

Form 5500 Department of the Treasury Internal Revenue Service Department of Labor Employee Benefits Security Administration Pension Benefit Guaranty Corporation	Annual Return/Report of Employee Benefit Plan This form is required to be filed for employee benefit plans under sections 104 and 4065 of the Employee Retirement Income Security Act of 1974 (ERISA) and sections 6047(e), 6057(b), and 6058(a) of the Internal Revenue Code (the Code). ▶ Complete all entries in accordance with the instructions to the Form 5500.	OMB Nos. 1210-0110 1210-0089
		2015
		This Form is Open to Public Inspection

Part I	Annual Report Identification Information
For calendar plan year 2015 or fiscal plan year beginning <u>01/01/2015</u> and ending <u>12/31/2015</u>	
A This return/report is for:	☐ a multiemployer plan; ☐ a multiple-employer plan (Filers checking this box must attach a list of participating employer information in accordance with the form instructions); or ☒ a single-employer plan; ☐ a DFE (specify) ____
B This return/report is:	☐ the first return/report; ☐ the final return/report; ☐ an amended return/report; ☐ a short plan year return/report (less than 12 months).
C If the plan is a collectively-bargained plan, check here.	☐
D Check box if filing under:	☒ Form 5558; ☐ automatic extension; ☐ the DFVC program; ☐ special extension (enter description)

Part II	Basic Plan Information —enter all requested information
1a Name of plan <u>CAPELLA HEALTHCARE, INC. 401(K) RETIREMENT PLAN</u>	1b Three-digit plan number (PN) ▶ <u>001</u> 1c Effective date of plan <u>12/01/2005</u>
2a Plan sponsor's name (employer, if for a single-employer plan) Mailing address (include room, apt., suite no. and street, or P.O. Box) City or town, state or province, country, and ZIP or foreign postal code (if foreign, see instructions) <u>CAPELLA HEALTHCARE INC.</u> <u>TWO CORPORATE CENTER, SUITE 200</u> <u>FRANKLIN, TN 37067-2662</u>	2b Employer Identification Number (EIN) <u>20-2767829</u> 2c Plan Sponsor's telephone number <u>615-746-3011</u> 2d Business code (see instructions) <u>622000</u>

Caution: A penalty for the late or incomplete filing of this return/report will be assessed unless reasonable cause is established.

Under penalties of perjury and other penalties set forth in the instructions, I declare that I have examined this return/report, including accompanying schedules, statements and attachments, as well as the electronic version of this return/report, and to the best of my knowledge and belief, it is true, correct, and complete.

SIGN HERE	<u>Filed with authorized/valid electronic signature.</u>	<u>10/17/2016</u>	<u>CAROLYN SCHNEIDER</u>
	Signature of plan administrator	Date	Enter name of individual signing as plan administrator
SIGN HERE	<u>Filed with authorized/valid electronic signature.</u>	<u>10/17/2016</u>	<u>CAROLYN SCHNEIDER</u>
	Signature of employer/plan sponsor	Date	Enter name of individual signing as employer or plan sponsor
SIGN HERE			
	Signature of DFE	Date	Enter name of individual signing as DFE
Preparer's name (including firm name, if applicable) and address (include room or suite number)			Preparer's telephone number

For Paperwork Reduction Act Notice and OMB Control Numbers, see the instructions for Form 5500.

Form 5500 (2015)
v. 150123

3a Plan administrator's name and address ☒ Same as Plan Sponsor	3b Administrator's EIN 3c Administrator's telephone number <div style="background-color: #cccccc; height: 40px; width: 100%;"></div>
4 If the name and/or EIN of the plan sponsor has changed since the last return/report filed for this plan, enter the name, EIN and the plan number from the last return/report: a Sponsor's name	4b EIN 4c PN
5 Total number of participants at the beginning of the plan year	5 5834
6 Number of participants as of the end of the plan year unless otherwise stated (welfare plans complete only lines 6a(1) , 6a(2) , 6b , 6c , and 6d). a(1) Total number of active participants at the beginning of the plan year..... a(2) Total number of active participants at the end of the plan year b Retired or separated participants receiving benefits..... c Other retired or separated participants entitled to future benefits..... d Subtotal. Add lines 6a(2) , 6b , and 6c e Deceased participants whose beneficiaries are receiving or are entitled to receive benefits..... f Total. Add lines 6d and 6e g Number of participants with account balances as of the end of the plan year (only defined contribution plans complete this item) h Number of participants that terminated employment during the plan year with accrued benefits that were less than 100% vested	6a(1) 5086 6a(2) 2426 6b 28 6c 745 6d 3199 6e 9 6f 3208 6g 3165 6h 71
7 Enter the total number of employers obligated to contribute to the plan (only multiemployer plans complete this item)	7
8a If the plan provides pension benefits, enter the applicable pension feature codes from the List of Plan Characteristics Codes in the instructions: 2E 2F 2G 2J 2K 2R 2T 3H b If the plan provides welfare benefits, enter the applicable welfare feature codes from the List of Plan Characteristics Codes in the instructions:	
9a Plan funding arrangement (check all that apply) (1) ☐ Insurance (2) ☐ Code section 412(e)(3) insurance contracts (3) ☒ Trust (4) ☐ General assets of the sponsor	9b Plan benefit arrangement (check all that apply) (1) ☐ Insurance (2) ☐ Code section 412(e)(3) insurance contracts (3) ☒ Trust (4) ☐ General assets of the sponsor
10 Check all applicable boxes in 10a and 10b to indicate which schedules are attached, and, where indicated, enter the number attached. (See instructions)	
a Pension Schedules (1) ☒ R (Retirement Plan Information) (2) ☐ MB (Multiemployer Defined Benefit Plan and Certain Money Purchase Plan Actuarial Information) - signed by the plan actuary (3) ☐ SB (Single-Employer Defined Benefit Plan Actuarial Information) - signed by the plan actuary	b General Schedules (1) ☒ H (Financial Information) (2) ☐ I (Financial Information – Small Plan) (3) ☐ A (Insurance Information) (4) ☒ C (Service Provider Information) (5) ☒ D (DFE/Participating Plan Information) (6) ☐ G (Financial Transaction Schedules)

Part III	Form M-1 Compliance Information (to be completed by welfare benefit plans)
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11a If the plan provides welfare benefits, was the plan subject to the Form M-1 filing requirements during the plan year? (See instructions and 29 CFR 2520.101-2.) ☐ Yes ☐ No

If "Yes" is checked, complete lines 11b and 11c.

11b Is the plan currently in compliance with the Form M-1 filing requirements? (See instructions and 29 CFR 2520.101-2.) ☐ Yes ☐ No

11c Enter the Receipt Confirmation Code for the 2015 Form M-1 annual report. If the plan was not required to file the 2015 Form M-1 annual report, enter the Receipt Confirmation Code for the most recent Form M-1 that was required to be filed under the Form M-1 filing requirements. (Failure to enter a valid Receipt Confirmation Code will subject the Form 5500 filing to rejection as incomplete.)

Receipt Confirmation Code _____

<div>SCHEDULE C</div> <div>(Form 5500)</div> <div>Department of the Treasury</div> <div>Internal Revenue Service</div> <div>Department of Labor</div> <div>Employee Benefits Security Administration</div> <div>Pension Benefit Guaranty Corporation</div>	<div>Service Provider Information</div> <div>This schedule is required to be filed under section 104 of the Employee Retirement Income Security Act of 1974 (ERISA).</div> <div>▶ File as an attachment to Form 5500.</div>	OMB No. 1210-0110
		2015
		This Form is Open to Public Inspection.

For calendar plan year 2015 or fiscal plan year beginning 01/01/2015 and ending 12/31/2015		
A Name of plan CAPELLA HEALTHCARE, INC. 401(K) RETIREMENT PLAN	B Three-digit plan number (PN) ▶	001
C Plan sponsor's name as shown on line 2a of Form 5500 CAPELLA HEALTHCARE INC.	D Employer Identification Number (EIN) 20-2767829	

Part I	Service Provider Information (see instructions)
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You must complete this Part, in accordance with the instructions, to report the information required for **each person** who received, directly or indirectly, \$5,000 or more in total compensation (i.e., money or anything else of monetary value) in connection with services rendered to the plan or the person's position with the plan during the plan year. If a person received **only** eligible indirect compensation for which the plan received the required disclosures, you are required to answer line 1 but are not required to include that person when completing the remainder of this Part.

1 Information on Persons Receiving Only Eligible Indirect Compensation

- a Check "Yes" or "No" to indicate whether you are excluding a person from the remainder of this Part because they received only eligible indirect compensation for which the plan received the required disclosures (see instructions for definitions and conditions)..... ☒ Yes ☐ No
- b If you answered line 1a "Yes," enter the name and EIN or address of each person providing the required disclosures for the service providers who received only eligible indirect compensation. Complete as many entries as needed (see instructions).

(b) Enter name and EIN or address of person who provided you disclosures on eligible indirect compensation
THE VANGUARD GROUP, INC.
23-1945930

(b) Enter name and EIN or address of person who provided you disclosure on eligible indirect compensation
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2. Information on Other Service Providers Receiving Direct or Indirect Compensation. Except for those persons for whom you answered "Yes" to line 1a above, complete as many entries as needed to list each person receiving, directly or indirectly, \$5,000 or more in total compensation (i.e., money or anything else of value) in connection with services rendered to the plan or their position with the plan during the plan year. (See instructions).

(a) Enter name and EIN or address (see instructions)

THE VANGUARD GROUP, INC.

23-1945930

(b) Service Code(s)	(c) Relationship to employer, employee organization, or person known to be a party-in-interest	(d) Enter direct compensation paid by the plan. If none, enter -0-.	(e) Did service provider receive indirect compensation? (sources other than plan or plan sponsor)	(f) Did indirect compensation include eligible indirect compensation, for which the plan received the required disclosures?	(g) Enter total indirect compensation received by service provider excluding eligible indirect compensation for which you answered "Yes" to element (f). If none, enter -0-.	(h) Did the service provider give you a formula instead of an amount or estimated amount?
15 16 25 33 37 52 99	NONE	98135	Yes ☒ No ☐	Yes ☒ No ☐	0	Yes ☒ No ☐

(a) Enter name and EIN or address (see instructions)

DIMEO SCHNEIDER AND ASSOCIATES, LLC

36-4001764

(b) Service Code(s)	(c) Relationship to employer, employee organization, or person known to be a party-in-interest	(d) Enter direct compensation paid by the plan. If none, enter -0-.	(e) Did service provider receive indirect compensation? (sources other than plan or plan sponsor)	(f) Did indirect compensation include eligible indirect compensation, for which the plan received the required disclosures?	(g) Enter total indirect compensation received by service provider excluding eligible indirect compensation for which you answered "Yes" to element (f). If none, enter -0-.	(h) Did the service provider give you a formula instead of an amount or estimated amount?
27	NONE	64432	Yes ☐ No ☒	Yes ☐ No ☐		Yes ☐ No ☐

(a) Enter name and EIN or address (see instructions)

(b) Service Code(s)	(c) Relationship to employer, employee organization, or person known to be a party-in-interest	(d) Enter direct compensation paid by the plan. If none, enter -0-.	(e) Did service provider receive indirect compensation? (sources other than plan or plan sponsor)	(f) Did indirect compensation include eligible indirect compensation, for which the plan received the required disclosures?	(g) Enter total indirect compensation received by service provider excluding eligible indirect compensation for which you answered "Yes" to element (f). If none, enter -0-.	(h) Did the service provider give you a formula instead of an amount or estimated amount?
			Yes ☐ No ☐	Yes ☐ No ☐		Yes ☐ No ☐

2. Information on Other Service Providers Receiving Direct or Indirect Compensation. Except for those persons for whom you answered "Yes" to line 1a above, complete as many entries as needed to list each person receiving, directly or indirectly, \$5,000 or more in total compensation (i.e., money or anything else of value) in connection with services rendered to the plan or their position with the plan during the plan year. (See instructions).

(a) Enter name and EIN or address (see instructions)

(b) Service Code(s)	(c) Relationship to employer, employee organization, or person known to be a party-in-interest	(d) Enter direct compensation paid by the plan. If none, enter -0-.	(e) Did service provider receive indirect compensation? (sources other than plan or plan sponsor)	(f) Did indirect compensation include eligible indirect compensation, for which the plan received the required disclosures?	(g) Enter total indirect compensation received by service provider excluding eligible indirect compensation for which you answered "Yes" to element (f). If none, enter -0-.	(h) Did the service provider give you a formula instead of an amount or estimated amount?
			Yes ☐ No ☐	Yes ☐ No ☐		Yes ☐ No ☐

(a) Enter name and EIN or address (see instructions)

(b) Service Code(s)	(c) Relationship to employer, employee organization, or person known to be a party-in-interest	(d) Enter direct compensation paid by the plan. If none, enter -0-.	(e) Did service provider receive indirect compensation? (sources other than plan or plan sponsor)	(f) Did indirect compensation include eligible indirect compensation, for which the plan received the required disclosures?	(g) Enter total indirect compensation received by service provider excluding eligible indirect compensation for which you answered "Yes" to element (f). If none, enter -0-.	(h) Did the service provider give you a formula instead of an amount or estimated amount?
			Yes ☐ No ☐	Yes ☐ No ☐		Yes ☐ No ☐

(a) Enter name and EIN or address (see instructions)

(b) Service Code(s)	(c) Relationship to employer, employee organization, or person known to be a party-in-interest	(d) Enter direct compensation paid by the plan. If none, enter -0-.	(e) Did service provider receive indirect compensation? (sources other than plan or plan sponsor)	(f) Did indirect compensation include eligible indirect compensation, for which the plan received the required disclosures?	(g) Enter total indirect compensation received by service provider excluding eligible indirect compensation for which you answered "Yes" to element (f). If none, enter -0-.	(h) Did the service provider give you a formula instead of an amount or estimated amount?
			Yes ☐ No ☐	Yes ☐ No ☐		Yes ☐ No ☐

Part I Service Provider Information (continued)

3 If you reported on line 2 receipt of indirect compensation, other than eligible indirect compensation, by a service provider, and the service provider is a fiduciary or provides contract administrator, consulting, custodial, investment advisory, investment management, broker, or recordkeeping services, answer the following questions for (a) each source from whom the service provider received \$1,000 or more in indirect compensation and (b) each source for whom the service provider gave you a formula used to determine the indirect compensation instead of an amount or estimated amount of the indirect compensation. Complete as many entries as needed to report the required information for each source.

(a) Enter service provider name as it appears on line 2	(b) Service Codes (see instructions)	(c) Enter amount of indirect compensation
THE VANGUARD GROUP, INC.	99	0
(d) Enter name and EIN (address) of source of indirect compensation	(e) Describe the indirect compensation, including any formula used to determine the service provider's eligibility for or the amount of the indirect compensation.	
DODGE & COX 94-1441976	10 BPS 8 BPS	
(a) Enter service provider name as it appears on line 2	(b) Service Codes (see instructions)	(c) Enter amount of indirect compensation
(d) Enter name and EIN (address) of source of indirect compensation	(e) Describe the indirect compensation, including any formula used to determine the service provider's eligibility for or the amount of the indirect compensation.	
(a) Enter service provider name as it appears on line 2	(b) Service Codes (see instructions)	(c) Enter amount of indirect compensation
(d) Enter name and EIN (address) of source of indirect compensation	(e) Describe the indirect compensation, including any formula used to determine the service provider's eligibility for or the amount of the indirect compensation.	

Part II Service Providers Who Fail or Refuse to Provide Information

4 Provide, to the extent possible, the following information for each service provider who failed or refused to provide the information necessary to complete this Schedule.

(a) Enter name and EIN or address of service provider (see instructions)	(b) Nature of Service Code(s)	(c) Describe the information that the service provider failed or refused to provide

Part III **Termination Information on Accountants and Enrolled Actuaries (see instructions)**
(complete as many entries as needed)

a Name:	b EIN:
c Position:	
d Address:	e Telephone:

Explanation:

a Name:	b EIN:
c Position:	
d Address:	e Telephone:

Explanation:

a Name:	b EIN:
c Position:	
d Address:	e Telephone:

Explanation:

a Name:	b EIN:
c Position:	
d Address:	e Telephone:

Explanation:

a Name:	b EIN:
c Position:	
d Address:	e Telephone:

Explanation:

<p style="text-align: center;">SCHEDULE D (Form 5500)</p> <p style="text-align: center; font-size: small;">Department of the Treasury Internal Revenue Service</p> <hr/> <p style="text-align: center; font-size: small;">Department of Labor Employee Benefits Security Administration</p>	<p style="text-align: center;">DFE/Participating Plan Information</p> <p style="text-align: center; font-size: small;">This schedule is required to be filed under section 104 of the Employee Retirement Income Security Act of 1974 (ERISA).</p> <p style="text-align: center;">▶ File as an attachment to Form 5500.</p>	<p style="text-align: center; font-size: small;">OMB No. 1210-0110</p> <hr/> <p style="text-align: center; font-size: large;">2015</p> <hr/> <p style="text-align: center; font-size: small;">This Form is Open to Public Inspection.</p>
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For calendar plan year 2015 or fiscal plan year beginning	01/01/2015	and ending	12/31/2015
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A Name of plan CAPELLA HEALTHCARE, INC. 401(K) RETIREMENT PLAN	B Three-digit plan number (PN) ▶	001

C Plan or DFE sponsor's name as shown on line 2a of Form 5500 CAPELLA HEALTHCARE INC.	D Employer Identification Number (EIN) 20-2767829
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Part I	Information on interests in MTIAs, CCTs, PSAs, and 103-12 IEs (to be completed by plans and DFEs) (Complete as many entries as needed to report all interests in DFEs)
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a	Name of MTIA, CCT, PSA, or 103-12 IE: VANGUARD RET SAVINGS TRUST
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b	Name of sponsor of entity listed in (a): VANGUARD FIDUCIARY TRUST COMPANY
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c EIN-PN 23-2186884-022	d Entity code C	e Dollar value of interest in MTIA, CCT, PSA, or 103-12 IE at end of year (see instructions) 10718877
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a	Name of MTIA, CCT, PSA, or 103-12 IE:
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b	Name of sponsor of entity listed in (a):
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c EIN-PN	d Entity code	e Dollar value of interest in MTIA, CCT, PSA, or 103-12 IE at end of year (see instructions)
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a	Name of MTIA, CCT, PSA, or 103-12 IE:
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b	Name of sponsor of entity listed in (a):
----------	--

c EIN-PN	d Entity code	e Dollar value of interest in MTIA, CCT, PSA, or 103-12 IE at end of year (see instructions)
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a	Name of MTIA, CCT, PSA, or 103-12 IE:
----------	---------------------------------------

b	Name of sponsor of entity listed in (a):
----------	--

c EIN-PN	d Entity code	e Dollar value of interest in MTIA, CCT, PSA, or 103-12 IE at end of year (see instructions)
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a	Name of MTIA, CCT, PSA, or 103-12 IE:
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b	Name of sponsor of entity listed in (a):
----------	--

c EIN-PN	d Entity code	e Dollar value of interest in MTIA, CCT, PSA, or 103-12 IE at end of year (see instructions)
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a	Name of MTIA, CCT, PSA, or 103-12 IE:
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b	Name of sponsor of entity listed in (a):
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c EIN-PN	d Entity code	e Dollar value of interest in MTIA, CCT, PSA, or 103-12 IE at end of year (see instructions)
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a	Name of MTIA, CCT, PSA, or 103-12 IE:
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b	Name of sponsor of entity listed in (a):
----------	--

c EIN-PN	d Entity code	e Dollar value of interest in MTIA, CCT, PSA, or 103-12 IE at end of year (see instructions)
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a	Name of MTIA, CCT, PSA, or 103-12 IE:
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a Name of MTIA, CCT, PSA, or 103-12 IE:**b** Name of sponsor of entity listed in (a):**c** EIN-PN**d** Entity
code**e** Dollar value of interest in MTIA, CCT, PSA, or
103-12 IE at end of year (see instructions)**a** Name of MTIA, CCT, PSA, or 103-12 IE:**b** Name of sponsor of entity listed in (a):**c** EIN-PN**d** Entity
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code**e** Dollar value of interest in MTIA, CCT, PSA, or
103-12 IE at end of year (see instructions)

Part II Information on Participating Plans (to be completed by DFEs)

(Complete as many entries as needed to report all participating plans)

a Plan name**b** Name of
plan sponsor**c** EIN-PN**a** Plan name**b** Name of
plan sponsor**c** EIN-PN**a** Plan name**b** Name of
plan sponsor**c** EIN-PN**a** Plan name**b** Name of
plan sponsor**c** EIN-PN**a** Plan name**b** Name of
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plan sponsor**c** EIN-PN**a** Plan name**b** Name of
plan sponsor**c** EIN-PN**a** Plan name**b** Name of
plan sponsor**c** EIN-PN

SCHEDULE H (Form 5500) <small>Department of the Treasury Internal Revenue Service</small> <small>Department of Labor Employee Benefits Security Administration</small> <small>Pension Benefit Guaranty Corporation</small>	Financial Information This schedule is required to be filed under section 104 of the Employee Retirement Income Security Act of 1974 (ERISA), and section 6058(a) of the Internal Revenue Code (the Code). ► File as an attachment to Form 5500.	<small>OMB No. 1210-0110</small> 2015 This Form is Open to Public Inspection
For calendar plan year 2015 or fiscal plan year beginning <u>01/01/2015</u> and ending <u>12/31/2015</u>		
A Name of plan <u>CAPELLA HEALTHCARE, INC. 401(K) RETIREMENT PLAN</u>	B Three-digit plan number (PN) ►	<u>001</u>
C Plan sponsor's name as shown on line 2a of Form 5500 <u>CAPELLA HEALTHCARE INC.</u>	D Employer Identification Number (EIN) <u>20-2767829</u>	

Part I	Asset and Liability Statement		(a) Beginning of Year	(b) End of Year
1 Current value of plan assets and liabilities at the beginning and end of the plan year. Combine the value of plan assets held in more than one trust. Report the value of the plan's interest in a commingled fund containing the assets of more than one plan on a line-by-line basis unless the value is reportable on lines 1c(9) through 1c(14). Do not enter the value of that portion of an insurance contract which guarantees, during this plan year, to pay a specific dollar benefit at a future date. Round off amounts to the nearest dollar. MTIAs, CCTs, PSAs, and 103-12 IEs do not complete lines 1b(1), 1b(2), 1c(8), 1g, 1h, and 1i. CCTs, PSAs, and 103-12 IEs also do not complete lines 1d and 1e. See instructions.				
	Assets			
a	Total noninterest-bearing cash	1a	15027556	0
b	Receivables (less allowance for doubtful accounts):			
	(1) Employer contributions	1b(1)	1153239	1262576
	(2) Participant contributions	1b(2)	183313	179351
	(3) Other.....	1b(3)		
c	General investments:			
	(1) Interest-bearing cash (include money market accounts & certificates of deposit)	1c(1)		
	(2) U.S. Government securities.....	1c(2)		
	(3) Corporate debt instruments (other than employer securities):			
	(A) Preferred	1c(3)(A)		
	(B) All other.....	1c(3)(B)		
	(4) Corporate stocks (other than employer securities):			
	(A) Preferred	1c(4)(A)		
	(B) Common	1c(4)(B)		
	(5) Partnership/joint venture interests	1c(5)		
	(6) Real estate (other than employer real property)	1c(6)		
	(7) Loans (other than to participants)	1c(7)		
	(8) Participant loans	1c(8)	613196	1719486
	(9) Value of interest in common/collective trusts.....	1c(9)	11964062	10718877
	(10) Value of interest in pooled separate accounts.....	1c(10)		
	(11) Value of interest in master trust investment accounts	1c(11)		
	(12) Value of interest in 103-12 investment entities	1c(12)		
	(13) Value of interest in registered investment companies (e.g., mutual funds).....	1c(13)	119820979	134663185
	(14) Value of funds held in insurance company general account (unallocated contracts).....	1c(14)		
	(15) Other	1c(15)	1578982	1724826

1d Employer-related investments:

		(a) Beginning of Year	(b) End of Year
(1) Employer securities	1d(1)		
(2) Employer real property	1d(2)		
e Buildings and other property used in plan operation	1e		
f Total assets (add all amounts in lines 1a through 1e)	1f	150341327	150268301

Liabilities

g Benefit claims payable	1g		
h Operating payables	1h		
i Acquisition indebtedness	1i		
j Other liabilities	1j		
k Total liabilities (add all amounts in lines 1g through 1j)	1k	0	0

Net Assets

l Net assets (subtract line 1k from line 1f)	1l	150341327	150268301
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Part II Income and Expense Statement

2 Plan income, expenses, and changes in net assets for the year. Include all income and expenses of the plan, including any trust(s) or separately maintained fund(s) and any payments/receipts to/from insurance carriers. Round off amounts to the nearest dollar. MTIAs, CCTs, PSAs, and 103-12 IEs do not complete lines 2a, 2b(1)(E), 2e, 2f, and 2g.

Income

		(a) Amount	(b) Total
a Contributions:			
(1) Received or receivable in cash from: (A) Employers	2a(1)(A)	1262576	
(B) Participants	2a(1)(B)	11699073	
(C) Others (including rollovers)	2a(1)(C)	16666393	
(2) Noncash contributions	2a(2)		
(3) Total contributions. Add lines 2a(1)(A) , (B) , (C) , and line 2a(2)	2a(3)		29628042
b Earnings on investments:			
(1) Interest:			
(A) Interest-bearing cash (including money market accounts and certificates of deposit)	2b(1)(A)		
(B) U.S. Government securities	2b(1)(B)		
(C) Corporate debt instruments	2b(1)(C)		
(D) Loans (other than to participants)	2b(1)(D)		
(E) Participant loans	2b(1)(E)	50313	
(F) Other	2b(1)(F)		
(G) Total interest. Add lines 2b(1)(A) through (F)	2b(1)(G)		50313
(2) Dividends: (A) Preferred stock	2b(2)(A)		
(B) Common stock	2b(2)(B)		
(C) Registered investment company shares (e.g. mutual funds)	2b(2)(C)	5322796	
(D) Total dividends. Add lines 2b(2)(A) , (B) , and (C)	2b(2)(D)		5322796
(3) Rents	2b(3)		
(4) Net gain (loss) on sale of assets: (A) Aggregate proceeds	2b(4)(A)		
(B) Aggregate carrying amount (see instructions)	2b(4)(B)		
(C) Subtract line 2b(4)(B) from line 2b(4)(A) and enter result	2b(4)(C)		0
(5) Unrealized appreciation (depreciation) of assets: (A) Real estate	2b(5)(A)		
(B) Other	2b(5)(B)		
(C) Total unrealized appreciation of assets. Add lines 2b(5)(A) and (B)	2b(5)(C)		0

		(a) Amount	(b) Total
(6) Net investment gain (loss) from common/collective trusts	2b(6)		0
(7) Net investment gain (loss) from pooled separate accounts	2b(7)		
(8) Net investment gain (loss) from master trust investment accounts	2b(8)		
(9) Net investment gain (loss) from 103-12 investment entities	2b(9)		
(10) Net investment gain (loss) from registered investment companies (e.g., mutual funds)	2b(10)		-6724449
c Other income	2c		0
d Total income. Add all income amounts in column (b) and enter total	2d		28276702

Expenses**e** Benefit payment and payments to provide benefits:

(1) Directly to participants or beneficiaries, including direct rollovers	2e(1)	27639933	
(2) To insurance carriers for the provision of benefits	2e(2)		
(3) Other	2e(3)		
(4) Total benefit payments. Add lines 2e(1) through (3)	2e(4)		27639933
f Corrective distributions (see instructions)	2f		549929
g Certain deemed distributions of participant loans (see instructions)	2g		
h Interest expense	2h		
i Administrative expenses: (1) Professional fees	2i(1)		
(2) Contract administrator fees	2i(2)		
(3) Investment advisory and management fees	2i(3)		
(4) Other	2i(4)	159866	
(5) Total administrative expenses. Add lines 2i(1) through (4)	2i(5)		159866
j Total expenses. Add all expense amounts in column (b) and enter total	2j		28349728

Net Income and Reconciliation

k Net income (loss). Subtract line 2j from line 2d	2k		-73026
l Transfers of assets:			
(1) To this plan	2l(1)		0
(2) From this plan	2l(2)		0

Part III Accountant's Opinion

3 Complete lines 3a through 3c if the opinion of an independent qualified public accountant is attached to this Form 5500. Complete line 3d if an opinion is not attached.

a The attached opinion of an independent qualified public accountant for this plan is (see instructions):

(1) ☐ Unqualified (2) ☐ Qualified (3) ☒ Disclaimer (4) ☐ Adverse

b Did the accountant perform a limited scope audit pursuant to 29 CFR 2520.103-8 and/or 103-12(d)?

☒ Yes ☐ No

c Enter the name and EIN of the accountant (or accounting firm) below:

(1) Name: LBMC, PC

(2) EIN: 62-1199757

d The opinion of an independent qualified public accountant is **not attached** because:

(1) ☐ This form is filed for a CCT, PSA, or MTIA. (2) ☐ It will be attached to the next Form 5500 pursuant to 29 CFR 2520.104-50.

Part IV Compliance Questions

4 CCTs and PSAs do not complete Part IV. MTIAs, 103-12 IEs, and GIAs do not complete lines 4a, 4e, 4f, 4g, 4h, 4k, 4m, 4n, or 5. 103-12 IEs also do not complete lines 4j and 4l. MTIAs also do not complete line 4l.

During the plan year:

	Yes	No	N/A	Amount
a Was there a failure to transmit to the plan any participant contributions within the time period described in 29 CFR 2510.3-102? Continue to answer "Yes" for any prior year failures until fully corrected. (See instructions and DOL's Voluntary Fiduciary Correction Program.)	☒	☐	☐	47837
b Were any loans by the plan or fixed income obligations due the plan in default as of the close of the plan year or classified during the year as uncollectible? Disregard participant loans secured by participant's account balance. (Attach Schedule G (Form 5500) Part I if "Yes" is checked.)	☐	☒	☐	

	Yes	No	N/A	Amount
c Were any leases to which the plan was a party in default or classified during the year as uncollectible? (Attach Schedule G (Form 5500) Part II if "Yes" is checked.)		X		
d Were there any nonexempt transactions with any party-in-interest? (Do not include transactions reported on line 4a. Attach Schedule G (Form 5500) Part III if "Yes" is checked.)		X		
e Was this plan covered by a fidelity bond?	X			5000000
f Did the plan have a loss, whether or not reimbursed by the plan's fidelity bond, that was caused by fraud or dishonesty?		X		
g Did the plan hold any assets whose current value was neither readily determinable on an established market nor set by an independent third party appraiser?		X		
h Did the plan receive any noncash contributions whose value was neither readily determinable on an established market nor set by an independent third party appraiser?		X		
i Did the plan have assets held for investment? (Attach schedule(s) of assets if "Yes" is checked, and see instructions for format requirements.)	X			
j Were any plan transactions or series of transactions in excess of 5% of the current value of plan assets? (Attach schedule of transactions if "Yes" is checked, and see instructions for format requirements.)		X		
k Were all the plan assets either distributed to participants or beneficiaries, transferred to another plan, or brought under the control of the PBGC?		X		
l Has the plan failed to provide any benefit when due under the plan?		X		
m If this is an individual account plan, was there a blackout period? (See instructions and 29 CFR 2520.101-3.)		X		
n If 4m was answered "Yes," check the "Yes" box if you either provided the required notice or one of the exceptions to providing the notice applied under 29 CFR 2520.101-3.				
o Did the plan trust incur unrelated business taxable income?				
p Were in-service distributions made during the plan year?				

5a Has a resolution to terminate the plan been adopted during the plan year or any prior plan year?

If "Yes," enter the amount of any plan assets that reverted to the employer this year. ☐ Yes ☐ No Amount:

5b If, during this plan year, any assets or liabilities were transferred from this plan to another plan(s), identify the plan(s) to which assets or liabilities were transferred. (See instructions.)

5b(1) Name of plan(s)	5b(2) EIN(s)	5b(3) PN(s)

5c If the plan is a defined benefit plan, is it covered under the PBGC insurance program (see ERISA section 4021)? ☐ Yes ☐ No ☐ Not determined

Part V Trust Information

6a Name of trust

6b Trust's EIN

6c Name of trustee or custodian

6d Trustee's or custodian's telephone number

<div>SCHEDULE R (Form 5500) Department of the Treasury Internal Revenue Service Department of Labor Employee Benefits Security Administration Pension Benefit Guaranty Corporation</div>	<div>Retirement Plan Information</div> <div>This schedule is required to be filed under section 104 and 4065 of the Employee Retirement Income Security Act of 1974 (ERISA) and section 6058(a) of the Internal Revenue Code (the Code).</div> <div>► File as an attachment to Form 5500.</div>	<div>OMB No. 1210-0110</div> <div>2015</div> <div>This Form is Open to Public Inspection.</div>
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For calendar plan year 2015 or fiscal plan year beginning 01/01/2015 and ending 12/31/2015

<div>A Name of plan CAPELLA HEALTHCARE, INC. 401(K) RETIREMENT PLAN</div>	<div>B Three-digit plan number (PN) ► 001</div>
<div>C Plan sponsor's name as shown on line 2a of Form 5500 CAPELLA HEALTHCARE INC.</div>	<div>D Employer Identification Number (EIN) 20-2767829</div>

Part I	Distributions
--------	---------------

All references to distributions relate only to payments of benefits during the plan year.

1	Total value of distributions paid in property other than in cash or the forms of property specified in the instructions.....	1	
2	Enter the EIN(s) of payor(s) who paid benefits on behalf of the plan to participants or beneficiaries during the year (if more than two, enter EINs of the two payors who paid the greatest dollar amounts of benefits): EIN(s): 23-2186884		
Profit-sharing plans, ESOPs, and stock bonus plans, skip line 3.			
3	Number of participants (living or deceased) whose benefits were distributed in a single sum, during the plan year.....	3	

Part II	Funding Information (If the plan is not subject to the minimum funding requirements of section 412 of the Internal Revenue Code or ERISA section 302, skip this Part)
---------	---

4	Is the plan administrator making an election under Code section 412(d)(2) or ERISA section 302(d)(2)?	☐ Yes	☐ No	☐ N/A
If the plan is a defined benefit plan, go to line 8.				
5	If a waiver of the minimum funding standard for a prior year is being amortized in this plan year, see instructions and enter the date of the ruling letter granting the waiver. Date: Month _____ Day _____ Year _____ If you completed line 5, complete lines 3, 9, and 10 of Schedule MB and do not complete the remainder of this schedule.			
6	a Enter the minimum required contribution for this plan year (include any prior year accumulated funding deficiency not waived)	6a		
	b Enter the amount contributed by the employer to the plan for this plan year	6b		
	c Subtract the amount in line 6b from the amount in line 6a. Enter the result (enter a minus sign to the left of a negative amount).....	6c		
If you completed line 6c, skip lines 8 and 9.				
7	Will the minimum funding amount reported on line 6c be met by the funding deadline?	☐ Yes	☐ No	☐ N/A
8	If a change in actuarial cost method was made for this plan year pursuant to a revenue procedure or other authority providing automatic approval for the change or a class ruling letter, does the plan sponsor or plan administrator agree with the change?	☐ Yes	☐ No	☐ N/A

Part III	Amendments
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9	If this is a defined benefit pension plan, were any amendments adopted during this plan year that increased or decreased the value of benefits? If yes, check the appropriate box. If no, check the "No" box.	☐ Increase	☐ Decrease	☐ Both	☐ No
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Part IV	ESOPs (see instructions). If this is not a plan described under Section 409(a) or 4975(e)(7) of the Internal Revenue Code, skip this Part.
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10	Were unallocated employer securities or proceeds from the sale of unallocated securities used to repay any exempt loan?	☐ Yes	☐ No
11	a Does the ESOP hold any preferred stock?	☐ Yes	☐ No
	b If the ESOP has an outstanding exempt loan with the employer as lender, is such loan part of a "back-to-back" loan? (See instructions for definition of "back-to-back" loan.)	☐ Yes	☐ No
12	Does the ESOP hold any stock that is not readily tradable on an established securities market?	☐ Yes	☐ No

For Paperwork Reduction Act Notice and OMB Control Numbers, see the instructions for Form 5500.

Schedule R (Form 5500) 2015
v. 150123

Part V Additional Information for Multiemployer Defined Benefit Pension Plans

13 Enter the following information for each employer that contributed more than 5% of total contributions to the plan during the plan year (measured in dollars). See instructions. *Complete as many entries as needed to report all applicable employers.*

a Name of contributing employer

b EIN

c Dollar amount contributed by employer

d Date collective bargaining agreement expires (If employer contributes under more than one collective bargaining agreement, check box ☐ and see instructions regarding required attachment. Otherwise, enter the applicable date.) Month _____ Day _____ Year _____

e Contribution rate information (If more than one rate applies, check this box ☐ and see instructions regarding required attachment. Otherwise, complete lines 13e(1) and 13e(2).)

(1) Contribution rate (in dollars and cents) _____

(2) Base unit measure: ☐ Hourly ☐ Weekly ☐ Unit of production ☐ Other (specify): _____

a Name of contributing employer

b EIN

c Dollar amount contributed by employer

d Date collective bargaining agreement expires (If employer contributes under more than one collective bargaining agreement, check box ☐ and see instructions regarding required attachment. Otherwise, enter the applicable date.) Month _____ Day _____ Year _____

e Contribution rate information (If more than one rate applies, check this box ☐ and see instructions regarding required attachment. Otherwise, complete lines 13e(1) and 13e(2).)

(1) Contribution rate (in dollars and cents) _____

(2) Base unit measure: ☐ Hourly ☐ Weekly ☐ Unit of production ☐ Other (specify): _____

a Name of contributing employer

b EIN

c Dollar amount contributed by employer

d Date collective bargaining agreement expires (If employer contributes under more than one collective bargaining agreement, check box ☐ and see instructions regarding required attachment. Otherwise, enter the applicable date.) Month _____ Day _____ Year _____

e Contribution rate information (If more than one rate applies, check this box ☐ and see instructions regarding required attachment. Otherwise, complete lines 13e(1) and 13e(2).)

(1) Contribution rate (in dollars and cents) _____

(2) Base unit measure: ☐ Hourly ☐ Weekly ☐ Unit of production ☐ Other (specify): _____

a Name of contributing employer

b EIN

c Dollar amount contributed by employer

d Date collective bargaining agreement expires (If employer contributes under more than one collective bargaining agreement, check box ☐ and see instructions regarding required attachment. Otherwise, enter the applicable date.) Month _____ Day _____ Year _____

e Contribution rate information (If more than one rate applies, check this box ☐ and see instructions regarding required attachment. Otherwise, complete lines 13e(1) and 13e(2).)

(1) Contribution rate (in dollars and cents) _____

(2) Base unit measure: ☐ Hourly ☐ Weekly ☐ Unit of production ☐ Other (specify): _____

a Name of contributing employer

b EIN

c Dollar amount contributed by employer

d Date collective bargaining agreement expires (If employer contributes under more than one collective bargaining agreement, check box ☐ and see instructions regarding required attachment. Otherwise, enter the applicable date.) Month _____ Day _____ Year _____

e Contribution rate information (If more than one rate applies, check this box ☐ and see instructions regarding required attachment. Otherwise, complete lines 13e(1) and 13e(2).)

(1) Contribution rate (in dollars and cents) _____

(2) Base unit measure: ☐ Hourly ☐ Weekly ☐ Unit of production ☐ Other (specify): _____

a Name of contributing employer

b EIN

c Dollar amount contributed by employer

d Date collective bargaining agreement expires (If employer contributes under more than one collective bargaining agreement, check box ☐ and see instructions regarding required attachment. Otherwise, enter the applicable date.) Month _____ Day _____ Year _____

e Contribution rate information (If more than one rate applies, check this box ☐ and see instructions regarding required attachment. Otherwise, complete lines 13e(1) and 13e(2).)

(1) Contribution rate (in dollars and cents) _____

(2) Base unit measure: ☐ Hourly ☐ Weekly ☐ Unit of production ☐ Other (specify): _____

14	Enter the number of participants on whose behalf no contributions were made by an employer as an employer of the participant for:		
	a The current year	14a	
	b The plan year immediately preceding the current plan year	14b	
	c The second preceding plan year	14c	
15	Enter the ratio of the number of participants under the plan on whose behalf no employer had an obligation to make an employer contribution during the current plan year to:		
	a The corresponding number for the plan year immediately preceding the current plan year	15a	
	b The corresponding number for the second preceding plan year	15b	
16	Information with respect to any employers who withdrew from the plan during the preceding plan year:		
	a Enter the number of employers who withdrew during the preceding plan year	16a	
	b If line 16a is greater than 0, enter the aggregate amount of withdrawal liability assessed or estimated to be assessed against such withdrawn employers	16b	
17	If assets and liabilities from another plan have been transferred to or merged with this plan during the plan year, check box and see instructions regarding supplemental information to be included as an attachment. ☐		

Part VI	Additional Information for Single-Employer and Multiemployer Defined Benefit Pension Plans
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18	If any liabilities to participants or their beneficiaries under the plan as of the end of the plan year consist (in whole or in part) of liabilities to such participants and beneficiaries under two or more pension plans as of immediately before such plan year, check box and see instructions regarding supplemental information to be included as an attachment ☐
19	If the total number of participants is 1,000 or more, complete lines (a) through (c)
	a Enter the percentage of plan assets held as: Stock: _____% Investment-Grade Debt: _____% High-Yield Debt: _____% Real Estate: _____% Other: _____%
	b Provide the average duration of the combined investment-grade and high-yield debt: ☐ 0-3 years ☐ 3-6 years ☐ 6-9 years ☐ 9-12 years ☐ 12-15 years ☐ 15-18 years ☐ 18-21 years ☐ 21 years or more
	c What duration measure was used to calculate line 19(b)? ☐ Effective duration ☐ Macaulay duration ☐ Modified duration ☐ Other (specify): _____

Part VII	IRS Compliance Questions
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20a Is the plan a 401(k) plan?	☐ Yes	☐ No
20b If "Yes," how does the 401(k) plan satisfy the nondiscrimination requirements for employee deferrals and employer matching contributions (as applicable) under sections 401(k)(3) and 401(m)(2)?	☐ Design-based safe harbor method	☐ ADP/ACP test
20c If the ADP/ACP test is used, did the 401(k) plan perform ADP/ACP testing for the plan year using the "current year testing method" for nonhighly compensated employees (Treas. Reg sections 1.401(k)-2(a)(2)(ii) and 1.401(m)-2(a)(2)(ii))?	☐ Yes	☐ No
21a Check the box to indicate the method used by the plan to satisfy the coverage requirements under section 410(b):	☐ Ratio percentage test	☐ Average benefit test
21b Does the plan satisfy the coverage and nondiscrimination tests of sections 410(b) and 401(a)(4) by combining this plan with any other plans under the permissive aggregation rules?	☐ Yes	☐ No
22a Has the plan been timely amended for all required tax law changes?	☐ Yes	☐ No ☐ N/A
22b Date the last plan amendment/restatement for the required tax law changes was adopted ____/____/____. Enter the applicable code _____. (See instructions for tax law changes and codes).		
22c If the plan sponsor is an adopter of a pre-approved master and prototype (M&P) or volume submitter plan that is subject to a favorable IRS opinion or advisory letter, enter the date of that favorable letter ____/____/____ and the letter's serial number _____.		
22d If the plan is an individually-designed plan and received a favorable determination letter from the IRS, enter the date of the plan's last favorable determination letter ____/____/____.		
23 Is the Plan maintained in a U.S. territory (i.e., Puerto Rico (if no election under ERISA section 1022(i)(2) has been made), American Samoa, Guam, the Commonwealth of the Northern Mariana Islands or the U.S. Virgin Islands)?	☐ Yes	☐ No

CAPELLA HEALTHCARE, INC. 401(K) RETIREMENT PLAN

Financial Statements and Supplemental Schedules

December 31, 2015 and 2014

(With Independent Auditors' Report Thereon)



CAPELLA HEALTHCARE, INC. 401(K) RETIREMENT PLAN

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Independent Auditors' Report

The Plan Administration Committee
Capella Healthcare, Inc. 401(k) Retirement Plan:

Report on the Financial Statements

We were engaged to audit the accompanying financial statements of the Capella Healthcare, Inc. 401(k) Retirement Plan (the "Plan"), which comprise the statements of net assets available for benefits as of December 31, 2015 and 2014, the related statements of changes in net assets available for benefits for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on conducting the audits in accordance with auditing standards generally accepted in the United States of America. Because of the matter described in the *Basis for Disclaimer of Opinion* paragraph, however, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion.

Basis for Disclaimer of Opinion

As permitted by 29 CFR 2520.103-8 of the Department of Labor's ("DOL") Rules and Regulations for Reporting and Disclosure under the Employee Retirement Income Security Act of 1974 ("ERISA"), the plan administrator instructed us not to perform, and we did not perform, any auditing procedures with respect to the information summarized in Note 3, which was certified by State Street Bank and Trust Company and Vanguard Fiduciary Trust Company, the trustees of the Plan, except for comparing such information with the related information included in the financial statements. We have been informed by the plan administrator that Vanguard Fiduciary Trust Company held the Plan's investment assets and executed investment transactions as of and for the year ended December 31, 2015 and State Street Bank and Trust Company held the Plan's investment assets and executed investment transactions as of and for the year ended December 31, 2014. The plan administrator has obtained certifications from the trustees as of and for the years ended December 31, 2015 and 2014, that the information provided to the plan administrator by the trustees is complete and accurate.

Disclaimer of Opinion

Because of the significance of the matter described in the *Basis for Disclaimer of Opinion* paragraph, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion. Accordingly, we do not express an opinion on these financial statements.

Other Matter

The supplemental schedule of assets (held at end of year) and schedule of delinquent participant contributions as of and for the year ended December 31, 2015 are required by the DOL's Rules and Regulation for Reporting and Disclosure under ERISA and are presented for the purpose of additional analysis and are not a required part of the financial statements. Because of the significance of the matter described in the *Basis for Disclaimer of Opinion* paragraph, we do not express an opinion on these supplemental schedules.

Report on Form and Content in Compliance with Department of Labor's Rules and Regulations

The form and content of the information included in the financial statements and supplemental schedules, other than that derived from the information certified by the trustees, have been audited by us in accordance with auditing standards generally accepted in the United States of America and, in our opinion, are presented in compliance with the DOL's Rules and Regulations for Reporting and Disclosure under ERISA.

LBMC, P.C.

Brentwood, Tennessee
October 14, 2016

CAPELLA HEALTHCARE, INC. 401(K) RETIREMENT PLAN

Statements of Net Assets Available for Benefits

December 31, 2015 and 2014

	<u>2015</u>	<u>2014</u>
Assets:		
Cash	\$ <u>-</u>	\$ <u>15,027,555</u>
Investments, at fair value:		
Mutual funds	134,663,185	119,820,979
Collective trust fund	10,718,877	11,964,062
Self-directed investments	<u>1,724,826</u>	<u>1,578,982</u>
Total investments, at fair value	<u>147,106,888</u>	<u>133,364,023</u>
Receivables:		
Plan Sponsor contributions	1,262,576	1,153,239
Participant contributions	179,351	183,314
Notes receivable from participants	<u>1,719,486</u>	<u>613,196</u>
Total receivables	<u>3,161,413</u>	<u>1,949,749</u>
Net assets available for benefits	\$ <u>150,268,301</u>	\$ <u>150,341,327</u>

See accompanying notes to the financial statements.

CAPELLA HEALTHCARE, INC. 401(K) RETIREMENT PLAN

Statements of Changes in Net Assets Available for Benefits

Years Ended December 31, 2015 and 2014

	<u>2015</u>	<u>2014</u>
Additions (reductions) to net assets attributed to:		
Net change resulting from investment activity:		
Net appreciation (depreciation) in fair value of investments	\$ (6,724,449)	\$ 7,114,727
Dividend income	<u>5,322,796</u>	<u>2,675,840</u>
Net investment income (loss)	(1,401,653)	9,790,567
Less investment expenses	<u>64,432</u>	<u>29,906</u>
Net change resulting from investment activity	<u>(1,466,085)</u>	<u>9,760,661</u>
Interest income on notes receivable from participants	<u>50,313</u>	<u>36,924</u>
Contributions:		
Plan Sponsor	1,262,576	1,153,239
Participants	11,699,073	9,475,986
Participant rollovers	<u>16,666,393</u>	<u>584,477</u>
Total contributions	<u>29,628,042</u>	<u>11,213,702</u>
Net additions	<u>28,212,270</u>	<u>21,011,287</u>
Deductions from net assets attributed to:		
Benefits paid	28,189,862	23,100,527
Administrative expenses	<u>95,434</u>	<u>195,011</u>
Total deductions	<u>28,285,296</u>	<u>23,295,538</u>
Net decrease	(73,026)	(2,284,251)
Net assets available for benefits at beginning of year	<u>150,341,327</u>	<u>152,625,578</u>
Net assets available for benefits at end of year	\$ <u>150,268,301</u>	\$ <u>150,341,327</u>

See accompanying notes to the financial statements.

CAPELLA HEALTHCARE, INC. 401(K) RETIREMENT PLAN

Notes to the Financial Statements

December 31, 2015 and 2014

(1) Description of plan

The following description of the Capella Healthcare, Inc. 401(k) Retirement Plan (the "Plan") provides only general information. Participants should refer to the plan agreement for a more complete description of the Plan's provisions.

(a) General

The Plan is a defined contribution plan which was adopted on December 1, 2005 to provide retirement benefits for employees of Capella Healthcare, Inc. (the "Plan Sponsor"). The Plan covers substantially all employees who have completed six months of service and are at least eighteen years old ("participants"). The Plan is subject to the provisions of the Employee Retirement Income Security Act of 1974 ("ERISA").

Effective January 1, 2015, Vanguard Fiduciary Trust Company replaced State Street Bank and Trust Company as the trustee of the Plan. As a result of the transfer, \$15,027,555 of investments were liquidated into cash at December 31, 2014 and transferred to Vanguard on January 2, 2015. The remaining \$133,364,023 of investments were transferred in-kind.

(b) Contributions

Participants may voluntarily make qualified retirement contributions to the Plan which are deductible by the participants for federal income tax purposes under Section 401(k) of the Internal Revenue Code ("IRC"), subject to certain IRC limitations. Participants may also contribute amounts representing distributions from other qualified defined benefit or defined contribution plans.

The Plan Sponsor may contribute a discretionary matching contribution. For 2015 and 2014, the Plan Sponsor authorized an employer contribution of 25% of the first 4% of employee contributions, up to 1% of the individual participant's annual compensation. The matching contributions of \$1,262,576 and \$1,153,239 are included as receivables in the statements of net assets available for benefits as of December 31, 2015 and 2014, respectively.

The Plan also provides that the Plan Sponsor may contribute each year a discretionary profit sharing amount, however, such discretionary contributions by the Plan Sponsor are not required. No discretionary profit sharing contributions were made by the Plan Sponsor during 2015 or 2014.

Plan Sponsor contributions may not exceed the maximum amount deductible for federal income tax purposes.

Notes to the Financial Statements

December 31, 2015 and 2014

(c) Participant accounts

Each participant's account is credited (charged) with the participants' and Plan Sponsor contributions and allocations of investment earnings (losses) and administrative expenses. Allocations are based on participant compensation or account balances as defined in the plan agreement. The benefit to which a participant is entitled is the benefit that can be provided from the participant's vested account.

(d) Vesting

Participants are immediately vested in their elective salary deferral plus actual earnings (losses) thereon. Vesting in the Plan Sponsor's matching and profit sharing contributions is based on years of continuous service. Participants vest pro rata over five years of service.

(e) Notes receivable from participants

Participants may borrow from their fund accounts a minimum of \$1,000 up to a maximum equal to the lesser of \$50,000 or 50% of their vested account balance. The loans are secured by the balances in the participants' accounts and bear interest at fixed rates ranging from 4.25% to 7.75%, which are commensurate with local prevailing rates as determined by the plan administrator. Principal and interest are collected ratably through payroll deductions.

(f) Payment of benefits

On termination of service due to death, permanent disability, or retirement, a participant may elect to receive either a lump-sum payment or annual installments over a specified period equal to his or her entire account balance. For termination of service due to other reasons, a participant will be entitled to receive only the vested interest in his or her account as a lump-sum distribution. If the value of a participant's account is less than \$1,000, the total balance is distributed as an automatic lump-sum payment in cash. For participant accounts greater than \$1,000 but less than \$5,000, the value of the participant's account is rolled into an individual retirement account on behalf of the participant, unless the participant elects to receive a lump-sum payment.

(g) Forfeited accounts

Forfeitures are created when participants terminate employment prior to becoming fully vested in the Plan Sponsor contribution portion of their accounts. Such forfeitures may be used to pay the administration expenses of the Plan, to restore benefits previously forfeited, and to reduce the Plan Sponsor's contributions to the Plan. At December 31, 2015, there were \$80,781 of forfeited nonvested amounts. At December 31, 2014, there were no forfeited nonvested amounts. Forfeited nonvested accounts used amounted to \$77,362 and \$29,328 in 2015 and 2014, respectively.

Notes to the Financial Statements

December 31, 2015 and 2014

(h) Hardship withdrawals

The Plan permits distributions in the event of a hardship, as defined in the plan agreement. These distributions are taxable and subject to a tax penalty equal to 10% of the hardship distribution amount if the participant is younger than age 59½. Hardship withdrawals are limited to the participant's elective account balance. If a participant receives a hardship withdrawal from the Plan, the participant will be unable to make contributions to the Plan for a period of six months.

(i) Administrative expenses

Certain administrative expenses are paid by the Plan Sponsor; while certain administrative expenses, as well as investment expenses, are paid by the Plan.

(j) Plan termination

Although it has not expressed any intent to do so, the Plan Sponsor has the right under the plan agreement to discontinue its contributions at any time and to terminate the Plan subject to the provisions of ERISA. In the event of plan termination, participants would become 100% vested in their employer contributions.

(2) Summary of significant accounting policies

(a) Recently adopted accounting pronouncements

In May 2015, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2015-07, *"Fair Value Measurement (Topic 820): Disclosures for Investments in Certain Entities That Calculate Net Asset Value per Share"* ("ASU 2015-07"), which removes the requirement to present certain investments for which the practical expedient is used to measure fair value at net asset value ("NAV") within the fair value hierarchy table. Instead, the Plan is required to include those investments as a reconciling item so that the total fair value amount of investments in the disclosure is consistent with the fair value investment balance on the statements of net assets available for benefits. The Plan Sponsor elected to early adopt ASU 2015-07 as of December 31, 2015, and has applied the provisions retrospectively. The Plan presents the investment disclosure required by this ASU 2015-07 in the fair value hierarchy tables for 2015 and 2014 in Note 4, "Fair Value Measurements." There were no other impacts on the statements of net assets available for benefits or the statements of changes in net assets available for benefits as of and for the years ended December 31, 2015 and 2014.

CAPELLA HEALTHCARE, INC. 401(K) RETIREMENT PLAN

Notes to the Financial Statements

December 31, 2015 and 2014

In July 2015, the FASB issued ASU No. 2015-12, *"Plan Accounting: Defined Benefit Pension Plans (Topic 960), Defined Contribution Pension Plans (Topic 962), Health and Welfare Benefit Plans (Topic 965): (Part I) Fully Benefit-Responsive Investment Contracts, (Part II) Plan Investment Disclosures, (Part III) Measurement Date Practical Expedient,"* ("ASU 2015-12"), which simplifies the required disclosures related to employee benefit plans.

- Part I eliminates the requirement to measure and disclose the fair value of fully benefit-responsive contracts, including collective trust assets. Contract value is the only required measure for fully benefit-responsive investment contracts.
- Part II eliminates the requirement to disclose individual investments which comprise 5% or more of total net assets available for benefits, as well as the net appreciation or depreciation of fair values by type. Part II also requires plans to continue to disaggregate investments that are measured using fair value by general type, however plans are no longer required to also disaggregate investments by nature, characteristics and risks. Furthermore, the disclosure of information about fair value measurements shall be provided by general type of Plan asset.
- Part III is not applicable to the Plan.

The Plan Sponsor elected to early adopt ASU 2015-12 as of December 31, 2015, and has applied the provisions retrospectively. The adoption of ASU 2015-12 has resulted in the reclassification of \$161,758 related to the adjustment from fair value to contract value for fully benefit-responsive collective trust fund within its statement of net assets available for benefits as of December 31, 2014. Furthermore, the Plan Sponsor has eliminated its historical disclosure of individual investments which comprise 5% or more of total net assets available for benefits, as well as the net appreciation or depreciation of fair values by type. There were no other impacts on the statements of net assets available for benefits and the statement of changes in net assets available for benefits as of and for the years ended December 31, 2015 and 2014.

(b) Basis of accounting

The financial statements of the Plan are prepared on the accrual basis of accounting.

(c) Investment valuation and income recognition

Investments are stated at fair value. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The Plan's Investment Committee determines the Plan's valuation policies utilizing information provided by the investment advisers and trustee. See note 4 for discussion of fair value measurements.

CAPELLA HEALTHCARE, INC. 401(K) RETIREMENT PLAN

Notes to the Financial Statements

December 31, 2015 and 2014

Purchases and sales of securities are recorded on a trade-date basis. Interest income is recorded on the accrual basis. Dividend income is recorded on the ex-dividend date.

Net appreciation (depreciation) includes the Plan's gains and losses on investments bought and sold as well as held during the year.

(d) Notes receivable from participants

Notes receivable from participants are measured at their unpaid principal balance plus any accrued but unpaid interest. Delinquent notes receivable from participants are reclassified as distributions based upon the terms of the plan agreement.

(e) Payment of benefits

Benefits are recorded when paid.

(f) Use of estimates

The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of net assets available for benefits and changes therein, and disclosure of contingent assets and liabilities. Actual results could differ from those estimates.

(g) Events occurring after reporting date

The Plan has evaluated events and transactions that occurred between December 31, 2015 and October 14, 2016, which is the date that the financial statements were available to be issued, for possible recognition or disclosure in the financial statements.

(3) Summary of information certified by trustees

The following information was certified as complete and accurate by Vanguard Fiduciary Trust Company and State Street Bank and Trust Company, the trustees of the Plan, as of and for the years ended December 31, 2015 and 2014, respectively.

	<u>2015</u>	<u>2014</u>
Investments at fair value	\$ <u>147,106,888</u>	<u>**</u>
Notes receivable from participants	\$ <u>1,719,486</u>	<u>**</u>
Net change resulting from investment activity	\$ <u>(1,401,653)</u>	\$ <u>9,790,567</u>
Interest income on notes receivable from participants	\$ <u>50,313</u>	\$ <u>36,924</u>

** As of December 31, 2014, the cash, investments and the notes receivable from participants were excluded from the certification as the funds were being transferred to the new trustee (see Note 1(a)).

Notes to the Financial Statements

December 31, 2015 and 2014

(4) Fair value measurements

The fair value hierarchy 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 unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy under FASB ASC 820 are described below:

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

Level 2 - Inputs to the valuation methodology include:

- Quoted prices for similar assets or liabilities in active markets;
- Quoted prices for identical or similar assets or liabilities in inactive markets;
- Inputs other than quoted prices that are observable for the asset or liability;
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.

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

The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

The following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used at December 31, 2015 and 2014.

- (i) **Mutual funds:** Valued at the net asset value of shares held by the Plan at year end in an active market.
- (ii) **Self-directed investments:** The self-directed investments consist primarily of common stock and mutual funds which are valued at the closing price reported on the active market for common stock held and the net asset value of the mutual fund shares held and money market funds.

The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the Plan's management believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

CAPELLA HEALTHCARE, INC. 401(K) RETIREMENT PLAN

Notes to the Financial Statements

December 31, 2015 and 2014

The following table sets forth by level, within the fair value hierarchy, the Plan's assets at fair value as of December 31, 2015 and 2014:

**Fair Value Measurements as of
December 31, 2015 using the following inputs**

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Mutual funds	\$134,663,185	\$ -	\$ -	\$134,663,185
Self-directed investments	<u>1,724,826</u>	<u>-</u>	<u>-</u>	<u>1,724,826</u>
Total assets in the fair value hierarchy	<u>\$136,388,011</u>	<u>\$ -</u>	<u>\$ -</u>	<u>136,388,011</u>
Investments measured at NAV (a)				<u>10,718,877</u>
Investments at fair value				<u>\$147,106,888</u>

**Fair Value Measurements as of
December 31, 2014 using the following inputs**

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Mutual funds	\$119,820,979	\$ -	\$ -	\$119,820,979
Self-directed investments	<u>1,578,982</u>	<u>-</u>	<u>-</u>	<u>1,578,982</u>
Total assets in the fair value hierarchy	<u>\$121,399,961</u>	<u>\$ -</u>	<u>\$ -</u>	<u>121,399,961</u>
Investments measured at NAV (a)				<u>11,964,062</u>
Investments at fair value				<u>\$133,364,023</u>

- (a) Certain investments are measured at NAV as a practical expedient to estimate fair value and, therefore, have not been classified in the fair value hierarchy. The fair value amounts presented in this table are intended to permit reconciliation of the fair value hierarchy to the line items presented in the statements of net assets available for benefits.

The following table summarizes investments for which fair value is measured using NAV per share practical expedient as of December 31, 2015 and 2014, respectively. There are no participant redemption restrictions for these investments; the redemption notice period is applicable only to the Plan.

<u>Description</u>	<u>Fair Value 12/31/2015</u>	<u>Fair Value 12/31/2014</u>	<u>Unfunded Commitments</u>	<u>Redemption Frequency</u>	<u>Redemption Notice Period</u>
Collective Trust Fund	\$10,718,877	\$11,964,062	N/A	Daily	Daily

Notes to the Financial Statements

December 31, 2015 and 2014

(5) Income tax status

The Plan received a favorable determination letter from the Internal Revenue Service ("IRS") on June 23, 2015, in which the IRS stated that the Plan was in compliance with the applicable requirements of the IRC. The Plan is required to operate in conformity with the IRC to maintain its qualification.

Accounting principles generally accepted in the United States of America require plan management to evaluate tax positions taken by the Plan and recognize a tax liability or asset if the Plan has taken an uncertain position that more likely than not would not be sustained upon examination by the IRS. The plan administrator has analyzed the tax positions taken by the Plan, and has concluded that as of December 31, 2015 and 2014, there are no uncertain positions taken or expected to be taken that would require recognition of a liability or asset or disclosure in the financial statements. The Plan is subject to routine audits by taxing jurisdictions; however, there are currently no audits for any tax periods in progress.

(6) Untimely remittance of participant contributions

The Plan Sponsor is required by Department of Labor regulation to remit participant contributions as soon as practicable, but by no later than the fifteenth business day following the end of the month in which the amounts were withheld from wages. For certain contributions withheld from payrolls during 2014, the funds were not remitted timely. Imputed lost earnings on these late remittances were remitted to the Plan in 2015.

(7) Related party transactions and party-in-interest transactions

Certain Plan investments are shares of a money market fund and units of participation of a collective trust fund which were managed by Vanguard Fiduciary Trust Company and State Street Bank and Trust Company, the trustees of the Plan and, therefore, these transactions qualify as party-in-interest transactions. The Plan also holds notes receivable from participants which qualify as party-in-interest transactions. Investment expenses of \$64,432 in 2015 and \$29,906 in 2014 and administrative expenses of \$95,434 in 2015 and \$195,011 in 2014 were paid directly by the Plan to the investment advisor and third party administrator, respectively. Certain fees incurred by the Plan for the investment management services are netted within net appreciation in fair value of the investments, as they are paid through revenue sharing, rather than as a direct payment.

CAPELLA HEALTHCARE, INC. 401(K) RETIREMENT PLAN

Notes to the Financial Statements

December 31, 2015 and 2014

(8) Reconciliation of financial statements to Form 5500

The following is a reconciliation of the changes in net assets available for benefits per the financial statements to the Form 5500 for the year ended December 31, 2014:

Change in net assets available for benefits per the financial statements	\$ (2,284,251)
Change in accrued interest from notes receivable from participants	<u>(976)</u>
Change in net assets available for benefits per the Form 5500	\$ <u>(2,285,227)</u>

(9) Risks and uncertainties

The Plan invests in various investment instruments. Investment securities, in general, are exposed to various risks, such as interest rate, credit and overall market volatility. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect participants' account balances and the amounts reported in the statements of net assets available for benefits.

(10) Subsequent event

On April 29, 2016, the Plan Sponsor completed a merger with RegionalCare Hospital Partners Inc. to form RCCH Healthcare Partners. RCCH Healthcare Partners has 16 regional health systems in 12 states. Additionally, on June 30, 2016, RCCH Healthcare Partners entered into a joint venture with Saline Memorial Hospital and Saline County. All employees of Saline Memorial Hospital became employees of the RCCH HealthCare Partners Controlled Group and became eligible for the Capella Healthcare, Inc. 401(k) Retirement Plan. The Plan Sponsor is currently assessing the impact of the merger and if the Capella Healthcare, Inc. 401(k) Retirement Plan will continue to exist or be merged in with any of the other RCCH Healthcare Partners plans.

CAPELLA HEALTHCARE, INC. 401(K) RETIREMENT PLAN

EIN 20-2767829, PLAN No. 001

Schedule H, line 4i - Schedule of Assets (Held at End of Year)

December 31, 2015

(a)	(b)	(c) Description of investment, including maturity date, rate of interest, collateral, <u>par or maturity value</u>	(d) <u>Cost</u>	(e) <u>Current value</u>
	Mutual funds:			
	Ameican Funds	EuroPacific Growth Fund	**	\$ 2,987,384
	Dodge & Cox	Income Fund	**	5,387,470
	Dodge & Cox	International Stock Fund	**	2,870,261
	Federated	Small Value Fund	**	4,123,223
	Harbor	Capital Appreciation Fund	**	4,687,204
	John Hancock	Disciplined Value Fund	**	3,167,442
	First American	Real Estate Securities Fund	**	2,253,478
*	Vanguard Fiduciary Trust Company	Institutional Index Fund	**	11,039,522
*	Vanguard Fiduciary Trust Company	Mid-Cap Index Fund	**	3,469,441
*	Vanguard Fiduciary Trust Company	Prime Money Market Fund	**	2,073,463
*	Vanguard Fiduciary Trust Company	Small-Cap Growth Index Fund	**	2,406,485
*	Vanguard Fiduciary Trust Company	Target Retirement 2010 Fund	**	2,153,528
*	Vanguard Fiduciary Trust Company	Target Retirement 2015 Fund	**	8,027,600
*	Vanguard Fiduciary Trust Company	Target Retirement 2020 Fund	**	21,518,932
*	Vanguard Fiduciary Trust Company	Target Retirement 2025 Fund	**	18,291,327
*	Vanguard Fiduciary Trust Company	Target Retirement 2030 Fund	**	12,846,326
*	Vanguard Fiduciary Trust Company	Target Retirement 2035 Fund	**	11,880,194
*	Vanguard Fiduciary Trust Company	Target Retirement 2040 Fund	**	7,160,933
*	Vanguard Fiduciary Trust Company	Target Retirement 2045 Fund	**	5,122,799
*	Vanguard Fiduciary Trust Company	Target Retirement 2050 Fund	**	1,359,479
*	Vanguard Fiduciary Trust Company	Target Retirement 2055 Fund	**	161,258
*	Vanguard Fiduciary Trust Company	Target Retirement 2060 Fund	**	18,408
*	Vanguard Fiduciary Trust Company	Target Retirement Income Fund	**	<u>1,657,028</u>
	Total mutual funds			<u>134,663,185</u>
*	Collective trust fund -			
*	Vanguard Fiduciary Trust Company	Vanguard Retirement Savings Trust	**	<u>10,718,877</u>
*	Notes receivable from participants	Loans to participants with interest rates ranging from 4.25% to 7.75%, various maturity dates through August 2025	-	<u>1,719,486</u>
	Self-directed investments -			
*	Vanguard Fiduciary Trust Company	Vanguard Brokerage Option	**	<u>1,724,826</u>
	Total investments			<u>\$ 148,826,374</u>

* Represents a party-in-interest.

** Not required for participant directed plans.

The above data is based upon information which has been certified as complete and accurate by Vanguard Fiduciary Trust Company, the trustee.

CAPELLA HEALTHCARE, INC. 401(K) RETIREMENT PLAN

EIN 20-2767829, PLAN No. 001

Schedule H, line 4a - Schedule of Delinquent Participant Contributions

Year Ended December 31, 2015

Check Here If Late Participant Loan Repayments Are Included	Participant Contributions Transferred Late to the Plan	Total that Constitute Nonexempt Prohibited Transactions			Total Fully Corrected Under VFCP and PTE 2002-51
		Contributions not Corrected	Contributions Corrected Outside VFCP	Contributions Pending Correction in VFCP	
*	\$ 47,837	\$ -	\$ 47,837	\$ -	\$ -

CAPELLA HEALTHCARE, INC. 401(K) RETIREMENT PLAN

Financial Statements and Supplemental Schedules

December 31, 2015 and 2014

(With Independent Auditors' Report Thereon)



CAPELLA HEALTHCARE, INC. 401(K) RETIREMENT PLAN

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Independent Auditors' Report

The Plan Administration Committee
Capella Healthcare, Inc. 401(k) Retirement Plan:

Report on the Financial Statements

We were engaged to audit the accompanying financial statements of the Capella Healthcare, Inc. 401(k) Retirement Plan (the "Plan"), which comprise the statements of net assets available for benefits as of December 31, 2015 and 2014, the related statements of changes in net assets available for benefits for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on conducting the audits in accordance with auditing standards generally accepted in the United States of America. Because of the matter described in the *Basis for Disclaimer of Opinion* paragraph, however, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion.

Basis for Disclaimer of Opinion

As permitted by 29 CFR 2520.103-8 of the Department of Labor's ("DOL") Rules and Regulations for Reporting and Disclosure under the Employee Retirement Income Security Act of 1974 ("ERISA"), the plan administrator instructed us not to perform, and we did not perform, any auditing procedures with respect to the information summarized in Note 3, which was certified by State Street Bank and Trust Company and Vanguard Fiduciary Trust Company, the trustees of the Plan, except for comparing such information with the related information included in the financial statements. We have been informed by the plan administrator that Vanguard Fiduciary Trust Company held the Plan's investment assets and executed investment transactions as of and for the year ended December 31, 2015 and State Street Bank and Trust Company held the Plan's investment assets and executed investment transactions as of and for the year ended December 31, 2014. The plan administrator has obtained certifications from the trustees as of and for the years ended December 31, 2015 and 2014, that the information provided to the plan administrator by the trustees is complete and accurate.

Disclaimer of Opinion

Because of the significance of the matter described in the *Basis for Disclaimer of Opinion* paragraph, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion. Accordingly, we do not express an opinion on these financial statements.

Other Matter

The supplemental schedule of assets (held at end of year) and schedule of delinquent participant contributions as of and for the year ended December 31, 2015 are required by the DOL's Rules and Regulation for Reporting and Disclosure under ERISA and are presented for the purpose of additional analysis and are not a required part of the financial statements. Because of the significance of the matter described in the *Basis for Disclaimer of Opinion* paragraph, we do not express an opinion on these supplemental schedules.

Report on Form and Content in Compliance with Department of Labor's Rules and Regulations

The form and content of the information included in the financial statements and supplemental schedules, other than that derived from the information certified by the trustees, have been audited by us in accordance with auditing standards generally accepted in the United States of America and, in our opinion, are presented in compliance with the DOL's Rules and Regulations for Reporting and Disclosure under ERISA.

LBMC, P.C.

Brentwood, Tennessee
October 14, 2016

CAPELLA HEALTHCARE, INC. 401(K) RETIREMENT PLAN

Statements of Net Assets Available for Benefits

December 31, 2015 and 2014

	<u>2015</u>	<u>2014</u>
Assets:		
Cash	\$ <u>-</u>	\$ <u>15,027,555</u>
Investments, at fair value:		
Mutual funds	134,663,185	119,820,979
Collective trust fund	10,718,877	11,964,062
Self-directed investments	<u>1,724,826</u>	<u>1,578,982</u>
Total investments, at fair value	<u>147,106,888</u>	<u>133,364,023</u>
Receivables:		
Plan Sponsor contributions	1,262,576	1,153,239
Participant contributions	179,351	183,314
Notes receivable from participants	<u>1,719,486</u>	<u>613,196</u>
Total receivables	<u>3,161,413</u>	<u>1,949,749</u>
Net assets available for benefits	\$ <u>150,268,301</u>	\$ <u>150,341,327</u>

See accompanying notes to the financial statements.

CAPELLA HEALTHCARE, INC. 401(K) RETIREMENT PLAN

Statements of Changes in Net Assets Available for Benefits

Years Ended December 31, 2015 and 2014

	<u>2015</u>	<u>2014</u>
Additions (reductions) to net assets attributed to:		
Net change resulting from investment activity:		
Net appreciation (depreciation) in fair value of investments	\$ (6,724,449)	\$ 7,114,727
Dividend income	<u>5,322,796</u>	<u>2,675,840</u>
Net investment income (loss)	(1,401,653)	9,790,567
Less investment expenses	<u>64,432</u>	<u>29,906</u>
Net change resulting from investment activity	<u>(1,466,085)</u>	<u>9,760,661</u>
Interest income on notes receivable from participants	<u>50,313</u>	<u>36,924</u>
Contributions:		
Plan Sponsor	1,262,576	1,153,239
Participants	11,699,073	9,475,986
Participant rollovers	<u>16,666,393</u>	<u>584,477</u>
Total contributions	<u>29,628,042</u>	<u>11,213,702</u>
Net additions	<u>28,212,270</u>	<u>21,011,287</u>
Deductions from net assets attributed to:		
Benefits paid	28,189,862	23,100,527
Administrative expenses	<u>95,434</u>	<u>195,011</u>
Total deductions	<u>28,285,296</u>	<u>23,295,538</u>
Net decrease	(73,026)	(2,284,251)
Net assets available for benefits at beginning of year	<u>150,341,327</u>	<u>152,625,578</u>
Net assets available for benefits at end of year	\$ <u>150,268,301</u>	\$ <u>150,341,327</u>

See accompanying notes to the financial statements.

CAPELLA HEALTHCARE, INC. 401(K) RETIREMENT PLAN

Notes to the Financial Statements

December 31, 2015 and 2014

(1) Description of plan

The following description of the Capella Healthcare, Inc. 401(k) Retirement Plan (the "Plan") provides only general information. Participants should refer to the plan agreement for a more complete description of the Plan's provisions.

(a) General

The Plan is a defined contribution plan which was adopted on December 1, 2005 to provide retirement benefits for employees of Capella Healthcare, Inc. (the "Plan Sponsor"). The Plan covers substantially all employees who have completed six months of service and are at least eighteen years old ("participants"). The Plan is subject to the provisions of the Employee Retirement Income Security Act of 1974 ("ERISA").

Effective January 1, 2015, Vanguard Fiduciary Trust Company replaced State Street Bank and Trust Company as the trustee of the Plan. As a result of the transfer, \$15,027,555 of investments were liquidated into cash at December 31, 2014 and transferred to Vanguard on January 2, 2015. The remaining \$133,364,023 of investments were transferred in-kind.

(b) Contributions

Participants may voluntarily make qualified retirement contributions to the Plan which are deductible by the participants for federal income tax purposes under Section 401(k) of the Internal Revenue Code ("IRC"), subject to certain IRC limitations. Participants may also contribute amounts representing distributions from other qualified defined benefit or defined contribution plans.

The Plan Sponsor may contribute a discretionary matching contribution. For 2015 and 2014, the Plan Sponsor authorized an employer contribution of 25% of the first 4% of employee contributions, up to 1% of the individual participant's annual compensation. The matching contributions of \$1,262,576 and \$1,153,239 are included as receivables in the statements of net assets available for benefits as of December 31, 2015 and 2014, respectively.

The Plan also provides that the Plan Sponsor may contribute each year a discretionary profit sharing amount, however, such discretionary contributions by the Plan Sponsor are not required. No discretionary profit sharing contributions were made by the Plan Sponsor during 2015 or 2014.

Plan Sponsor contributions may not exceed the maximum amount deductible for federal income tax purposes.

Notes to the Financial Statements

December 31, 2015 and 2014

(c) Participant accounts

Each participant's account is credited (charged) with the participants' and Plan Sponsor contributions and allocations of investment earnings (losses) and administrative expenses. Allocations are based on participant compensation or account balances as defined in the plan agreement. The benefit to which a participant is entitled is the benefit that can be provided from the participant's vested account.

(d) Vesting

Participants are immediately vested in their elective salary deferral plus actual earnings (losses) thereon. Vesting in the Plan Sponsor's matching and profit sharing contributions is based on years of continuous service. Participants vest pro rata over five years of service.

(e) Notes receivable from participants

Participants may borrow from their fund accounts a minimum of \$1,000 up to a maximum equal to the lesser of \$50,000 or 50% of their vested account balance. The loans are secured by the balances in the participants' accounts and bear interest at fixed rates ranging from 4.25% to 7.75%, which are commensurate with local prevailing rates as determined by the plan administrator. Principal and interest are collected ratably through payroll deductions.

(f) Payment of benefits

On termination of service due to death, permanent disability, or retirement, a participant may elect to receive either a lump-sum payment or annual installments over a specified period equal to his or her entire account balance. For termination of service due to other reasons, a participant will be entitled to receive only the vested interest in his or her account as a lump-sum distribution. If the value of a participant's account is less than \$1,000, the total balance is distributed as an automatic lump-sum payment in cash. For participant accounts greater than \$1,000 but less than \$5,000, the value of the participant's account is rolled into an individual retirement account on behalf of the participant, unless the participant elects to receive a lump-sum payment.

(g) Forfeited accounts

Forfeitures are created when participants terminate employment prior to becoming fully vested in the Plan Sponsor contribution portion of their accounts. Such forfeitures may be used to pay the administration expenses of the Plan, to restore benefits previously forfeited, and to reduce the Plan Sponsor's contributions to the Plan. At December 31, 2015, there were \$80,781 of forfeited nonvested amounts. At December 31, 2014, there were no forfeited nonvested amounts. Forfeited nonvested accounts used amounted to \$77,362 and \$29,328 in 2015 and 2014, respectively.

Notes to the Financial Statements

December 31, 2015 and 2014

(h) Hardship withdrawals

The Plan permits distributions in the event of a hardship, as defined in the plan agreement. These distributions are taxable and subject to a tax penalty equal to 10% of the hardship distribution amount if the participant is younger than age 59½. Hardship withdrawals are limited to the participant's elective account balance. If a participant receives a hardship withdrawal from the Plan, the participant will be unable to make contributions to the Plan for a period of six months.

(i) Administrative expenses

Certain administrative expenses are paid by the Plan Sponsor; while certain administrative expenses, as well as investment expenses, are paid by the Plan.

(j) Plan termination

Although it has not expressed any intent to do so, the Plan Sponsor has the right under the plan agreement to discontinue its contributions at any time and to terminate the Plan subject to the provisions of ERISA. In the event of plan termination, participants would become 100% vested in their employer contributions.

(2) Summary of significant accounting policies

(a) Recently adopted accounting pronouncements

In May 2015, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2015-07, *"Fair Value Measurement (Topic 820): Disclosures for Investments in Certain Entities That Calculate Net Asset Value per Share"* ("ASU 2015-07"), which removes the requirement to present certain investments for which the practical expedient is used to measure fair value at net asset value ("NAV") within the fair value hierarchy table. Instead, the Plan is required to include those investments as a reconciling item so that the total fair value amount of investments in the disclosure is consistent with the fair value investment balance on the statements of net assets available for benefits. The Plan Sponsor elected to early adopt ASU 2015-07 as of December 31, 2015, and has applied the provisions retrospectively. The Plan presents the investment disclosure required by this ASU 2015-07 in the fair value hierarchy tables for 2015 and 2014 in Note 4, "Fair Value Measurements." There were no other impacts on the statements of net assets available for benefits or the statements of changes in net assets available for benefits as of and for the years ended December 31, 2015 and 2014.

CAPELLA HEALTHCARE, INC. 401(K) RETIREMENT PLAN

Notes to the Financial Statements

December 31, 2015 and 2014

In July 2015, the FASB issued ASU No. 2015-12, *“Plan Accounting: Defined Benefit Pension Plans (Topic 960), Defined Contribution Pension Plans (Topic 962), Health and Welfare Benefit Plans (Topic 965): (Part I) Fully Benefit-Responsive Investment Contracts, (Part II) Plan Investment Disclosures, (Part III) Measurement Date Practical Expedient,”* (“ASU 2015-12”), which simplifies the required disclosures related to employee benefit plans.

- Part I eliminates the requirement to measure and disclose the fair value of fully benefit-responsive contracts, including collective trust assets. Contract value is the only required measure for fully benefit-responsive investment contracts.
- Part II eliminates the requirement to disclose individual investments which comprise 5% or more of total net assets available for benefits, as well as the net appreciation or depreciation of fair values by type. Part II also requires plans to continue to disaggregate investments that are measured using fair value by general type, however plans are no longer required to also disaggregate investments by nature, characteristics and risks. Furthermore, the disclosure of information about fair value measurements shall be provided by general type of Plan asset.
- Part III is not applicable to the Plan.

The Plan Sponsor elected to early adopt ASU 2015-12 as of December 31, 2015, and has applied the provisions retrospectively. The adoption of ASU 2015-12 has resulted in the reclassification of \$161,758 related to the adjustment from fair value to contract value for fully benefit-responsive collective trust fund within its statement of net assets available for benefits as of December 31, 2014. Furthermore, the Plan Sponsor has eliminated its historical disclosure of individual investments which comprise 5% or more of total net assets available for benefits, as well as the net appreciation or depreciation of fair values by type. There were no other impacts on the statements of net assets available for benefits and the statement of changes in net assets available for benefits as of and for the years ended December 31, 2015 and 2014.

(b) Basis of accounting

The financial statements of the Plan are prepared on the accrual basis of accounting.

(c) Investment valuation and income recognition

Investments are stated at fair value. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The Plan's Investment Committee determines the Plan's valuation policies utilizing information provided by the investment advisers and trustee. See note 4 for discussion of fair value measurements.

CAPELLA HEALTHCARE, INC. 401(K) RETIREMENT PLAN

Notes to the Financial Statements

December 31, 2015 and 2014

Purchases and sales of securities are recorded on a trade-date basis. Interest income is recorded on the accrual basis. Dividend income is recorded on the ex-dividend date.

Net appreciation (depreciation) includes the Plan's gains and losses on investments bought and sold as well as held during the year.

(d) Notes receivable from participants

Notes receivable from participants are measured at their unpaid principal balance plus any accrued but unpaid interest. Delinquent notes receivable from participants are reclassified as distributions based upon the terms of the plan agreement.

(e) Payment of benefits

Benefits are recorded when paid.

(f) Use of estimates

The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of net assets available for benefits and changes therein, and disclosure of contingent assets and liabilities. Actual results could differ from those estimates.

(g) Events occurring after reporting date

The Plan has evaluated events and transactions that occurred between December 31, 2015 and October 14, 2016, which is the date that the financial statements were available to be issued, for possible recognition or disclosure in the financial statements.

(3) Summary of information certified by trustees

The following information was certified as complete and accurate by Vanguard Fiduciary Trust Company and State Street Bank and Trust Company, the trustees of the Plan, as of and for the years ended December 31, 2015 and 2014, respectively.

	<u>2015</u>	<u>2014</u>
Investments at fair value	\$ <u>147,106,888</u>	<u>**</u>
Notes receivable from participants	\$ <u>1,719,486</u>	<u>**</u>
Net change resulting from investment activity	\$ <u>(1,401,653)</u>	\$ <u>9,790,567</u>
Interest income on notes receivable from participants	\$ <u>50,313</u>	\$ <u>36,924</u>

** As of December 31, 2014, the cash, investments and the notes receivable from participants were excluded from the certification as the funds were being transferred to the new trustee (see Note 1(a)).

Notes to the Financial Statements

December 31, 2015 and 2014

(4) Fair value measurements

The fair value hierarchy 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 unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy under FASB ASC 820 are described below:

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

Level 2 - Inputs to the valuation methodology include:

- Quoted prices for similar assets or liabilities in active markets;
- Quoted prices for identical or similar assets or liabilities in inactive markets;
- Inputs other than quoted prices that are observable for the asset or liability;
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.

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

The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

The following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used at December 31, 2015 and 2014.

- (i) **Mutual funds:** Valued at the net asset value of shares held by the Plan at year end in an active market.
- (ii) **Self-directed investments:** The self-directed investments consist primarily of common stock and mutual funds which are valued at the closing price reported on the active market for common stock held and the net asset value of the mutual fund shares held and money market funds.

The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the Plan's management believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

CAPELLA HEALTHCARE, INC. 401(K) RETIREMENT PLAN

Notes to the Financial Statements

December 31, 2015 and 2014

The following table sets forth by level, within the fair value hierarchy, the Plan's assets at fair value as of December 31, 2015 and 2014:

**Fair Value Measurements as of
December 31, 2015 using the following inputs**

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Mutual funds	\$134,663,185	\$ -	\$ -	\$134,663,185
Self-directed investments	<u>1,724,826</u>	<u>-</u>	<u>-</u>	<u>1,724,826</u>
Total assets in the fair value hierarchy	<u>\$136,388,011</u>	<u>\$ -</u>	<u>\$ -</u>	<u>136,388,011</u>
Investments measured at NAV (a)				<u>10,718,877</u>
Investments at fair value				<u>\$147,106,888</u>

**Fair Value Measurements as of
December 31, 2014 using the following inputs**

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Mutual funds	\$119,820,979	\$ -	\$ -	\$119,820,979
Self-directed investments	<u>1,578,982</u>	<u>-</u>	<u>-</u>	<u>1,578,982</u>
Total assets in the fair value hierarchy	<u>\$121,399,961</u>	<u>\$ -</u>	<u>\$ -</u>	<u>121,399,961</u>
Investments measured at NAV (a)				<u>11,964,062</u>
Investments at fair value				<u>\$133,364,023</u>

- (a) Certain investments are measured at NAV as a practical expedient to estimate fair value and, therefore, have not been classified in the fair value hierarchy. The fair value amounts presented in this table are intended to permit reconciliation of the fair value hierarchy to the line items presented in the statements of net assets available for benefits.

The following table summarizes investments for which fair value is measured using NAV per share practical expedient as of December 31, 2015 and 2014, respectively. There are no participant redemption restrictions for these investments; the redemption notice period is applicable only to the Plan.

<u>Description</u>	<u>Fair Value 12/31/2015</u>	<u>Fair Value 12/31/2014</u>	<u>Unfunded Commitments</u>	<u>Redemption Frequency</u>	<u>Redemption Notice Period</u>
Collective Trust Fund	\$10,718,877	\$11,964,062	N/A	Daily	Daily

Notes to the Financial Statements

December 31, 2015 and 2014

(5) Income tax status

The Plan received a favorable determination letter from the Internal Revenue Service ("IRS") on June 23, 2015, in which the IRS stated that the Plan was in compliance with the applicable requirements of the IRC. The Plan is required to operate in conformity with the IRC to maintain its qualification.

Accounting principles generally accepted in the United States of America require plan management to evaluate tax positions taken by the Plan and recognize a tax liability or asset if the Plan has taken an uncertain position that more likely than not would not be sustained upon examination by the IRS. The plan administrator has analyzed the tax positions taken by the Plan, and has concluded that as of December 31, 2015 and 2014, there are no uncertain positions taken or expected to be taken that would require recognition of a liability or asset or disclosure in the financial statements. The Plan is subject to routine audits by taxing jurisdictions; however, there are currently no audits for any tax periods in progress.

(6) Untimely remittance of participant contributions

The Plan Sponsor is required by Department of Labor regulation to remit participant contributions as soon as practicable, but by no later than the fifteenth business day following the end of the month in which the amounts were withheld from wages. For certain contributions withheld from payrolls during 2014, the funds were not remitted timely. Imputed lost earnings on these late remittances were remitted to the Plan in 2015.

(7) Related party transactions and party-in-interest transactions

Certain Plan investments are shares of a money market fund and units of participation of a collective trust fund which were managed by Vanguard Fiduciary Trust Company and State Street Bank and Trust Company, the trustees of the Plan and, therefore, these transactions qualify as party-in-interest transactions. The Plan also holds notes receivable from participants which qualify as party-in-interest transactions. Investment expenses of \$64,432 in 2015 and \$29,906 in 2014 and administrative expenses of \$95,434 in 2015 and \$195,011 in 2014 were paid directly by the Plan to the investment advisor and third party administrator, respectively. Certain fees incurred by the Plan for the investment management services are netted within net appreciation in fair value of the investments, as they are paid through revenue sharing, rather than as a direct payment.

CAPELLA HEALTHCARE, INC. 401(K) RETIREMENT PLAN

Notes to the Financial Statements

December 31, 2015 and 2014

(8) Reconciliation of financial statements to Form 5500

The following is a reconciliation of the changes in net assets available for benefits per the financial statements to the Form 5500 for the year ended December 31, 2014:

Change in net assets available for benefits per the financial statements	\$ (2,284,251)
Change in accrued interest from notes receivable from participants	<u>(976)</u>
Change in net assets available for benefits per the Form 5500	\$ <u>(2,285,227)</u>

(9) Risks and uncertainties

The Plan invests in various investment instruments. Investment securities, in general, are exposed to various risks, such as interest rate, credit and overall market volatility. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect participants' account balances and the amounts reported in the statements of net assets available for benefits.

(10) Subsequent event

On April 29, 2016, the Plan Sponsor completed a merger with RegionalCare Hospital Partners Inc. to form RCCH Healthcare Partners. RCCH Healthcare Partners has 16 regional health systems in 12 states. Additionally, on June 30, 2016, RCCH Healthcare Partners entered into a joint venture with Saline Memorial Hospital and Saline County. All employees of Saline Memorial Hospital became employees of the RCCH HealthCare Partners Controlled Group and became eligible for the Capella Healthcare, Inc. 401(k) Retirement Plan. The Plan Sponsor is currently assessing the impact of the merger and if the Capella Healthcare, Inc. 401(k) Retirement Plan will continue to exist or be merged in with any of the other RCCH Healthcare Partners plans.

CAPELLA HEALTHCARE, INC. 401(K) RETIREMENT PLAN

EIN 20-2767829, PLAN No. 001

Schedule H, line 4i - Schedule of Assets (Held at End of Year)

December 31, 2015

(a)	(b)	(c) Description of investment, including maturity date, rate of interest, collateral, <u>par or maturity value</u>	(d) <u>Cost</u>	(e) <u>Current value</u>
	Mutual funds:			
	Ameican Funds	EuroPacific Growth Fund	**	\$ 2,987,384
	Dodge & Cox	Income Fund	**	5,387,470
	Dodge & Cox	International Stock Fund	**	2,870,261
	Federated	Small Value Fund	**	4,123,223
	Harbor	Capital Appreciation Fund	**	4,687,204
	John Hancock	Disciplined Value Fund	**	3,167,442
	First American	Real Estate Securities Fund	**	2,253,478
*	Vanguard Fiduciary Trust Company	Institutional Index Fund	**	11,039,522
*	Vanguard Fiduciary Trust Company	Mid-Cap Index Fund	**	3,469,441
*	Vanguard Fiduciary Trust Company	Prime Money Market Fund	**	2,073,463
*	Vanguard Fiduciary Trust Company	Small-Cap Growth Index Fund	**	2,406,485
*	Vanguard Fiduciary Trust Company	Target Retirement 2010 Fund	**	2,153,528
*	Vanguard Fiduciary Trust Company	Target Retirement 2015 Fund	**	8,027,600
*	Vanguard Fiduciary Trust Company	Target Retirement 2020 Fund	**	21,518,932
*	Vanguard Fiduciary Trust Company	Target Retirement 2025 Fund	**	18,291,327
*	Vanguard Fiduciary Trust Company	Target Retirement 2030 Fund	**	12,846,326
*	Vanguard Fiduciary Trust Company	Target Retirement 2035 Fund	**	11,880,194
*	Vanguard Fiduciary Trust Company	Target Retirement 2040 Fund	**	7,160,933
*	Vanguard Fiduciary Trust Company	Target Retirement 2045 Fund	**	5,122,799
*	Vanguard Fiduciary Trust Company	Target Retirement 2050 Fund	**	1,359,479
*	Vanguard Fiduciary Trust Company	Target Retirement 2055 Fund	**	161,258
*	Vanguard Fiduciary Trust Company	Target Retirement 2060 Fund	**	18,408
*	Vanguard Fiduciary Trust Company	Target Retirement Income Fund	**	<u>1,657,028</u>
	Total mutual funds			<u>134,663,185</u>
*	Collective trust fund - Vanguard Fiduciary Trust Company	Vanguard Retirement Savings Trust	**	<u>10,718,877</u>
*	Notes receivable from participants	Loans to participants with interest rates ranging from 4.25% to 7.75%, various maturity dates through August 2025	-	<u>1,719,486</u>
*	Self-directed investments - Vanguard Fiduciary Trust Company	Vanguard Brokerage Option	**	<u>1,724,826</u>
	Total investments			<u>\$ 148,826,374</u>

* Represents a party-in-interest.

** Not required for participant directed plans.

The above data is based upon information which has been certified as complete and accurate by Vanguard Fiduciary Trust Company, the trustee.

CAPELLA HEALTHCARE, INC. 401(K) RETIREMENT PLAN

EIN 20-2767829, PLAN No. 001

Schedule H, line 4a - Schedule of Delinquent Participant Contributions

Year Ended December 31, 2015

Check Here If Late Participant Loan Repayments Are Included	Participant Contributions Transferred Late to the Plan	Total that Constitute Nonexempt Prohibited Transactions			Total Fully Corrected Under VFCP and PTE 2002-51
		Contributions not Corrected	Contributions Corrected Outside VFCP	Contributions Pending Correction in VFCP	
*	\$ 47,837	\$ -	\$ 47,837	\$ -	\$ -

CAPELLA HEALTHCARE, INC. 401(K) RETIREMENT PLAN

Financial Statements and Supplemental Schedules

December 31, 2015 and 2014

(With Independent Auditors' Report Thereon)



CAPELLA HEALTHCARE, INC. 401(K) RETIREMENT PLAN

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Independent Auditors' Report

The Plan Administration Committee
Capella Healthcare, Inc. 401(k) Retirement Plan:

Report on the Financial Statements

We were engaged to audit the accompanying financial statements of the Capella Healthcare, Inc. 401(k) Retirement Plan (the "Plan"), which comprise the statements of net assets available for benefits as of December 31, 2015 and 2014, the related statements of changes in net assets available for benefits for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on conducting the audits in accordance with auditing standards generally accepted in the United States of America. Because of the matter described in the *Basis for Disclaimer of Opinion* paragraph, however, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion.

Basis for Disclaimer of Opinion

As permitted by 29 CFR 2520.103-8 of the Department of Labor's ("DOL") Rules and Regulations for Reporting and Disclosure under the Employee Retirement Income Security Act of 1974 ("ERISA"), the plan administrator instructed us not to perform, and we did not perform, any auditing procedures with respect to the information summarized in Note 3, which was certified by State Street Bank and Trust Company and Vanguard Fiduciary Trust Company, the trustees of the Plan, except for comparing such information with the related information included in the financial statements. We have been informed by the plan administrator that Vanguard Fiduciary Trust Company held the Plan's investment assets and executed investment transactions as of and for the year ended December 31, 2015 and State Street Bank and Trust Company held the Plan's investment assets and executed investment transactions as of and for the year ended December 31, 2014. The plan administrator has obtained certifications from the trustees as of and for the years ended December 31, 2015 and 2014, that the information provided to the plan administrator by the trustees is complete and accurate.

Disclaimer of Opinion

Because of the significance of the matter described in the *Basis for Disclaimer of Opinion* paragraph, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion. Accordingly, we do not express an opinion on these financial statements.

Other Matter

The supplemental schedule of assets (held at end of year) and schedule of delinquent participant contributions as of and for the year ended December 31, 2015 are required by the DOL's Rules and Regulation for Reporting and Disclosure under ERISA and are presented for the purpose of additional analysis and are not a required part of the financial statements. Because of the significance of the matter described in the *Basis for Disclaimer of Opinion* paragraph, we do not express an opinion on these supplemental schedules.

Report on Form and Content in Compliance with Department of Labor's Rules and Regulations

The form and content of the information included in the financial statements and supplemental schedules, other than that derived from the information certified by the trustees, have been audited by us in accordance with auditing standards generally accepted in the United States of America and, in our opinion, are presented in compliance with the DOL's Rules and Regulations for Reporting and Disclosure under ERISA.

LBMC, P.C.

Brentwood, Tennessee
October 14, 2016

CAPELLA HEALTHCARE, INC. 401(K) RETIREMENT PLAN

Statements of Net Assets Available for Benefits

December 31, 2015 and 2014

	<u>2015</u>	<u>2014</u>
Assets:		
Cash	\$ <u>-</u>	\$ <u>15,027,555</u>
Investments, at fair value:		
Mutual funds	134,663,185	119,820,979
Collective trust fund	10,718,877	11,964,062
Self-directed investments	<u>1,724,826</u>	<u>1,578,982</u>
Total investments, at fair value	<u>147,106,888</u>	<u>133,364,023</u>
Receivables:		
Plan Sponsor contributions	1,262,576	1,153,239
Participant contributions	179,351	183,314
Notes receivable from participants	<u>1,719,486</u>	<u>613,196</u>
Total receivables	<u>3,161,413</u>	<u>1,949,749</u>
Net assets available for benefits	\$ <u>150,268,301</u>	\$ <u>150,341,327</u>

See accompanying notes to the financial statements.

CAPELLA HEALTHCARE, INC. 401(K) RETIREMENT PLAN

Statements of Changes in Net Assets Available for Benefits

Years Ended December 31, 2015 and 2014

	<u>2015</u>	<u>2014</u>
Additions (reductions) to net assets attributed to:		
Net change resulting from investment activity:		
Net appreciation (depreciation) in fair value of investments	\$ (6,724,449)	\$ 7,114,727
Dividend income	<u>5,322,796</u>	<u>2,675,840</u>
Net investment income (loss)	(1,401,653)	9,790,567
Less investment expenses	<u>64,432</u>	<u>29,906</u>
Net change resulting from investment activity	<u>(1,466,085)</u>	<u>9,760,661</u>
Interest income on notes receivable from participants	<u>50,313</u>	<u>36,924</u>
Contributions:		
Plan Sponsor	1,262,576	1,153,239
Participants	11,699,073	9,475,986
Participant rollovers	<u>16,666,393</u>	<u>584,477</u>
Total contributions	<u>29,628,042</u>	<u>11,213,702</u>
Net additions	<u>28,212,270</u>	<u>21,011,287</u>
Deductions from net assets attributed to:		
Benefits paid	28,189,862	23,100,527
Administrative expenses	<u>95,434</u>	<u>195,011</u>
Total deductions	<u>28,285,296</u>	<u>23,295,538</u>
Net decrease	(73,026)	(2,284,251)
Net assets available for benefits at beginning of year	<u>150,341,327</u>	<u>152,625,578</u>
Net assets available for benefits at end of year	\$ <u>150,268,301</u>	\$ <u>150,341,327</u>

See accompanying notes to the financial statements.

CAPELLA HEALTHCARE, INC. 401(K) RETIREMENT PLAN

Notes to the Financial Statements

December 31, 2015 and 2014

(1) Description of plan

The following description of the Capella Healthcare, Inc. 401(k) Retirement Plan (the "Plan") provides only general information. Participants should refer to the plan agreement for a more complete description of the Plan's provisions.

(a) General

The Plan is a defined contribution plan which was adopted on December 1, 2005 to provide retirement benefits for employees of Capella Healthcare, Inc. (the "Plan Sponsor"). The Plan covers substantially all employees who have completed six months of service and are at least eighteen years old ("participants"). The Plan is subject to the provisions of the Employee Retirement Income Security Act of 1974 ("ERISA").

Effective January 1, 2015, Vanguard Fiduciary Trust Company replaced State Street Bank and Trust Company as the trustee of the Plan. As a result of the transfer, \$15,027,555 of investments were liquidated into cash at December 31, 2014 and transferred to Vanguard on January 2, 2015. The remaining \$133,364,023 of investments were transferred in-kind.

(b) Contributions

Participants may voluntarily make qualified retirement contributions to the Plan which are deductible by the participants for federal income tax purposes under Section 401(k) of the Internal Revenue Code ("IRC"), subject to certain IRC limitations. Participants may also contribute amounts representing distributions from other qualified defined benefit or defined contribution plans.

The Plan Sponsor may contribute a discretionary matching contribution. For 2015 and 2014, the Plan Sponsor authorized an employer contribution of 25% of the first 4% of employee contributions, up to 1% of the individual participant's annual compensation. The matching contributions of \$1,262,576 and \$1,153,239 are included as receivables in the statements of net assets available for benefits as of December 31, 2015 and 2014, respectively.

The Plan also provides that the Plan Sponsor may contribute each year a discretionary profit sharing amount, however, such discretionary contributions by the Plan Sponsor are not required. No discretionary profit sharing contributions were made by the Plan Sponsor during 2015 or 2014.

Plan Sponsor contributions may not exceed the maximum amount deductible for federal income tax purposes.

Notes to the Financial Statements

December 31, 2015 and 2014

(c) Participant accounts

Each participant's account is credited (charged) with the participants' and Plan Sponsor contributions and allocations of investment earnings (losses) and administrative expenses. Allocations are based on participant compensation or account balances as defined in the plan agreement. The benefit to which a participant is entitled is the benefit that can be provided from the participant's vested account.

(d) Vesting

Participants are immediately vested in their elective salary deferral plus actual earnings (losses) thereon. Vesting in the Plan Sponsor's matching and profit sharing contributions is based on years of continuous service. Participants vest pro rata over five years of service.

(e) Notes receivable from participants

Participants may borrow from their fund accounts a minimum of \$1,000 up to a maximum equal to the lesser of \$50,000 or 50% of their vested account balance. The loans are secured by the balances in the participants' accounts and bear interest at fixed rates ranging from 4.25% to 7.75%, which are commensurate with local prevailing rates as determined by the plan administrator. Principal and interest are collected ratably through payroll deductions.

(f) Payment of benefits

On termination of service due to death, permanent disability, or retirement, a participant may elect to receive either a lump-sum payment or annual installments over a specified period equal to his or her entire account balance. For termination of service due to other reasons, a participant will be entitled to receive only the vested interest in his or her account as a lump-sum distribution. If the value of a participant's account is less than \$1,000, the total balance is distributed as an automatic lump-sum payment in cash. For participant accounts greater than \$1,000 but less than \$5,000, the value of the participant's account is rolled into an individual retirement account on behalf of the participant, unless the participant elects to receive a lump-sum payment.

(g) Forfeited accounts

Forfeitures are created when participants terminate employment prior to becoming fully vested in the Plan Sponsor contribution portion of their accounts. Such forfeitures may be used to pay the administration expenses of the Plan, to restore benefits previously forfeited, and to reduce the Plan Sponsor's contributions to the Plan. At December 31, 2015, there were \$80,781 of forfeited nonvested amounts. At December 31, 2014, there were no forfeited nonvested amounts. Forfeited nonvested accounts used amounted to \$77,362 and \$29,328 in 2015 and 2014, respectively.

Notes to the Financial Statements

December 31, 2015 and 2014

(h) Hardship withdrawals

The Plan permits distributions in the event of a hardship, as defined in the plan agreement. These distributions are taxable and subject to a tax penalty equal to 10% of the hardship distribution amount if the participant is younger than age 59½. Hardship withdrawals are limited to the participant's elective account balance. If a participant receives a hardship withdrawal from the Plan, the participant will be unable to make contributions to the Plan for a period of six months.

(i) Administrative expenses

Certain administrative expenses are paid by the Plan Sponsor; while certain administrative expenses, as well as investment expenses, are paid by the Plan.

(j) Plan termination

Although it has not expressed any intent to do so, the Plan Sponsor has the right under the plan agreement to discontinue its contributions at any time and to terminate the Plan subject to the provisions of ERISA. In the event of plan termination, participants would become 100% vested in their employer contributions.

(2) Summary of significant accounting policies

(a) Recently adopted accounting pronouncements

In May 2015, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2015-07, *"Fair Value Measurement (Topic 820): Disclosures for Investments in Certain Entities That Calculate Net Asset Value per Share"* ("ASU 2015-07"), which removes the requirement to present certain investments for which the practical expedient is used to measure fair value at net asset value ("NAV") within the fair value hierarchy table. Instead, the Plan is required to include those investments as a reconciling item so that the total fair value amount of investments in the disclosure is consistent with the fair value investment balance on the statements of net assets available for benefits. The Plan Sponsor elected to early adopt ASU 2015-07 as of December 31, 2015, and has applied the provisions retrospectively. The Plan presents the investment disclosure required by this ASU 2015-07 in the fair value hierarchy tables for 2015 and 2014 in Note 4, "Fair Value Measurements." There were no other impacts on the statements of net assets available for benefits or the statements of changes in net assets available for benefits as of and for the years ended December 31, 2015 and 2014.

CAPELLA HEALTHCARE, INC. 401(K) RETIREMENT PLAN

Notes to the Financial Statements

December 31, 2015 and 2014

In July 2015, the FASB issued ASU No. 2015-12, *“Plan Accounting: Defined Benefit Pension Plans (Topic 960), Defined Contribution Pension Plans (Topic 962), Health and Welfare Benefit Plans (Topic 965): (Part I) Fully Benefit-Responsive Investment Contracts, (Part II) Plan Investment Disclosures, (Part III) Measurement Date Practical Expedient,”* (“ASU 2015-12”), which simplifies the required disclosures related to employee benefit plans.

- Part I eliminates the requirement to measure and disclose the fair value of fully benefit-responsive contracts, including collective trust assets. Contract value is the only required measure for fully benefit-responsive investment contracts.
- Part II eliminates the requirement to disclose individual investments which comprise 5% or more of total net assets available for benefits, as well as the net appreciation or depreciation of fair values by type. Part II also requires plans to continue to disaggregate investments that are measured using fair value by general type, however plans are no longer required to also disaggregate investments by nature, characteristics and risks. Furthermore, the disclosure of information about fair value measurements shall be provided by general type of Plan asset.
- Part III is not applicable to the Plan.

The Plan Sponsor elected to early adopt ASU 2015-12 as of December 31, 2015, and has applied the provisions retrospectively. The adoption of ASU 2015-12 has resulted in the reclassification of \$161,758 related to the adjustment from fair value to contract value for fully benefit-responsive collective trust fund within its statement of net assets available for benefits as of December 31, 2014. Furthermore, the Plan Sponsor has eliminated its historical disclosure of individual investments which comprise 5% or more of total net assets available for benefits, as well as the net appreciation or depreciation of fair values by type. There were no other impacts on the statements of net assets available for benefits and the statement of changes in net assets available for benefits as of and for the years ended December 31, 2015 and 2014.

(b) Basis of accounting

The financial statements of the Plan are prepared on the accrual basis of accounting.

(c) Investment valuation and income recognition

Investments are stated at fair value. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The Plan's Investment Committee determines the Plan's valuation policies utilizing information provided by the investment advisers and trustee. See note 4 for discussion of fair value measurements.

CAPELLA HEALTHCARE, INC. 401(K) RETIREMENT PLAN

Notes to the Financial Statements

December 31, 2015 and 2014

Purchases and sales of securities are recorded on a trade-date basis. Interest income is recorded on the accrual basis. Dividend income is recorded on the ex-dividend date.

Net appreciation (depreciation) includes the Plan's gains and losses on investments bought and sold as well as held during the year.

(d) Notes receivable from participants

Notes receivable from participants are measured at their unpaid principal balance plus any accrued but unpaid interest. Delinquent notes receivable from participants are reclassified as distributions based upon the terms of the plan agreement.

(e) Payment of benefits

Benefits are recorded when paid.

(f) Use of estimates

The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of net assets available for benefits and changes therein, and disclosure of contingent assets and liabilities. Actual results could differ from those estimates.

(g) Events occurring after reporting date

The Plan has evaluated events and transactions that occurred between December 31, 2015 and October 14, 2016, which is the date that the financial statements were available to be issued, for possible recognition or disclosure in the financial statements.

(3) Summary of information certified by trustees

The following information was certified as complete and accurate by Vanguard Fiduciary Trust Company and State Street Bank and Trust Company, the trustees of the Plan, as of and for the years ended December 31, 2015 and 2014, respectively.

	<u>2015</u>	<u>2014</u>
Investments at fair value	\$ <u>147,106,888</u>	<u>**</u>
Notes receivable from participants	\$ <u>1,719,486</u>	<u>**</u>
Net change resulting from investment activity	\$ <u>(1,401,653)</u>	\$ <u>9,790,567</u>
Interest income on notes receivable from participants	\$ <u>50,313</u>	\$ <u>36,924</u>

** As of December 31, 2014, the cash, investments and the notes receivable from participants were excluded from the certification as the funds were being transferred to the new trustee (see Note 1(a)).

Notes to the Financial Statements

December 31, 2015 and 2014

(4) Fair value measurements

The fair value hierarchy 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 unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy under FASB ASC 820 are described below:

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

Level 2 - Inputs to the valuation methodology include:

- Quoted prices for similar assets or liabilities in active markets;
- Quoted prices for identical or similar assets or liabilities in inactive markets;
- Inputs other than quoted prices that are observable for the asset or liability;
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.

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

The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

The following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used at December 31, 2015 and 2014.

- (i) **Mutual funds:** Valued at the net asset value of shares held by the Plan at year end in an active market.
- (ii) **Self-directed investments:** The self-directed investments consist primarily of common stock and mutual funds which are valued at the closing price reported on the active market for common stock held and the net asset value of the mutual fund shares held and money market funds.

The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the Plan's management believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

CAPELLA HEALTHCARE, INC. 401(K) RETIREMENT PLAN

Notes to the Financial Statements

December 31, 2015 and 2014

The following table sets forth by level, within the fair value hierarchy, the Plan's assets at fair value as of December 31, 2015 and 2014:

**Fair Value Measurements as of
December 31, 2015 using the following inputs**

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Mutual funds	\$134,663,185	\$ -	\$ -	\$134,663,185
Self-directed investments	<u>1,724,826</u>	<u>-</u>	<u>-</u>	<u>1,724,826</u>
Total assets in the fair value hierarchy	<u>\$136,388,011</u>	<u>\$ -</u>	<u>\$ -</u>	<u>136,388,011</u>
Investments measured at NAV (a)				<u>10,718,877</u>
Investments at fair value				<u>\$147,106,888</u>

**Fair Value Measurements as of
December 31, 2014 using the following inputs**

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Mutual funds	\$119,820,979	\$ -	\$ -	\$119,820,979
Self-directed investments	<u>1,578,982</u>	<u>-</u>	<u>-</u>	<u>1,578,982</u>
Total assets in the fair value hierarchy	<u>\$121,399,961</u>	<u>\$ -</u>	<u>\$ -</u>	<u>121,399,961</u>
Investments measured at NAV (a)				<u>11,964,062</u>
Investments at fair value				<u>\$133,364,023</u>

- (a) Certain investments are measured at NAV as a practical expedient to estimate fair value and, therefore, have not been classified in the fair value hierarchy. The fair value amounts presented in this table are intended to permit reconciliation of the fair value hierarchy to the line items presented in the statements of net assets available for benefits.

The following table summarizes investments for which fair value is measured using NAV per share practical expedient as of December 31, 2015 and 2014, respectively. There are no participant redemption restrictions for these investments; the redemption notice period is applicable only to the Plan.

<u>Description</u>	<u>Fair Value 12/31/2015</u>	<u>Fair Value 12/31/2014</u>	<u>Unfunded Commitments</u>	<u>Redemption Frequency</u>	<u>Redemption Notice Period</u>
Collective Trust Fund	\$10,718,877	\$11,964,062	N/A	Daily	Daily

Notes to the Financial Statements

December 31, 2015 and 2014

(5) Income tax status

The Plan received a favorable determination letter from the Internal Revenue Service ("IRS") on June 23, 2015, in which the IRS stated that the Plan was in compliance with the applicable requirements of the IRC. The Plan is required to operate in conformity with the IRC to maintain its qualification.

Accounting principles generally accepted in the United States of America require plan management to evaluate tax positions taken by the Plan and recognize a tax liability or asset if the Plan has taken an uncertain position that more likely than not would not be sustained upon examination by the IRS. The plan administrator has analyzed the tax positions taken by the Plan, and has concluded that as of December 31, 2015 and 2014, there are no uncertain positions taken or expected to be taken that would require recognition of a liability or asset or disclosure in the financial statements. The Plan is subject to routine audits by taxing jurisdictions; however, there are currently no audits for any tax periods in progress.

(6) Untimely remittance of participant contributions

The Plan Sponsor is required by Department of Labor regulation to remit participant contributions as soon as practicable, but by no later than the fifteenth business day following the end of the month in which the amounts were withheld from wages. For certain contributions withheld from payrolls during 2014, the funds were not remitted timely. Imputed lost earnings on these late remittances were remitted to the Plan in 2015.

(7) Related party transactions and party-in-interest transactions

Certain Plan investments are shares of a money market fund and units of participation of a collective trust fund which were managed by Vanguard Fiduciary Trust Company and State Street Bank and Trust Company, the trustees of the Plan and, therefore, these transactions qualify as party-in-interest transactions. The Plan also holds notes receivable from participants which qualify as party-in-interest transactions. Investment expenses of \$64,432 in 2015 and \$29,906 in 2014 and administrative expenses of \$95,434 in 2015 and \$195,011 in 2014 were paid directly by the Plan to the investment advisor and third party administrator, respectively. Certain fees incurred by the Plan for the investment management services are netted within net appreciation in fair value of the investments, as they are paid through revenue sharing, rather than as a direct payment.

CAPELLA HEALTHCARE, INC. 401(K) RETIREMENT PLAN

Notes to the Financial Statements

December 31, 2015 and 2014

(8) Reconciliation of financial statements to Form 5500

The following is a reconciliation of the changes in net assets available for benefits per the financial statements to the Form 5500 for the year ended December 31, 2014:

Change in net assets available for benefits per the financial statements	\$ (2,284,251)
Change in accrued interest from notes receivable from participants	<u>(976)</u>
Change in net assets available for benefits per the Form 5500	\$ <u>(2,285,227)</u>

(9) Risks and uncertainties

The Plan invests in various investment instruments. Investment securities, in general, are exposed to various risks, such as interest rate, credit and overall market volatility. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect participants' account balances and the amounts reported in the statements of net assets available for benefits.

(10) Subsequent event

On April 29, 2016, the Plan Sponsor completed a merger with RegionalCare Hospital Partners Inc. to form RCCH Healthcare Partners. RCCH Healthcare Partners has 16 regional health systems in 12 states. Additionally, on June 30, 2016, RCCH Healthcare Partners entered into a joint venture with Saline Memorial Hospital and Saline County. All employees of Saline Memorial Hospital became employees of the RCCH HealthCare Partners Controlled Group and became eligible for the Capella Healthcare, Inc. 401(k) Retirement Plan. The Plan Sponsor is currently assessing the impact of the merger and if the Capella Healthcare, Inc. 401(k) Retirement Plan will continue to exist or be merged in with any of the other RCCH Healthcare Partners plans.

CAPELLA HEALTHCARE, INC. 401(K) RETIREMENT PLAN

EIN 20-2767829, PLAN No. 001

Schedule H, line 4i - Schedule of Assets (Held at End of Year)

December 31, 2015

(a)	(b)	(c) Description of investment, including maturity date, rate of interest, collateral, <u>par or maturity value</u>	(d) <u>Cost</u>	(e) <u>Current value</u>
	Mutual funds:			
	Ameican Funds	EuroPacific Growth Fund	**	\$ 2,987,384
	Dodge & Cox	Income Fund	**	5,387,470
	Dodge & Cox	International Stock Fund	**	2,870,261
	Federated	Small Value Fund	**	4,123,223
	Harbor	Capital Appreciation Fund	**	4,687,204
	John Hancock	Disciplined Value Fund	**	3,167,442
	First American	Real Estate Securities Fund	**	2,253,478
*	Vanguard Fiduciary Trust Company	Institutional Index Fund	**	11,039,522
*	Vanguard Fiduciary Trust Company	Mid-Cap Index Fund	**	3,469,441
*	Vanguard Fiduciary Trust Company	Prime Money Market Fund	**	2,073,463
*	Vanguard Fiduciary Trust Company	Small-Cap Growth Index Fund	**	2,406,485
*	Vanguard Fiduciary Trust Company	Target Retirement 2010 Fund	**	2,153,528
*	Vanguard Fiduciary Trust Company	Target Retirement 2015 Fund	**	8,027,600
*	Vanguard Fiduciary Trust Company	Target Retirement 2020 Fund	**	21,518,932
*	Vanguard Fiduciary Trust Company	Target Retirement 2025 Fund	**	18,291,327
*	Vanguard Fiduciary Trust Company	Target Retirement 2030 Fund	**	12,846,326
*	Vanguard Fiduciary Trust Company	Target Retirement 2035 Fund	**	11,880,194
*	Vanguard Fiduciary Trust Company	Target Retirement 2040 Fund	**	7,160,933
*	Vanguard Fiduciary Trust Company	Target Retirement 2045 Fund	**	5,122,799
*	Vanguard Fiduciary Trust Company	Target Retirement 2050 Fund	**	1,359,479
*	Vanguard Fiduciary Trust Company	Target Retirement 2055 Fund	**	161,258
*	Vanguard Fiduciary Trust Company	Target Retirement 2060 Fund	**	18,408
*	Vanguard Fiduciary Trust Company	Target Retirement Income Fund	**	<u>1,657,028</u>
	Total mutual funds			<u>134,663,185</u>
*	Collective trust fund -			
*	Vanguard Fiduciary Trust Company	Vanguard Retirement Savings Trust	**	<u>10,718,877</u>
*	Notes receivable from participants	Loans to participants with interest rates ranging from 4.25% to 7.75%, various maturity dates through August 2025	-	<u>1,719,486</u>
*	Self-directed investments -			
*	Vanguard Fiduciary Trust Company	Vanguard Brokerage Option	**	<u>1,724,826</u>
	Total investments			<u>\$ 148,826,374</u>

* Represents a party-in-interest.

** Not required for participant directed plans.

The above data is based upon information which has been certified as complete and accurate by Vanguard Fiduciary Trust Company, the trustee.

CAPELLA HEALTHCARE, INC. 401(K) RETIREMENT PLAN

EIN 20-2767829, PLAN No. 001

Schedule H, line 4a - Schedule of Delinquent Participant Contributions

Year Ended December 31, 2015

Check Here If Late Participant Loan Repayments Are Included	Participant Contributions Transferred Late to the Plan	Total that Constitute Nonexempt Prohibited Transactions			Total Fully Corrected Under VFCP and PTE 2002-51
		Contributions not Corrected	Contributions Corrected Outside VFCP	Contributions Pending Correction in VFCP	
*	\$ 47,837	\$ -	\$ 47,837	\$ -	\$ -

CAPELLA HEALTHCARE, INC. 401(K) RETIREMENT PLAN

Financial Statements and Supplemental Schedules

December 31, 2015 and 2014

(With Independent Auditors' Report Thereon)



CAPELLA HEALTHCARE, INC. 401(K) RETIREMENT PLAN

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Independent Auditors' Report

The Plan Administration Committee
Capella Healthcare, Inc. 401(k) Retirement Plan:

Report on the Financial Statements

We were engaged to audit the accompanying financial statements of the Capella Healthcare, Inc. 401(k) Retirement Plan (the "Plan"), which comprise the statements of net assets available for benefits as of December 31, 2015 and 2014, the related statements of changes in net assets available for benefits for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on conducting the audits in accordance with auditing standards generally accepted in the United States of America. Because of the matter described in the *Basis for Disclaimer of Opinion* paragraph, however, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion.

Basis for Disclaimer of Opinion

As permitted by 29 CFR 2520.103-8 of the Department of Labor's ("DOL") Rules and Regulations for Reporting and Disclosure under the Employee Retirement Income Security Act of 1974 ("ERISA"), the plan administrator instructed us not to perform, and we did not perform, any auditing procedures with respect to the information summarized in Note 3, which was certified by State Street Bank and Trust Company and Vanguard Fiduciary Trust Company, the trustees of the Plan, except for comparing such information with the related information included in the financial statements. We have been informed by the plan administrator that Vanguard Fiduciary Trust Company held the Plan's investment assets and executed investment transactions as of and for the year ended December 31, 2015 and State Street Bank and Trust Company held the Plan's investment assets and executed investment transactions as of and for the year ended December 31, 2014. The plan administrator has obtained certifications from the trustees as of and for the years ended December 31, 2015 and 2014, that the information provided to the plan administrator by the trustees is complete and accurate.

Disclaimer of Opinion

Because of the significance of the matter described in the *Basis for Disclaimer of Opinion* paragraph, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion. Accordingly, we do not express an opinion on these financial statements.

Other Matter

The supplemental schedule of assets (held at end of year) and schedule of delinquent participant contributions as of and for the year ended December 31, 2015 are required by the DOL's Rules and Regulation for Reporting and Disclosure under ERISA and are presented for the purpose of additional analysis and are not a required part of the financial statements. Because of the significance of the matter described in the *Basis for Disclaimer of Opinion* paragraph, we do not express an opinion on these supplemental schedules.

Report on Form and Content in Compliance with Department of Labor's Rules and Regulations

The form and content of the information included in the financial statements and supplemental schedules, other than that derived from the information certified by the trustees, have been audited by us in accordance with auditing standards generally accepted in the United States of America and, in our opinion, are presented in compliance with the DOL's Rules and Regulations for Reporting and Disclosure under ERISA.

LBMC, P.C.

Brentwood, Tennessee
October 14, 2016

CAPELLA HEALTHCARE, INC. 401(K) RETIREMENT PLAN

Statements of Net Assets Available for Benefits

December 31, 2015 and 2014

	<u>2015</u>	<u>2014</u>
Assets:		
Cash	\$ <u>-</u>	\$ <u>15,027,555</u>
Investments, at fair value:		
Mutual funds	134,663,185	119,820,979
Collective trust fund	10,718,877	11,964,062
Self-directed investments	<u>1,724,826</u>	<u>1,578,982</u>
Total investments, at fair value	<u>147,106,888</u>	<u>133,364,023</u>
Receivables:		
Plan Sponsor contributions	1,262,576	1,153,239
Participant contributions	179,351	183,314
Notes receivable from participants	<u>1,719,486</u>	<u>613,196</u>
Total receivables	<u>3,161,413</u>	<u>1,949,749</u>
Net assets available for benefits	\$ <u>150,268,301</u>	\$ <u>150,341,327</u>

See accompanying notes to the financial statements.

CAPELLA HEALTHCARE, INC. 401(K) RETIREMENT PLAN

Statements of Changes in Net Assets Available for Benefits

Years Ended December 31, 2015 and 2014

	<u>2015</u>	<u>2014</u>
Additions (reductions) to net assets attributed to:		
Net change resulting from investment activity:		
Net appreciation (depreciation) in fair value of investments	\$ (6,724,449)	\$ 7,114,727
Dividend income	<u>5,322,796</u>	<u>2,675,840</u>
Net investment income (loss)	(1,401,653)	9,790,567
Less investment expenses	<u>64,432</u>	<u>29,906</u>
Net change resulting from investment activity	<u>(1,466,085)</u>	<u>9,760,661</u>
Interest income on notes receivable from participants	<u>50,313</u>	<u>36,924</u>
Contributions:		
Plan Sponsor	1,262,576	1,153,239
Participants	11,699,073	9,475,986
Participant rollovers	<u>16,666,393</u>	<u>584,477</u>
Total contributions	<u>29,628,042</u>	<u>11,213,702</u>
Net additions	<u>28,212,270</u>	<u>21,011,287</u>
Deductions from net assets attributed to:		
Benefits paid	28,189,862	23,100,527
Administrative expenses	<u>95,434</u>	<u>195,011</u>
Total deductions	<u>28,285,296</u>	<u>23,295,538</u>
Net decrease	(73,026)	(2,284,251)
Net assets available for benefits at beginning of year	<u>150,341,327</u>	<u>152,625,578</u>
Net assets available for benefits at end of year	\$ <u>150,268,301</u>	\$ <u>150,341,327</u>

See accompanying notes to the financial statements.

CAPELLA HEALTHCARE, INC. 401(K) RETIREMENT PLAN

Notes to the Financial Statements

December 31, 2015 and 2014

(1) Description of plan

The following description of the Capella Healthcare, Inc. 401(k) Retirement Plan (the "Plan") provides only general information. Participants should refer to the plan agreement for a more complete description of the Plan's provisions.

(a) General

The Plan is a defined contribution plan which was adopted on December 1, 2005 to provide retirement benefits for employees of Capella Healthcare, Inc. (the "Plan Sponsor"). The Plan covers substantially all employees who have completed six months of service and are at least eighteen years old ("participants"). The Plan is subject to the provisions of the Employee Retirement Income Security Act of 1974 ("ERISA").

Effective January 1, 2015, Vanguard Fiduciary Trust Company replaced State Street Bank and Trust Company as the trustee of the Plan. As a result of the transfer, \$15,027,555 of investments were liquidated into cash at December 31, 2014 and transferred to Vanguard on January 2, 2015. The remaining \$133,364,023 of investments were transferred in-kind.

(b) Contributions

Participants may voluntarily make qualified retirement contributions to the Plan which are deductible by the participants for federal income tax purposes under Section 401(k) of the Internal Revenue Code ("IRC"), subject to certain IRC limitations. Participants may also contribute amounts representing distributions from other qualified defined benefit or defined contribution plans.

The Plan Sponsor may contribute a discretionary matching contribution. For 2015 and 2014, the Plan Sponsor authorized an employer contribution of 25% of the first 4% of employee contributions, up to 1% of the individual participant's annual compensation. The matching contributions of \$1,262,576 and \$1,153,239 are included as receivables in the statements of net assets available for benefits as of December 31, 2015 and 2014, respectively.

The Plan also provides that the Plan Sponsor may contribute each year a discretionary profit sharing amount, however, such discretionary contributions by the Plan Sponsor are not required. No discretionary profit sharing contributions were made by the Plan Sponsor during 2015 or 2014.

Plan Sponsor contributions may not exceed the maximum amount deductible for federal income tax purposes.

Notes to the Financial Statements

December 31, 2015 and 2014

(c) Participant accounts

Each participant's account is credited (charged) with the participants' and Plan Sponsor contributions and allocations of investment earnings (losses) and administrative expenses. Allocations are based on participant compensation or account balances as defined in the plan agreement. The benefit to which a participant is entitled is the benefit that can be provided from the participant's vested account.

(d) Vesting

Participants are immediately vested in their elective salary deferral plus actual earnings (losses) thereon. Vesting in the Plan Sponsor's matching and profit sharing contributions is based on years of continuous service. Participants vest pro rata over five years of service.

(e) Notes receivable from participants

Participants may borrow from their fund accounts a minimum of \$1,000 up to a maximum equal to the lesser of \$50,000 or 50% of their vested account balance. The loans are secured by the balances in the participants' accounts and bear interest at fixed rates ranging from 4.25% to 7.75%, which are commensurate with local prevailing rates as determined by the plan administrator. Principal and interest are collected ratably through payroll deductions.

(f) Payment of benefits

On termination of service due to death, permanent disability, or retirement, a participant may elect to receive either a lump-sum payment or annual installments over a specified period equal to his or her entire account balance. For termination of service due to other reasons, a participant will be entitled to receive only the vested interest in his or her account as a lump-sum distribution. If the value of a participant's account is less than \$1,000, the total balance is distributed as an automatic lump-sum payment in cash. For participant accounts greater than \$1,000 but less than \$5,000, the value of the participant's account is rolled into an individual retirement account on behalf of the participant, unless the participant elects to receive a lump-sum payment.

(g) Forfeited accounts

Forfeitures are created when participants terminate employment prior to becoming fully vested in the Plan Sponsor contribution portion of their accounts. Such forfeitures may be used to pay the administration expenses of the Plan, to restore benefits previously forfeited, and to reduce the Plan Sponsor's contributions to the Plan. At December 31, 2015, there were \$80,781 of forfeited nonvested amounts. At December 31, 2014, there were no forfeited nonvested amounts. Forfeited nonvested accounts used amounted to \$77,362 and \$29,328 in 2015 and 2014, respectively.

Notes to the Financial Statements

December 31, 2015 and 2014

(h) Hardship withdrawals

The Plan permits distributions in the event of a hardship, as defined in the plan agreement. These distributions are taxable and subject to a tax penalty equal to 10% of the hardship distribution amount if the participant is younger than age 59½. Hardship withdrawals are limited to the participant's elective account balance. If a participant receives a hardship withdrawal from the Plan, the participant will be unable to make contributions to the Plan for a period of six months.

(i) Administrative expenses

Certain administrative expenses are paid by the Plan Sponsor; while certain administrative expenses, as well as investment expenses, are paid by the Plan.

(j) Plan termination

Although it has not expressed any intent to do so, the Plan Sponsor has the right under the plan agreement to discontinue its contributions at any time and to terminate the Plan subject to the provisions of ERISA. In the event of plan termination, participants would become 100% vested in their employer contributions.

(2) Summary of significant accounting policies

(a) Recently adopted accounting pronouncements

In May 2015, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2015-07, *"Fair Value Measurement (Topic 820): Disclosures for Investments in Certain Entities That Calculate Net Asset Value per Share"* ("ASU 2015-07"), which removes the requirement to present certain investments for which the practical expedient is used to measure fair value at net asset value ("NAV") within the fair value hierarchy table. Instead, the Plan is required to include those investments as a reconciling item so that the total fair value amount of investments in the disclosure is consistent with the fair value investment balance on the statements of net assets available for benefits. The Plan Sponsor elected to early adopt ASU 2015-07 as of December 31, 2015, and has applied the provisions retrospectively. The Plan presents the investment disclosure required by this ASU 2015-07 in the fair value hierarchy tables for 2015 and 2014 in Note 4, "Fair Value Measurements." There were no other impacts on the statements of net assets available for benefits or the statements of changes in net assets available for benefits as of and for the years ended December 31, 2015 and 2014.

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In July 2015, the FASB issued ASU No. 2015-12, *“Plan Accounting: Defined Benefit Pension Plans (Topic 960), Defined Contribution Pension Plans (Topic 962), Health and Welfare Benefit Plans (Topic 965): (Part I) Fully Benefit-Responsive Investment Contracts, (Part II) Plan Investment Disclosures, (Part III) Measurement Date Practical Expedient,”* (“ASU 2015-12”), which simplifies the required disclosures related to employee benefit plans.

- Part I eliminates the requirement to measure and disclose the fair value of fully benefit-responsive contracts, including collective trust assets. Contract value is the only required measure for fully benefit-responsive investment contracts.
- Part II eliminates the requirement to disclose individual investments which comprise 5% or more of total net assets available for benefits, as well as the net appreciation or depreciation of fair values by type. Part II also requires plans to continue to disaggregate investments that are measured using fair value by general type, however plans are no longer required to also disaggregate investments by nature, characteristics and risks. Furthermore, the disclosure of information about fair value measurements shall be provided by general type of Plan asset.
- Part III is not applicable to the Plan.

The Plan Sponsor elected to early adopt ASU 2015-12 as of December 31, 2015, and has applied the provisions retrospectively. The adoption of ASU 2015-12 has resulted in the reclassification of \$161,758 related to the adjustment from fair value to contract value for fully benefit-responsive collective trust fund within its statement of net assets available for benefits as of December 31, 2014. Furthermore, the Plan Sponsor has eliminated its historical disclosure of individual investments which comprise 5% or more of total net assets available for benefits, as well as the net appreciation or depreciation of fair values by type. There were no other impacts on the statements of net assets available for benefits and the statement of changes in net assets available for benefits as of and for the years ended December 31, 2015 and 2014.

(b) Basis of accounting

The financial statements of the Plan are prepared on the accrual basis of accounting.

(c) Investment valuation and income recognition

Investments are stated at fair value. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The Plan's Investment Committee determines the Plan's valuation policies utilizing information provided by the investment advisers and trustee. See note 4 for discussion of fair value measurements.

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Purchases and sales of securities are recorded on a trade-date basis. Interest income is recorded on the accrual basis. Dividend income is recorded on the ex-dividend date.

Net appreciation (depreciation) includes the Plan's gains and losses on investments bought and sold as well as held during the year.

(d) Notes receivable from participants

Notes receivable from participants are measured at their unpaid principal balance plus any accrued but unpaid interest. Delinquent notes receivable from participants are reclassified as distributions based upon the terms of the plan agreement.

(e) Payment of benefits

Benefits are recorded when paid.

(f) Use of estimates

The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of net assets available for benefits and changes therein, and disclosure of contingent assets and liabilities. Actual results could differ from those estimates.

(g) Events occurring after reporting date

The Plan has evaluated events and transactions that occurred between December 31, 2015 and October 14, 2016, which is the date that the financial statements were available to be issued, for possible recognition or disclosure in the financial statements.

(3) Summary of information certified by trustees

The following information was certified as complete and accurate by Vanguard Fiduciary Trust Company and State Street Bank and Trust Company, the trustees of the Plan, as of and for the years ended December 31, 2015 and 2014, respectively.

	<u>2015</u>	<u>2014</u>
Investments at fair value	\$ <u>147,106,888</u>	<u>**</u>
Notes receivable from participants	\$ <u>1,719,486</u>	<u>**</u>
Net change resulting from investment activity	\$ <u>(1,401,653)</u>	\$ <u>9,790,567</u>
Interest income on notes receivable from participants	\$ <u>50,313</u>	\$ <u>36,924</u>

** As of December 31, 2014, the cash, investments and the notes receivable from participants were excluded from the certification as the funds were being transferred to the new trustee (see Note 1(a)).

Notes to the Financial Statements

December 31, 2015 and 2014

(4) Fair value measurements

The fair value hierarchy 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 unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy under FASB ASC 820 are described below:

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

Level 2 - Inputs to the valuation methodology include:

- Quoted prices for similar assets or liabilities in active markets;
- Quoted prices for identical or similar assets or liabilities in inactive markets;
- Inputs other than quoted prices that are observable for the asset or liability;
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.

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

The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

The following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used at December 31, 2015 and 2014.

- (i) **Mutual funds:** Valued at the net asset value of shares held by the Plan at year end in an active market.
- (ii) **Self-directed investments:** The self-directed investments consist primarily of common stock and mutual funds which are valued at the closing price reported on the active market for common stock held and the net asset value of the mutual fund shares held and money market funds.

The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the Plan's management believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

CAPELLA HEALTHCARE, INC. 401(K) RETIREMENT PLAN

Notes to the Financial Statements

December 31, 2015 and 2014

The following table sets forth by level, within the fair value hierarchy, the Plan's assets at fair value as of December 31, 2015 and 2014:

**Fair Value Measurements as of
December 31, 2015 using the following inputs**

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Mutual funds	\$134,663,185	\$ -	\$ -	\$134,663,185
Self-directed investments	<u>1,724,826</u>	<u>-</u>	<u>-</u>	<u>1,724,826</u>
Total assets in the fair value hierarchy	<u>\$136,388,011</u>	<u>\$ -</u>	<u>\$ -</u>	<u>136,388,011</u>
Investments measured at NAV (a)				<u>10,718,877</u>
Investments at fair value				<u>\$147,106,888</u>

**Fair Value Measurements as of
December 31, 2014 using the following inputs**

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Mutual funds	\$119,820,979	\$ -	\$ -	\$119,820,979
Self-directed investments	<u>1,578,982</u>	<u>-</u>	<u>-</u>	<u>1,578,982</u>
Total assets in the fair value hierarchy	<u>\$121,399,961</u>	<u>\$ -</u>	<u>\$ -</u>	<u>121,399,961</u>
Investments measured at NAV (a)				<u>11,964,062</u>
Investments at fair value				<u>\$133,364,023</u>

- (a) Certain investments are measured at NAV as a practical expedient to estimate fair value and, therefore, have not been classified in the fair value hierarchy. The fair value amounts presented in this table are intended to permit reconciliation of the fair value hierarchy to the line items presented in the statements of net assets available for benefits.

The following table summarizes investments for which fair value is measured using NAV per share practical expedient as of December 31, 2015 and 2014, respectively. There are no participant redemption restrictions for these investments; the redemption notice period is applicable only to the Plan.

<u>Description</u>	<u>Fair Value 12/31/2015</u>	<u>Fair Value 12/31/2014</u>	<u>Unfunded Commitments</u>	<u>Redemption Frequency</u>	<u>Redemption Notice Period</u>
Collective Trust Fund	\$10,718,877	\$11,964,062	N/A	Daily	Daily

Notes to the Financial Statements

December 31, 2015 and 2014

(5) Income tax status

The Plan received a favorable determination letter from the Internal Revenue Service ("IRS") on June 23, 2015, in which the IRS stated that the Plan was in compliance with the applicable requirements of the IRC. The Plan is required to operate in conformity with the IRC to maintain its qualification.

Accounting principles generally accepted in the United States of America require plan management to evaluate tax positions taken by the Plan and recognize a tax liability or asset if the Plan has taken an uncertain position that more likely than not would not be sustained upon examination by the IRS. The plan administrator has analyzed the tax positions taken by the Plan, and has concluded that as of December 31, 2015 and 2014, there are no uncertain positions taken or expected to be taken that would require recognition of a liability or asset or disclosure in the financial statements. The Plan is subject to routine audits by taxing jurisdictions; however, there are currently no audits for any tax periods in progress.

(6) Untimely remittance of participant contributions

The Plan Sponsor is required by Department of Labor regulation to remit participant contributions as soon as practicable, but by no later than the fifteenth business day following the end of the month in which the amounts were withheld from wages. For certain contributions withheld from payrolls during 2014, the funds were not remitted timely. Imputed lost earnings on these late remittances were remitted to the Plan in 2015.

(7) Related party transactions and party-in-interest transactions

Certain Plan investments are shares of a money market fund and units of participation of a collective trust fund which were managed by Vanguard Fiduciary Trust Company and State Street Bank and Trust Company, the trustees of the Plan and, therefore, these transactions qualify as party-in-interest transactions. The Plan also holds notes receivable from participants which qualify as party-in-interest transactions. Investment expenses of \$64,432 in 2015 and \$29,906 in 2014 and administrative expenses of \$95,434 in 2015 and \$195,011 in 2014 were paid directly by the Plan to the investment advisor and third party administrator, respectively. Certain fees incurred by the Plan for the investment management services are netted within net appreciation in fair value of the investments, as they are paid through revenue sharing, rather than as a direct payment.

CAPELLA HEALTHCARE, INC. 401(K) RETIREMENT PLAN

Notes to the Financial Statements

December 31, 2015 and 2014

(8) Reconciliation of financial statements to Form 5500

The following is a reconciliation of the changes in net assets available for benefits per the financial statements to the Form 5500 for the year ended December 31, 2014:

Change in net assets available for benefits per the financial statements	\$ (2,284,251)
Change in accrued interest from notes receivable from participants	<u>(976)</u>
Change in net assets available for benefits per the Form 5500	\$ <u>(2,285,227)</u>

(9) Risks and uncertainties

The Plan invests in various investment instruments. Investment securities, in general, are exposed to various risks, such as interest rate, credit and overall market volatility. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect participants' account balances and the amounts reported in the statements of net assets available for benefits.

(10) Subsequent event

On April 29, 2016, the Plan Sponsor completed a merger with RegionalCare Hospital Partners Inc. to form RCCH Healthcare Partners. RCCH Healthcare Partners has 16 regional health systems in 12 states. Additionally, on June 30, 2016, RCCH Healthcare Partners entered into a joint venture with Saline Memorial Hospital and Saline County. All employees of Saline Memorial Hospital became employees of the RCCH HealthCare Partners Controlled Group and became eligible for the Capella Healthcare, Inc. 401(k) Retirement Plan. The Plan Sponsor is currently assessing the impact of the merger and if the Capella Healthcare, Inc. 401(k) Retirement Plan will continue to exist or be merged in with any of the other RCCH Healthcare Partners plans.

CAPELLA HEALTHCARE, INC. 401(K) RETIREMENT PLAN

EIN 20-2767829, PLAN No. 001

Schedule H, line 4i - Schedule of Assets (Held at End of Year)

December 31, 2015

(a)	(b)	(c) Description of investment, including maturity date, rate of interest, collateral, <u>par or maturity value</u>	(d) <u>Cost</u>	(e) <u>Current value</u>
	Mutual funds:			
	Ameican Funds	EuroPacific Growth Fund	**	\$ 2,987,384
	Dodge & Cox	Income Fund	**	5,387,470
	Dodge & Cox	International Stock Fund	**	2,870,261
	Federated	Small Value Fund	**	4,123,223
	Harbor	Capital Appreciation Fund	**	4,687,204
	John Hancock	Disciplined Value Fund	**	3,167,442
	First American	Real Estate Securities Fund	**	2,253,478
*	Vanguard Fiduciary Trust Company	Institutional Index Fund	**	11,039,522
*	Vanguard Fiduciary Trust Company	Mid-Cap Index Fund	**	3,469,441
*	Vanguard Fiduciary Trust Company	Prime Money Market Fund	**	2,073,463
*	Vanguard Fiduciary Trust Company	Small-Cap Growth Index Fund	**	2,406,485
*	Vanguard Fiduciary Trust Company	Target Retirement 2010 Fund	**	2,153,528
*	Vanguard Fiduciary Trust Company	Target Retirement 2015 Fund	**	8,027,600
*	Vanguard Fiduciary Trust Company	Target Retirement 2020 Fund	**	21,518,932
*	Vanguard Fiduciary Trust Company	Target Retirement 2025 Fund	**	18,291,327
*	Vanguard Fiduciary Trust Company	Target Retirement 2030 Fund	**	12,846,326
*	Vanguard Fiduciary Trust Company	Target Retirement 2035 Fund	**	11,880,194
*	Vanguard Fiduciary Trust Company	Target Retirement 2040 Fund	**	7,160,933
*	Vanguard Fiduciary Trust Company	Target Retirement 2045 Fund	**	5,122,799
*	Vanguard Fiduciary Trust Company	Target Retirement 2050 Fund	**	1,359,479
*	Vanguard Fiduciary Trust Company	Target Retirement 2055 Fund	**	161,258
*	Vanguard Fiduciary Trust Company	Target Retirement 2060 Fund	**	18,408
*	Vanguard Fiduciary Trust Company	Target Retirement Income Fund	**	<u>1,657,028</u>
	Total mutual funds			<u>134,663,185</u>
*	Collective trust fund -			
	Vanguard Fiduciary Trust Company	Vanguard Retirement Savings Trust	**	<u>10,718,877</u>
*	Notes receivable from participants	Loans to participants with interest rates ranging from 4.25% to 7.75%, various maturity dates through August 2025	-	<u>1,719,486</u>
	Self-directed investments -			
*	Vanguard Fiduciary Trust Company	Vanguard Brokerage Option	**	<u>1,724,826</u>
	Total investments			<u>\$ 148,826,374</u>

* Represents a party-in-interest.

** Not required for participant directed plans.

The above data is based upon information which has been certified as complete and accurate by Vanguard Fiduciary Trust Company, the trustee.

CAPELLA HEALTHCARE, INC. 401(K) RETIREMENT PLAN

EIN 20-2767829, PLAN No. 001

Schedule H, line 4a - Schedule of Delinquent Participant Contributions

Year Ended December 31, 2015

Check Here If Late Participant Loan Repayments Are Included	Participant Contributions Transferred Late to the Plan	Total that Constitute Nonexempt Prohibited Transactions			Total Fully Corrected Under VFCP and PTE 2002-51
		Contributions not Corrected	Contributions Corrected Outside VFCP	Contributions Pending Correction in VFCP	
*	\$ 47,837	\$ -	\$ 47,837	\$ -	\$ -