantiate the amount of the grants or assistance, the grantees' eligibility for the grants or assistance, and the selection criteria used to award the grants or assistance? . . . . . ☑ Yes ☐ No

2 Describe in Part IV the organization's procedures for monitoring the use of grant funds in the United States

## Part II Grants and Other Assistance to Governments and Organizations in the United States.

Complete if the organization answered "Yes" to Form 990, Part IV, line 21 for any recipient that received more than $5,000. Check this box if no one recipient received more than $5,000. Part II can be duplicated if additional space is needed. . . . . ▶ ☐

| 1 (a) Name and address of organization or government | (b) EIN | (c) IRC Code section if applicable | (d) Amount of cash grant | (e) Amount of non-cash assistance | (f) Method of valuation (book, FMV, appraisal, other) | (g) Description of non-cash assistance | (h) Purpose of grant or assistance |
|---|---|---|---|---|---|---|---|
| (1) MEDICAL FOUNDATION OF MARION & POLK COUNTIES2995 RYAN DRIVE STE 100 SALEM,OR 97301 | 93-0504197 | 501(C)(3) | 12,500 | | N/A | N/A | IMPROVE ACCESS TO HEALTHCARE |
| (2) SALEM FREE MEDICAL CLINIC3850 PORTLAND ROAD NE SALEM,OR 97301 | 20-3549992 | 501(C)(3) | 44,000 | | N/A | N/A | ACCESS TO CARE |
| (3) MARION COUNTY TREASURER3180 CENTER STREET NE SALEM,OR 97301 | 93-6002307 | MARION COUNTY | 78,654 | | N/A | N/A | ACCESS TO PRENATAL CARE |
| (4) AMERICAN CANCER SOCIETY2120 1ST AV N SEATTLE,WA 98121 | 84-1316555 | 501(C)(3) | 7,500 | | N/A | N/A | RELAY FOR LIFE SPONSORSHIP |
| (5) KEIZER CHAMBER OF COMMERCE980 CHEMAWA RD NE KEIZER,OR 97303 | 93-6030759 | 501(C)(6) | 5,000 | | N/A | N/A | KEIZER IRIS FESTIVAL RUN SPONSORSHIP |
| (6) SALEM KEIZER EDUCATION FOUNDATION 233 COMMERCIAL ST NE SALEM,OR 97301 | 93-0831467 | 501(C)(3) | 5,000 | | N/A | N/A | AWESOME 3000 SPONSORSHIPS |
| (7) CHEMEKETA COMMUNITY COLLEGE CAMP PROGRAM4000 LANCASTER DR NE SALEM,OR 973097070 | 93-0585134 | 170(C)(1) | 5,000 | | N/A | N/A | SCHOLARSHIP FUNDRAISER SPONSORSHIP |
| (8) WILLAMETTE FAMILY MEDICAL CENTER755 MEDICAL CENTER DR SALEM,OR 97301 | 93-1180397 | 501(C)(3) | | 278,866 | FAIR MARKET VALUE | FREE RENT | ACCESS TO MEDICAL SERVICES |
| (9) PSYCHIATRIC CRISIS CENTERPO BOX 14500 SALEM,OR 97309 | 93-6002307 | MARION COUNTY | | 97,524 | FAIR MARKET VALUE | FREE RENT | ACCESS TO MEDICAL SERVICES |
| (10) MEDASSIST AND PROJECT ACCESS2995 RYAN DRIVE STE 100 SALEM,OR 97301 | 93-1261633 | 501(C)(3) | | 20,880 | FAIR MARKET VALUE | FREE RENT | ACCESS TO MEDICAL SERVICES |
| (11) OHSU FOUNDATION DEPT SURGERY1121 SW SALMON ST PORTLAND,OR 97205 | 23-7083114 | 501(C)(3) | 10,000 | | N/A | N/A | CHARITABLE CONTRIBUTION GOLF TOURNAMENT SPONSORSHIP |
| (12) TRINITY LUTHERAN CHURCH450 SE WASHINGTON DALLAS,OR 97338 | 93-0712329 | 501(C)(3) | 5,000 | | N/A | N/A | DALLAS FREE CLINIC |

2 Enter total number of section 501(c)(3) and government organizations . . . . . ▶ 12

3 Enter total number of other organizations . . . . . ▶

**Part III** **Grants and Other Assistance to Individuals in the United States.** Complete if the organization answered "Yes" to Form 990, Part IV, line 22. Use Schedule I-1 (Form 990) if additional space is needed.

| (a) Type of grant or assistance | (b) Number of recipients | (c) Amount of cash grant | (d) Amount of non-cash assistance | (e) Method of valuation (book, FMV, appraisal, other) | (f) Description of non-cash assistance |
|---|---|---|---|---|---|
| | | | | | |
| | | | | | |
| | | | | | |
| | | | | | |
| | | | | | |
| | | | | | |
| | | | | | |

**Part IV** **Supplemental Information.** Complete this part to provide the information required in Part I, line 2, and any other additional information.

| Identifier | Return Reference | Explanation |
|---|---|---|
| PROCEDURE FOR MONITORING GRANTS IN THE U S | PART I, LINE 2 | SCHEDULE I, PART I, LINE 2 GRANTS ARE ONLY MADE TO QUALIFIED EXEMPT ORGANIZATIONS NO MONITORING IS REQUIRED |

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**Schedule J** (Form 990)

Department of the Treasury
Internal Revenue Service

# Compensation Information

**For certain Officers, Directors, Trustees, Key Employees, and Highest Compensated Employees**

**▶ Complete if the organization answered "Yes" to Form 990, Part IV, question 23.**

**▶ Attach to Form 990. ▶ See separate instructions.**

OMB No 1545-0047

**2010**

**Open to Public Inspection**

**Name of the organization**
SALEM HOSPITAL

**Employer identification number**
93-0579722

## Part I Questions Regarding Compensation

| | | | Yes | No |
|---|---|---|---|---|
| **1a** | Check the appropiate box(es) if the organization provided any of the following to or for a person listed in Form 990, Part VII, Section A, line 1a Complete Part III to provide any relevant information regarding these items<br>☐ First-class or charter travel ☐ Housing allowance or residence for personal use<br>☐ Travel for companions ☐ Payments for business use of personal residence<br>☐ Tax idemnification and gross-up payments ☐ Health or social club dues or initiation fees<br>☐ Discretionary spending account ☐ Personal services (e g , maid, chauffeur, chef) | | | |
| **b** | If any of the boxes in line 1a are checked, did the organization follow a written policy regarding payment or reimbursement orprovision of all the expenses described above? If "No," complete Part III to explain | **1b** | | |
| **2** | Did the organization require substantiation prior to reimbursing or allowing expenses incurred by all officers, directors, trustees, and the CEO/Executive Director, regarding the items checked in line 1a? | **2** | | |
| **3** | Indicate which, if any, of the following the organization uses to establish the compensation of the organization's CEO/Executive Director Check all that apply<br>☑ Compensation committee ☐ Written employment contract<br>☑ Independent compensation consultant ☑ Compensation survey or study<br>☐ Form 990 of other organizations ☑ Approval by the board or compensation committee | | | |
| **4** | During the year, did any person listed in Form 990, Part VII, Section A, line 1a with respect to the filing organization or a related organization | | | |
| **a** | Receive a severance payment or change-of-control payment from the organization or a related organization? | **4a** | | No |
| **b** | Participate in, or receive payment from, a supplemental nonqualified retirement plan? | **4b** | Yes | |
| **c** | Participate in, or receive payment from, an equity-based compensation arrangement? | **4c** | | No |
| | If "Yes" to any of lines 4a-c, list the persons and provide the applicable amounts for each item in Part III | | | |
| | **Only 501(c)(3) and 501(c)(4) organizations only must complete lines 5-9.** | | | |
| **5** | For persons listed in form 990, Part VII, Section A, line 1a, did the organization pay or accrue any compensation contingent on the revenues of | | | |
| **a** | The organization? | **5a** | | No |
| **b** | Any related organization? | **5b** | | No |
| | If "Yes," to line 5a or 5b, describe in Part III | | | |
| **6** | For persons listed in form 990, Part VII, Section A, line 1a, did the organization pay or accrue any compensation contingent on the net earnings of | | | |
| **a** | The organization? | **6a** | Yes | |
| **b** | Any related organization? | **6b** | | No |
| | If "Yes," to line 6a or 6b, describe in Part III | | | |
| **7** | For persons listed in Form 990, Part VII, Section A, line 1a, did the organization provide any non-fixed payments not described in lines 5 and 6? If "Yes," describe in Part III | **7** | Yes | |
| **8** | Were any amounts reported in Form 990, Part VII, paid or accured pursuant to a contract that was subject to the initial contract exception described in Regs section 53 4958-4(a)(3)? If "Yes," describe in Part III | **8** | | No |
| **9** | If "Yes" to line 8, did the organization also follow the rebuttable presumption procedure described in Regulations section 53 4958-6(c)? | **9** | | |

**Part II Officers, Directors, Trustees, Key Employees, and Highest Compensated Employees.** Use duplicate copies if additional space is needed.

For each individual whose compensation must be reported in Schedule J, report compensation from the organization on row (i) and from related organizations, described in the instructions on row (ii) Do not list any individuals that are not listed on Form 990, Part VII

**Note.** The sum of columns (B)(i)-(iii) must equal the applicable column (D) or column (E) amounts on Form 990, Part VII, line 1a

| (A) Name | | (B) Breakdown of W-2 and/or 1099-MISC compensation | | | (C) Retirement and other deferred compensation | (D) Nontaxable benefits | (E) Total of columns (B)(i)-(D) | (F) Compensation reported in prior Form 990 or Form 990-EZ |
|---|---|---|---|---|---|---|---|---|
| | | (i) Base compensation | (ii) Bonus & incentive compensation | (iii) Other reportable compensation | | | | |
| (1) NORMAN GRUBER | (i) | 719,931 | 89,166 | 14,568 | 15,925 | 37,912 | 877,502 | 57,667 |
| | (ii) | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| (2) AARON CRANE | (i) | 397,412 | 19,999 | 10,856 | 44,135 | 32,736 | 505,138 | 0 |
| | (ii) | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| (3) WILLIAM HOLLOWAY MD | (i) | 470,954 | 23,475 | 2,638 | 46,661 | 33,217 | 576,945 | 0 |
| | (ii) | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| (4) JACK CAYNON | (i) | 301,590 | 15,011 | 2,600 | 37,155 | 30,714 | 387,070 | 0 |
| | (ii) | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| (5) BEVERLY BOW | (i) | 250,185 | 13,250 | 5,444 | 33,750 | 19,085 | 321,714 | 0 |
| | (ii) | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| (6) CHERYL NESTER-WOLFE | (i) | 382,213 | 19,999 | 3,603 | 40,356 | 25,879 | 472,050 | 0 |
| | (ii) | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| (7) KENNETH KUDLA | (i) | 290,501 | 14,578 | 14,278 | 34,083 | 24,898 | 378,338 | 0 |
| | (ii) | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| (8) MARTIN MORRIS | (i) | 226,518 | 10,929 | 4,057 | 30,338 | 24,870 | 296,712 | 0 |
| | (ii) | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| (9) NICOLE VANDERHEYDEN MD | (i) | 458,036 | 0 | 31,956 | 41,173 | 31,726 | 562,891 | 0 |
| | (ii) | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| (10) AHMED EBEID MD | (i) | 480,218 | 35,000 | 1,533 | 37,571 | 34,032 | 588,354 | 0 |
| | (ii) | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| (11) TRACY TAGGERT MD | (i) | 348,679 | 6,750 | 1,064 | 33,193 | 24,256 | 413,942 | 0 |
| | (ii) | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| (12) NANCY BOUTIN | (i) | 359,871 | 0 | 2,546 | 17,191 | 25,508 | 405,116 | 0 |
| | (ii) | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| (13) AMR HEGAZI | (i) | 459,733 | 55,500 | 665 | 19,550 | 32,576 | 568,024 | 0 |
| | (ii) | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| (14) VIRGINIA POSEY | (i) | 162,743 | 14,449 | 19,187 | 0 | 17,543 | 213,922 | 0 |
| | (ii) | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| (15) PATRICIA HARGER | (i) | 206,450 | 20,333 | 14,260 | 11,048 | 27,854 | 279,945 | 0 |
| | (ii) | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| ( 16 ) | | | | | | | | |

## Part III Supplemental Information

Complete this part to provide the information, explanation, or descriptions required for Part I, lines 1a, 1b, 4c, 5a, 5b, 6a, 6b, 7, and 8 Also complete this part for any additional information

| Identifier | Return Reference | Explanation |
|---|---|---|
| | PART I, LINE 4B | SOME OF THE HOSPITAL'S EMPLOYEES RECEIVE DEFERRED COMPENSATION UNDER A 457(F) NONQUALIFIED PLAN THIS COMPENSATION IS INCLUDED IN COMPENSATION REPORTED IN PART II THE TOTAL NONQUALIFIED PORTION OF EACH PERSONS DEFERRED COMPENSATION IS NORMAN GRUBER 34,199 (INCLUDED IN CURRENT YEAR TAXABLE INCENTIVE COMPENSATION) AARON CRANE 28,210 (INCLUDED IN DEFERRED COMPENSATION) WILLIAM HOLLOWAY 33,186 (INCLUDED IN DEFERRED COMPENSATION) CHERYL NESTER WOLFE 26,881 (INCLUDED IN DEFERRED COMPENSATION) KENNETH KUDLA 20,608 (INCLUDED IN DEFERRED COMPENSATION) JACK CAYNON 21,230 (INCLUDED IN DEFERRED COMPENSATION) BEVERLY BOW 17,887 (INCLUDED IN DEFERRED COMPENSATION) MARTIN MORRIS 14,850 (INCLUDED IN DEFERRED COMPENSATION) PATRICIA HARGER 5,780 (INCLUDED IN DEFERRED COMPENSATION) AHMED EBEID 29,078 (INCLUDED IN DEFERRED COMPENSATION) AMR HEGAZI 18,577 (INCLUDED IN DEFERRED COMPENSATION) NICOLE VANDERHEYDEN 27,698 (INCLUDED IN DEFERRED COMPENSATION) NANCY BOUTIN 14,498 (INCLUDED IN DEFERRED COMPENSATION) TRACY TAGGART 19,718 (INCLUDED IN DEFERRED COMPENSATION) |
| | PART I, LINE 6 | CERTAIN PHYSICIANS RECEIVE INCENTIVE COMPENSATION IN ACCORDANCE WITH THEIR EMPLOYMENT AGREEMENTS WITH SALEM HOSPITAL AMOUNTS NOTED ON SCHEDULE J PART II COLUMN (II) REFLECT PAYMENTS EARNED BY THESE PHYSICIAN EMPLOYEES IN SUCH AGREEMENTS |
| | PART I, LINE 7 | THE GOVERNANCE COMMITTEE OF THE BOARD OF TRUSTEES, IN CONSULTATION WITH INDEPENDENT COMPENSATION CONSULTANTS, REVIEWS CEO TOTAL COMPENSATION AND PERFORMANCE ANNUALLY AS PART OF THE COMMITTEE'S ACTIONS, A NON-FIXED BONUS MAY BE AWARDED TO THE CEO |

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**Schedule K (Form 990)**

Department of the Treasury
Internal Revenue Service

# Supplemental Information on Tax Exempt Bonds

▶ Complete if the organization answered "Yes" to Form 990, Part IV, line 24a. Provide descriptions, explanations, and any additional information in Schedule O (Form 990).
▶ Attach to Form 990. ▶ See separate instructions.

OMB No 1545-0047

**2010**

**Open to Public Inspection**

Name of the organization
SALEM HOSPITAL

**Employer identification number**
93-0579722

## Part I Bond Issues

| | (a) Issuer Name | (b) Issuer EIN | (c) CUSIP # | (d) Date Issued | (e) Issue Price | (f) Description of Purpose | (g) Defeased | | (h) On Behalf of Issuer | | (i) Pool financing | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | | | Yes | No | Yes | No | Yes | No |
| A | THE HOSPITAL FACILITY AUTHORITY OF THE CITY OF SALEM OREGON REVENUE BONDS | 52-1542796 | 794458CL1 | 11-15-2006 | 123,122,698 | QUALIFIED HOSPITAL BOND | | X | | X | | X |
| B | THE HOSPITAL FACILITY AUTHORITY OF THE CITY OF SALEM OREGON REVENUE BONDS | 52-1542796 | 794458CZ0 | 11-13-2008 | 125,000,000 | QUALIFIED HOSPITAL BOND | | X | | X | | X |
| C | THE HOSPITAL FACILITY AUTHORITY OF THE CITY OF SALEM OREGON REVENUE BONDS | 52-1542796 | 794458CX5 | 10-08-2008 | 60,487,711 | QUALIFIED HOSPITAL BOND | | X | | X | | X |
| | | | | | | | | | | | | |
| | | | | | | | | | | | | |
| | | | | | | | | | | | | |

## Part II Proceeds

| | | A | B | C | D |
|---|---|---|---|---|---|
| 1 | Amount of bonds retired | 1,460,000 | | | |
| 2 | Amount of bonds legally defeased | | | | |
| 3 | Total proceeds of issue | 128,355,347 | 125,021,764 | 60,529,178 | |
| 4 | Gross proceeds in reserve funds | 6,005,354 | | 6,005,354 | |
| 5 | Capitalized interest from proceeds | | | | |
| 6 | Proceeds in refunding escrow | | | | |
| 7 | Issuance costs from proceeds | 1,105,000 | 633,004 | 837,899 | |
| 8 | Credit enhancement from proceeds | 1,153,592 | 1,153,592 | | |
| 9 | Working capital expenditures from proceeds | | | | |
| 10 | Capital expenditures from proceeds | 127,250,347 | 9,260,268 | 6,160,859 | |
| 11 | Other spent proceeds | 113,975 | 113,975 | 47,525,000 | |
| 12 | Other unspent proceeds | | | | |
| 13 | Year of substantial completion | 2009 | 2009 | 2009 | |

| | | A | | B | | C | | D | |
|---|---|---|---|---|---|---|---|---|---|
| | | Yes | No | Yes | No | Yes | No | Yes | No |
| 14 | Were the bonds issued as part of a current refunding issue? | | X | X | | X | | | |
| 15 | Were the bonds issued as part of an advance refunding issue? | | X | | X | | X | | |
| 16 | Has the final allocation of proceeds been made? | X | | | X | X | | | |
| 17 | Does the organization maintain adequate books and records to support the final allocation of proceeds? | X | | X | | X | | | |

## Part III Private Business Use

| | | A | | B | | C | | D | |
|---|---|---|---|---|---|---|---|---|---|
| | | Yes | No | Yes | No | Yes | No | Yes | No |
| 1 | Was the organization a partner in a partnership, or a member of an LLC, which owned property financed by tax-exempt bonds? | | X | | X | | X | | |
| 2 | Are there any lease arrangements that may result in private business use of bond-financed property? | | X | | X | | X | | |

## Part III Private Business Use *(Continued)*

| | | A | | B | | C | | D | |
|---|---|---|---|---|---|---|---|---|---|
| | | Yes | No | Yes | No | Yes | No | Yes | No |
| 3a | Are there any management or service contracts that may result in private business use? | X | | X | | X | | | |
| b | Are there any research agreements that may result in private business use of bond-financed property? | X | | X | | X | | | |
| c | Does the organization routinely engage bond counsel or other outside counsel to review any management or service contracts or research agreements relating to the financed property? | X | | X | | X | | | |
| 4 | Enter the percentage of financed property used in a private business use by entities other than a section 501(c)(3) organization or a state or local government ▶ | 4 400 % | | 0 200 % | | 1 800 % | | | |
| 5 | Enter the percentage of financed property used in a private business use as a result of unrelated trade or business activity carried on by your organization, another section 501(c)(3) organization, or a state or local government ▶ | | | | | | | | |
| 6 | Total of lines 4 and 5 | 4 400 % | | 0 200 % | | 1 800 % | | | |
| 7 | Has the organization adopted management practices and procedures to ensure the post-issuance compliance of its tax-exempt bond liabilities? | X | | X | | X | | | |

## Part IV Arbitrage

| | | A | | B | | C | | D | |
|---|---|---|---|---|---|---|---|---|---|
| | | Yes | No | Yes | No | Yes | No | Yes | No |
| 1 | Has a Form 8038-T, Arbitrage Rebate, Yield Reduction and Penalty in Lieu of Arbitrage Rebate, been filed with respect to the bond issue? | | X | | X | | X | | |
| 2 | Is the bond issue a variable rate issue? | | X | X | | | X | | |
| 3a | Has the organization or the governmental issuer entered into a hedge with respect to the bond issue? | | X | X | | | X | | |
| b | Name of provider | UBS AG | | UBS AG | | | | | |
| c | Term of hedge | 25 800000000000 | | 25 800000000000 | | | | | |
| d | Was the hedge superintegrated? | | X | | X | | | | |
| e | Was a hedge terminated? | | X | | X | | | | |
| 4a | Were gross proceeds invested in a GIC? | X | | | X | | X | | |
| b | Name of provider | WELLS FARGO BANK NA | | | | | | | |
| c | Term of GIC | 2 000000000000 | | | | | | | |
| d | Was the regulatory safe harbor for establishing the fair market value of the GIC satisfied? | X | | | | | | | |
| 5 | Were any gross proceeds invested beyond an available temporary period? | | X | | X | | X | | |
| 6 | Did the bond issue qualify for an exception to rebate? | X | | X | | | X | | |

## Part V Supplemental Information

Complete this part to provide additional information for responses to questions on Schedule K (see instructions)

| Identifier | Return Reference | Explanation |
|---|---|---|
| | | |
| | | |
| | | |

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**SCHEDULE O**
(Form 990 or 990-EZ)

Department of the Treasury
Internal Revenue Service

# Supplemental Information to Form 990 or 990-EZ

**Complete to provide information for responses to specific questions on Form 990 or to provide any additional information.**
**▶ Attach to Form 990 or 990-EZ.**

OMB No 1545-0047

**2010**

**Open to Public Inspection**

**Name of the organization**
SALEM HOSPITAL

**Employer identification number**
93-0579722

| Identifier | Return Reference | Explanation |
|---|---|---|
| FORM 990, PART VI, SECTION B, LINE 11 | | THE GOVERNANCE COMMITTEE OF THE BOARD OF TRUSTEES REVIEWS THE 990 IT IS THEN FORWARDED TO THE ENTIRE BOARD OF TRUSTEES |

| Identifier | Return Reference | Explanation |
|---|---|---|
| | FORM 990, PART VI, SECTION B, LINE 12C | ON AN ANNUAL BASIS THE SECRETARY OF THE HOSPITAL SHALL SEND TO EACH PERSON WHO IS A TRUSTEE, OFFICER, OR MEMBER OF A COMMITTEE, AND TO THOSE EMPLOYEES OF THE HOSPITAL AS THE BOARD MAY DETERMINE, A COPY OF THE POLICY REGARDING CONFLICTS OF INTEREST, TOGETHER WITH A QUESTIONNAIRE INQUIRING AS TO CONFLICTS, TO BE COMPLETED A AND RETURNED TO THE SECRETARY BY THE TRUSTEE, OFFICER, COMMITTEE MEMBER OR EMPLOYEE PRIOR TO THE BEGINNING OF EACH CALENDAR YEAR |

| Identifier | Return Reference | Explanation |
|---|---|---|
| | FORM 990, PART VI, SECTION B, LINE 15 | EXECUTIVE COMPENSATION AT SALEM HOSPITAL IS DESIGNED TO ALLOW THE ORGANIZATION TO RECRUIT AND RETAIN QUALIFIED SENIOR LEADERS THE GOVERNANCE COMMITTEE OF THE SALEM HOSPITAL BOARD OF TRUSTEES, NONE OF WHOM IS A SALEM HOSPITAL EMPLOYEE, ENGAGES ONE OR MORE INDEPENDENT CONSULTANTS TO PROVIDE MARKET DATA ON EXECUTIVE COMPENSATION, INCLUDING BENEFITS, FOR THE CEO AND OTHER EXECUTIVES IN SIMILAR ROLES AT COMPARABLE ORGANIZATIONS THIS INFORMATION IS USED BY THE GOVERNANCE COMMITTEE IN ITS DISCUSSIONS AND DECISIONS ON CEO COMPENSATION THE CEO, IN CONJUNCTION WITH OTHER SALARY SURVEY OR PUBLIC INFORMATION AND THE INDEPENDENT CONSULTANT, ENSURES THAT EACH EXECUTIVE'S COMPENSATION IS COMPETITIVE IN THE MARKET FOR SIMILAR POSITIONS AT COMPARABLE ORGANIZATIONS |

| Identifier | Return Reference | Explanation |
|---|---|---|
| | FORM 990, PART VI, SECTION C, LINE 19 | THE CONFLICT OF INTEREST POLICY AND GOVERNING DOCUMENTS ARE AVAILABLE ON THE HOSPITAL WEBSITE. |

| Identifier | Return Reference | Explanation |
|---|---|---|
| CHANGES IN NET ASSETS OR FUND BALANCES | FORM 990, PART XI, LINE 5 | NET UNREALIZED LOSSES ON INVESTMENTS -11,566,383 CHANGE IN FAIR VALUE OF INTEREST RATE SWAP AGREEMENT -3,490,707 CHANGE IN NET BENEFIT COST -666,155 CHANGE IN BENEFICIAL INTEREST IN FOUNDATION -118,601 GAIN ON DISCONTINUED OPERATIONS 388,729 EQUITY TRANSFERS -3,306,667 TOTAL TO FORM 990, PART XI, LINE 5 -18,759,784 |

| Identifier | Return Reference | Explanation |
|---|---|---|
| | FORM 990, PART XII, LINE 2C | NO CHANGE FROM PRIOR YEAR |

# SCHEDULE R (Form 990)

Department of the Treasury
Internal Revenue Service

## Related Organizations and Unrelated Partnerships

▶ Complete if the organization answered "Yes" to Form 990, Part IV, line 33, 34, 35, 36, or 37.
▶ Attach to Form 990. ▶ See separate instructions.

OMB No 1545-0047

**2010**

**Open to Public Inspection**

**Name of the organization**
SALEM HOSPITAL

**Employer identification number**
93-0579722

## Part I Identification of Disregarded Entities (Complete if the organization answered "Yes" on Form 990, Part IV, line 33.)

| (a) Name, address, and EIN of disregarded entity | (b) Primary activity | (c) Legal domicile (state or foreign country) | (d) Total income | (e) End-of-year assets | (f) Direct controlling entity |
|---|---|---|---|---|---|
| **(1)** MWVP INC<br>570 LIBERTY ST SE STE 200<br>SALEM, OR 97301<br>12-3456789 | HOLDS LAND | OR | 0 | 5,128,708 | SALEM HEALTH |
| | | | | | |
| | | | | | |
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## Part II Identification of Related Tax-Exempt Organizations (Complete if the organization answered "Yes" on Form 990, Part IV, line 34 because it had one or more related tax-exempt organizations during the tax year.)

| (a) Name, address, and EIN of related organization | (b) Primary activity | (c) Legal domicile (state or foreign country) | (d) Exempt Code section | (e) Public charity status (if section 501(c)(3)) | (f) Direct controlling entity | (g) Section 512(b)(13) controlled organization | |
|---|---|---|---|---|---|---|---|
| | | | | | | Yes | No |
| **(1)** SALEM HOSPITAL FOUNDATION<br>890 OAK STREET SE<br>SALEM, OR 97301<br>23-7002687 | SUPPORTS SALEM HOSPITAL | OR | 501(C)(3) | 7 | SALEM HEALTH | | No |
| **(2)** SALEM HOSPITAL AUXILIARY<br>890 OAK STREET SE<br>SALEM, OR 97301<br>93-1081113 | SUPPORTS SALEM HOSPITAL | OR | 501(C)(3) | 9 | N/A | | No |
| **(3)** SALEM HEALTH<br>890 OAK STREET SE<br>SALEM, OR 97301<br>93-0823471 | LEASES LAND TO SALEM HOSPITAL | OR | 501(C)(3) | 11 TYPE 1 | N/A | | No |
| **(4)** WEST VALLEY HOSPITAL<br>525 SOUTHEAST WASHINGTON STREET<br>DALLAS, OR 97338<br>43-1960221 | HOSPITAL | OR | 501(C)(3) | 3 | SALEM HEALTH | | No |
| **(5)** WEST VALLEY HOSPITAL FOUNDATION<br>525 SOUTHEAST WASHINGTON STREET<br>DALLAS, OR 97338<br>93-1298564 | SUPPORTS WEST VALLEY HOSPITAL | OR | 501(C)(3) | 11 TYPE 1 | SALEM HEALTH | | No |
| **(6)** WILLAMETTE VALLEY INSURANCE COMPANY<br>745 FORT STREET<br>HONOLULU, HI 96813<br>20-1836190 | CAPTIVE INSURANCE | HI | 501(C)(3) | 11 TYPE 1 | SALEM HEALTH | | No |
| **(7)** WILLAMETTE VALLEY PROFESSIONAL SERVICES<br>890 OAK STREET SE<br>SALEM, OR 97301<br>75-3175249 | BILLING SERVICE FOR PROFESSIONAL FEES | OR | 501(C)(3) | 3 | SALEM HEALTH | | No |

**Part III** **Identification of Related Organizations Taxable as a Partnership** (Complete if the organization answered "Yes" on Form 990, Part IV, line 34 because it had one or more related organizations treated as a partnership during the tax year.)

| (a) Name, address, and EIN of related organization | (b) Primary activity | (c) Legal domicile (state or foreign country) | (d) Direct controlling entity | (e) Predominant income (related, unrelated, excluded from tax under sections 512-514) | (f) Share of total income | (g) Share of end-of-year assets | (h) Disproportionate allocations? Yes | (h) No | (i) Code V—UBI amount in box 20 of Schedule K-1 (Form 1065) | (j) General or managing partner? Yes | (j) No | (k) Percentage ownership |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **(1)** OREGON COMMUNITY IMAGING LLC<br><br>2925 RYAN DR SE<br>SALEM, OR97301<br>20-2683062 | MEDICAL IMAGING COOPERATIVE | OR | SALEM HOSPITAL | RELATED | -31,420 | 19,263 | | No | | Yes | | 50 000 % |
| **(2)** SALEM CARDIO DIAGNOSTICS<br><br>665 WINTER STREET SE<br>SALEM, OR97301<br>93-0579722 | CARDIO DIAGNOSTICS | OR | SALEM HOSPITAL | RELATED | | | | No | | Yes | | 100 000 % |
| | | | | | | | | | | | | |
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**Part IV** **Identification of Related Organizations Taxable as a Corporation or Trust** (Complete if the organization answered "Yes" on Form 990, Part IV, line 34 because it had one or more related organizations treated as a corporation or trust during the tax year.)

| (a) Name, address, and EIN of related organization | (b) Primary activity | (c) Legal domicile (state or foreign country) | (d) Direct controlling entity | (e) Type of entity (C corp, S corp, or trust) | (f) Share of total income | (g) Share of end-of-year assets | (h) Percentage ownership |
|---|---|---|---|---|---|---|---|
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## Part V Transactions With Related Organizations (Complete if the organization answered "Yes" on Form 990, Part IV, line 34, 35, 35A, or 36.)

**Note.** Complete line 1 if any entity is listed in Parts II, III or IV

| | | Yes | No |
|---|---|---|---|
| **1** During the tax year, did the orgranization engage in any of the following transactions with one or more related organizations listed in Parts II-IV? | | | |
| **a** Receipt of **(i)** interest **(ii)** annuities **(iii)** royalties **(iv)** rent from a controlled entity | 1a | Yes | |
| **b** Gift, grant, or capital contribution to other organization(s) | 1b | Yes | |
| **c** Gift, grant, or capital contribution from other organization(s) | 1c | Yes | |
| **d** Loans or loan guarantees to or for other organization(s) | 1d | Yes | |
| **e** Loans or loan guarantees by other organization(s) | 1e | | No |
| **f** Sale of assets to other organization(s) | 1f | | No |
| **g** Purchase of assets from other organization(s) | 1g | | No |
| **h** Exchange of assets | 1h | | No |
| **i** Lease of facilities, equipment, or other assets to other organization(s) | 1i | | No |
| **j** Lease of facilities, equipment, or other assets from other organization(s) | 1j | Yes | |
| **k** Performance of services or membership or fundraising solicitations for other organization(s) | 1k | | No |
| **l** Performance of services or membership or fundraising solicitations by other organization(s) | 1l | | No |
| **m** Sharing of facilities, equipment, mailing lists, or other assets | 1m | Yes | |
| **n** Sharing of paid employees | 1n | Yes | |
| **o** Reimbursement paid to other organization for expenses | 1o | Yes | |
| **p** Reimbursement paid by other organization for expenses | 1p | Yes | |
| **q** Other transfer of cash or property to other organization(s) | 1q | Yes | |
| **r** Other transfer of cash or property from other organization(s) | 1r | Yes | |

**2** If the answer to any of the above is "Yes," see the instructions for information on who must complete this line, including covered relationships and transaction thresholds

| (a) Name of other organization | (b) Transaction type(a-r) | (c) Amount involved | (d) Method of determining amount involved |
|---|---|---|---|
| (1) See Additional Data Table | | | |
| (2) | | | |
| (3) | | | |
| (4) | | | |
| (5) | | | |
| (6) | | | |

**Part VI** **Unrelated Organizations Taxable as a Partnership** (Complete if the organization answered "Yes" on Form 990, Part IV, line 37.)

Provide the following information for each entity taxed as a partnership through which the organization conducted more than five percent of its activities (measured by total assets or gross revenue) that was not a related organization See instructions regarding exclusion for certain investment partnerships

| (a) Name, address, and EIN of entity | (b) Primary activity | (c) Legal domicile (state or foreign country) | (d) Are all partners section 501(c)(3) organizations? | | (e) Share of end-of-year assets | (f) Disproprtionate allocations? | | (g) Code V—UBI amount in box 20 of Schedule K-1 (Form 1065) | (h) General or managing partner? | |
|---|---|---|---|---|---|---|---|---|---|---|
| | | | Yes | No | | Yes | No | | Yes | No |
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## Part VII Supplemental Information

Complete this part to provide additional information for responses to questions on Schedule R (see instructions)

| Identifier | Return Reference | Explanation |
|---|---|---|

**Additional Data**

Return to Form

**Software ID:**
**Software Version:**
**EIN:** 93-0579722
**Name:** SALEM HOSPITAL

**Form 990, Schedule R, Part II - Identification of Related Tax-Exempt Organizations**

| (a) Name, address, and EIN of related organization | (b) Primary activity | (c) Legal domicile (state or foreign country) | (d) Exempt Code section | (e) Public charity status (if section 501(c)(3)) | (f) Direct controlling entity | (g) Section 512(b)(13) controlled organization | |
|---|---|---|---|---|---|---|---|
| | | | | | | Yes | No |
| SALEM HOSPITAL FOUNDATION<br>890 OAK STREET SE<br>SALEM, OR97301<br>23-7002687 | SUPPORTS SALEM HOSPITAL | OR | 501(C)(3) | 7 | SALEM HEALTH | | No |
| SALEM HOSPITAL AUXILIARY<br>890 OAK STREET SE<br>SALEM, OR97301<br>93-1081113 | SUPPORTS SALEM HOSPITAL | OR | 501(C)(3) | 9 | N/A | | No |
| SALEM HEALTH<br>890 OAK STREET SE<br>SALEM, OR97301<br>93-0823471 | LEASES LAND TO SALEM HOSPITAL | OR | 501(C)(3) | 11 TYPE 1 | N/A | | No |
| WEST VALLEY HOSPITAL<br>525 SOUTHEAST WASHINGTON STREET<br>DALLAS, OR97338<br>43-1960221 | HOSPITAL | OR | 501(C)(3) | 3 | SALEM HEALTH | | No |
| WEST VALLEY HOSPITAL FOUNDATION<br>525 SOUTHEAST WASHINGTON STREET<br>DALLAS, OR97338<br>93-1298564 | SUPPORTS WEST VALLEY HOSPITAL | OR | 501(C)(3) | 11 TYPE 1 | SALEM HEALTH | | No |
| WILLAMETTE VALLEY INSURANCE COMPANY<br>745 FORT STREET<br>HONOLULU, HI96813<br>20-1836190 | CAPTIVE INSURANCE | HI | 501(C)(3) | 11 TYPE 1 | SALEM HEALTH | | No |
| WILLAMETTE VALLEY PROFESSIONAL SERVICES<br>890 OAK STREET SE<br>SALEM, OR97301<br>75-3175249 | BILLING SERVICE FOR PROFESSIONAL FEES | OR | 501(C)(3) | 3 | SALEM HEALTH | | No |

**Form 990, Schedule R, Part V - Transactions With Related Organizations**

| | (a) Name of other organization | (b) Transaction type(a-r) | (c) Amount Involved ($) | (d) Method of determining amount involved |
|---|---|---|---|---|
| (1) | SALEM HOSPITAL FOUNDATION | C | 1,281,110 | |
| (2) | WILLAMETTE VALLEY PROFESSIONAL SERVICES | O | 1,198,993 | |
| (3) | WEST VALLEY HOSPITAL | D | 3,902,837 | |
| (4) | WEST VALLEY HOSPITAL | P | 1,687,821 | |
| (5) | SALEM HOSPITAL FOUNDATION | P | 450,486 | |
| (6) | WILLAMETTE VALLEY PROFESSIONAL SERVICES | Q | 3,306,667 | |
| (7) | WILLAMETTE VALLEY INSURANCE COMPANY | P | 292,826 | |
| (8) | WILLAMETTE VALLEY INSURANCE COMPANY | Q | 2,000,000 | |

KPMG

# SALEM HEALTH

Consolidated Financial Statements
and Additional Information

September 30, 2011 and 2010

(With Independent Auditors' Report Thereon)

**SALEM HEALTH**

**Table of Contents**

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

# Independent Auditors' Report

The Board of Trustees
Salem Health

We have audited the accompanying consolidated balance sheets of Salem Health and subsidiaries (Oregon nonprofit corporations) (collectively, the Corporation) as of September 30, 2011 and 2010, and the related consolidated statements of operations, changes in net assets, and cash flows for the years then ended These consolidated financial statements are the responsibility of the Corporation's management 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 financial statements are free of material misstatement An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Corporation's internal control over financial reporting Accordingly, we express no such opinion An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation We believe that our audits provide a reasonable basis for our opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Salem Health and subsidiaries as of September 30, 2011 and 2010, and the results of their operations and their cash flows for the years then ended, in conformity with U S generally accepted accounting principles

Our audits were made for the purpose of forming an opinion on the basic consolidated financial statements taken 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 basic consolidated financial statements Such information has been subjected to the auditing procedures applied in the audits of the basic consolidated financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic consolidated financial statements taken as a whole

KPMG LLP

January 19, 2012

**SALEM HEALTH**

Consolidated Balance Sheets

September 30, 2011 and 2010

| Assets | | 2011 | 2010 |
|---|---|---|---|
| Current assets | | | |
| Cash and cash equivalents | $ | 997,930 | 12,077,184 |
| Patient accounts receivable, less allowance for doubtful accounts of $18,372,715 in 2011 and $17,701,293 in 2010 | | 74,502,922 | 72,362,190 |
| Other receivables | | 9,821,266 | 4,308,633 |
| Supplies inventory | | 6,293,000 | 6,041,711 |
| Prepaid expenses and other | | 6,320,497 | 7,108,035 |
| Total current assets | | 97,935,615 | 101,897,753 |
| Assets limited as to use (notes 2, 4, and 11) | | 303,752,396 | 280,196,705 |
| Property and equipment, net (notes 2 and 5) | | 458,823,106 | 464,668,320 |
| Rental and other property held for future development, net of accumulated depreciation of $2,494,199 in 2011 and $2,412,633 in 2010 | | 15,524,435 | 16,330,139 |
| Other noncurrent assets | | 4,390,454 | 5,257,834 |
| Total assets | $ | 880,426,006 | 868,350,751 |
| **Liabilities and Net Assets** | | | |
| Current liabilities | | | |
| Accounts payable | $ | 25,647,018 | 24,460,171 |
| Construction accounts payable | | 3,072,323 | 3,629,643 |
| Accrued liabilities | | | |
| Payroll, payroll taxes, and withholdings | | 6,031,233 | 12,438,779 |
| Paid time off | | 12,871,302 | 12,859,186 |
| Other | | 5,275,577 | 6,059,626 |
| Estimated third-party payor settlements, net | | 4,115,577 | 3,043,525 |
| Current portion of long-term debt | | 8,507,390 | 3,224,838 |
| Current portion of estimated medical malpractice claims liability | | 1,274,560 | 1,717,119 |
| Total current liabilities | | 66,794,980 | 67,432,887 |
| Long-term debt, net of current portion (notes 6 and 11) | | 299,996,018 | 307,905,691 |
| Accrued postretirement healthcare benefits | | 8,253,436 | 7,849,037 |
| Fair value of interest rate swap agreement (notes 7 and 11) | | 17,912,225 | 14,421,517 |
| Other long-term liabilities | | 45,821 | 72,800 |
| Estimated medical malpractice claims liability, net of current portion | | 9,691,605 | 8,134,399 |
| Total liabilities | | 402,694,085 | 405,816,331 |
| Net assets | | | |
| Unrestricted | | 472,988,132 | 457,785,678 |
| Temporarily restricted | | 2,525,040 | 2,535,992 |
| Permanently restricted | | 2,218,749 | 2,212,750 |
| Total net assets | | 477,731,921 | 462,534,420 |
| Total liabilities and net assets | $ | 880,426,006 | 868,350,751 |

See accompanying notes to consolidated financial statements

**SALEM HEALTH**

Consolidated Statements of Operations

Years ended September 30, 2011 and 2010

| | 2011 | 2010 |
|---|---|---|
| Operating revenue | | |
| Net patient service revenue | $ 579,303,732 | 539,538,928 |
| Other revenue | 19,881,311 | 16,341,849 |
| Net assets released from restriction used for operations | 457,897 | 558,756 |
| Total operating revenue | 599,642,940 | 556,439,533 |
| Operating expenses | | |
| Labor and benefits | 295,114,593 | 274,149,301 |
| Medical and other supplies | 96,740,300 | 90,348,701 |
| Purchased services and other | 64,979,165 | 61,973,668 |
| Depreciation | 42,371,298 | 39,902,251 |
| Provision for bad debts | 36,141,753 | 32,881,257 |
| Professional fees | 25,229,953 | 23,101,327 |
| Interest and amortization | 13,253,933 | 13,568,149 |
| Insurance | 4,367,073 | 3,282,526 |
| Total operating expenses | 578,198,068 | 539,207,180 |
| Excess of revenue over expenses from operations | 21,444,872 | 17,232,353 |
| Other income | | |
| Investment income, net | 2,003,844 | 9,118,549 |
| Other, net | 561,981 | 167,275 |
| Total other income, net | 2,565,825 | 9,285,824 |
| Excess of revenue over expenses | 24,010,697 | 26,518,177 |
| Change in net unrealized gain or loss on other-than-trading securities | (5,046,625) | 4,683,268 |
| Change in fair value of interest rate swap agreement | (3,490,707) | (4,955,486) |
| Change in postretirement benefit obligation | (716,327) | 2,600,823 |
| Discontinued operations | 388,729 | (268,549) |
| Contributions for property and equipment | — | 73,612 |
| Net assets released from restriction used for property and equipment | 56,687 | 426,178 |
| Change in unrestricted net assets | $ 15,202,454 | 29,078,023 |

See accompanying notes to consolidated financial statements

**SALEM HEALTH**

Consolidated Statements of Changes in Net Assets

Years ended September 30, 2011 and 2010

| | Unrestricted | Temporarily restricted | Permanently restricted | Total |
|---|---|---|---|---|
| Net assets at September 30, 2009 | $ 428,707,655 | 2,571,936 | 2,211,650 | 433,491,241 |
| Excess of revenue over expenses | 26,518,177 | — | — | 26,518,177 |
| Change in net unrealized gain on other-than-trading securities | 4,683,268 | 15,497 | — | 4,698,765 |
| Change in fair value of interest rate swap agreement | (4,955,486) | — | — | (4,955,486) |
| Change in postretirement benefit obligation | 2,600,823 | — | — | 2,600,823 |
| Loss on discontinued operations | (268,549) | — | — | (268,549) |
| Contributions for property and equipment | 73,612 | — | — | 73,612 |
| Net assets released from restriction used for property and equipment | 426,178 | (426,178) | — | — |
| Restricted contributions | — | 617,573 | 1,100 | 618,673 |
| Temporarily restricted investment and other income, net | — | 315,920 | — | 315,920 |
| Net assets released from restrictions for operations | — | (558,756) | — | (558,756) |
| Change in net assets | 29,078,023 | (35,944) | 1,100 | 29,043,179 |
| Net assets at September 30, 2010 | 457,785,678 | 2,535,992 | 2,212,750 | 462,534,420 |
| Excess of revenue over expenses | 24,010,697 | — | — | 24,010,697 |
| Change in net unrealized loss on other-than-trading securities | (5,046,626) | (96,338) | — | (5,142,964) |
| Change in fair value of interest rate swap agreement | (3,490,707) | — | — | (3,490,707) |
| Change in postretirement benefit obligation | (716,327) | — | — | (716,327) |
| Gain on discontinued operations | 388,730 | — | — | 388,730 |
| Net assets released from restriction used for property and equipment | 56,687 | (56,687) | — | — |
| Restricted contributions | — | 569,793 | 5,999 | 575,792 |
| Temporarily restricted investment and other income, net | — | 30,177 | — | 30,177 |
| Net assets released from restrictions for operations | — | (457,897) | — | (457,897) |
| Change in net assets | 15,202,454 | (10,952) | 5,999 | 15,197,501 |
| Net assets at September 30, 2011 | $ 472,988,132 | 2,525,040 | 2,218,749 | 477,731,921 |

See accompanying notes to consolidated financial statements

**SALEM HEALTH**

Consolidated Statements of Cash Flows

Years ended September 30, 2011 and 2010

| | 2011 | 2010 |
|---|---|---|
| Cash flows from operating activities | | |
| Change in net assets | $ 15,197,501 | 29,043,179 |
| Adjustments to reconcile change in net assets to net cash provided by operating activities | | |
| Depreciation and amortization | 42,857,591 | 40,708,903 |
| Provision for bad debts | 36,141,753 | 32,881,257 |
| Change in net unrealized (gains) losses on other-than-trading securities | 5,046,625 | (4,683,268) |
| Change in net unrealized (gains) losses on fair value option investments | 6,908,365 | (3,761,532) |
| Change in fair value of interest rate swap agreement | 3,490,708 | 4,955,485 |
| Restricted contributions for property and equipment | — | (175,700) |
| Unrestricted contributions for property and equipment | — | (73,612) |
| Permanently restricted contributions | (5,999) | (1,100) |
| Loss (gain) on disposal of property and equipment, including discontinued operations, net | (647,069) | (937,400) |
| Equity in earnings of joint venture, net of distributions | — | (497,238) |
| Changes in operating assets and liabilities | | |
| Patient accounts receivable | (38,282,485) | (40,112,284) |
| Other receivables | (5,512,633) | (2,891,213) |
| Supplies inventory | (251,289) | (162,480) |
| Prepaid expenses | 1,020,709 | (2,554,402) |
| Other noncurrent assets | 1,134,170 | 493,028 |
| Accounts payable | 1,186,847 | 10,514,118 |
| Accrued liabilities | (7,179,479) | 4,166,942 |
| Estimated third-party payor settlements, net | 1,072,052 | 413,177 |
| Accrued postretirement healthcare benefits | 404,399 | (2,180,528) |
| Other long-term liabilities | (26,979) | (287,428) |
| Estimated medical malpractice claims liability | 1,114,647 | (107,500) |
| Net cash provided by operating activities | 63,669,434 | 64,750,404 |
| Cash flows from investing activities | | |
| Purchases of investments | (77,602,010) | (91,370,217) |
| Proceeds from sales of investments | 42,091,329 | 63,279,665 |
| Purchases of property and equipment and rental and other property | (37,001,296) | (30,032,144) |
| Proceeds from sales of property and equipment and rental and other property, including discontinued operations | 1,002,703 | 1,238,491 |
| Net cash used in investing activities | (71,509,274) | (56,884,205) |
| Cash flows from financing activities | | |
| Proceeds from issuance of notes payable | — | 1,827,402 |
| Repayment of tax-exempt bonds | (1,460,000) | — |
| Repayment of other long-term debt | (1,597,184) | (4,618,882) |
| Debt issuance costs paid | (188,229) | — |
| Restricted contributions for property and equipment | — | 175,700 |
| Permanently restricted contributions | 5,999 | 1,100 |
| Net cash used in financing activities | (3,239,414) | (2,614,680) |
| Net (decrease) increase in cash and cash equivalents | (11,079,254) | 5,251,519 |
| Cash and cash equivalents at beginning of year | 12,077,184 | 6,825,665 |
| Cash and cash equivalents at end of year | $ 997,930 | 12,077,184 |
| Supplemental disclosure of cash flow information | | |
| Cash paid for interest | $ 12,765,331 | 13,094,729 |
| Supplemental disclosure of noncash financing activities | | |
| Noncash financing | $ 655,794 | — |

See accompanying notes to consolidated financial statements

## (1) Organization and Principles of Consolidation

Salem Health and subsidiaries (collectively, the Corporation) is an Oregon nonprofit corporation 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 Hospital (Salem) and West Valley Hospital (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 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 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

## (2) 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 revenues 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 debt instruments with original maturities of three months or less, excluding assets limited as to use Cash equivalents totaled approximately $148,000 and $241,000 at September 30, 2011 and 2010, 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 $250,000 At September 30, 2011 and 2010, 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 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 approximated management's expectations 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 mix of receivables from significant third-party payors as of September 30, 2011 and 2010 was as follows

| | 2011 | 2010 |
|---|---|---|
| Medicare | 36% | 37% |
| Medicaid | 15 | 12 |
| Private pay | 11 | 13 |
| Commercial and other payors | 38 | 38 |

The mix of gross patient service revenue from significant third-party payors as of September 30, 2011 and 2010 was as follows

| | 2011 | 2010 |
|---|---|---|
| Medicare | 46% | 47% |
| Medicaid | 14 | 13 |
| Private pay | 6 | 6 |
| Commercial and other payors | 34 | 34 |

### *(d) Supplies Inventory*

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



(Continued)

*(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 4 and 11)

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 under 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 available-for-sale, other-than-trading securities at September 30, 2011 and 2010 The Corporation has elected the fair value option under FASB ASC 825-10 for certain of its investment securities as discussed at note 11 Unrestricted unrealized gains and losses on other-than-trading investments for which the fair value option has not been elected are excluded from the excess of revenues over expenses unless they are considered other-than-temporarily impaired

For each of the investment categories classified as other-than-trading and 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 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 fiscal years ended September 30, 2011 and 2010, 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, common stocks, equity mutual funds, and collateralized pass-through securities (note 4) 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 significantly change 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 30 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 revenues 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 revenues over expenses from operations. Other income (loss) includes net investment income, change in unrealized gains and losses on investment securities for those that elected the fair value option under FASB ASC 825-10, any other-than-temporary impairment of 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 other-than-trading 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.



(Continued)

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 program reimburses West Valley on the basis of its current allowable costs. The Medicaid program primarily reimburses the Hospitals at prospectively determined rates for inpatient and outpatient services, similar to MS-DRGs. 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, 2006 and the Medicaid fiscal intermediaries through September 30, 2006. West Valley's cost reports have both been audited and final settled by the Medicare fiscal intermediaries through September 30, 2008 and the Medicaid fiscal intermediaries through September 30, 2008.

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 revenues 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.



(Continued)

***(k) Income Taxes***

The Corporation, Salem, SHF, WVHF, WVPS, and WVIC are tax-exempt organizations pursuant to Internal Revenue Code (IRC) Section 501(c)(3) West Valley has applied with the Internal Revenue Service for tax-exempt status pursuant to IRC Section 501(c)(3), and management believes that such status will be granted 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, *Accounting for Uncertainty in Income Taxes – an interpretation of FASB Statement No 109* Management has not recorded a provision as unrelated business income, if any, is immaterial to the consolidated financial statements

***(l) New Accounting Pronouncements***

In August 2010, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No 2010-24, *Health Care Entities – Presentation of Insurance Claims and Related Insurance Recoveries*, which clarifies that insurance recoveries should not be netted against a related claim liability The claim liability amount should be calculated without consideration of insurance recoveries This standard is effective for the 2012 fiscal year The adoption of this standard will not have a material impact on the Corporation's consolidated financial statements

In August 2010, the FASB issued ASU No 2010-23, *Health Care Entities – Measuring Charity Care for Disclosure*, which requires a standardized process be used by healthcare entities that provide charity care to determine the measurement basis Cost will be used as the measurement basis for disclosure purposes and should be broken down between direct and indirect costs for providing charity care This standard is effective for the 2012 fiscal year The adoption of this standard is not expected to have a material impact on the Corporation's consolidated financial statements

In 2011, the FASB issued ASU No 2011-07, *Presentation and Disclosure of Patient Service Revenue, Provision for Bad Debts, and the Allowance for Doubtful Accounts for Certain Health Care Entities*, which provides financial statement users with greater transparency about a healthcare entity's net patient service revenue and the related allowance for doubtful accounts This Update provides information to assist financial statement users in assessing an entity's sources of net patient service revenue and related changes in its allowance for doubtful accounts The amendments require healthcare entities that recognize significant amounts of patient service revenue at the time the services are rendered even though they do not assess the patient's ability to pay to present the provision for bad debts related to patient service revenue as a deduction from patient service revenue (net of contractual allowances and discounts) on their statement of operations This standard is effective for the 2013 fiscal year Management is currently evaluating the impact on the consolidated financial statements

## (3) 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 2011 and 2010

| | Year ended September 30, 2011 | | |
|---|---|---|---|
| | Estimated costs to provide care | Offsetting revenue | Estimated net cost |
| Services for people in need | | | |
| Charity care | $ 23,601,837 | — | 23,601,837 |
| Medicaid | 86,052,281 | 66,367,852 | 19,684,429 |
| Medicare | 236,233,721 | 187,520,981 | 48,712,740 |
| | $ 345,887,839 | 253,888,833 | 91,999,006 |
| Percentage of total operating expenses | | | 15 9% |

| | Year ended September 30, 2010 | | |
|---|---|---|---|
| | Estimated costs to provide care | Offsetting revenue | Estimated net cost |
| Services for people in need | | | |
| Charity care | $ 23,155,032 | — | 23,155,032 |
| Medicaid | 69,756,722 | 58,744,782 | 11,011,940 |
| Medicare | 217,161,539 | 179,984,101 | 37,177,438 |
| | $ 310,073,293 | 238,728,883 | 71,344,410 |
| Percentage of total operating expenses | | | 13 2% |

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 $82,000 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 The cost of providing services to Medicaid beneficiaries generally exceeds the reimbursement from these programs

The Hospitals provide services to Medicare beneficiaries for which the cost of treating these patients exceeds the government payments received The cost of services provided under these programs 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

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 2011 and 2010, 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 approximately $153,000 and $179,000 in 2011 and 2010, 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 their 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

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

The Corporation also pays various property taxes that the local governments use to fund healthcare, civil, and education services to the community In addition, Salem Hospital pays a provider tax on hospital patient service revenues that is used to fund the state Medicaid program at an assessed tax rate of 5 25% between the period of July 1, 2011 and September 30, 2011, and an assessed tax rate of 2 32% between the period of October 1, 2010 and June 30, 2011, and an assessed tax rate of 2 32% between the period of July 1, 2010 and September 30, 2010, and an assessed tax rate of 2 80% between the period of October 1, 2009 and June 30, 2010 As a result of these property and business revenue taxes, the Corporation paid approximately $15,672,000 and $12,939,000 in local and state taxes in 2011 and 2010, respectively

## (4) Assets Limited as to Use

Assets limited as to use consisted of the following at September 30, 2011 and 2010

| | 2011 | 2010 |
|---|---|---|
| Internally designated for capital acquisitions and other purposes | | |
| Enhanced cash and short-term fixed income | $ 59,356,868 | 67,713,616 |
| Low duration fixed income | 54,166,531 | 31,674,139 |
| Core fixed income mutual funds | 99,402,845 | 91,919,886 |
| Domestic equity mutual funds | 59,768,954 | 55,547,872 |
| International equity mutual funds | 17,858,012 | 19,386,003 |
| Accrued interest receivable | 517,657 | 535,915 |
| Total internally designated for capital acquisitions and other purposes | 291,070,867 | 266,777,431 |
| Held by the Foundations | | |
| Cash and cash equivalents | 176,531 | 219,431 |
| Low duration fixed income | — | 153,505 |
| Core fixed income mutual funds | 2,649,175 | 3,034,169 |
| Domestic equity mutual funds | 3,266,934 | 3,291,684 |
| International equity mutual funds | 551,351 | 643,024 |
| Accrued interest receivable | 4,307 | 8,163 |
| Total held by the Foundations | 6,648,298 | 7,349,976 |
| Held by trustee | | |
| Cash and cash equivalents | 3,101,072 | 3,116,674 |
| Low duration fixed income | 2,917,298 | 2,938,163 |
| Accrued interest receivable | 14,861 | 14,461 |
| Total held by trustee | 6,033,231 | 6,069,298 |
| Total assets limited as to use | $ 303,752,396 | 280,196,705 |

Enhanced 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

Investment income, net, consisted of the following for the years ended September 30, 2011 and 2010

| | | 2011 | 2010 |
|---|---|---|---|
| Other income (loss) | | | |
| Interest and dividend income | $ | 8,340,592 | 5,160,076 |
| Realized gains on sales of investments, net | | 728,078 | 361,793 |
| Change in net unrealized gains or losses on fair value option investments | | (6,908,365) | 3,761,532 |
| Investment expenses | | (156,461) | (164,852) |
| Investment income, net | $ | 2,003,844 | 9,118,549 |
| Changes in net assets | | | |
| Change in net unrealized gain (loss) on other-than-trading securities | $ | (5,142,964) | 4,698,765 |

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, 2011

| For less than 12 months | | Fair value | Cost basis | Gross unrealized loss |
|---|---|---|---|---|
| Corporate bonds | $ | 11,763,213 | 11,815,506 | 52,293 |
| Fixed income mutual funds | | 41,098,376 | 41,640,591 | 542,215 |
| U S Treasury securities | | 2,321,100 | 2,323,797 | 2,697 |
| U S government agency securities | | 8,469,964 | 8,481,386 | 11,422 |
| Total | $ | 63,652,653 | 64,261,280 | 608,627 |

| For 12 months or longer | | Fair value | Cost basis | Gross unrealized loss |
|---|---|---|---|---|
| Corporate bonds | $ | 205,243 | 210,117 | 4,874 |
| Total | $ | 205,243 | 210,117 | 4,874 |

| Total | | Fair value | Cost basis | Gross unrealized loss |
|---|---|---|---|---|
| Corporate bonds | $ | 11,968,456 | 12,025,623 | 57,167 |
| Fixed income mutual funds | | 41,098,376 | 41,640,591 | 542,215 |
| U S Treasury securities | | 2,321,100 | 2,323,797 | 2,697 |
| U S government agency securities | | 8,469,964 | 8,481,386 | 11,422 |
| | $ | 63,857,896 | 64,471,397 | 613,501 |



(Continued)

The following table summarizes the Corporation's investments that are not accounted for under the fair value option and had unrealized losses as of September 30, 2010

| For less than 12 months | | Fair value | Cost basis | Gross unrealized loss |
|---|---|---|---|---|
| Corporate bonds | $ | 5,817,834 | 5,835,130 | 17,296 |
| U S Treasury securities | | 192,442 | 192,458 | 16 |
| U S government agency securities | | 5,094,943 | 5,100,225 | 5,282 |
| Total | $ | 11,105,219 | 11,127,813 | 22,594 |

| For 12 months or longer | | Fair value | Cost basis | Gross unrealized loss |
|---|---|---|---|---|
| U S government agency securities | $ | 69,339 | 69,639 | 300 |
| Total | $ | 69,339 | 69,639 | 300 |

| Total | | Fair value | Cost basis | Gross unrealized loss |
|---|---|---|---|---|
| Corporate bonds | $ | 5,817,834 | 5,835,130 | 17,296 |
| U S Treasury securities | | 192,442 | 192,458 | 16 |
| U S government agency securities | | 5,164,282 | 5,169,864 | 5,582 |
| | $ | 11,174,558 | 11,197,452 | 22,894 |

The individual securities included in the above tables, which have unrealized losses, 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 Those unrealized losses were primarily driven by changes in interest rates and overall market conditions No adjustments for other-than-temporary impairment were recorded for any securities in 2011 or 2010



(Continued)

## (5) Property and Equipment, Net

Property and equipment consist of the following at September 30, 2011 and 2010

| | 2011 | 2010 |
|---|---|---|
| Land and improvements | $ 42,927,686 | 35,789,643 |
| Buildings and improvements | 466,159,269 | 448,499,831 |
| Equipment | 276,411,148 | 260,132,741 |
| | 785,498,103 | 744,422,215 |
| Less accumulated depreciation | (342,083,358) | (298,764,091) |
| | 443,414,745 | 445,658,124 |
| Construction in progress | 15,408,361 | 19,010,196 |
| Property and equipment, net | $ 458,823,106 | 464,668,320 |

## (6) Long-Term Debt

Long-term debt consisted of the following at September 30, 2011 and 2010

| | 2011 | 2010 |
|---|---|---|
| Hospital Revenue Bonds, Series 2006A, payable in installments from $1,460,000 to $17,040,000 beginning in 2011 through 2036, interest at rates ranging from 4 50% to 5 00% | $ 120,976,736 | 122,577,276 |
| Hospital Revenue Bonds, Series 2008A, payable in installments from $760,000 to $6,145,000 beginning in 2012 through 2023, interest rates ranging from 5 25% to 5 75% | 60,232,197 | 60,317,388 |
| Hospital Revenue Bonds, Series 2008B, payable in installments from $3,575,000 to $6,000,000 beginning in 2019 through 2034, interest at rates resetting every 7 days, the rates were 0 13% and 0 27% as of September 30, 2011 and 2010, respectively | 75,000,000 | 75,000,000 |
| Hospital Revenue Bonds, Series 2008C, payable in installments from $195,000 to $4,820,000 beginning in 2021 through 2036, interest at rates resetting every 7 days, the rates were 0 21% and 1 75% as of September 30, 2011 and 2010, respectively | 50,000,000 | 50,000,000 |
| Tax-exempt obligation, payable in monthly installments beginning in 2006 through 2011, interest at 4 05% | — | 1,128,878 |
| Other | 2,294,475 | 2,106,987 |
| | 308,503,408 | 311,130,529 |
| Less current portion | (8,507,390) | (3,224,838) |
| | $ 299,996,018 | 307,905,691 |



(Continued)

In December 2005, Salem entered into a financing arrangement with the Authority, whereby the Authority obtained $20,631,052 through a tax-exempt financing arrangement with a private commercial lender (tax-exempt obligation) The proceeds from the tax-exempt obligation were primarily used for the acquisition and implementation of new information technology During fiscal 2011, Salem fully repaid all remaining principal and interest on the tax-exempt obligation

In November 2006, Salem entered into a Loan Agreement (the 2006 Agreement) with the Authority whereby the Authority issued $120,000,000 of par amount tax-exempt fixed rate Revenue Bonds and $38,025,000 of par amount 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 approximately $36,175,000 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 $3,122,698, of which $545,208 and $404,668 has been cumulatively amortized and recorded as interest expense in the accompanying consolidated statements of operations for the years ended September 30, 2011 and 2010, respectively The remaining amount of unamortized premium included in long-term debt was $2,436,736 and $2,577,276 as of September 30, 2011 and 2010, respectively

In April 2008, Salem entered into a Syndicated Loan Agreement with various banks whereby the lenders issued a nonrevolving taxable line of credit (the Line of Credit) for $161,500,000, which was to expire within one year of issuance The proceeds of the Line of Credit were used to purchase in lieu of redemption the 2004 Bonds and 2006B Bonds and economically defease these bonds In October and November 2008, Salem refinanced the Line of Credit in full with long-term tax-exempt debt as described in the October 2008 and November 2008 transactions below In addition, Salem canceled the economically defeased 2004 Series and 2006B Series Bonds in October 2008

In October 2008, Salem entered into a Loan Agreement (the October 2008 Agreement) with the Authority, whereby the Authority issued $59,710,000 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 the Line of Credit, to finance various capital projects at Salem, and the remaining $5,971,000 was deposited into a debt service reserve fund The 2008A Bonds were issued at a premium of $777,771, of which $255,574 and $170,382 have been cumulatively amortized and recorded as interest expense in the accompanying consolidated statements of operations for the fiscal years ended September 30, 2011 and 2010, respectively The remaining unamortized premium included in long-term debt was $522,197 and $607,388 as of September 30, 2011 and 2010, 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 2012 ranging from $760,000 to $7,900,000, 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 $75,000,000 of par amount variable rate tax-exempt Revenue Bonds (the 2008B Bonds) with a final maturity of 2034 and $50,000,000 of par amount variable rate

tax-exempt Revenue Bonds (the 2008C Bonds) with a final maturity of 2036. The 2008B and 2008C 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 the nonrevolving Line of Credit and to finance various capital projects at Salem. The Series 2008B and 2008C 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 and 2008C Bonds under separate direct-pay letter-of-credit agreements (the Letters of Credit). The maximum commitment under these Letters of Credit is $76,047,945 and $50,698,631 for the 2008B and 2008C Bonds, respectively. The 2008B Bonds are subject to annual mandatory sinking fund redemptions beginning in 2019 ranging from $3,575,000 to $6,000,000. The 2008C Bonds are subject to annual mandatory sinking fund redemptions beginning in 2021 ranging from $195,000 to $4,820,000. The 2008B and 2008C 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 and 2008C Letters of Credit have 18-month repayment terms and expire in April 2016 and December 2013, respectively.

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 $75,000,000 and converts the variable interest rate to a fixed rate of approximately 3.541%. See note 7 for further information related to Salem's interest management transactions.

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

| | Revenue Bonds | Other | Total |
|---|---|---|---|
| 2012 | $ 7,690,000 | 594,844 | 8,284,844 |
| 2013 | 8,205,000 | 645,078 | 8,850,078 |
| 2014 | 2,445,000 | 503,288 | 2,948,288 |
| 2015 | 8,795,000 | 211,467 | 9,006,467 |
| 2016 | 4,550,000 | 59,999 | 4,609,999 |
| Thereafter | 271,565,000 | 279,798 | 271,844,798 |
| | $ 303,250,000 | 2,294,474 | 305,544,474 |

Interest costs, including amortization of bond premium, in the amounts of approximately $13,254,000 and $13,568,000 were charged to operations during the years ended September 30, 2011 and 2010, respectively.



(Continued)

## (7) Derivative Instruments and Hedging Activities

Salem has certain interest-rate-related derivative instruments 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 does not speculate using derivative instruments The Corporation follows FASB ASC 815-10, *Accounting for Derivative Instruments and Hedging Activities* 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 on the consolidated balance sheets and measure them at fair value

Salem entered into an interest rate management transaction in November 2004 with a total notional amount of $75,000,000 to convert the 2004B Variable Rate Bonds to a fixed rate of 3 541%

In 2009, Salem entered into a new interest rate swap transaction to convert the 2008B variable rate debt into a fixed rate of 3 541% through August 15, 2034 The interest rate swap has a notional amount of $75,000,000 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 The fair value of the interest rate swap at September 30, 2011 and 2010 was a liability of $17,912,225 and $14,421,517, respectively Salem was not required to post collateral against the liability of its interest rate swap during the year ended September 30, 2011 or 2010

## (8) Temporarily Restricted Net Assets

Temporarily restricted net assets were restricted for the following purposes at September 30, 2011 and 2010

| | 2011 | 2010 |
|---|---|---|
| Acquisition or construction of property and equipment for the Hospitals | $ 187,993 | 1,010,087 |
| Specific programs of the Hospitals | 1,663,190 | 928,124 |
| Scholarships | 424,002 | 262,950 |
| Other | 249,855 | 334,831 |
| | $ 2,525,040 | 2,535,992 |

## (9) 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 approximately $11,415,000 and $10,710,000 for the years ended September 30, 2011 and 2010, 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 Effective June 2010, eligibility requirements for the Postretirement Plan were changed, requiring participants to have been hired prior to July 1, 2010 and be 45 or older as of June 30, 2010 Additionally, the years of service requirement was increased to 10 years from the previous service requirement of 5 years 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, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans*, 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, 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 September 30

Effective July 1, 2010, a plan amendment changed eligibility requirements for retirement benefits and retiree contributions for benefits Under FASB ASC 715, a negative plan amendment is a change in existing plan terms that reduces or eliminated benefits attributed to employee services already rendered The reduction in benefits is recognized as a corresponding credit to net assets that first must be used to reduce any remaining prior service costs included in net assets, then to reduce any transition obligation remaining in net assets The excess is amortized as a component of net periodic postretirement benefits using a straight-line amortization over the average remaining years of service to full eligibility for benefits for the active plan participants As a result of the negative plan amendment, a reduction in the plan's accumulated postretirement benefit obligation in the amount of $3,351,959 was recorded as a reduction to unrestricted net assets during the year ended September 30, 2010 In addition, the plan amendment also changed eligibility for retiree benefits to age 45 or older on July 1, 2010 and hired on or before June 30, 2010 This resulted in a plan curtailment The decrease in the accumulated postretirement benefit obligation due to the curtailment is first used to

reduce any unrecognized net loss at the date of the curtailment As a result of the curtailment, a reduction in the plan's accumulated postretirement benefit obligation in the amount of $696,103 was recorded within the plan's net loss for fiscal year ended September 30, 2010, reducing unrestricted net assets

The accrued liability for postretirement benefits at September 30, 2011 and 2010 was as follows

| | | 2011 | 2010 |
|---|---|---|---|
| Change in benefit obligation | | | |
| Benefit obligation at beginning of year | $ | 8,401,631 | 10,812,479 |
| Service cost | | 468,821 | 568,610 |
| Interest cost | | 325,012 | 441,886 |
| Participants' contributions | | 724,474 | 608,652 |
| Plan amendments | | — | (3,351,959) |
| Actuarial loss | | 155,306 | 502,386 |
| Benefits paid | | (1,277,068) | (1,180,423) |
| Benefit obligation at end of year | $ | 8,798,176 | 8,401,631 |
| Change in plan assets | | | |
| Fair value of plan assets at beginning of year | $ | — | — |
| The Hospitals' contributions | | 552,594 | 571,771 |
| Participants' contributions | | 724,474 | 608,652 |
| Benefits paid | | (1,277,068) | (1,180,423) |
| Fair value of plan assets at end of year | $ | — | — |

A reconciliation of the Postretirement Plan's funded status at September 30, 2011 and 2010 to the Hospitals' accrued postretirement healthcare benefits at September 30, 2011 and 2010 was as follows

| | | 2011 | 2010 |
|---|---|---|---|
| Funded status at September 30, 2011 and 2010 | $ | (8,798,176) | (8,401,631) |
| Current portion of accrued postretirement healthcare benefits | | 544,740 | 552,594 |
| Long-term portion of accrued postretirement healthcare benefits at September 30 | $ | (8,253,436) | (7,849,037) |

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



(Continued)

The components of the Hospitals' net periodic postretirement benefit cost included in labor and benefits in the accompanying consolidated statements of operations for the years ended September 30, 2011 and 2010 were as follows

| | | 2011 | 2010 |
|---|---|---|---|
| Service cost | $ | 468,821 | 568,610 |
| Interest cost | | 325,012 | 441,886 |
| Amortization of prior service credit | | (647,025) | (242,872) |
| Amortization of net gain (loss) | | 86,004 | (5,877) |
| Net periodic postretirement benefit cost | $ | 232,812 | 761,747 |

Amounts accumulated in unrestricted net assets in the accompanying consolidated statements of changes of net assets through the years ended September 30, 2011 and 2010 were $1,178,919 and $1,895,246, 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 years ended September 30, 2011 and 2010 were as follows

| | | 2011 | 2010 |
|---|---|---|---|
| Net loss | $ | 69,302 | 508,263 |
| Prior service credit | | — | (3,351,959) |
| Amortization of prior service cost | | 647,025 | 242,872 |
| Total recognized in unrestricted net assets | $ | 716,327 | (2,600,824) |

Weighted average assumptions used to determine benefit obligations for 2011 and 2010 were as follows

| | 2011 | 2010 |
|---|---|---|
| Discount rate | 3 75% | 4 00% |
| Rate of compensation increase | 3 75 | 3 75 |

For actuarial measurement purposes, a 12 0% annual rate of increase in the per capita cost of covered healthcare benefits was assumed for 2011 Thereafter, the rate was assumed to decrease by approximately one percentage point on an annual basis to 6 6% in 2018 and then decrease gradually to 5 1% by 2080



(Continued)

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 years ended September 30, 2011 and 2010

| | 2011 | 2010 |
|---|---|---|
| One-percentage-point increase | | |
| Increase in total of service and interest cost components | $ 74,241 | 98,698 |
| Increase in postretirement benefit obligation | 672,884 | 582,693 |
| One-percentage-point decrease | | |
| Decrease in total of service and interest cost components | $ (67,283) | (87,828) |
| Decrease in postretirement benefit obligation | (616,670) | (534,992) |

Benefit payments, which reflect future service, as appropriate, are expected to be paid as follows for the years ending September 30

| | |
|---|---|
| 2012 | $ 544,740 |
| 2013 | 581,290 |
| 2014 | 645,716 |
| 2015 | 710,234 |
| 2016 | 747,535 |
| 2017 – 2020 | 4,097,179 |

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

## (10) Functional Classification of Expenses

Expenses on a functional basis for the years ended September 30, 2011 and 2010 were approximately as follows

| | 2011 | 2010 |
|---|---|---|
| Healthcare services | $ 517,478,989 | 488,786,252 |
| General and administrative | 60,719,079 | 50,420,928 |
| | $ 578,198,068 | 539,207,180 |

## (11) 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



(Continued)

The fair values of the financial instruments as discussed below as of September 30, 2011 and 2010 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 approximates fair value. The fair value of interest rate swaps 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 the Corporation.

Long-term debt: The carrying amount and fair value of long-term debt were approximately $306,209,000 and $310,887,000, respectively, as of September 30, 2011, and $309,024,000 and $318,211,000, respectively, as of September 30, 2010. 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.



(Continued)

*(b) Fair Value Hierarchy*

The Corporation adopted ASC 810-10 on October 1, 2008 for fair value measurements of financial assets and financial liabilities and for fair value measurements of nonfinancial items that are recognized or disclosed at fair value in the financial statements on a recurring basis ASC 810-10 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 measurements) and the lowest priority to measurements involving significant unobservable inputs (Level 3 measurements) 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



(Continued)

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, 2011

| | | Fair value measurements at reporting date using | | |
|---|---|---|---|---|
| | **September 30, 2011** | **Quoted prices in active markets for identical assets (Level 1)** | **Significant other observable inputs (Level 2)** | **Significant unobservable inputs (Level 3)** |
| Assets | | | | |
| Corporate bonds | $ 20,046,742 | — | 20,046,742 | — |
| Fixed income mutual funds | 131,522,231 | 131,522,231 | — | — |
| U S Treasury securities | 16,338,564 | — | 16,338,564 | — |
| Common stocks and equity mutual funds | 81,445,252 | 81,445,252 | — | — |
| U S government agency securities | 29,175,490 | — | 29,175,490 | — |
| Total | $ 278,528,279 | 212,967,483 | 65,560,796 | — |
| Liabilities | | | | |
| Interest rate swap | $ 17,912,225 | — | 17,912,225 | — |
| Total | $ 17,912,225 | — | 17,912,225 | — |



(Continued)

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, 2010

| | | Fair value measurements at reporting date using | | |
|---|---|---|---|---|
| | September 30, 2010 | Quoted prices in active markets for identical assets (Level 1) | Significant other observable inputs (Level 2) | Significant unobservable inputs (Level 3) |
| Assets | | | | |
| Corporate bonds | $ 27,338,444 | — | 27,338,444 | — |
| Fixed income mutual funds | 103,215,192 | 103,215,192 | — | — |
| U S Treasury securities | 15,366,725 | — | 15,366,725 | — |
| Common stocks and equity mutual funds | 78,868,583 | 78,868,583 | — | — |
| U S government agency securities | 34,413,816 | — | 34,413,816 | — |
| Total | $ 259,202,760 | 182,083,775 | 77,118,985 | — |
| Liabilities | | | | |
| Interest rate swap | $ 14,421,517 | — | 14,421,517 | — |
| Total | $ 14,421,517 | — | 14,421,517 | — |

### *(c) Fair Value Option*

In February 2007, the FASB issued ASC 825-10, which permits entities to choose to measure many financial instruments and certain other items at fair value ASC 825-10 is effective for financial statements issued for the Corporation's fiscal year beginning October 1, 2008 The Corporation elected the fair value option for mutual funds in its equity securities unrestricted investment portfolio effective October 1, 2008 As a result, all unrealized gains and losses on these securities are included in the excess of revenues over expenses The Corporation recorded net unrealized losses of approximately $6,908,000 and net unrealized gains of approximately of $3,762,000 related to those investments under the fair value option in the consolidated statements of operations for the fiscal years ended September 30, 2011 and 2010, respectively There was no impact to the consolidated balance sheet or net assets of the Corporation as a result of the election of the fair value option



(Continued)

## (12) Commitments and Contingencies

### *(a) Medical Malpractice Insurance*

In November 2004, the Corporation formed a captive insurance company domiciled in Hawaii to access the reinsurance markets WVIC provides excess insurance coverage up to a $1,000,000 self-insured retention limit per occurrence and no aggregate limit for healthcare professional liability for Salem effective November 1, 2004 Salem Hospital and West Valley Hospital annually purchase reinsurance coverage for claims up to $34,000,000 in aggregate WVIC provided insurance coverage for West Valley between May 1, 2005 and September 30, 2007 West Valley obtained coverage from a third-party insurer since fiscal year ended September 30, 2008 through the current period WVIC reinsures its risk with several unrelated commercial reinsurers on a claims-made basis retroactive to October 1, 2002 Prior to October 1, 2002, the Corporation owned occurrence-based policies for medical malpractice insurance Reinsurance contracts do not relieve the Corporation from its obligations to policyholders 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 medical malpractice losses recorded at the expected, undiscounted level The Corporation has recorded estimated liabilities for incurred but not reported medical malpractice claims and for deductibles on reported claims aggregating approximately $10,966,000 and $9,852,000 as of September 30, 2011 and 2010, respectively 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

### *(b) Self-Insurance*

The Corporation is self-insured for employee medical and dental claims up to $150,000 per claim 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 approximately $3,266,000 and $3,492,000 as of September 30, 2011 and 2010, 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 The Corporation became self-insured for workers' compensation claims effective in 2009 The Corporation has recorded estimated liabilities for claims in the amount of approximately $1,119,000 and $1,630,000 as of September 30, 2011 and 2010, respectively

### *(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 years ended September 30, 2011 and 2010

### *(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 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

### *(e) Operating Leases*

The Corporation has certain noncancelable operating leases for office equipment The Corporation recorded lease expense of approximately $2,242,000 and $2,430,000, which is included in purchased services and other in the consolidated statements of operations for the years ended September 30, 2011 and 2010, respectively

The following is a schedule of future minimum payments required under the Corporation's operating leases at September 30, 2011

| | |
|---|---|
| 2012 | $ 2,101,511 |
| 2013 | 1,598,139 |
| 2014 | 1,464,654 |
| 2015 | 1,464,654 |
| 2016 | 1,374,014 |
| Thereafter | 4,105,347 |
| | $ 12,108,319 |



(Continued)

## (13) Related-Party Disclosures

The following is a summary of the Corporation's related-party investments at September 30, 2011 and 2010

| Entity | Basis of accounting | Ownership percentage | Investment balance included in the accompanying consolidated balance sheets as of September 30 | | The Corporation's share of income included in the accompanying consolidated statements of operations for the years ended September 30 | |
|---|---|---|---|---|---|---|
| | | | 2011 | 2010 | 2011 | 2010 |
| PPP | Cost method | 0.25% | $ 413,000 | 413,000 | 1,743,000 | 653,000 |
| SCD | Equity method | 100.00 | — | 2,019,000 | — | 497,000 |

### *(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. In January 2004, Salem purchased 9,518 shares of PPP for $75,000. Although Salem's investment in PPP is accounted for under the cost method of accounting, Salem receives periodic distributions of its share of PPP's profits.

### *(b) Salem Cardio Diagnostics, LLC (SCD)*

SCD is an Oregon limited liability company that was formed in February 2008 and whose two members are Salem (50% ownership interest) and Salem Cardiology Imaging, LLC (SCI) (50% ownership interest). SCD was formed to lease space for and develop, own, and operate a cardiology imaging practice. During the fiscal year ended September 30, 2011, Salem purchased SCI's interest in SCD and ceased SCD's operations.

## (14) Subsequent Events

The Corporation evaluated subsequent events after the consolidated balance sheet date of September 30, 2011 through January 19, 2012, which was the date the consolidated financial statements were issued.

Schedule I

**SALEM HEALTH**

Supplemental Schedule - Consolidating Balance Sheet

September 30, 2011

| | Salem Hospital | Salem Hospital Foundation | West Valley Hospital | West Valley Hospital Foundation | Salem Health | Willamette Valley Insurance Corporation | Willamette Valley Professional Services | Consolidating entries | Consolidated |
|---|---|---|---|---|---|---|---|---|---|
| Current assets | | | | | | | | | |
| Cash and cash equivalents | $ 359,578 | 125,573 | 277,646 | 7,250 | 125,092 | 102,791 | — | — | 997,930 |
| Patient accounts receivable, net | 71,683,333 | — | 2,819,589 | — | — | — | — | — | 74,502,922 |
| Intercompany and other receivables | 9,819,643 | 73,935 | 95,687 | — | 49,141 | 91,847 | 47,189 | (356,176) | 9,821,266 |
| Supplies inventory | 5,943,376 | — | 349,624 | — | — | — | — | — | 6,293,000 |
| Prepaid expense and other | 6,208,152 | — | 112,345 | — | — | — | — | — | 6,320,497 |
| Total current assets | 94,014,082 | 199,508 | 3,654,891 | 7,250 | 174,233 | 194,638 | 47,189 | (356,176) | 97,935,615 |
| Due from West Valley Hospital, net | 3,902,837 | — | — | — | — | — | — | (3,902,837) | — |
| Due from Willamette Valley Professional Svc | — | — | — | — | — | — | — | — | — |
| Assets limited as to use, net of current portion | 285,573,040 | 6,428,812 | — | 219,486 | — | 11,531,058 | — | — | 303,752,396 |
| Property and equipment, net | 451,967,196 | — | 5,929,007 | — | 917,063 | — | 9,840 | — | 458,823,106 |
| Rental and other property held for future development, net | 14,114,435 | 1,410,000 | — | — | — | — | — | — | 15,524,435 |
| Other noncurrent assets | 11,812,637 | — | 65,976 | — | — | — | — | (7,488,159) | 4,390,454 |
| Total assets | $ 861,384,227 | 8,038,320 | 9,649,874 | 226,736 | 1,091,296 | 11,725,696 | 57,029 | (11,747,172) | 880,426,006 |



(Continued)

Schedule I

## SALEM HEALTH

Supplemental Schedule - Consolidating Balance Sheet

September 30, 2011

| | Salem Hospital | Salem Hospital Foundation | West Valley Hospital | West Valley Hospital Foundation | Salem Health | Willamette Valley Insurance Corporation | Willamette Valley Professional Services | Consolidating entries | Consolidated |
|---|---|---|---|---|---|---|---|---|---|
| Current liabilities | | | | | | | | | |
| Accounts and intercompany payable | $ 25,168,622 | 125,390 | 520,623 | 903 | — | 187,656 | — | (356,176) | 25,647,018 |
| Construction accounts payable | 2,917,209 | — | 155,114 | — | — | — | — | — | 3,072,323 |
| Accrued liabilities | | | | | | | | | |
| Payroll, payroll taxes, and withholdings | 5,873,421 | — | 157,812 | — | — | — | — | — | 6,031,233 |
| Paid time off | 12,308,637 | — | 562,665 | — | — | — | — | — | 12,871,302 |
| Other | 5,120,485 | — | 155,092 | — | — | — | — | — | 5,275,577 |
| Estimated third-party payor settlements, net | 3,868,731 | — | 246,846 | — | — | — | — | — | 4,115,577 |
| Current portion of long-term debt | 8,414,721 | — | 251,204 | — | — | — | — | (158,535) | 8,507,390 |
| Current portion of estimated medical malpractice claims liability | — | — | — | — | — | 1,274,560 | — | — | 1,274,560 |
| Total current liabilities | 63,671,826 | 125,390 | 2,049,356 | 903 | — | 1,462,216 | — | (514,711) | 66,794,980 |
| Due to Salem Hospital, net | — | — | 3,744,302 | — | — | — | — | (3,744,302) | — |
| Long-term debt, net of current portion | 299,858,344 | — | 137,674 | — | — | — | — | — | 299,996,018 |
| Accrued postretirement healthcare benefits | 7,920,595 | — | 332,841 | — | — | — | — | — | 8,253,436 |
| Fair value of interest rate swap agreement | 17,912,225 | — | — | — | — | — | — | — | 17,912,225 |
| Other long-term liabilities | 35,616 | — | 10,205 | — | — | — | — | — | 45,821 |
| Estimated medical malpractice claims liability | 4,597,467 | — | 467,634 | — | — | 4,626,504 | — | — | 9,691,605 |
| Total liabilities | 393,996,073 | 125,390 | 6,742,012 | 903 | — | 6,088,720 | — | (4,259,013) | 402,694,085 |
| Net assets | | | | | | | | | |
| Unrestricted | 465,602,946 | 3,250,366 | 2,841,887 | 144,608 | 1,091,296 | 5,636,976 | 57,029 | (5,636,976) | 472,988,132 |
| Temporarily restricted | 1,785,208 | 2,451,896 | 65,975 | 73,144 | — | — | — | (1,851,183) | 2,525,040 |
| Permanently restricted | — | 2,210,668 | — | 8,081 | — | — | — | — | 2,218,749 |
| Total net assets | 467,388,154 | 7,912,930 | 2,907,862 | 225,833 | 1,091,296 | 5,636,976 | 57,029 | (7,488,159) | 477,731,921 |
| Total liabilities and net assets | $ 861,384,227 | 8,038,320 | 9,649,874 | 226,736 | 1,091,296 | 11,725,696 | 57,029 | (11,747,172) | 880,426,006 |

See accompanying independent auditors' report

**SALEM HEALTH**

Supplemental Schedule - Consolidating Balance Sheet

September 30, 2010

| | Salem Hospital | Salem Hospital Foundation | West Valley Hospital | West Valley Hospital Foundation | Salem Health | Willamette Valley Insurance Corporation | Willamette Valley Professional Services | Consolidating entries | Consolidated |
|---|---|---|---|---|---|---|---|---|---|
| Current assets | | | | | | | | | |
| Cash and cash equivalents | $ 10,466,802 | 483,293 | 809,934 | 11,821 | 124,788 | 180,546 | — | — | 12,077,184 |
| Patient accounts receivable, net | 69,787,450 | — | 2,574,740 | — | — | — | — | — | 72,362,190 |
| Intercompany and other receivables | 4,467,940 | — | 17,292 | — | 32,457 | — | — | (209,056) | 4,308,633 |
| Supplies inventory | 5,688,249 | — | 353,462 | — | — | — | — | — | 6,041,711 |
| Prepaid expense and other | 7,003,379 | — | 99,768 | — | — | 4,888 | — | — | 7,108,035 |
| Total current assets | 97,413,820 | 483,293 | 3,855,196 | 11,821 | 157,245 | 185,434 | — | (209,056) | 101,897,753 |
| Due from West Valley Hospital, net | 4,514,888 | — | — | — | — | — | — | (4,514,888) | — |
| Due from Willamette Valley Professional Svc | 2,059,122 | — | — | — | — | — | — | (2,059,122) | — |
| Assets limited as to use, net of current portion | 261,587,017 | 7,130,391 | — | 219,585 | — | 11,259,712 | — | — | 280,196,705 |
| Property and equipment, net | 458,800,381 | — | 4,942,430 | — | 917,063 | — | 8,446 | — | 464,668,320 |
| Rental and other property held for future development, net | 14,920,139 | 1,410,000 | — | — | — | — | — | — | 16,330,139 |
| Other noncurrent assets | 13,078,604 | — | 59,762 | — | — | — | — | (7,880,532) | 5,257,834 |
| Total assets | $ 852,373,971 | 9,023,684 | 8,857,388 | 231,406 | 1,074,308 | 11,445,146 | 8,446 | (14,663,598) | 868,350,751 |



(Continued)

Schedule I

**SALEM HEALTH**

Supplemental Schedule - Consolidating Balance Sheet

September 30, 2010

| | Salem Hospital | Salem Hospital Foundation | West Valley Hospital | West Valley Hospital Foundation | Salem Health | Willamette Valley Insurance Corporation | Willamette Valley Professional Services | Consolidating entries | Consolidated |
|---|---|---|---|---|---|---|---|---|---|
| Current liabilities | | | | | | | | | |
| Accounts and intercompany payable | $ 24,040,534 | 74,288 | 414,028 | 10,819 | — | 129,558 | — | (209,056) | 24,460,171 |
| Construction accounts payable | 3,625,098 | — | 4,545 | — | — | — | — | — | 3,629,643 |
| Accrued liabilities | | | | | | | | | |
| Payroll, payroll taxes, and withholdings | 11,932,057 | — | 506,722 | — | — | — | — | — | 12,438,779 |
| Paid time off | 12,289,053 | — | 570,133 | — | — | — | — | — | 12,859,186 |
| Other | 5,746,820 | 8,512 | 304,294 | — | — | — | — | — | 6,059,626 |
| Estimated third-party payor settlements, net | 2,913,525 | — | 130,000 | — | — | — | — | — | 3,043,525 |
| Current portion of long-term debt | 3,137,219 | — | 388,567 | — | — | — | — | (300,948) | 3,224,838 |
| Current portion of estimated medical malpractice claims liability | — | — | — | — | — | 1,717,119 | — | — | 1,717,119 |
| Total current liabilities | 63,684,306 | 82,800 | 2,318,289 | 10,819 | — | 1,846,677 | — | (510,004) | 67,432,887 |
| Due to Salem Hospital, net | — | — | 4,213,940 | — | — | — | 2,059,122 | (6,273,062) | — |
| Long-term debt, net of current portion | 307,675,350 | — | 230,341 | — | — | — | — | — | 307,905,691 |
| Accrued postretirement healthcare benefits | 7,565,877 | — | 283,160 | — | — | — | — | — | 7,849,037 |
| Fair value of interest rate swap agreement | 14,421,517 | — | — | — | — | — | — | — | 14,421,517 |
| Other long-term liabilities | 62,497 | — | 10,303 | — | — | — | — | — | 72,800 |
| Estimated medical malpractice claims liability | 4,075,818 | — | 377,073 | — | — | 3,681,508 | — | — | 8,134,399 |
| Total liabilities | 397,485,365 | 82,800 | 7,433,106 | 10,819 | — | 5,528,185 | 2,059,122 | (6,783,066) | 405,816,331 |
| Net assets | | | | | | | | | |
| Unrestricted | 452,984,797 | 4,272,145 | 1,364,520 | 140,584 | 1,074,308 | 5,916,961 | (2,050,676) | (5,916,961) | 457,785,678 |
| Temporarily restricted | 1,903,809 | 2,464,071 | 59,762 | 71,921 | — | — | — | (1,963,571) | 2,535,992 |
| Permanently restricted | — | 2,204,668 | — | 8,082 | — | — | — | — | 2,212,750 |
| Total net assets | 454,888,606 | 8,940,884 | 1,424,282 | 220,587 | 1,074,308 | 5,916,961 | (2,050,676) | (7,880,532) | 462,534,420 |
| Total liabilities and net assets | $ 852,373,971 | 9,023,684 | 8,857,388 | 231,406 | 1,074,308 | 11,445,146 | 8,446 | (14,663,598) | 868,350,751 |

See accompanying independent auditors' report

Schedule II

**SALEM HEALTH**

Supplemental Schedule - Consolidating Statement of Operations

September 30, 2011

| | Salem Hospital | Salem Hospital Foundation | West Valley Hospital | West Valley Hospital Foundation | Salem Health | Willamette Valley Insurance Corporation | Willamette Valley Professional Services | Consolidating entries | Consolidated |
|---|---|---|---|---|---|---|---|---|---|
| Operating revenue | | | | | | | | | |
| Net patient service revenue | $ 556,069,208 | — | 23,234,524 | — | — | — | — | — | 579,303,732 |
| Other revenues | 21,890,611 | 357,166 | 248,117 | 65,934 | — | 2,000,000 | 31 | (4,680,548) | 19,881,311 |
| Net assets released from restriction used for operations | — | 448,805 | — | 9,092 | — | — | — | — | 457,897 |
| Total operating revenue | 577,959,819 | 805,971 | 23,482,641 | 75,026 | — | 2,000,000 | 31 | (4,680,548) | 599,642,940 |
| Operating expenses | | | | | | | | | |
| Labor and benefits | 282,349,810 | — | 11,697,206 | — | — | — | 1,067,577 | — | 295,114,593 |
| Medical and other supplies | 94,704,047 | 4,405 | 2,078,438 | 1,350 | — | — | 12,954 | (60,894) | 96,740,300 |
| Purchased services and other | 62,749,789 | 1,907,510 | 3,165,502 | 70,029 | — | 412,985 | 89,098 | (3,415,748) | 64,979,165 |
| Depreciation | 41,572,280 | — | 795,074 | — | — | — | 3,944 | — | 42,371,298 |
| Provision for bad debts | 33,668,797 | — | 2,472,956 | — | — | — | — | — | 36,141,753 |
| Professional fees | 23,774,122 | 35,460 | 1,335,952 | — | — | 58,999 | 25,420 | — | 25,229,953 |
| Interest and amortization | 13,238,311 | — | 38,252 | — | — | — | — | (22,630) | 13,253,933 |
| Insurance | 4,190,818 | — | 390,669 | — | — | 1,785,586 | — | (2,000,000) | 4,367,073 |
| Total operating expenses | 556,247,974 | 1,947,375 | 21,974,049 | 71,379 | — | 2,257,570 | 1,198,993 | (5,499,272) | 578,198,068 |
| Operating income (loss) | 21,711,845 | (1,141,404) | 1,508,592 | 3,647 | — | (257,570) | (1,198,962) | 818,724 | 21,444,872 |
| Other income (loss) | | | | | | | | | |
| Investment income (loss), net | 1,926,285 | 64,925 | 1,627 | 1,790 | 303 | 31,544 | — | (22,630) | 2,003,844 |
| Other, net | 265,311 | — | — | — | 16,685 | — | — | 279,985 | 561,981 |
| Total other income (loss), net | 2,191,596 | 64,925 | 1,627 | 1,790 | 16,988 | 31,544 | — | 257,355 | 2,565,825 |
| Excess (deficit) of revenue over (under) expenses | 23,903,441 | (1,076,479) | 1,510,219 | 5,437 | 16,988 | (226,026) | (1,198,962) | 1,076,079 | 24,010,697 |
| Change in net unrealized gain (loss) on other-than-trading securities | (4,989,266) | (1,987) | — | (1,413) | — | (53,959) | — | — | (5,046,625) |
| Change in fair value of interest rate swap agreement | (3,490,707) | — | — | — | — | — | — | — | (3,490,707) |
| Change in postretirement benefit obligation | (666,155) | — | (50,172) | — | — | — | — | — | (716,327) |
| Discontinued operations | 388,729 | — | — | — | — | — | — | — | 388,729 |
| Net asset transfer | (3,306,667) | — | — | — | — | — | 3,306,667 | — | — |
| Contributions for property and equipment | 778,774 | — | 17,320 | — | — | — | — | (796,094) | — |
| Net assets released from restriction used for property and equipment | — | 56,687 | — | — | — | — | — | — | 56,687 |
| Change in unrestricted net assets | $ 12,618,149 | (1,021,779) | 1,477,367 | 4,024 | 16,988 | (279,985) | 2,107,705 | 279,985 | 15,202,454 |

See accompanying independent auditors' report

Schedule II

**SALEM HEALTH**

Supplemental Schedule - Consolidating Statement of Operations

September 30, 2010

| | Salem Hospital | Salem Hospital Foundation | West Valley Hospital | West Valley Hospital Foundation | Salem Health | Willamette Valley Insurance Corporation | Willamette Valley Professional Services | Consolidating entries | Consolidated |
|---|---|---|---|---|---|---|---|---|---|
| Operating revenue | | | | | | | | | |
| Net patient service revenue | $ 519,530,567 | — | 20,008,361 | — | — | — | — | — | 539,538,928 |
| Other revenues | 17,629,493 | 682,586 | 202,256 | 60,790 | — | 2,800,000 | 188 | (5,033,464) | 16,341,849 |
| Net assets released from restriction used for operations | — | 549,219 | — | 9,537 | — | — | — | — | 558,756 |
| Total operating revenue | 537,160,060 | 1,231,805 | 20,210,617 | 70,327 | — | 2,800,000 | 188 | (5,033,464) | 556,439,533 |
| Operating expenses | | | | | | | | | |
| Labor and benefits | 262,430,562 | — | 10,883,097 | — | — | — | 835,642 | — | 274,149,301 |
| Medical and other supplies | 88,764,408 | 10,634 | 1,585,893 | 1,102 | — | — | 22,829 | (36,165) | 90,348,701 |
| Purchased services and other | 59,991,606 | 1,817,625 | 2,740,835 | 59,821 | — | 268,514 | 60,085 | (2,964,818) | 61,973,668 |
| Depreciation | 39,198,793 | — | 700,534 | — | — | — | 2,924 | — | 39,902,251 |
| Provision for bad debts | 31,051,057 | — | 1,830,200 | — | — | — | — | — | 32,881,257 |
| Professional fees | 21,355,919 | 20,129 | 1,662,340 | — | — | 52,665 | 10,274 | — | 23,101,327 |
| Interest and amortization | 13,547,754 | — | 63,314 | — | — | — | — | (42,919) | 13,568,149 |
| Insurance | 4,708,126 | — | 256,072 | — | — | 1,118,328 | — | (2,800,000) | 3,282,526 |
| Total operating expenses | 521,048,225 | 1,848,388 | 19,722,285 | 60,923 | — | 1,439,507 | 931,754 | (5,843,902) | 539,207,180 |
| Operating income (loss) | 16,111,835 | (616,583) | 488,332 | 9,404 | — | 1,360,493 | (931,566) | 810,438 | 17,232,353 |
| Other income (loss) | | | | | | | | | |
| Investment income (loss), net | 8,444,318 | 259,061 | 1,171 | 3,361 | 501 | 453,056 | — | (42,919) | 9,118,549 |
| Other, net | 1,946,576 | — | — | — | 16,685 | — | — | (1,795,986) | 167,275 |
| Total other income (loss), net | 10,390,894 | 259,061 | 1,171 | 3,361 | 17,186 | 453,056 | — | (1,838,905) | 9,285,824 |
| Excess (deficit) of revenue over (under) expenses | 26,502,729 | (357,522) | 489,503 | 12,765 | 17,186 | 1,813,549 | (931,566) | (1,028,467) | 26,518,177 |
| Change in net unrealized gain (loss) on other-than-trading securities | 4,656,729 | 40,825 | — | 3,277 | — | (17,563) | — | — | 4,683,268 |
| Change in fair value of interest rate swap agreement | (4,955,486) | — | — | — | — | — | — | — | (4,955,486) |
| Change in postretirement benefit obligation | 2,407,296 | — | 193,527 | — | — | — | — | — | 2,600,823 |
| Discontinued operations | (268,549) | — | — | — | — | — | — | — | (268,549) |
| Contributions for property and equipment | 757,574 | — | 83,557 | — | — | — | — | (767,519) | 73,612 |
| Net assets released from restriction used for property and equipment | — | 426,178 | — | — | — | — | — | — | 426,178 |
| Change in unrestricted net assets | $ 29,100,293 | 109,481 | 766,587 | 16,042 | 17,186 | 1,795,986 | (931,566) | (1,795,986) | 29,078,023 |

See accompanying independent auditors' report