CONFIDENTIAL

KPMG

LEGACY HEALTH AND AFFILIATES

Consolidated Financial Statements and Other Financial Information

March 31, 2011 and 2010

(With Independent Auditors' Reports Thereon)

LEGACY HEALTH AND AFFILIATES

Table of Contents

	Page
Report of Management	1
Independent Auditors' Report	2
Consolidated Financial Statements:	
Consolidated Balance Sheets	3
Consolidated Statements of Operations	5
Consolidated Statements of Changes in Net Assets	6
Consolidated Statements of Cash Flows	7
Notes to Consolidated Financial Statements	8
Other Financial Information	
Independent Auditors' Report on Other Financial Information	39
Consolidating Financial Information:	
Consolidating Balance Sheets	40
Consolidating Statements of Operations	48
Consolidating Statements of Changes in Net Assets	52
Consolidated Financial and Statistical Highlights (Unaudited)	56
Consolidating Financial and Statistical Highlights (Unaudited)	57

Legacy Health

Report of Management

The management of Legacy Health (Legacy) is responsible for the integrity and objectivity of the consolidated financial statements of Legacy and all of its affiliates. The annual consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America, and include amounts that are based on our best judgments with due consideration given to materiality.

Management is responsible for establishing and maintaining a system of internal controls over financial reporting and safeguarding assets against unauthorized acquisition, use or disposition. This system is designed to provide reasonable assurance as to the integrity and reliability of financial reporting and safeguarding of assets. The concept of reasonable assurance is based on the recognition that there are inherent limitations in all systems of internal controls, and that the cost of such systems should not exceed the benefits to be derived from them.

Management believes that the foundation of an appropriate system of internal controls is the expectation from all covered individuals throughout Legacy to conduct themselves in an ethical and responsible manner. This responsibility is characterized and reflected in Legacy's Standards of Conduct Policy that is distributed throughout Legacy and its affiliates. Management maintains a systematic program to ensure compliance with this policy.

The Audit Committee of the Board of Directors, which is composed of independent directors who are not employees, meets periodically with management, the internal auditors and the independent auditors to review the manner in which these groups are performing their responsibilities and to carry out the Audit Committee's oversight role with respect to auditing, internal controls and financial reporting matters. Both the internal auditors and the independent auditors periodically meet privately with the Audit Committee and have access to its individual members.

Legacy engaged KPMG, independent auditors, to audit our consolidated financial statements in accordance with auditing standards generally accepted in the United States of America. Their report follows.

George J. Brown, MD, FACP
President and Chief Executive Officer

Scott H. Johnson
Interim Chief Financial Officer

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

Independent Auditors' Report

The Board of Directors
Legacy Health:

We have audited the accompanying consolidated balance sheets of Legacy Health (an Oregon nonprofit corporation) and Affiliates as of March 31, 2011 and 2010, and the related consolidated statements of operations, changes in net assets, and cash flows for the years then ended. These consolidated financial statements are the responsibility of Legacy Health and Affiliates' management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Legacy Health and Affiliates' internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Legacy Health and Affiliates as of March 31, 2011 and 2010, and the results of their operations and their cash flows for the years then ended, in conformity with U.S. generally accepted accounting principles.

KPMG LLP

June 23, 2011

LEGACY HEALTH AND AFFILIATES

Consolidated Balance Sheets

March 31, 2011 and 2010

(Dollars in thousands)

Assets		2011	2010
Current assets:			
Cash and cash equivalents	$	55,587	53,234
Short-term investments		43,978	42,777
Receivable under securities lending program		13,951	10,533
Accounts receivable from patients, less allowance for uncollectible accounts of $56,580 in 2011 and $62,265 in 2010		164,784	154,262
Other receivables		11,191	11,697
Inventories, at cost		16,777	16,440
Prepaid expenses		7,490	9,515
Current funds held by trustee			10,982
Total current assets		313,758	309,440
Assets limited as to use:			
Held by trustee		86,358	145,856
Community health fund		9,867	9,804
Noncurrent investments restricted for capital acquisitions		9,785	2,836
		106,010	158,496
Other assets:			
Property, plant and equipment, net		752,098	702,206
Noncurrent investments		523,139	440,887
Property held for development		22,013	23,654
Goodwill and other intangibles		27,121	27,858
Other assets		18,629	17,142
		1,343,000	1,211,747
	$	1,762,768	1,679,683

See accompanying notes to consolidated financial statements.

Liabilities and Net Assets		2011	2010
Current liabilities:			
Accounts payable	$	43,315	42,109
Accrued wages, salaries, and benefits		80,940	70,182
Accrued interest		4,654	4,648
Settlements payable to third-party payors, net		6,823	4,030
Other current liabilities		27,447	34,901
Payable under securities lending program		14,015	10,597
Current portion of long-term debt		20,781	20,308
Total current liabilities		197,975	186,775
Long-term debt, less current portion		525,734	546,486
Other liabilities:			
Estimated general and professional claims liability		30,288	30,219
Accrued pension liability		95,513	81,043
Other noncurrent liabilities		18,470	15,608
		144,271	126,870
Total liabilities		867,980	860,131
Net assets:			
Unrestricted		822,543	756,851
Unrestricted, noncontrolling interest		21,979	20,928
Temporarily restricted		37,567	29,441
Permanently restricted		12,699	12,332
		894,788	819,552
	$	1,762,768	1,679,683

See accompanying notes to consolidated financial statements.

LEGACY HEALTH AND AFFILIATES

Consolidated Statements of Operations

Years ended March 31, 2011 and 2010

(Dollars in thousands)

	2011	2010
Net patient service revenues	$ 1,263,680	1,218,284
Other revenues	33,582	31,214
Total operating revenues	1,297,262	1,249,498
Operating expenses:		
Wages, salaries, and benefits	706,677	667,423
Supplies	201,326	194,766
Professional fees	45,531	53,099
Purchased services	73,571	66,516
Utilities, insurance, and other expenses	70,499	55,296
Depreciation	89,469	88,551
Provision for bad debts	53,402	65,300
Interest and amortization	14,502	13,724
Total operating expenses	1,254,977	1,204,675
Income from operations	42,285	44,823
Other income (expenses):		
Investment income, net	56,302	93,782
Loss on extinguishment of debt		(909)
Other, net	(11,371)	(12,364)
Total other income	44,931	80,509
Revenues in excess of expenses	87,216	125,332
Net assets released from restriction used for property, plant and equipment	790	573
Pension and other postretirement adjustments	(14,284)	51,743
Distributions to joint venture partners	(6,014)	(1,744)
Contributions from joint venture partners		16,133
Other transfers	(965)	513
Change in unrestricted net assets	$ 66,743	192,550

See accompanying notes to consolidated financial statements.

LEGACY HEALTH AND AFFILIATES

Consolidated Statements of Changes in Net Assets

Years ended March 31, 2011 and 2010

(Dollars in thousands)

		2011	2010
Unrestricted net assets, controlling interest:			
Revenues in excess of expenses	$	80,151	123,356
Net assets released from restriction used for property, plant and equipment		790	573
Pension and other postretirement adjustments		(14,284)	51,743
Investment gain, other than trading securities		6	513
Other transfers		(971)	
Change in unrestricted net assets, controlling interest		65,692	176,185
Unrestricted net assets, noncontrolling interest:			
Revenues in excess of expenses		7,065	1,976
Distributions		(6,014)	(1,744)
Contributions			16,133
Change in unrestricted net assets, noncontrolling interest		1,051	16,365
Temporarily restricted net assets:			
Donor-restricted contributions and grants		18,568	16,931
Investment gain, net		3,586	7,083
Net assets released from restriction		(14,999)	(16,372)
Other transfers		971	
Change in temporarily restricted net assets		8,126	7,642
Permanently restricted net assets:			
Donor-restricted contributions and grants		367	932
Change in permanently restricted net assets		367	932
Change in net assets		75,236	201,124
Net assets, beginning of year		819,552	618,428
Net assets, end of year	$	894,788	819,552

See accompanying notes to consolidated financial statements.

LEGACY HEALTH AND AFFILIATES

Consolidated Statements of Cash Flows

Years ended March 31, 2011 and 2010

(Dollars in thousands)

		2011	2010
Cash flows from operating activities and other income:			
Change in net assets	$	75,236	201,124
Adjustments to reconcile change in net assets to net cash provided by operating activities:			
Net contributions from noncontrolling partners		6,014	(14,587)
Depreciation and amortization		97,995	99,035
Loss on disposal of assets		111	490
Provision for bad debts		53,402	65,300
Change in net realized and unrealized losses on investments		(44,674)	(92,596)
Restricted contributions		(8,265)	(3,341)
Equity earnings from joint ventures and investment companies, net		(10,829)	(7,175)
Pension and other postretirement adjustments		14,284	(51,743)
Change in certain current assets and current liabilities		(49,528)	(59,101)
Change in long-term operating assets and liabilities		3,793	(8,493)
Net cash provided by operating activities		137,539	128,913
Cash flows from investing activities:			
Purchase of property, plant and equipment, net		(153,566)	(147,349)
Proceeds from sale of assets		2,481	103
Change in funds held by trustee		70,480	(77,815)
Change in other long-term assets		(7,683)	(921)
Change in securities lending receivable		(3,418)	(7,685)
Acquisition of business, net of cash received			(16,171)
Investment in joint ventures and investment companies		(5,500)	(6,160)
Distributions from joint ventures and investment companies		3,681	1,061
Purchases of trading securities		(180,581)	(244,470)
Sales of trading securities		153,530	164,529
Net cash used in investing activities		(120,576)	(334,878)
Cash flows from financing activities:			
Proceeds from issuance of long-term debt			287,605
Repayment of long-term debt		(20,279)	(138,444)
Payment of debt issuance costs			(1,950)
Change in securities lending payable		3,418	7,685
Distributions to noncontrolling partners		(6,014)	(1,546)
Contributions from noncontrolling partners			8,301
Proceeds from restricted contributions		8,265	3,341
Net cash (used in) provided by financing activities		(14,610)	164,992
Increase (decrease) in cash and cash equivalents		2,353	(40,973)
Cash and cash equivalents, beginning of year		53,234	94,207
Cash and cash equivalents, end of year	$	55,587	53,234
Supplemental disclosures of cash flow information:			
Cash paid for interest (net of amount capitalized)	$	14,802	13,702
Amounts accrued for property, plant and equipment, net		14,286	9,695

See accompanying notes to consolidated financial statements.

(1) Organization and Summary of Significant Accounting Policies

(a) Organization and Basis of Consolidation

Legacy Health and Affiliates (Legacy) provide healthcare and various healthcare-related services. They are organized primarily as nonprofit corporations under the laws of the State of Oregon or Washington.

The consolidated financial statements include the accounts of Legacy and its direct affiliates, including the following:

Legacy Emanuel Hospital & Health Center
Legacy Good Samaritan Hospital and Medical Center
Legacy Meridian Park Hospital
Legacy Mount Hood Medical Center
Legacy Salmon Creek Hospital
Legacy Visiting Nurse Association and Affiliates
Managed HealthCare Northwest, Inc. (MHN)
Legacy Health System Insurance Company (LHSIC)
Legacy USP Surgery Centers, LLC (LUSC)

All significant interentity accounts and transactions have been eliminated.

The consolidated financial statements also include the accounts of Emanuel and Emanuel Children's Hospital, Good Samaritan, Meridian Park, Mount Hood, and Salmon Creek Hospital Foundations (collectively, the Foundations) whose activities benefit and are controlled by the corresponding facilities of Legacy Emanuel Hospital & Health Center, Legacy Good Samaritan Hospital and Medical Center, Legacy Meridian Park Hospital, Legacy Mount Hood Medical Center, and Legacy Salmon Creek Hospital, respectively.

Investments in joint ventures, which represent 20% or more ownership or control, are accounted for by the equity method and are included in the consolidated balance sheets as other assets.

(b) Use of Estimates

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Key estimates include uncollectible and contractual allowances on patient accounts receivable, third-party payor settlements, self-insured liabilities, fair value of investments, and pension obligations.

(c) ***Income Taxes***

Legacy, except for MHN, LHSIC, and LUSC, has been recognized as exempt from federal income taxes, except on unrelated business income under the provisions of the Internal Revenue Code.

Legacy's wholly owned insurance captive, LHSIC, operates in the Cayman Islands and is currently not subject to income taxes.

For the taxable affiliates, income taxes are accounted for on the liability method. Accordingly, deferred income taxes are provided to reflect temporary differences between financial and tax reporting. Deferred tax assets and liabilities are measured based on enacted tax laws and rates without anticipation of future changes.

(d) ***Net Patient Service Revenues***

Legacy has agreements with third-party payors that provide for payments to Legacy at amounts different from its established rates. Payment arrangements include prospectively determined rates per discharge, reimbursed costs, discounted charges and per diem payments. Net patient service revenues are reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered.

Contractual adjustments arising under reimbursement arrangements with third-party payors are accrued on an estimated basis in the period the related services are rendered and are adjusted in future periods as final settlements are determined.

(e) ***Income from Operations***

Income from operations excludes certain items that Legacy deems to be outside the scope of its primary business. Investment income includes interest income, dividends, realized and unrealized gains and losses on short-term and noncurrent investments and equity earnings from investment companies. Other income includes rental income and research activities, net of any corresponding expenses to operate these programs.

(f) ***Performance Indicator***

The performance indicator is revenues in excess of expenses. Changes in unrestricted net assets, which are excluded from revenues in excess of expenses, consistent with industry practice, include unrealized gains and losses on investments for other-than-trading securities, permanent transfers of assets to and from affiliates for other than goods and services, pension and other postretirement adjustments, the cumulative effect of changes in accounting principles, and contributions of long-lived assets (including assets acquired using contributions which, by donor restriction, were to be used for the purpose of acquiring such assets).

(Continued)

(g) Charity Care

Legacy provides care without charge or at amounts less than its established rates to patients who meet certain criteria under its financial assistance policy. Since Legacy does not pursue collection of amounts determined to qualify as charity care, they are excluded from net patient service revenues.

(h) Cash and Cash Equivalents

Cash equivalents include investments in money market funds and highly liquid debt instruments with original maturities of three months or less.

Legacy maintains cash and cash equivalents on deposit at financial institutions, which at times exceed the limits insured by the Federal Deposit Insurance Corporation. This exposes Legacy to potential risk of loss in the event the financial institution becomes insolvent.

(i) Short-Term Investments

Short-term investments include corporate and government obligation securities, which are included in managed, low-duration portfolios. The maturities of these related securities can exceed one year. Management anticipates the securities will be liquidated within the next year. These investments are considered trading securities.

(j) Securities Lending Program

Legacy participates in securities lending transactions with its custodian whereby Legacy lends a portion of its investments to various brokers in exchange for cash and cash equivalents from the brokers as collateral for the securities loaned. Collateral provided by brokers is maintained at levels approximating 102% of the fair market value of the securities on loan. Legacy maintains effective control, except it waives its right to vote such securities, of the loaned securities through its custodian in that they may be recalled at any time. The market value of the loaned securities is reported as a receivable held under securities lending program, and a corresponding obligation exists for repayment of such collateral upon settlement of the lending transaction. The market value of the securities on loan (exclusive of collateral) was $13,951 and $10,533 as of March 31, 2011 and 2010, respectively.

(k) Inventories

Inventories are stated at the lower of average cost, as determined by the first-in, first-out method, or market.

(l) Assets Limited as to Use

Assets limited as to use primarily include assets held by trustees under indenture agreements. Community health fund represents designated assets set aside by the Board of Directors to provide funding for certain community health projects. The Board of Directors retains control over these assets and may, at its discretion, use these assets for other purposes.

(m) Property, Plant and Equipment

Property, plant and equipment is reported at cost. Donated items are reported on the basis of fair market value at the date of donation.

Interest cost incurred on borrowed funds during the period of construction of capital assets is capitalized as a component of acquiring those assets. In 2011 and 2010, Legacy capitalized $7,446 and $6,344, respectively, of interest expense. Legacy capitalizes payroll and payroll-related costs associated with the development of software for internal use. For the years ended March 31, 2011 and 2010, Legacy capitalized approximately $7,067 and $7,013, respectively, of payroll and payroll-related costs.

Legacy assesses potential impairment to its long-lived assets when there is evidence that events or changes in circumstances have made recovery of an asset's carrying value unlikely. An impairment loss is indicated when the sum of expected undiscounted future net cash flows is less than the carrying amount. The loss recognized is the difference between the fair value and the carrying amount.

Depreciation is computed under the straight-line method over estimated useful lives with average useful lives as follows: building and improvements, 26 years; equipment and software, 7 years; and land improvements, 13 years. Leased assets that have been capitalized are amortized over the term of the leases or the useful lives of the assets, whichever is shorter. Leased asset amortization is reported as part of depreciation.

(n) Noncurrent Investments

Noncurrent investments include investments in equity securities of publicly traded U.S. and international companies, investments in foreign government and commercial bank obligations, real estate, market neutral hedge funds, alternative investments (which include private equity and distressed debt) and interest rate swaps. Investments in equity securities with readily determinable fair values and all investments in debt securities are recorded at fair value in the consolidated balance sheets. Investments in limited liability partnerships or companies, which are investment companies, are recorded at the fair value of the underlying assets using the equity method of accounting. As of March 31, 2011, approximately 14.24% of noncurrent investments require advance written notice of 90 days or longer to redeem the securities. For certain of these investments, it may take up to 90 days to receive the funds and certain redemptions may be subject to other restrictions in accordance with subscription agreements.

Investment income or loss (including realized gains and losses on investments, equity earnings from investment companies, interest and dividends) is included in revenues in excess of expenses unless the income or loss is restricted by donor or law. Unrealized gains and losses on investments are included in investment income unless the investments are considered other-than-trading securities.

(o) ***Temporarily and Permanently Restricted Net Assets***

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

(p) ***Donor-Restricted Gifts***

Unconditional promises to give cash and other assets to Legacy are reported at fair value at the date the promise is received. Conditional promises to give and indications of intentions to give are reported at fair value at the date the gift is received. The gifts or grants are reported as either temporarily or permanently restricted contributions if they are received with donor or grantor stipulations that limit the use of the donated assets. When the terms of a donor or grantor restriction are met, temporarily restricted net assets are reclassified as unrestricted net assets and reported in the consolidated statements of operations or consolidated statements of changes in net assets as net assets released from restriction. Donor or grantor-restricted contributions whose restrictions are met within the same year as received are reported as unrestricted contributions.

(q) ***Charitable Gift Annuities***

Legacy has a certificate of authority from the State of Oregon to receive transfers of money or property upon agreement to pay an annuity. A charitable gift annuity is an arrangement between a donor and Legacy in which the donor contributes assets to Legacy in exchange for Legacy's agreement to pay a fixed amount for a specified period of time to the donor or other individuals and organizations as designated by the donor (annuitant). Upon execution of such an arrangement, Legacy recognizes the assets received at fair value and an annuity payment liability at the present value of future cash flows expected to be paid. Unrestricted and restricted contribution revenue is recognized based upon the difference between these two amounts. In subsequent periods, payments to the annuitant reduce the annuity liability. Adjustments to the annuity liability to reflect amortization of the discount, changes in life expectancy, and death of the annuitant are recognized as other operating expenses. The annuity liability included in other current liabilities as of March 31, 2011 and 2010 was $9. The annuities are not issued by an insurance company and are not subject to regulation by the State of Oregon or protected by an insurance guaranty association.

Legacy maintains a separate and distinct trust fund adequate to meet the actuarially determined future payments of the charitable gift annuities as set forth under ORS 731.716. The trust fund is maintained with a bank custodian and, as of March 31, 2011 and 2010, held $10 of marketable securities to fund the annuity obligation. These marketable securities are comprised of cash, cash equivalents and other fixed-income instruments.

(r) ***Recently Adopted Accounting Standards***

In June 2009, the Financial Accounting Standards Board (FASB) established the FASB Accounting Standards Codification (ASC or Codification) to become the source of authoritative U.S. generally accepted accounting principles (GAAP) to be applied by nongovernmental entities. The Codification does not change GAAP, except in limited circumstances. The GAAP hierarchy has been modified to include only two levels of GAAP: authoritative and nonauthoritative. Legacy adopted the Codification in March 2010, and references to GAAP accounting pronouncements in the notes to the consolidated financial statements have been modified accordingly.

In May 2009, the FASB issued ASC Topic 855, *Subsequent Events* (Topic 855). Topic 855 establishes the general standards of accounting for and disclosures of events that occur after the balance sheet date but before financial statements are issued. Topic 855 requires the disclosure of the date through which an entity has evaluated subsequent events and the basis for that date. This Topic also requires entities to evaluate subsequent events through the date the financial statements are issued. Legacy adopted Topic 855 as of March 31, 2010.

In April 2010, Legacy adopted ASC Subtopic 958-805, *Business Combinations* (Subtopic 958-805). Subtopic 958-805 revises the information that a not-for-profit entity provides in its financial reports about a combination with one or more other not-for-profit entities, businesses, or nonprofit activities. Subtopic 958-805 also makes ASC Topic 810-10, *Consolidations*, applicable to not-for-profit entities. Topic 810-10 clarifies the accounting for noncontrolling interests and establishes accounting and reporting standards for the noncontrolling interest in a subsidiary, including classification as a component of net assets.

(s) New Accounting Pronouncements

In August 2010, the FASB issued Accounting Standards Update (ASU) No. 2010-23, *Health Care Entities* (Topic 954): *Measuring Charity Care for Disclosure.* This ASU establishes standards of measurement for disclosure of charity care expense at actual cost, including direct and indirect costs. This ASU also requires disclosure of the method used to identify such costs. ASU No. 2010-23 is effective for Legacy effective April 1, 2011.

In August 2010, the FASB issued ASU No. 2010-24, *Health Care Entities – Presentation of Insurance Claims and Related Insurance Recoveries*, which clarifies that insurance recoveries should not be netted against a related claim liability. The claim liability amount should be calculated without consideration of insurance recoveries. This standard is effective for the fiscal year ending March 31, 2012. The adoption of this standard will not have a material impact on Legacy's consolidated financial statements.

(t) Reclassifications

Certain reclassifications have been made to prior year amounts to conform to the current year presentation to more consistently present financial information between years.

(2) Net Patient Service Revenues

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

(Dollars in thousands)

The Medicare program reimburses Legacy at prospectively determined rates for the majority of inpatient and outpatient services rendered to patients, primarily on the basis of diagnosis related groups (DRGs) and ambulatory payment classification groups (APCs), respectively. Nonacute inpatient services, defined capital, certain outpatient services, and defined medical education costs are paid based on a cost reimbursement methodology. The Medicaid program reimburses Legacy primarily at prospectively determined rates for inpatient services, similar to DRGs, and outpatient services under a cost reimbursement methodology. When paid under cost reimbursement, Legacy is reimbursed at an interim rate with final settlement determined after submission of annual cost reports and audits thereof by the fiscal intermediaries. PPOs and HMOs generally reimburse Legacy on prospectively negotiated rates or on a percentage of charges.

Revenue from the Medicare and Medicaid programs accounted for approximately 33.6% and 19.4%, respectively, of Legacy's gross patient charges for the year ended March 31, 2011, and 32.6% and 18.5%, respectively, of Legacy's gross patient charges for the year ended March 31, 2010. Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation. As a result, there is at least a possibility that recorded estimates will change by a material amount in the near term.

A summary of patient revenues is as follows:

		Year ended March 31	
		2011	2010
Gross patient charges:			
Hospital inpatient services	$	1,669,327	1,611,008
Hospital and other outpatient services		1,230,049	1,115,688
		2,899,376	2,726,696
Deductions from gross patient charges:			
Charity allowances, based on charges		192,325	164,834
Medicare and Medicaid contractual adjustments		1,012,946	934,416
Commercial managed care contractual adjustments		430,425	409,162
		1,635,696	1,508,412
Net patient service revenues	$	1,263,680	1,218,284

(Dollars in thousands)

Legacy grants credit without collateral to its patients, most of whom are local residents and are insured under third-party payor agreements. The proportion of net accounts receivable from significant third-party payors for 2011 and 2010 was as follows:

	2011	2010
Medicare	20.3%	19.9%
Medicaid	12.0	10.9
Blue Cross	12.8	14.8
Private pay	14.3	12.7
Other	40.6	41.7
	100.0%	100.0%

Legacy provides an allowance against accounts receivable for amounts that could become uncollectible in the future. Legacy estimates this allowance based on the aging of its accounts receivable, historical and expected net collections, business and economic conditions, trends in federal and state governmental and private employer healthcare coverage and other collection indicators.

(3) Benefits to the Community

The Board of Directors allocated $10,000 to establish a Community Health Fund (the Fund) in 1999. An amount equal to five percent of the principal of this Fund ($500 annually) may be dedicated annually to community-sponsored initiatives geared toward improving the health of the community. The Fund is intended to be a permanent source of funding for health initiatives and programs capable of impacting the health of the community either by prevention or health improvement. Contributions made to community-sponsored initiatives were $257 and $268 in 2011 and 2010, respectively.

(Dollars in thousands)

In addition to funding selected community health initiatives, Legacy provides services to the community both for people in need and to enhance the health status of the broader community as part of its charitable mission. The following represents the estimated cost of providing certain services to the community, along with a description of selected activities sponsored by Legacy during 2011 and 2010:

	Year ended March 31, 2011			
	In-kind costs	**Other costs**	**Offsetting revenue**	**Net cost**
Services for people in need:				
Charity care	$	77,676		77,676
Medicaid		233,168	174,580	58,588
Medicare		401,050	352,925	48,125
Other government programs		10,275	8,745	1,530
		722,169	536,250	185,919
Benefits to the community:				
Medical education and support of research	153	21,381	6,782	14,752
Community health services		2,550	180	2,370
Community benefit activities	473	80		553
Donations to charitable organizations	255	938		1,193
Community Health Fund contributions		257		257
	881	25,206	6,962	19,125
	$ 881	747,375	543,212	205,044
Percentage of total operating expenses				16.3%

(Dollars in thousands)

	Year ended March 31, 2010			
	In-kind costs	Other costs	Offsetting revenue	Net cost
Services for people in need:				
Charity care	$	69,094		69,094
Medicaid		219,607	161,612	57,995
Medicare		375,557	334,698	40,859
Other government programs		13,214	11,972	1,242
		677,472	508,282	169,190
Benefits to the community:				
Medical education and support of research	153	22,179	3,424	18,908
Community health services		2,995	135	2,860
Community benefit activities	431	38		469
Donations to charitable organizations	431	720		1,151
Community Health Fund contributions		268		268
	1,015	26,200	3,559	23,656
	$ 1,015	703,672	511,841	192,846
Percentage of total operating expenses				16.0%

(a) Services for People in Need

In support of its mission, Legacy voluntarily provides medically necessary patient care services that are discounted or free of charge to persons who have insufficient resources and/or who are uninsured. The criteria for charity care is determined based on eligibility for insurance coverage, household income, qualified assets, catastrophic medical events, or other information supporting a patient's inability to pay for services provided. Specifically, Legacy provides an uninsured discount of 15% to patients who have resided within Legacy's primary service area for a period of six months, are uninsured for hospital care, and have a household income of less than $100,000 annually. Further discounts are available for patients, on a sliding scale, whose household income is less than 400% of the federal poverty level or roughly $89,000 for a family of four in Portland, Oregon. For patients whose household income is at or below 200% of the federal poverty level, a full subsidy is available. In addition to the household income criteria, the patients' qualified assets (e.g., 25% of household assets), and other catastrophic or economic circumstances are considered in determining eligibility for charity care.

During 2011 and 2010, Legacy provided charity care on 101,751 and 81,683 patient accounts, respectively, representing 9,091 and 8,735 inpatient accounts, respectively, and 92,660 and 72,948 outpatient accounts, respectively. In 2011 and 2010, 22% and 21%, respectively, of the patients receiving charity care received a full subsidy representing roughly 50% and 54%, respectively, of the total charity provided in those years. The top five services provided to patients qualifying for charity care were emergency/trauma, surgery, cardiovascular, pediatrics, and general acute care.

In addition to charity care, Legacy provides services under various states' Medicaid programs for financially needy patients. The cost of providing services to Medicaid beneficiaries generally exceeds the reimbursement from these programs.

Legacy provides services to Medicare beneficiaries and beneficiaries under other government programs (such as TRICARE), for which the cost of treating these patients exceeds the government payments received.

The cost of services provided under these programs is determined based on the relationship of costs (excluding the provision for doubtful accounts and costs associated with medical education, research, community health services, and other contributions) to billed charges.

Legacy also employs financial counselors and social workers who assist patients in obtaining coverage for their healthcare needs. This includes assistance with workers' compensation, motor vehicle accident policies, COBRA, veterans' assistance, and public assistance programs, such as Medicaid. This program assisted many patients in obtaining coverage through a third party, reducing the patients' financial responsibility. The costs associated with this program were $614 and $552 in 2011 and 2010, respectively.

(b) ***Benefits to the Community***

Medical education and research includes, among other initiatives, the unreimbursed cost of nursing, graduate medical education and research.

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

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

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

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

(c) ***Other Benefits***

In furtherance of its mission, Legacy also commits significant time and resources to endeavors and critical services that meet unfilled community needs. Many of these activities are sponsored with the

(Dollars in thousands)

knowledge that they will not be self-supporting or financially viable. Such programs include hospice, mental and behavioral health, primary care clinics in underserved neighborhoods, free patient transportation, lodging, meals and medications for transient patients when needed, participation in blood drives, and the provision of educational opportunities for students interested in pursuing medical-related careers.

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

Legacy also pays taxes associated with various states' local business and occupation taxes, and property taxes that local and state governments use to fund healthcare services, civil and education services to the community. Legacy paid $5,456 and $4,675 in local and state taxes in 2011 and 2010, respectively.

(4) Property, Plant, and Equipment

Property, plant, and equipment balances as of March 31 were as follows:

		2011	2010
Buildings and improvements	$	851,416	833,272
Equipment and software		750,691	667,508
Land improvements		5,878	5,612
		1,607,985	1,506,392
Accumulated depreciation		(1,009,907)	(927,384)
		598,078	579,008
Construction in progress		129,003	98,181
Land		25,017	25,017
	$	752,098	702,206

There were capital expenditure purchase commitments outstanding as of March 31, 2011 for various construction and equipment projects. The estimated cost to complete such projects at March 31, 2011 was $196,897, of which $78,958 was contractually committed.

(Dollars in thousands)

(5) Long-Term Debt

A summary of long-term debt and capital lease obligations at March 31 is as follows:

		2011	2010
Hospital Revenue Bonds, Series 2001, payable in installments from $2,835 to $22,550 through 2021, at rates ranging from 4.50% to 5.75%, callable on or after May 2011	$	117,635	121,120
Hospital Revenue Bonds, Series 2008, payable in installments through 2038, subject to a seven-day put provision; interest at SIFMA index (0.22% at March 31, 2011) plus 10 basis points		150,000	150,000
Hospital Revenue Bonds, Series 2009A, payable in installments from $1,055 to $7,715 through 2035, at rates ranging from 3.0% to 5.5%, callable on or after July 2019		111,260	113,860
Hospital Revenue Bonds, Series 2009B and C, subject to mandatory tenders of $25,000 each in 2012 and 2014, respectively, at 5.0%		50,000	50,000
Hospital Revenue Bonds, Series 2010A, payable in installments from $1,120 to $12,430 through 2030, at rates ranging from 3.0% to 5.0%, $24,300 of the bonds are callable on or after March 2020		111,315	123,745
Capital lease obligations, at imputed rates of 3.00% to 4.93%		5,451	6,860
Note payable, matures 2012, interest at 6.73%		854	1,209
		546,515	566,794
Less current portion		(20,781)	(20,308)
	$	525,734	546,486

Interest cost incurred related to funds borrowed and reflected in operating expense in 2011 and 2010 was $21,763 and $19,436, respectively. Interest expense was reduced by interest capitalized for construction and other capital projects in the amount of $7,446 and $6,344 for the years ended March 31, 2011 and 2010, respectively.

(Dollars in thousands)

Scheduled principal repayments of long-term debt and payments on capital lease obligations are according to their long-term amortization schedule as follows:

		Long-term debt	Capital lease obligations
2012	$	19,543	1,481
2013		20,506	1,404
2014		20,455	1,404
2015		20,545	1,404
2016		21,430	351
Thereafter		438,585	
	$	541,064	6,044
Less amount representing interest under capital lease obligation			(593)
			$ 5,451

The master trust indenture and other loan agreements covering these obligations contain, among other things, provisions placing restrictions on additional borrowings and leases and requiring the maintenance of debt service coverage and other ratios.

In November 2008, Legacy issued $150,000 of Revenue Bonds Series 2008 (Series 2008 Bonds), which are unsecured, variable-rate debt in an initial short-term interest rate mode, through the Hospital Facility Authority of Clackamas County, Oregon. The proceeds from the Series 2008 Bonds are restricted for capital expenditures and to pay the expenses incurred with the issuance. The Series 2008 Bonds, while subject to a long-term amortization period, may be put to Legacy at the option of the bondholders in connection with certain remarketing dates. In conjunction with the issuance, in November 2010 Legacy entered into a three-year letter of credit and reimbursement agreement with a national bank, whereby the bank will purchase any bonds that are put by bondholders and not successfully remarketed. In the event of a draw under this agreement, there are no principal payments due within a year. If the bonds have not been remarketed or redeemed and amounts remain outstanding after a year, such amounts are converted to a term loan due in eight quarterly payments. As a result, the Series 2008 Bonds are classified as long-term, except for the portion that matures within 12 months after March 31, 2011.

In May 2009, Legacy issued $163,860 of Revenue Bonds Series 2009 (Series 2009 Bonds) in Series A, B, and C through the Hospital Facility Authority of Clackamas County, Oregon. The proceeds from the Series 2009 Bonds are restricted for capital expenditures, debt service during the construction period, and expenses incurred in connection with the issuance. The Series B ($25,000) of the Series 2009 Bonds is subject to a mandatory bondholder tender in July 2012, and the Series C ($25,000) of the Series 2009 Bonds is subject to a mandatory bondholder tender in July 2014. The remaining bonds are payable in annual installments beginning in 2010 through 2035 at interest rates from 3.00% to 5.50%. In connection with this issuance, certain modifications to the existing master trust indenture were made. In particular, a gross revenue pledge was provided to all bondholders. The Series 2009 Bonds, and all outstanding previously issued Revenue Bonds, are obligations of the revised master trust indenture (the 2009 Master Trust Indenture).

In January 2010, Legacy issued $123,745 of Revenue Bonds Series 2010A (Series 2010A Bonds) through the State of Oregon, Oregon Facilities Authority. The proceeds from the Series 2010A Bonds were used to refund the Series 1999 Bonds and the Series 2003 Bonds and to pay for the cost of issuance of the Series 2010A Bonds. The Series 2010A Bonds are payable in annual installments beginning in 2011 at interest rates ranging from 3% to 5%. The Series 2010A Bonds are obligations of the 2009 Master Trust Indenture. During the year ended March 31, 2010, Legacy recognized a loss of $909 related to the early extinguishment of the Series 1999 and the Series 2003 Bonds.

In September 2010, Legacy entered into a credit agreement with a commercial bank to secure a $30,000 line of credit to meet short-term cash needs. The line of credit was issued as an obligation of the 2009 Master Trust Indenture. Interest on the line is LIBOR plus 95 basis points. There were no amounts borrowed on the line during fiscal year 2011 and no amounts were outstanding as of March 31, 2011.

In May 2011, Legacy issued $111,470 of Refunding Revenue Bonds Series 2011 Series A (Series 2011 Bonds) through the State of Oregon, Oregon Facilities Authority. The proceeds from the Series 2011 Bonds were used to refund the Series 2001 Bonds and to pay for the cost of issuance of the Series 2011 Bonds. The Series 2011 Bonds are payable in annual installments beginning in May 2012 at interest rates ranging from 3.00% to 5.25%. The Series 2011 Bonds are obligations of the 2009 Master Trust Indenture. In conjunction with the issuance of the Series 2011 Bonds, the obligated group of the 2009 Master Trust Indenture was expanded to include Legacy Salmon Creek Hospital, formerly a designated affiliate.

(Dollars in thousands)

(6) Investments

Legacy invests in different classes of securities for a variety of financial assets, including short-term investments, assets limited as to use, and noncurrent investments. The composition of these assets is as follows:

	Year ended March 31	
	2011	**2010**
Cash and cash equivalents	$ 97,664	88,362
Short-term notes	16,166	79,956
State government obligations	4,262	12,149
Small/mid cap domestic equity securities	38,058	40,914
Large cap domestic equity securities	82,721	78,672
International equity securities	11,432	10,342
International common/collective trust	28,541	32,319
Investment-grade quality fixed-income mutual fund	232,195	181,622
Absolute return funds	70,683	55,879
U.S. Treasury securities	42,328	20,610
Real estate partnerships	34,129	29,476
Private equity funds – funds of funds	6,613	7,218
Interest rate swaps	6,792	7,826
Guaranteed interest investment contracts (GIICs)	1,106	7,360
Other	437	437
	$ 673,127	653,142

As of March 31, 2011, Legacy has a remaining capital commitment of $958 to private equity funds in the form of limited partnership/trust investments. These commitments are due on demand from the general partners/advisors. These private equity funds invest in emerging companies, venture capital funds, and other alternative investments. The termination of these partnerships/trusts is based upon specific provisions in the agreement. In most cases the life of the trusts are for a minimum of ten years. Legacy can only transfer its interest in the investments with the consent of the general partner/advisor. The fair values of these investments are determined either by the underlying security value on the open market or by the general partner/advisor utilizing fair value principles. Legacy is accounting for these investments under the equity method.

Debt service reserve funds and unspent construction funds related to the Series 2009A, B and C Bonds are held in trust at a national bank and are invested in accordance with the respective bond indentures, primarily in government obligations with maturities of one year or less and in money market funds.

Interest Rate Swaps

In February 2004, Legacy executed a 20-year basis swap with an investment-banking firm. The notional amount of the transaction was $82,000, and the cash flows settle semiannually. Under the transaction, Legacy pays at the SIFMA index, in exchange for receiving 62% of LIBOR plus 0.814%.

(Dollars in thousands)

In May 2004, Legacy entered into a fixed-to-variable interest rate swap with an investment bank for five years, with a $25,000 notional amount. Under the terms of this agreement, Legacy pays at the SIFMA index, in exchange for a fixed rate of 3.125%. This agreement expired in April 2009 and was not extended or replaced.

In September 2006, Legacy entered into a basis swap with an investment-banking firm. The notional amount of the transaction was $82,000, and the cash flows settled semiannually. Under the transaction, Legacy paid 62% of the LIBOR in exchange for 62% of the USD-ISDA swap rate (ten-year) minus 0.392%. This swap was terminated in August 2010 for a gain of $4,141.

In April 2009, Legacy entered into a basis swap with an investment-banking firm. The notional amount of the transaction was $50,000, and the cash flows settle quarterly. Under the transaction, Legacy pays SIFMA and receives 67% of LIBOR plus 0.60% for three years, and thereafter receives 94.1% of LIBOR until April 2029.

In September 2010, Legacy entered into two basis swaps with two investment-banking firms. The notional amount of each transaction was $50,000, and the cash flows settle quarterly. Under both transactions, Legacy pays SIFMA and receives 67% of LIBOR plus 0.60% for three years, and thereafter receives 84.45% of LIBOR on one swap and 84.0% of LIBOR on the other swap until September 2030.

The objective of these transactions is to assume the tax-basis risk for a portion of the fixed-rate exposure on outstanding long-term indebtedness in exchange for positive cash flows. These transactions do not meet the criteria for hedge accounting; therefore, any changes in fair value under these agreements are recorded as part of investment income in the accompanying consolidated statements of operations.

The fair value of these swaps is determined by the spread in interest rates. The fair value as of March 31, 2011 and 2010 represents a receivable of $6,792 and $7,826, respectively, and is included in noncurrent investments in the consolidated balance sheets.

Investment income, gains, and losses for cash and cash equivalents, short-term investments, assets limited as to use, and noncurrent investments comprise the following:

		Year ended March 31	
		2011	**2010**
Interest and dividend income	$	1,094	751
Realized gains on investments		28,728	8,507
Realized gain from swap termination		4,141	
Equity earnings from investment companies		9,208	6,359
Change in fair value of trading securities and interest rate swaps		16,724	85,761
Total investment income	$	59,895	101,378

(Continued)

(7) Fair Value of Financial Instruments

Legacy applies ASC Topic 820, *Fair Value Measurements and Disclosures*, (Topic 820) for fair value measurements of financial assets and financial liabilities and for fair value measurements of nonfinancial items that are recognized or disclosed at fair value in the consolidated financial statements on a recurring basis. Topic 820 establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to measurements involving significant unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets and liabilities. Level 1 securities include marketable equity securities and mutual funds.
- Level 2 inputs are other than quoted prices included within Level 1 that are observable in the market for the asset or liability, either directly or indirectly. Level 2 securities include fixed-income securities, corporate equity funds, common/collective trust funds and absolute return funds that are priced based on the net asset values (NAV) provided by fund administrators.

  ASC Subtopic 820-10 allows for the use of a practical expedient for the estimation of the fair value of investments in investment companies for which the investment does not have a readily determinable fair value. The practical expedient used by Legacy is the NAV per share, or its equivalent. In some instances, the NAV may not equal the fair value that would be calculated under fair value accounting standards. Valuations provided by fund administrators consider variables such as the financial performance of underlying investments, recent sales prices of underlying investments and other pertinent information. In addition, actual market exchanges at year-end provide additional observable market inputs of the exit prices. Legacy reviews valuations and assumptions provided by fund administrators for reasonableness and believes that the carrying amounts of these financial instruments are reasonable estimates of fair value.
- Level 3 inputs are unobservable inputs for an asset or liability. Level 3 securities primarily include private equity funds but also include illiquid fixed-income securities that have no active trading. Private equity securities use a NAV equivalent as a practical expedient to estimate fair value. The transaction price is initially used as the best estimate of fair value. Accordingly, when a valuation is provided by a private equity fund administrator, the valuation is adjusted so that the value at inception equals the transaction price. The initial valuation is adjusted when changes to inputs and assumptions are corroborated by evidence, such as transactions in similar securities, completed or pending third-party transactions in the underlying security or comparable entities, offerings in the capital markets, and changes in financial results, data or cash flows. For positions that are not traded in active markets or are subject to notice provisions, valuations are adjusted to reflect such provisions, and such adjustments are generally based on available market evidence.

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

(Continued)

(Dollars in thousands)

The following tables present the financial instruments carried at fair value as of March 31, 2011 and 2010, by caption on the consolidated balance sheets, by the valuation hierarchy defined above:

Fair value of financial instruments

	March 31, 2011			
	Level 1	**Level 2**	**Level 3**	**Total fair value**
Assets:				
Cash and cash equivalents	$ 97,664			$ 97,664
Receivable under securities lending agreement		13,951		13,951
Small/mid cap domestic equity securities	38,058			38,058
Large cap domestic equity securities	82,721			82,721
International equity securities	11,432			11,432
International common/collective trust funds		28,541		28,541
Investment-grade quality fixed-income mutual fund	232,195			232,195
Absolute return funds		35,521		35,521
U.S. Treasury securities		42,328		42,328
Short-term notes		16,166		16,166
State government obligations		4,262		4,262
Real estate	130			130
Interest rate swaps		6,792		6,792
Total assets at fair value	$ 462,200	147,561		$ 609,761
Liabilities:				
Payable under securities lending agreement	$ 14,015			$ 14,015
Total liabilities at fair value	$ 14,015			$ 14,015

(Continued)

(Dollars in thousands)

Fair value of financial instruments

	March 31, 2010			
	Level 1	**Level 2**	**Level 3**	**Total fair value**
Assets:				
Cash and cash equivalents	$ 88,362			$ 88,362
Receivable under securities lending agreement		10,533		10,533
Small/mid cap domestic equity securities	40,914			40,914
Large cap domestic equity securities	78,672			78,672
International equity securities	10,342			10,342
International common/collective trust funds		23,807		23,807
Investment-grade quality fixed-income mutual fund	181,622			181,622
Absolute return funds		28,260		28,260
U.S. Treasury securities		20,609		20,609
Short-term notes		79,956		79,956
State government obligations		12,149		12,149
Interest rate swaps		7,826		7,826
Total assets at fair value	$ 399,912	183,140		$ 583,052
Liabilities:				
Payable under securities lending agreement	$ 10,597			$ 10,597
Total liabilities at fair value	$ 10,597			$ 10,597

The following table is a consolidated statement of changes in financial instruments classified by Legacy within Level 3 of the valuation hierarchy defined above:

	2011	**2010**
Fair value measurement Level 3, beginning of year	$	34,805
Realized and unrealized gains (losses), net		
Purchases, issuances and settlements, net		
Transfers, net		(34,805)
Fair value measurement Level 3, end of year	$	

(Dollars in thousands)

The following table presents information for investments where the NAV was used as a practical expedient to measure fair value at March 31, 2011:

		Fair value	Redemption frequency	Redemption notice period
Common/collective trust funds	$	28,541	Daily or monthly	1 – 5 days
Absolute return funds		35,521	Quarterly	60 – 95 days

Common/collective trust funds are investments that are operated by a trust company that manages a pooled group of trust accounts. Collective investment trusts combine the assets of various institutional investors to create a larger, well-diversified portfolio. The objectives of a collective trust are to lower the costs to investors through economies of scale available by combining assets of multiple investors, to provide daily liquidity, and to provide better diversification. Each investor owns a participating interest that is calculated in shares and represents its portion of the holdings of the fund.

Absolute return funds primarily include investments in hedge funds that utilize strategies designed to generate consistent long-term capital appreciation with low volatility and little correlation with equity and bond markets. Absolute return funds calculate NAV monthly, which approximates fair value.

Other financial instruments of Legacy include other receivables, GIICs and accrued interest. The carrying amount of these instruments approximates fair value as these items mature in less than one year.

The carrying amounts reported in the consolidated balance sheets for accounts payable, accrued wages, salaries and benefits, settlements payable to third-party payors, and other current liabilities approximate fair value.

The fair value of long-term debt is estimated based on the discounted cash flows that would be paid using current market rates for debt with the same maturities, assuming the debt was repaid as of the first call date as stipulated in the bond indenture. The fair value of long-term debt was $7,024 and $13,777 greater than the carrying value as of March 31, 2011 and 2010, respectively.

(Dollars in thousands)

(8) Temporarily and Permanently Restricted Net Assets

Temporarily restricted net assets are available for the following purposes:

		Year ended March 31	
		2011	2010
Education	$	5,238	4,623
Patient care		12,667	10,890
Research		5,239	4,953
Capital acquisition		8,073	2,620
Other		6,350	6,355
	$	37,567	29,441

Income from permanently restricted net assets is accounted for in accordance with the donors' instructions.

Legacy follows the guidance in the Uniform Prudent Management of Institutional Funds Act (UPMIFA) in determining the net asset classification of all donor-restricted endowment funds, as described in note 1. In accordance with board policy, assets classified as permanent endowments in accordance with donor intent are only utilized for current period expenditures to the extent that earnings on the endowment exceed the original fair value of the donation. To the extent earnings on endowment funds exceed identified expenditures on which to apply those earnings, the earnings are classified as temporarily restricted net assets. As of March 31, 2011 and 2010, unspent earnings on endowment funds totaling $17,683 and $15,059, respectively, were included in temporarily restricted net assets. Earnings on endowment funds were $3,460 and appropriations for expenditure from endowment funds were $834 for the year ended March 31, 2011.

Legacy has adopted investment and spending policies for endowment assets to provide a predictable stream of funding to programs supported by its endowment and to maintain the value of the endowment assets. Asset allocation is reviewed quarterly with respect to: i) Legacy's tolerance for risk based on its financial condition and need for cash from investments to support operations; ii) expected asset class return, risk and correlation characteristics; iii) changes in accounting guidance or tax law; and iv) changes in bond covenants or other restrictions.

Legacy's spending practices are intended to comply with donors' wishes and meet all applicable laws and regulations. Spending must be for a purpose that is consistent with the documented intent of the donor, and may not exceed the amounts annually determined by Legacy. Factors that are considered in addressing the annual spending allocation are: i) market value of the fund relative to the principal of the gift and ii) the level of spending in prior years.

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or UPMIFA requires Legacy to retain as a fund of perpetual duration. Deficiencies of this nature are reported as a reduction to unrestricted net assets and are excluded from the performance indicator. During the years ended March 31, 2011 and 2010, Legacy reimbursed unrestricted net assets for $7 and $513, respectively, for amounts transferred in previous years from unrestricted net assets to permanently restricted net assets.

(Dollars in thousands)

(9) Functional Expenses

Legacy provides healthcare services to residents within its geographic locations. Expenses related to providing these services are as follows:

		Year ended March 31	
		2011	**2010**
Healthcare services	$	1,020,692	1,013,490
General and administrative		234,285	191,185
	$	1,254,977	1,204,675

(10) Retirement Plans

(a) Defined Contribution Pension Plans

Substantially all employees who are 21 years of age, have worked 1,000 hours or more during the year and have been continuously employed by Legacy for one or more years are eligible to participate in a jointly contributory tax-sheltered annuity plan. Under this plan Legacy matches up to 3.5% of participating employees' annual salaries.

Expenses incurred by Legacy related to this plan were approximately $11,200 and $8,500 for 2011 and 2010, respectively.

(b) Pension Benefit Plans

Legacy sponsors a defined benefit pension plan, the Legacy Employees' Retirement Plan (the Plan), covering the majority of employees who meet requirements as specified in the Plan. The assets of the Plan are available to pay the benefits of all eligible employees of the Plan. Legacy uses a measurement date of March 31 for the Plan.

In September 2009 the Legacy Board of Directors approved amendments to the Plan. Prior to January 1, the Plan provided retirement benefits using a formula that considered both years of service and the highest level of compensation for any consecutive five-year period during the last 10 years before retirement. Effective December 31, 2009, the Plan's final average pay benefit formula was frozen for plan participants. Effective January 1, 2010, eligible employees are covered by a cash balance plan with contributions based on eligible compensation and accrued years of service. As a result of the retirement plan changes, the pension benefit obligation and periodic pension cost were remeasured as of December 31, 2009, resulting in a reduction of the unfunded pension obligation of $57,800.

Legacy maintains other retirement plans for certain management employees, which include a pension restoration plan, deferred compensation plans, and supplemental executive retirement plans.

(Dollars in thousands)

Legacy recognizes adjustments to the funded status of the Plan as increases or decreases to net assets in the corresponding accounting period. As of March 31, 2011 and 2010, Legacy recognized a decrease in net assets of $14,284 and an increase in net assets of $51,743, respectively, related to the change in funded status of the Plan.

A summary of changes in benefit obligations, fair values of plan assets, and the pension liability at March 31, 2011 and 2010 and for the fiscal years then ended is as follows:

		2011	2010
Change in projected benefit obligation:			
Projected benefit obligation at beginning of year	$	465,441	436,215
Service cost		25,171	21,057
Interest cost		28,269	29,469
Plan amendments			(79,680)
Actuarial loss		30,340	73,054
Benefits paid		(18,580)	(14,674)
Projected benefit obligation at end of year	$	530,641	465,441
Change in plan assets:			
Fair value of assets at beginning of year	$	384,398	296,022
Actual return on plan assets		48,333	72,945
Employer contribution		20,977	30,105
Benefits paid		(18,580)	(14,674)
Fair value of assets at end of year	$	435,128	384,398
Reconciliation of funded status:			
Funded status	$	(95,513)	(81,043)
Net amount recognized	$	(95,513)	(81,043)

Included in unrestricted net assets at March 31, 2011 are unrecognized prior service credits of $68,464 and unrecognized actuarial losses of $173,857 that have not yet been recognized in net periodic pension cost. The prior service credit and actuarial losses included in unrestricted net assets and expected to be recognized in net periodic pension cost during the year ending March 31, 2012 are $8,839 and $15,144, respectively. The accumulated benefit obligation as of March 31, 2011 and 2010 was $527,367 and $464,832, respectively.

(Continued)

(Dollars in thousands)

Net periodic benefit cost for the years ended March 31 included the following components:

		2011	2010
Service cost	$	25,171	21,057
Interest cost		28,269	29,470
Expected return on plan assets		(33,801)	(31,144)
Amortization of prior service costs		(8,839)	(2,024)
Recognized net actuarial loss		10,363	5,339
Special recognition curtailments and settlements		125	
Net periodic pension cost	$	21,288	22,698

(c) ***Assumptions***

Legacy used the following actuarial assumptions to determine its benefit obligations at March 31, 2011 and 2010, and its net periodic benefit cost for the years ended March 31, 2011 and 2010:

	2011	2010
Benefit obligation (measured as of March 31, 2011 and 2010):		
Discount rate	5.73%	6.22%
Rate of increase in future compensation levels	4% plus longevity scale	4% plus longevity scale
Net periodic benefit cost (measured as of March 31, 2010 and 2009):		
Discount rate	6.22%	7.11%
Expected long-term rate of return on plan assets	8.00%	8.50%
Rate of increase in future compensation levels	4% plus longevity scale	4% plus longevity scale
Net periodic benefit cost (measured as of December 31, 2009 due to plan change):		
Discount rate		6.08%
Expected long-term rate of return on plan assets		8.00%
Rate of increase in future compensation levels		4% plus longevity scale

The expected long-term rate of return on plan assets was based on Legacy's asset allocation mix and the long-term historical return for each asset class, taking into account current and expected market conditions. Legacy utilizes a nationally recognized investment consultant to assist in the return assumptions used in determining the expected long-term rate of return. The actual return on pension plan assets was a net gain of approximately 12.4% and 28.7% for the years ended March 31, 2011 and 2010, respectively. In the calculation of pension plan expense, the expected long-term rate of return on plan assets is applied to a calculated value of plan assets that recognizes changes in fair value over a four-year period. This practice is intended to reduce year-to-year volatility in pension expense, but it can have the effect of delaying the recognition of differences between actual returns and expected returns based on the long-term rate-of-return assumptions. The source data for the discount rate used to determine the benefit obligation was a universe of AA or higher rated U.S. dollar denominated bonds with similar maturities to the projected benefit payments.

(Dollars in thousands)

(d) Pension Plan Assets

The asset allocation of Legacy's pension plans at March 31, 2011 and 2010, and the target allocation were as follows:

	Target allocation	2011	2010
Equity securities	28% – 46%	41%	44%
Fixed income	21% – 31%	25%	22%
Real estate	0% – 7%	11%	10%
Absolute return funds	0% – 18%	13%	14%
Alternative investments	0% – 11%	10%	10%

Pension plan assets are managed according to an investment policy adopted by the Legacy Health Employees Retirement Plan Trustees. Professional investment managers are retained to manage specific asset classes and professional consulting is utilized for investment performance reporting. The primary objectives for the plans are to preserve and grow the assets to provide for the long-term benefit payments of the fund. Diversification is intended to reduce the risk of large losses and to enhance opportunities for appropriate appreciation along with current income. It is also an objective of the plans to invest a significant portion of the assets in fixed-income assets that have a similar interest rate sensitivity as the projected liabilities for the plans. The investment policy includes an asset allocation that includes equities, fixed-income instruments, real estate, market neutral hedge funds, and alternative investments (which include private equity and distressed debt). Assets are rebalanced quarterly when balances fall outside of the approved range for each asset class.

(Continued)

(Dollars in thousands)

In accordance with Subtopic 820-10, financial assets and financial liabilities measured at fair value are grouped in three levels, based on the markets in which the assets and liabilities are traded and the reliability of the assumptions used to estimate fair value. These levels and associated valuation methodologies are described in note 7. The following tables set forth by level, within the fair value hierarchy, list the Plan's assets at fair value as of March 31, 2011 and 2010:

Fair value of financial instruments

	March 31, 2011			
	Level 1	**Level 2**	**Level 3**	**Total fair value**
Assets:				
Cash and cash equivalents	$ 5,958			$ 5,958
Receivable under securities lending agreement		8,739		8,739
Small/mid cap domestic equity securities	30,328			30,328
Large cap domestic equity securities	63,719			63,719
International equity securities	16,969			16,969
International common/collective trust		63,327		63,327
Investment-grade quality fixed income mutual fund	107,971			107,971
Absolute return funds		56,204		56,204
Private equity funds				
Funds of funds			30,786	30,786
Distressed situations			14,245	14,245
Real estate partnerships		24,290	21,358	45,648
Total assets at fair value	$ 224,945	152,560	66,389	$ 443,894
Liabilities:				
Payable under securities lending agreement	$ 8,765			$ 8,765
Total liabilities at fair value	$ 8,765			$ 8,765

(Dollars in thousands)

Fair value of financial instruments

	March 31, 2010			
	Level 1	Level 2	Level 3	Total fair value
Assets:				
Cash and cash equivalents	$ 9,328			$ 9,328
Receivable under securities lending agreement		8,013		8,013
Small/mid cap domestic equity securities	21,435			21,435
Large cap domestic equity securities	73,721			73,721
International equity securities	34,823			34,823
International common/collective trust		30,717		30,717
Investment-grade quality fixed income mutual fund	83,731			83,731
Absolute return funds		52,987		52,987
Private equity funds				
Funds of funds			23,936	23,936
Distressed situations			15,717	15,717
Real estate partnerships		21,200	16,829	38,029
Total assets at fair value	$ 223,038	112,917	56,482	$ 392,437
Liabilities:				
Payable under securities lending agreement	$ 8,039			$ 8,039
Total liabilities at fair value	$ 8,039			$ 8,039

The following table presents a reconciliation of the beginning and ending balances of Level 3 assets:

	Fair value measurements Level 3
Fair value April 1, 2009	$ 58,074
Realized and unrealized (losses) gains, net	(3,226)
Purchases, issuances and settlements, net	1,634
Fair value March 31, 2010	56,482
Realized and unrealized (losses) gains, net	9,431
Purchases, issuances and settlements, net	476
Fair value March 31, 2011	$ 66,389

(e) Cash Flows

Legacy's policy with respect to funding the qualified plans is to fund at least the minimum required by the Employee Retirement Income Security Act of 1974 (ERISA), as amended, plus such additional amounts as deemed appropriate. In fiscal year 2012, Legacy expects to contribute, from ongoing cash flows and current assets, approximately $27,400 to its defined benefit pension plans.

(Dollars in thousands)

Benefit payments, which reflect expected future service, as appropriate, are expected to be paid as follows for the years ending December 31:

2011	$	27,062
2012		28,974
2013		33,071
2014		36,930
2015		40,908
2016 – 2020		260,536

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

Management is not aware of any settlements or curtailments that would require additional recognition during 2011 or 2010.

(11) Commitments and Contingencies

(a) Professional and General Liability

Legacy is self-insured for professional and general liability coverage. Coverage in excess of the self-insurance limits is provided on a claims-made basis through commercial insurance for claims made prior to June 1, 2004 and through its captive insurance company, LHSIC, effective June 1, 2004. LHSIC is a Cayman Islands domiciled insurance company created to access the reinsurance markets. General and professional liability costs have been accrued based upon an actuarial determination. In 2011 and 2010, Legacy recognized favorable adjustments to its professional and general liability reserves associated with actuarial estimates on prior year activity of $8,700 and $7,700, respectively, as a reduction to utilities, insurance and other expenses. Legacy is involved in litigation arising in the ordinary course of business. Claims, including alleged malpractice, have been asserted against Legacy and are currently in various stages of litigation. Additional claims may be asserted against Legacy arising from services provided to patients through March 31, 2011. In management's opinion, however, the estimated liability accrued at March 31, 2011 is adequate to provide for potential losses resulting from pending or threatened litigation.

(Dollars in thousands)

(b) Operating Leases

Legacy leases various equipment and real property under operating leases expiring at various dates through December 2015. The following is a schedule by year of future minimum lease payments under operating leases as of March 31, 2011, with an initial or remaining lease term in excess of one year.

Year ending March 31:		
2012	$	2,155
2013		1,381
2014		343
2015		201
2016		172
Thereafter		375
	$	4,627

Rent expense for 2011 and 2010 totaled $6,029 and $5,871, respectively.

(c) Employee Benefits

Legacy is self-insured for workers' compensation, employee health, and long-term and short-term disability. Legacy provides two employee transition plans (severance) under its ERISA-governed health and welfare plan.

For workers' compensation, employee health, and long-term and short-term disability, Legacy accrues the unpaid portion of claims that have been reported and estimates of claims that have been incurred but not reported, based on an actuarial study.

Legacy recognizes a severance obligation when the amount can be reasonably estimated, typically at the date of a triggering event (e.g., a reduction in force). During 2011 and 2010, Legacy expensed $2,421 and $1,475, respectively, associated with these plans.

(d) Healthcare Reform

As a result of recently enacted and pending federal healthcare reform legislation, substantial changes are anticipated in the U.S. healthcare system. Such legislation includes numerous provisions affecting the delivery of healthcare services, the financing of healthcare costs, reimbursement to healthcare providers and the legal obligations of healthcare insurers, providers and employers. These provisions are currently slated to take effect at specified times over the next decade. This federal healthcare reform legislation does not affect Legacy's consolidated financial statements as of March 31, 2011 and for the twelve months then ended.

(12) Compliance with Laws and Regulations

The healthcare industry is governed by various laws and regulations of federal, state, and local governments. These laws and regulations are subject to ongoing government review and interpretation, and include matters such as licensure, accreditation, reimbursement for patient services and referrals for Medicare and Medicaid beneficiaries. Compliance with these laws and regulations is required for participation in government healthcare programs. Certain governmental agencies routinely investigate and pursue allegations concerning possible overpayments resulting from violation of fraud and abuse statutes by healthcare providers. These investigations may result in settlements involving fines and penalties as well as repayment of improper reimbursement. Legacy has implemented procedures for monitoring and enforcing compliance with laws and regulations and is not aware of instances of noncompliance.

(13) Subsequent Events

Legacy evaluated subsequent events through June 23, 2011, the date the consolidated financial statements were issued.

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

Independent Auditors' Report on Other Financial Information

The Board of Directors
Legacy Health:

We have audited and reported separately herein on the consolidated financial statements of Legacy Health (an Oregon nonprofit corporation) and Affiliates as of and for the years ended March 31, 2011 and 2010.

Our audits were made for the purpose of forming an opinion on the consolidated financial statements of Legacy Health and Affiliates taken as a whole. The following supplementary information is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. The consolidating information is presented for purposes of additional analysis of the consolidated financial statements rather than to present the financial position, results of operations, and cash flows of the individual companies. Such information, except for the portion marked "unaudited," on which we express no opinion, has been subjected to the auditing procedures applied in the audits of the basic consolidated financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic consolidated financial statements taken as a whole.

KPMG LLP

June 23, 2011

LEGACY HEALTH AND AFFILIATES

Consolidating Balance Sheet

March 31, 2011

(Dollars in thousands)

Assets		Legacy Health	Legacy Emanuel Hospital & Health Center	Legacy Good Samaritan Hospital and Medical Center	Legacy Meridian Park Hospital
Current assets:					
Cash and cash equivalents	$	52,151	8	327	236
Short-term investments		43,978			
Cash and equivalents held under securities lending program		13,951			
Accounts receivable from patients			99,755	36,408	24,100
Allowance for uncollectible accounts			(26,023)	(6,830)	(5,565)
			73,732	29,578	18,535
Settlements receivable from third-party payors, net					
Other receivables		638	5,114	1,391	783
Inventories, at cost			6,665	3,706	2,885
Prepaid expenses		5,698	434	276	107
Current funds held by trustee					
Total current assets		116,416	85,953	35,278	22,546
Assets limited as to use:					
Held by trustee			86,358		
Community health fund		9,867			
Noncurrent investments restricted for capital acquisitions		198	9,587		
		10,065	95,945		
Other assets:					
Property, plant and equipment		477,033	436,185	276,237	144,002
Accumulated depreciation		(318,040)	(219,185)	(200,671)	(105,375)
		158,993	217,000	75,566	38,627
Noncurrent investments		531,485	(9,546)		
Property held for development or sale		11,745			7,065
Goodwill and other intangibles		639			
Other assets		18,477	5,180	813	11
		721,339	212,634	76,379	45,703
Intercompany affiliate receivable (payable)		(563,888)	144,742	117,357	161,826
	$	283,932	539,274	229,014	230,075

(Continued)

Legacy Mount Hood Medical Center	Legacy Salmon Creek Hospital	Legacy Visiting Nurse Association	Foundations	Credit Reporting Group	Other affiliates and eliminations	March 31, 2011 consolidated
134	7	13	2	52,878	2,709	55,587
				43,978		43,978
				13,951		13,951
19,672	34,966	1,368		216,269	5,095	221,364
(7,671)	(9,340)			(55,429)	(1,151)	(56,580)
12,001	25,626	1,368		160,840	3,944	164,784
537	121	(8)	2,548	11,124	67	11,191
1,526	1,649			16,431	346	16,777
24	544			7,083	407	7,490
14,222	27,947	1,373	2,550	306,285	7,473	313,758
				86,358		86,358
				9,867		9,867
				9,785		9,785
				106,010		106,010
92,825	327,866	3,420		1,757,568	4,436	1,762,004
(52,570)	(112,061)	(877)		(1,008,779)	(1,127)	(1,009,906)
40,255	215,805	2,543		748,789	3,309	752,098
			1,200	523,139		523,139
	3,203			22,013		22,013
				639	26,482	27,121
1,092	150	1,187	4,249	31,159	(12,530)	18,629
41,347	219,158	3,730	5,449	1,325,739	17,261	1,343,000
21,304	22,556	(880)	96,189	(794)	794	
76,873	269,661	4,223	104,188	1,737,240	25,528	1,762,768

(Continued)

LEGACY HEALTH AND AFFILIATES

Consolidating Balance Sheet

March 31, 2011

(Dollars in thousands)

Liabilities and Net Assets		**Legacy Health**	**Legacy Emanuel Hospital & Health Center**	**Legacy Good Samaritan Hospital and Medical Center**	**Legacy Meridian Park Hospital**
Current liabilities:					
Accounts payable	$	8,919	18,984	6,092	2,734
Accrued wages, salaries, and benefits		12,352	33,052	12,176	5,841
Accrued interest		990	2,433	502	310
Settlements payable to third-party payors, net			4,002	927	(16)
Other current liabilities		18,135	3,283	1,839	1,115
Payable under securities lending program		14,015			
Current portion of long-term debt		6,005	7,245	2,437	3,291
Total current liabilities		60,416	68,999	23,973	13,275
Long-term debt, less current portion		78,152	281,569	70,939	48,739
Other liabilities:					
Estimated general and professional claims liability		29,994			
Accrued pension liability		11,855	37,182	22,384	7,885
Other noncurrent liabilities		13,466	2,896	812	585
		55,315	40,078	23,196	8,470
Total liabilities		193,883	390,646	118,108	70,484
Net assets:					
Unrestricted		90,049	140,105	110,906	159,591
Unrestricted, noncontrolling interest					
Temporarily restricted			8,523		
Permanently restricted					
		90,049	148,628	110,906	159,591
	$	283,932	539,274	229,014	230,075

See accompanying independent auditors' report on other financial information.

Legacy Mount Hood Medical Center	Legacy Salmon Creek Hospital	Legacy Visiting Nurse Association	Foundations	Credit Reporting Group	Other affiliates and eliminations	March 31, 2011 consolidated
2,681	3,251	88		42,749	566	43,315
4,472	11,807	768		80,468	472	80,940
419				4,654		4,654
537	1,373			6,823		6,823
1,314	43	10	820	26,559	888	27,447
				14,015		14,015
1,354				20,332	449	20,781
10,777	16,474	866	820	195,600	2,375	197,975
45,930				525,329	405	525,734
				29,994	294	30,288
5,686	10,052	469		95,513		95,513
258	267	43		18,327	143	18,470
5,944	10,319	512		143,834	437	144,271
62,651	26,793	1,378	820	864,763	3,217	867,980
14,222	242,868	2,845	61,625	822,211	332	822,543
					21,979	21,979
			29,044	37,567		37,567
			12,699	12,699		12,699
14,222	242,868	2,845	103,368	872,477	22,311	894,788
76,873	269,661	4,223	104,188	1,737,240	25,528	1,762,768

LEGACY HEALTH AND AFFILIATES

Consolidating Balance Sheet

March 31, 2010

(Dollars in thousands)

Assets		Legacy Health	Legacy Emanuel Hospital & Health Center	Legacy Good Samaritan Hospital and Medical Center	Legacy Meridian Park Hospital
Current assets:					
Cash and cash equivalents	$	50,160	469	697	452
Short-term investments		42,777			
Cash and equivalents held under securities lending program		10,533			
Accounts receivable from patients			93,734	38,167	23,597
Allowance for uncollectible accounts			(24,705)	(8,029)	(6,861)
			69,029	30,138	16,736
Settlements receivable from third-party payors, net					
Other receivables		836	5,416	1,631	813
Inventories, at cost			6,253	3,753	2,712
Prepaid expenses		3,950	1,699	1,790	632
Current funds held by trustee		10,982			
Total current assets		119,238	82,866	38,009	21,345
Assets limited as to use:					
Held by trustee		(4,097)	149,953		
Community health fund		9,804			
Noncurrent investments restricted for capital acquisitions		2,836			
		8,543	149,953		
Other assets:					
Property, plant and equipment		433,184	362,706	272,130	142,530
Accumulated depreciation		(292,490)	(202,849)	(188,550)	(98,054)
		140,694	159,857	83,580	44,476
Noncurrent investments		439,722	14		
Property held for development or sale		11,745	1,641		7,065
Goodwill and other intangibles		740	84		
Other assets		18,534	3,974	113	25
		611,435	165,570	83,693	51,566
Intercompany affiliate receivable (payable)		(440,962)	121,989	89,555	128,067
	$	298,254	520,378	211,257	200,978

(Continued)

Legacy Mount Hood Medical Center	Legacy Salmon Creek Hospital	Legacy Visiting Nurse Association	Foundations	Credit Reporting Group	Other affiliates and eliminations	March 31, 2010 consolidated
(31)	7			51,754	1,480	53,234
				42,777		42,777
				10,533		10,533
20,608	34,609	1,788		212,503	4,024	216,527
(9,931)	(12,040)			(61,566)	(699)	(62,265)
10,677	22,569	1,788		150,937	3,325	154,262
547	404	(4)	1,909	11,552	145	11,697
1,483	1,890			16,091	349	16,440
327	525	1		8,924	591	9,515
				10,982		10,982
13,003	25,395	1,785	1,909	303,550	5,890	309,440
				145,856		145,856
				9,804		9,804
				2,836		2,836
				158,496		158,496
87,014	324,452	3,496		1,625,512	4,078	1,629,590
(49,140)	(95,057)	(769)		(926,909)	(475)	(927,384)
37,874	229,395	2,727		698,603	3,603	702,206
			1,151	440,887		440,887
	3,203			23,654		23,654
				824	27,034	27,858
505	301	769	5,254	29,475	(12,333)	17,142
38,379	232,899	3,496	6,405	1,193,443	18,304	1,211,747
13,027	(1,960)	(1,038)	90,675	(647)	647	
64,409	256,334	4,243	98,989	1,654,842	24,841	1,679,683

(Continued)

LEGACY HEALTH AND AFFILIATES

Consolidating Balance Sheet

March 31, 2010

(Dollars in thousands)

Liabilities and Net Assets	Legacy Health	Legacy Emanuel Hospital & Health Center	Legacy Good Samaritan Hospital and Medical Center	Legacy Meridian Park Hospital
Current liabilities:				
Accounts payable	$ 9,390	17,756	5,938	2,921
Accrued wages, salaries, and benefits	9,077	30,974	11,417	5,342
Accrued interest	1,124	2,400	514	319
Settlements payable to third-party payors, net		1,495	562	35
Other current liabilities	25,786	3,340	1,617	1,224
Payable under securities lending program	10,597			
Current portion of long-term debt	6,005	7,038	2,333	3,250
Total current liabilities	61,979	63,003	22,381	13,091
Long-term debt, less current portion	90,835	289,694	70,229	51,912
Other liabilities:				
Estimated general and professional claims liability	29,877			
Accrued pension liability	10,283	30,865	19,613	6,657
Other noncurrent liabilities	10,742	3,011	736	487
	50,902	33,876	20,349	7,144
Total liabilities	203,716	386,573	112,959	72,147
Net assets:				
Unrestricted	94,538	133,250	98,298	128,831
Unrestricted, noncontrolling interest				
Temporarily restricted		555		
Permanently restricted				
	94,538	133,805	98,298	128,831
	$ 298,254	520,378	211,257	200,978

See accompanying independent auditors' report on other financial information.

Legacy Mount Hood Medical Center	Legacy Salmon Creek Hospital	Legacy Visiting Nurse Association	Foundations	Credit Reporting Group	Other affiliates and eliminations	March 31, 2010 consolidated
1,404	4,051	146		41,606	503	42,109
4,085	8,118	712		69,725	457	70,182
291				4,648		4,648
589	1,349			4,030		4,030
885	323	17	816	34,008	893	34,901
				10,597		10,597
1,294				19,920	388	20,308
8,548	13,841	875	816	184,534	2,241	186,775
42,996				545,666	820	546,486
				29,877	342	30,219
4,847	8,444	334		81,043		81,043
257	170	57		15,460	148	15,608
5,104	8,614	391		126,380	490	126,870
56,648	22,455	1,266	816	856,580	3,551	860,131
7,761	233,879	2,977	56,955	756,489	362	756,851
					20,928	20,928
			28,886	29,441		29,441
			12,332	12,332		12,332
7,761	233,879	2,977	98,173	798,262	21,290	819,552
64,409	256,334	4,243	98,989	1,654,842	24,841	1,679,683

LEGACY HEALTH AND AFFILIATES

Consolidating Statement of Operations

Year ended March 31, 2011

(Dollars in thousands)

		Legacy Health	Legacy Emanuel Hospital & Health Center	Legacy Good Samaritan Hospital and Medical Center	Legacy Meridian Park Hospital
Gross patient charges	$		1,161,755	610,125	352,177
Adjustments to gross patient charges:					
Charity allowances			85,866	35,236	16,862
Third-party contractual adjustments			533,984	299,055	176,268
			619,850	334,291	193,130
Net patient service revenues			541,905	275,834	159,047
Other revenues		163,980	16,710	3,505	737
Total operating revenues		163,980	558,615	279,339	159,784
Operating expenses:					
Wages, salaries, and benefits		92,486	309,178	127,541	60,268
Supplies		2,250	76,879	48,382	24,534
Professional fees		2,193	23,601	9,219	3,329
Purchased services		37,739	(2,394)	16,061	8,075
Utilities, insurance and other expenses		10,273	28,535	8,006	6,471
Depreciation		20,821	22,080	15,751	9,171
Provision for bad debts		18	24,218	5,886	5,099
Interest and amortization		3,145	5,335	2,424	2,117
Management fees			73,746	43,124	23,446
		168,925	561,178	276,394	142,510
Income (loss) from operations		(4,945)	(2,563)	2,945	17,274
Other income (expenses):					
Investment income (loss), net		6,446	14,452	10,784	14,593
Loss on extinguishment of debt					
Other, net		(3,504)	(868)	440	(10)
		2,942	13,584	11,224	14,583
Revenues (less than) in excess of expenses	$	(2,003)	11,021	14,169	31,857

See accompanying independent auditors' report on other financial information.

Legacy Mount Hood Medical Center	Legacy Salmon Creek Hospital	Legacy Visiting Nurse Association	Foundations	Interentity eliminations	Credit Reporting Group	Other affiliates and eliminations	Year ended March 31, 2011 consolidated
248,165	457,944	13,100		(114)	2,843,152	56,224	2,899,376
24,550	29,608	203			192,325		192,325
121,572	245,472	1,482		34,158	1,411,991	31,380	1,443,371
146,122	275,080	1,685		34,158	1,604,316	31,380	1,635,696
102,043	182,864	11,415		(34,272)	1,238,836	24,844	1,263,680
399	3,439	1,117	4,858	(160,715)	34,030	(448)	33,582
102,442	186,303	12,532	4,858	(194,987)	1,272,866	24,396	1,297,262
43,767	102,985	8,631		(44,078)	700,778	5,899	706,677
10,231	23,212	795		10,609	196,892	4,434	201,326
3,110	3,758	76		(332)	44,954	577	45,531
6,052	5,597	300		(689)	70,741	2,830	73,571
5,347	9,940	872	6,276	(6,884)	68,836	1,663	70,499
4,661	16,102	184			88,770	699	89,469
8,215	8,669	89			52,194	1,208	53,402
1,414					14,435	67	14,502
14,215	4,081	1,570		(160,182)			
97,012	174,344	12,517	6,276	(201,556)	1,237,600	17,377	1,254,977
5,430	11,959	15	(1,418)	6,569	35,266	7,019	42,285
1,919	11		8,090		56,295	7	56,302
(16)	(1,618)	3	(475)	(5,333)	(11,381)	10	(11,371)
1,903	(1,607)	3	7,615	(5,333)	44,914	17	44,931
7,333	10,352	18	6,197	1,236	80,180	7,036	87,216

LEGACY HEALTH AND AFFILIATES

Consolidating Statement of Operations

Year ended March 31, 2010

(Dollars in thousands)

	Legacy Health	Legacy Emanuel Hospital & Health Center	Legacy Good Samaritan Hospital and Medical Center	Legacy Meridian Park Hospital	Legacy Mount Hood Medical Center
Gross patient charges	$	1,092,957	606,892	327,902	226,990
Adjustments to gross patient charges:					
Charity allowances		73,504	34,348	13,714	20,857
Third-party contractual adjustments		504,241	289,954	159,264	109,841
		577,745	324,302	172,978	130,698
Net patient service revenues		515,212	282,590	154,924	96,292
Other revenues	149,459	15,015	3,452	791	407
Total operating revenues	149,459	530,227	286,042	155,715	96,699
Operating expenses:					
Wages, salaries, and benefits	79,303	302,279	126,077	57,046	41,852
Supplies	2,125	71,946	51,681	23,906	10,253
Professional fees	4,084	26,132	10,201	4,749	3,304
Purchased services	26,879	(511)	17,818	9,045	6,737
Utilities, insurance and other expenses	8,905	20,382	6,865	5,270	4,299
Depreciation	17,531	22,029	14,642	9,325	4,921
Provision for bad debts	21	24,344	10,467	8,134	9,962
Interest and amortization	2,961	5,067	2,271	2,232	1,287
Management fees		62,906	34,073	16,443	10,300
	141,809	534,574	274,095	136,150	92,915
Income (loss) from operations	7,650	(4,347)	11,947	19,565	3,784
Other income (expenses):					
Investment income (loss), net	13,291	22,427	15,844	21,393	2,647
Loss on extinguishment of debt	(254)	(258)	(122)	(208)	(67)
Other, net	(4,832)	(3,467)	354	(432)	(92)
	8,205	18,702	16,076	20,753	2,488
Revenues in excess of expenses	$ 15,855	14,355	28,023	40,318	6,272

See accompanying independent auditors' report on other financial information.

Legacy Salmon Creek Hospital	Legacy Visiting Nurse Association	Foundations	Interentity eliminations	Credit Reporting Group	Other affiliates and eliminations	Year ended March 31, 2010 consolidated
439,698	14,119		(101)	2,708,457	18,240	2,726,697
22,172	239			164,834		164,834
235,709	1,595		33,356	1,333,960	9,619	1,343,579
257,881	1,834		33,356	1,498,794	9,619	1,508,413
181,817	12,285		(33,457)	1,209,663	8,621	1,218,284
2,420	503	5,916	(148,375)	29,588	1,626	31,214
184,237	12,788	5,916	(181,832)	1,239,251	10,247	1,249,498
89,857	8,675		(40,950)	664,139	3,284	667,423
23,626	886		8,614	193,037	1,729	194,766
4,394	38		(332)	52,570	529	53,099
6,119	344		(1,018)	65,413	1,103	66,516
8,880	1,009	7,611	(8,673)	54,548	748	55,296
19,605	160			88,213	338	88,551
12,140	37			65,105	195	65,300
(184)				13,634	90	13,724
17,535	1,510		(142,767)			
181,972	12,659	7,611	(185,126)	1,196,659	8,016	1,204,675
2,265	129	(1,695)	3,294	42,592	2,231	44,823
7		18,165		93,774	8	93,782
				(909)		(909)
(2,082)	5	(432)	(1,389)	(12,367)	3	(12,364)
(2,075)	5	17,733	(1,389)	80,498	11	80,509
190	134	16,038	1,905	123,090	2,242	125,332

LEGACY HEALTH AND AFFILIATES

Consolidating Statement of Changes in Net Assets

Year ended March 31, 2011

(Dollars in thousands)

	Legacy Health	Legacy Emanuel Hospital & Health Center	Legacy Good Samaritan Hospital and Medical Center	Legacy Meridian Park Hospital
Unrestricted net assets, controlling interest:				
Revenues (less than) in excess of expenses	$ (2,003)	11,021	14,169	31,857
Net assets released from restriction used for property, plant and equipment	23	2,094	1,182	248
Pension and other postretirement adjustments	(2,509)	(5,288)	(2,743)	(1,345)
Investment gains, other than trading securities				
Other transfers		(971)		
Change in unrestricted net assets, controlling interest	(4,489)	6,856	12,608	30,760
Unrestricted net assets, noncontrolling interest:				
Revenues in excess of expenses				
Distributions				
Contributions				
Change in unrestricted net assets, noncontrolling interest				
Temporarily restricted net assets:				
Donor-restricted contributions and grants		11,133		
Investment income, net				
Net assets released from restriction		(12,189)		
Transfers		9,024		
Change in temporarily restricted net assets		7,968		
Permanently restricted net assets:				
Donor-restricted contributions and grants				
Change in permanently restricted net assets				
Change in net assets	(4,489)	14,824	12,608	30,760
Net assets, beginning of year	94,538	133,805	98,298	128,831
Net assets, end of year	$ 90,049	148,629	110,906	159,591

See accompanying independent auditors' report on other financial information.

Legacy Mount Hood Medical Center	Legacy Salmon Creek Hospital	Legacy Visiting Nurse Association	Foundations	Interentity eliminations	Credit Reporting Group	Other affiliates and eliminations	Year ended March 31, 2011 consolidated
7,333	10,352	18	6,197	1,236	80,180	(29)	80,151
14			(1,534)	(1,236)	791	(1)	790
(886)	(1,363)	(150)			(14,284)		(14,284)
			6		6		6
					(971)		(971)
6,461	8,989	(132)	4,669		65,722	(30)	65,692
						7,065	7,065
						(6,014)	(6,014)
						1,051	1,051
			7,435		18,568		18,568
			3,586		3,586		3,586
			(2,810)		(14,999)		(14,999)
			(8,053)		971		971
			158		8,126		8,126
			367		367		367
			367		367		367
6,461	8,989	(132)	5,194		74,215	1,021	75,236
7,761	233,879	2,977	98,173		798,262	21,290	819,552
14,222	242,868	2,845	103,367		872,477	22,311	894,788

LEGACY HEALTH AND AFFILIATES

Consolidating Statement of Changes in Net Assets

Year ended March 31, 2010

(Dollars in thousands)

		Legacy Health	Legacy Emanuel Hospital & Health Center	Legacy Good Samaritan Hospital and Medical Center	Legacy Meridian Park Hospital	Legacy Mount Hood Medical Center
Unrestricted net assets, controlling interest:						
Revenues (less than) in excess of expenses	$	15,855	14,355	28,023	40,318	6,272
Net assets released from restriction used for property, plant and equipment			223	1,564	113	13
Pension and other postretirement adjustments		5,234	24,101	9,680	4,267	2,878
Investment gain, other than trading securities						
Other transfers			11,700	(4,900)	(4,800)	(1,400)
Change in unrestricted net assets, controlling interest		21,089	50,379	34,367	39,898	7,763
Unrestricted net assets, noncontrolling interest:						
Revenues in excess of expenses						
Distributions						
Contributions						
Change in unrestricted net assets, noncontrolling interest						
Temporarily restricted net assets:						
Donor-restricted contributions and grants			12,419			
Investment loss, net						
Net assets released from restriction			(13,236)			
Change in temporarily restricted net assets			(817)			
Permanently restricted net assets:						
Donor-restricted contributions and grants						
Change in permanently restricted net assets						
Change in net assets		21,089	49,562	34,367	39,898	7,763
Net assets, beginning of year		73,449	84,243	63,931	88,933	(2)
Net assets, end of year	$	94,538	133,805	98,298	128,831	7,761

See accompanying independent auditors' report on other financial information.

Legacy Salmon Creek Hospital	Legacy Visiting Nurse Association	Foundations	Interentity eliminations	Credit Reporting Group	Other affiliates and eliminations	Year ended March 31, 2010 consolidated
190	134	16,038	1,905	123,090	266	123,356
22	546		(1,908)	573		573
5,025	558			51,743		51,743
		513		513		513
			3	603	(603)	
5,237	1,238	16,551		176,522	(337)	176,185
					1,976	1,976
					(1,744)	(1,744)
					16,133	16,133
					16,365	16,365
		4,512		16,931		16,931
		7,083		7,083		7,083
		(3,136)		(16,372)		(16,372)
		8,459		7,642		7,642
		932		932		932
		932		932		932
5,237	1,238	25,942		185,096	16,028	201,124
228,642	1,739	72,231		613,166	5,262	618,428
233,879	2,977	98,173		798,262	21,290	819,552

LEGACY HEALTH AND AFFILIATES

Consolidated Financial and Statistical Highlights
(Unaudited)

Years ended March 31

	2011	2010	2009	2008
Utilization:				
Average number of available beds	1,064	1,027	993	1,022
Percentage occupancy	60.7%	65.2%	70.0%	67.2%
Patient days	235,569	244,257	253,800	251,301
Medicare percent of discharges	27.1%	26.6%	23.0%	21.8%
Average length of stay	4.5	4.4	4.6	4.7
Discharges:				
Adult and pediatric acute	49,623	52,482	52,154	50,625
Rehab. and psychiatric	2,282	2,469	2,288	2,416
NICU	1,010	874	872	887
Total discharges	52,915	55,825	55,314	53,928
Outpatient revenues as a percentage of gross patient revenue	42.4%	40.9%	38.6%	37.9%
Average full-time equivalent (FTE) employees:				
Number of paid FTEs	7,997	7,767	7,725	7,284
FTEs per adjusted occupied bed:				
Paid FTEs	7.1	6.9	6.8	6.6
Worked FTEs	6.2	6.0	5.9	5.8
Ratios:				
Deductions from revenues	56.4%	54.6%	53.8%	51.8%
Operating margin	3.3%	3.5%	3.1%	3.2%
Return on total assets	4.9%	7.5%	(6.4)%	5.6%
Debt service coverage (B)	5.0	5.3	3.4	5.3
Net days in accounts receivable	46.4	45.1	46.9	48.2
Current ratio	1.6	1.7	1.9	1.5
Days cash on hand	198.1	175.6	137.9	165.1
Costs per unit of service (A):				
Cost per adjusted discharge	$ 13,655	12,972	12,797	12,412
Cost per adjusted patient day	3,067	2,965	2,789	2,664

Notes: (A) Adjusted discharges and adjusted patient days are units of service developed by the American Hospital Association to give consideration to inpatient equivalents for outpatient services.
(B) Debt service coverage is calculated solely on the Master Trust Reporting Group.

See accompanying independent auditors' report on other financial information.

LEGACY HEALTH AND AFFILIATES

Consolidating Financial and Statistical Highlights
(Unaudited)

Years ended March 31, 2011 and 2010

	Consolidated	Legacy Health	Legacy Emanuel Hospital & Health Center	Legacy Good Samaritan Hospital and Medical Center	Legacy Meridian Park Hospital	Legacy Mount Hood Medical Center	Legacy Salmon Creek Hospital	Legacy Visiting Nurse Association	Other entities
Utilization:									
Average available beds:									
2011	1,064		406	249	130	84	195		
2010	1,027		406	240	130	81	170		
Percentage occupancy:									
2011	60.7%		68.5%	59.1%	54.5%	55.9%	52.5%		
2010	65.2		68.0	64.2	55.6	64.5	66.9		
Patient days:									
2011	235,569		101,485	53,729	25,844	17,139	37,372		
2010	244,257		101,029	56,261	26,371	19,075	41,521		
Medicare percentage of discharges:									
2011	27.1%		13.3%	34.0%	41.6%	28.7%	32.5%		
2010	26.6		13.7	33.2	37.3	30.3	31.8		
Average length of stay (days):									
2011	4.5		5.5	4.7	3.5	3.4	3.5		
2010	4.4		5.4	4.7	3.3	3.4	3.7		
Discharges:									
2011:									
Adult and pediatric acute	49,623		16,988	9,878	7,377	4,990	10,390		
Rehab. and psychiatric	2,282		845	1,437					
NICU	1,010		604				406		
Total discharges	52,915		18,437	11,315	7,377	4,990	10,796		
2010:									
Adult and pediatric acute	52,482		17,307	10,450	7,977	5,680	11,068		
Rehab. and psychiatric	2,469		935	1,534					
NICU	874		632				242		
Total discharges	55,825		18,874	11,984	7,977	5,680	11,310		

(Continued)

LEGACY HEALTH AND AFFILIATES

Consolidating Financial and Statistical Highlights
(Unaudited)

Years ended March 31, 2011 and 2010

	Consolidated	Legacy Health	Legacy Emanuel Hospital & Health Center	Legacy Good Samaritan Hospital and Medical Center	Legacy Meridian Park Hospital	Legacy Mount Hood Medical Center	Legacy Salmon Creek Hospital	Legacy Visiting Nurse Association	Other entities
Outpatient revenues as a percentage of gross patient revenue:									
2011	42.4%		35.8%	42.2%	47.9%	53.9%	41.1%	77.7%	
2010	40.9		35.8	41.5	47.2	49.6	40.0	78.4	
Average full-time equivalent (FTE) employees:									
Number of paid FTEs:									
2011	7,997	1,157	2,299	1,391	656	467	988	96	943
2010	7,767	1,001	2,306	1,417	641	454	858	96	994
FTEs per adjusted occupied bed:									
Paid FTEs:									
2011	7.1		5.9	5.5	4.8	4.6	5.4		
2010	6.9		6.1	5.4	4.7	4.4	4.8		
Worked FTEs:									
2011	6.2		5.1	4.7	4.1	3.9	4.7		
2010	6.0		5.3	4.7	4.1	3.8	4.2		
Ratios:									
Deductions from revenues:									
2011	56.4%		53.4%	54.8%	54.8%	58.9%	60.1%	12.9%	
2010	54.6		52.0	52.8	52.3	55.9	58.0	13.0	
Operating margin:									
2011	3.3%	(2.9)%	(0.2)%	(1.4)%	7.5%	2.8%	6.9%	0.1%	
2010	3.5	5.1	(0.8)	4.1	12.4	3.8	1.2	1.0	
Return on total assets:									
2011	4.9%	(0.7)%	5.1%	3.3%	11.5%	6.3%	4.2%	0.4%	
2010	7.5	5.5	2.8	13.3	20.1	9.7	0.1	3.2	

(Continued)

LEGACY HEALTH AND AFFILIATES

Consolidating Financial and Statistical Highlights
(Unaudited)

Years ended March 31, 2011 and 2010

	Consolidated	Legacy Health	Legacy Emanuel Hospital & Health Center	Legacy Good Samaritan Hospital and Medical Center	Legacy Meridian Park Hospital	Legacy Mount Hood Medical Center	Legacy Salmon Creek Hospital	Legacy Visiting Nurse Association	Other entities
Net days in accounts receivable:									
2011	46.4		47.2	38.6	42.3	42.8	50.2	39.8	
2010	45.4		48.1	38.4	39.1	39.0	44.6	53.1	
Current ratio:									
2011	1.6	1.8	1.2	1.5	1.7	1.3	2.1	1.6	
2010	1.7	1.7	1.3	1.7	1.6	1.5	1.8	2.0	
Costs per unit of service (A):									
Cost per adjusted discharges:									
2011	$ 13,655		22,952	14,481	10,502	9,198	9,999		
2010	12,972		21,019	13,559	9,099	8,577	10,292		
Cost per adjusted patient day:									
2011	$ 3,067		4,170	3,050	2,998	2,678	2,888		
2010	2,965		3,926	2,888	2,753	2,554	2,804		

Notes: (A) Adjusted discharges and adjusted patient days are units of service developed by the American Hospital Association to give consideration to inpatient equivalents for outpatient services.

See accompanying independent auditors' report on other financial information.

KPMG

LEGACY HEALTH AND AFFILIATES

Consolidated Financial Statements and Other Financial Information

March 31, 2012 and 2011

(With Independent Auditors' Reports Thereon)

LEGACY HEALTH AND AFFILIATES

Table of Contents

	Page
Report of Management	1
Independent Auditors' Report	2
Consolidated Financial Statements:	
Consolidated Balance Sheets	3
Consolidated Statements of Operations	5
Consolidated Statements of Changes in Net Assets	6
Consolidated Statements of Cash Flows	7
Notes to Consolidated Financial Statements	8
Other Financial Information	
Independent Auditors' Report on Supplementary Information	39
Consolidating Financial Information:	
Consolidating Balance Sheets	40
Consolidating Statements of Operations	48
Consolidating Statements of Changes in Net Assets	52
Consolidated Financial and Statistical Highlights (Unaudited)	56
Consolidating Financial and Statistical Highlights (Unaudited)	57

LEGACY HEALTH

Legacy Health
1919 N.W. Lovejoy St
Portland, OR 97209
503.415.5600 phone
503.415.5777 fax

Report of Management

The management of Legacy Health (Legacy) is responsible for the integrity and objectivity of the consolidated financial statements of Legacy and all of its affiliates. The annual consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America, and include amounts that are based on our best judgments with due consideration given to materiality.

Management is responsible for establishing and maintaining a system of internal controls over financial reporting and safeguarding assets against unauthorized acquisition, use or disposition. This system is designed to provide reasonable assurance as to the integrity and reliability of financial reporting and safeguarding of assets. The concept of reasonable assurance is based on the recognition that there are inherent limitations in all systems of internal controls, and that the cost of such systems should not exceed the benefits to be derived from them.

Management believes that the foundation of an appropriate system of internal controls is the expectation from all covered individuals throughout Legacy to conduct themselves in an ethical and responsible manner. This responsibility is characterized and reflected in Legacy's Standards of Conduct Policy that is distributed throughout Legacy and its affiliates. Management maintains a systematic program to ensure compliance with this policy.

The Audit Committee of the Board of Directors, which is composed of independent directors who are not employees, meets periodically with management, the internal auditors and the independent auditors to review the manner in which these groups are performing their responsibilities and to carry out the Audit Committee's oversight role with respect to auditing, internal controls and financial reporting matters. Both the internal auditors and the independent auditors periodically meet privately with the Audit Committee and have access to its individual members.

Legacy engaged KPMG, independent auditors, to audit our consolidated financial statements in accordance with auditing standards generally accepted in the United States of America. Their report follows.

George J. Brown, MD, FACP
Chief Executive Officer

Dave Eager
Chief Financial Officer

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

Independent Auditors' Report

The Board of Directors
Legacy Health:

We have audited the accompanying consolidated balance sheets of Legacy Health (an Oregon nonprofit corporation) and Affiliates as of March 31, 2012 and 2011, and the related consolidated statements of operations, changes in net assets, and cash flows for the years then ended. These consolidated financial statements are the responsibility of Legacy Health and Affiliates' management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Legacy Health and Affiliates' internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Legacy Health and Affiliates as of March 31, 2012 and 2011, and the results of their operations and their cash flows for the years then ended, in conformity with U.S. generally accepted accounting principles.

KPMG LLP

June 28, 2012

LEGACY HEALTH AND AFFILIATES

Consolidated Balance Sheets

March 31, 2012 and 2011

(Dollars in thousands)

Assets		2012	2011
Current assets:			
Cash and cash equivalents	$	39,078	55,587
Short-term investments		45,412	43,978
Receivable under securities lending program			13,951
Accounts receivable from patients, less allowance for uncollectible accounts of $54,644 in 2012 and $56,580 in 2011		175,121	164,784
Settlements receivable from third-party payors, net		12,222	
Other receivables		33,424	13,900
Inventories, at cost		16,773	16,777
Prepaid expenses		10,018	7,490
Total current assets		332,048	316,467
Assets limited as to use:			
Held by trustee		12,173	86,358
Community health fund		9,990	9,867
Noncurrent investments restricted for capital acquisitions		351	9,785
		22,514	106,010
Other assets:			
Property, plant and equipment, net		816,355	752,098
Noncurrent investments		566,396	523,139
Property held for development		22,013	22,013
Goodwill and other intangibles		27,020	27,121
Other assets		20,421	18,629
		1,452,205	1,343,000
	$	1,806,767	1,765,477

See accompanying notes to consolidated financial statements.

Liabilities and Net Assets		**2012**	**2011**
Current liabilities:			
Accounts payable	$	44,558	43,315
Accrued wages, salaries, and benefits		71,052	80,940
Accrued interest		4,109	4,654
Settlements payable to third-party payors, net			6,823
Other current liabilities		53,045	30,156
Payable under securities lending program			14,015
Current portion of long-term debt		22,902	20,781
Total current liabilities		195,666	200,684
Long-term debt, less current portion		506,214	525,734
Other liabilities:			
Estimated general and professional claims liability		28,256	30,288
Accrued pension liability		163,215	95,513
Other noncurrent liabilities		19,264	18,470
		210,735	144,271
Total liabilities		912,615	870,689
Net assets:			
Unrestricted		823,948	822,543
Unrestricted, noncontrolling interest		21,382	21,979
Temporarily restricted		35,547	37,567
Permanently restricted		13,275	12,699
		894,152	894,788
	$	1,806,767	1,765,477

LEGACY HEALTH AND AFFILIATES

Consolidated Statements of Operations

Years ended March 31, 2012 and 2011

(Dollars in thousands)

		2012	2011
Patient service revenues	$	1,337,975	1,263,680
Less provision for bad debts		67,945	53,402
Net patient service revenues		1,270,030	1,210,278
Other revenues		56,398	33,582
Total operating revenues		1,326,428	1,243,860
Operating expenses:			
Wages, salaries, and benefits		754,647	706,677
Supplies		202,276	201,326
Professional fees		45,410	45,531
Purchased services		72,343	73,571
Utilities, insurance, and other expenses		90,371	70,499
Depreciation		91,360	89,469
Interest and amortization		14,851	14,502
Total operating expenses		1,271,258	1,201,575
Income from operations		55,170	42,285
Other income (expenses):			
Investment income, net		24,349	56,302
Loss on extinguishment of debt		(1,216)	
Other, net		(11,170)	(11,371)
Total other income		11,963	44,931
Revenues in excess of expenses		67,133	87,216
Net assets released from restriction used for property, plant and equipment		12,902	790
Pension and other postretirement adjustments		(73,666)	(14,284)
Distributions to joint venture partners		(5,585)	(6,014)
Other transfers, net		24	(965)
Change in unrestricted net assets	$	808	66,743

See accompanying notes to consolidated financial statements.

LEGACY HEALTH AND AFFILIATES

Consolidated Statements of Changes in Net Assets

Years ended March 31, 2012 and 2011

(Dollars in thousands)

		2012	2011
Unrestricted net assets, controlling interest:			
Revenues in excess of expenses	$	62,145	80,151
Net assets released from restriction used for property, plant and equipment		12,902	790
Pension and other postretirement adjustments		(73,666)	(14,284)
Other transfers		24	(965)
Change in unrestricted net assets, controlling interest		1,405	65,692
Unrestricted net assets, noncontrolling interest:			
Revenues in excess of expenses		4,988	7,065
Distributions		(5,585)	(6,014)
Change in unrestricted net assets, noncontrolling interest		(597)	1,051
Temporarily restricted net assets:			
Donor-restricted contributions and grants		20,297	18,568
Investment gain, net		675	3,586
Net assets released from restriction		(22,992)	(14,999)
Other transfers			971
Change in temporarily restricted net assets		(2,020)	8,126
Permanently restricted net assets:			
Donor-restricted contributions and grants		576	367
Change in permanently restricted net assets		576	367
Change in net assets		(636)	75,236
Net assets, beginning of year		894,788	819,552
Net assets, end of year	$	894,152	894,788

See accompanying notes to consolidated financial statements.

LEGACY HEALTH AND AFFILIATES

Consolidated Statements of Cash Flows

Years ended March 31, 2012 and 2011

(Dollars in thousands)

		2012	2011
Cash flows from operating activities:			
Change in net assets	$	(636)	75,236
Adjustments to reconcile change in net assets to net cash provided by operating activities:			
Net distributions to noncontrolling partners		5,585	6,014
Depreciation and amortization		97,997	97,995
Loss on disposal of assets		1,030	111
Change in net realized and unrealized losses on investments		(15,400)	(44,674)
Restricted contributions		(12,958)	(8,265)
Equity earnings from joint ventures and investment companies, net		(10,266)	(10,829)
Pension and other postretirement adjustments		73,666	14,284
Change in certain current assets and current liabilities		(46,720)	3,874
Change in long-term operating assets and liabilities		(8,432)	3,793
Net cash provided by operating activities		83,866	137,539
Cash flows from investing activities:			
Purchase of property, plant and equipment, net		(154,354)	(153,566)
Proceeds from sale of assets		117	2,481
Change in funds held by trustee		74,185	70,480
Change in other long-term assets		10,203	(7,683)
Change in securities lending receivable		13,951	(3,418)
Investment in joint ventures and investment companies		(31,508)	(5,500)
Distributions from joint ventures and investment companies		6,295	3,681
Purchases of trading securities		(152,299)	(180,581)
Sales of trading securities		157,075	153,530
Net cash used in investing activities		(76,335)	(120,576)
Cash flows from financing activities:			
Proceeds from issuance of long-term debt		116,945	
Repayment of long-term debt		(134,343)	(20,279)
Change in securities lending payable		(14,015)	3,418
Distributions to noncontrolling partners		(5,585)	(6,014)
Proceeds from restricted contributions		12,958	8,265
Net cash used in financing activities		(24,040)	(14,610)
(Decrease) increase in cash and equivalents		(16,509)	2,353
Cash and cash equivalents, beginning of year		55,587	53,234
Cash and cash equivalents, end of year	$	39,078	55,587
Supplemental disclosures of cash flow information:			
Cash paid for interest (net of amount capitalized)	$	15,977	14,846
Amounts accrued for property, plant and equipment, net		5,222	14,286

See accompanying notes to consolidated financial statements.

(1) Organization and Summary of Significant Accounting Policies

(a) Organization and Basis of Consolidation

Legacy Health and Affiliates (Legacy) provides healthcare and various healthcare-related services. They are organized primarily as nonprofit corporations under the laws of the State of Oregon or Washington.

The consolidated financial statements include the accounts of Legacy and its direct affiliates, including the following:

Legacy Emanuel Hospital & Health Center
Legacy Good Samaritan Hospital and Medical Center
Legacy Meridian Park Hospital
Legacy Mount Hood Medical Center
Legacy Salmon Creek Hospital
Legacy Visiting Nurse Association and Affiliates
Managed HealthCare Northwest, Inc. (MHN)
Legacy Health System Insurance Company (LHSIC)
Legacy USP Surgery Centers, LLC (LUSC)

All significant interentity accounts and transactions have been eliminated.

The consolidated financial statements also include the accounts of Emanuel and Emanuel Children's Hospital, Good Samaritan, Meridian Park, Mount Hood, and Salmon Creek Hospital Foundations (collectively, the Foundations) whose activities benefit and are controlled by the corresponding facilities of Legacy Emanuel Hospital & Health Center, Legacy Good Samaritan Hospital and Medical Center, Legacy Meridian Park Hospital, Legacy Mount Hood Medical Center, and Legacy Salmon Creek Hospital, respectively.

Investments in joint ventures, which represent 20% or more ownership or control, are accounted for by the equity method and are included in the consolidated balance sheets as other assets.

(b) Use of Estimates

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Key estimates include uncollectible and contractual allowances on patient accounts receivable, third-party payor settlements, self-insured liabilities, fair value of investments, and pension obligations.

(c) Income Taxes

Legacy, except for MHN, LHSIC, and LUSC, has been recognized as exempt from federal income taxes, except on unrelated business income under the provisions of the Internal Revenue Code.

Legacy's wholly owned insurance captive, LHSIC, operates in the Cayman Islands and is currently not subject to income taxes.

For the taxable affiliates, income taxes are accounted for on the liability method. Accordingly, deferred income taxes are provided to reflect temporary differences between financial and tax reporting. Deferred tax assets and liabilities are measured based on enacted tax laws and rates without anticipation of future changes.

(d) Net Patient Service Revenues

Legacy has agreements with third-party payors that provide for payments to Legacy at amounts different from its established rates. Payment arrangements include prospectively determined rates per discharge, reimbursed costs, discounted charges and per diem payments. Net patient service revenues are reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered.

Contractual adjustments arising under reimbursement arrangements with third-party payors are accrued on an estimated basis in the period the related services are rendered and are adjusted in future periods as final settlements are determined.

(e) Other Revenues

The Health Information Technology for Economic and Clinical Health Act, part of the American Recovery and Reinvestment Act of 2009, created an incentive program, beginning in 2011, to promote the "mcaningful usc" of Elcctronic Health Records (EHR). To qualify, Medicare providers must attest to the Centers for Medicare and Medicaid Services (CMS) that they are using certified EHR in a "meaningful" way by meeting objectives at established thresholds, as defined by CMS. Meaningful use revenues are recognized as grant revenue. Grant revenue is recognized when there is reasonable assurance that the grant will be received and that the organization will comply with the conditions attached to the grant. During fiscal 2012, meaningful use revenues were $18,908 and were recognized in other revenue in the consolidated statements of activities. The amount recognized is based on management's best estimate and is subject to audit and potential retrospective adjustments

(f) Income from Operations

Income from operations excludes certain items that Legacy deems to be outside the scope of its primary business. Investment income includes interest income, dividends, realized and unrealized gains and losses on short-term and noncurrent investments and equity earnings from investment companies. Other income includes rental income and research activities, net of any corresponding expenses to operate these programs.

(g) Performance Indicator

The performance indicator is revenues in excess of expenses. Changes in unrestricted net assets, which are excluded from revenues in excess of expenses, consistent with industry practice, include unrealized gains and losses on investments for other-than-trading securities, permanent transfers of assets to and from affiliates for other than goods and services, pension and other postretirement adjustments, the cumulative effect of changes in accounting principles, and contributions of long-lived assets (including assets acquired using contributions, which, by donor restriction, were to be used for the purpose of acquiring such assets).

(h) Charity Care

Legacy provides care without charge or at amounts less than its established rates to patients who meet certain criteria under its financial assistance policy. Since Legacy does not pursue collection of amounts determined to qualify as charity care, they are excluded from patient revenues.

(i) Cash and Cash Equivalents

Cash equivalents include investments in money market funds and highly liquid debt instruments with original maturities of three months or less.

Legacy maintains cash and cash equivalents on deposit at financial institutions, which at times exceed the limits insured by the Federal Deposit Insurance Corporation. This exposes Legacy to potential risk of loss in the event the financial institution becomes insolvent.

(j) Short-Term Investments

Short-term investments include corporate and government obligation securities, which are included in managed, low-duration portfolios. The maturities of these related securities can exceed one year. Management anticipates the securities will be liquidated within the next year. These investments are considered trading securities.

(k) Securities Lending Program

Prior to December 31, 2011, Legacy participated in securities lending transactions with its custodian, whereby Legacy lent a portion of its investments to various brokers in exchange for cash and cash equivalents from the brokers as collateral for the securities loaned. Collateral provided by brokers was maintained at levels approximating 102% of the fair market value of the securities on loan. Legacy maintained effective control but waived its rights to vote such securities. The market value of the loaned securities as of March 31, 2011 is reported as a receivable held under securities lending program, and a corresponding obligation existed for repayment of such collateral upon settlement of the lending transaction. The market value of the securities on loan (exclusive of collateral) was $13,951 as of March 31, 2011.

(l) Inventories

Inventories are stated at the lower of average cost, as determined by the first-in, first-out method, or market.

(m) Assets Limited as to Use

Assets limited as to use primarily include assets held by trustees under indenture agreements. Community health fund represents designated assets set aside by the Board of Directors to provide funding for certain community health projects. The Board of Directors retains control over these assets and may, at its discretion, use these assets for other purposes.

(n) Property, Plant and Equipment

Property, plant and equipment is reported at cost. Donated items are reported on the basis of fair market value at the date of donation.

Interest cost incurred on borrowed funds during the period of construction of capital assets is capitalized as a component of acquiring those assets. In 2012 and 2011, Legacy capitalized $5,180 and $7,446, respectively, of interest expense. Legacy capitalizes payroll and payroll-related costs associated with the development of software for internal use. For the year ended March 31, 2011, Legacy capitalized approximately $7,067 of payroll and payroll-related costs.

Legacy assesses potential impairment to its long-lived assets when there is evidence that events or changes in circumstances have made recovery of an asset's carrying value unlikely. An impairment loss is indicated when the sum of expected undiscounted future net cash flows is less than the carrying amount. The loss recognized is the difference between the fair value and the carrying amount.

Depreciation is computed under the straight-line method over estimated useful lives with average useful lives as follows: building and improvements, 28 years; equipment and software, 7 years; and land improvements, 13 years. Leased assets that have been capitalized are amortized over the term of the leases or the useful lives of the assets, whichever is shorter. Leased asset amortization is reported as part of depreciation.

(o) Noncurrent Investments

Noncurrent investments include investments in equity securities of publicly traded U.S. and international companies, investments in foreign government and commercial bank obligations, real estate, market neutral hedge funds, alternative investments (which include private equity and distressed debt) and interest rate swaps. Investments in equity securities with readily determinable fair values and all investments in debt securities are recorded at fair value in the consolidated balance sheets. Investments in limited liability partnerships or companies, which are investment companies, are recorded at the fair value of the underlying assets using the equity method of accounting. As of March 31, 2012, approximately 13.8% of noncurrent investments require advance written notice of 90 days or longer to redeem the securities. For certain of these investments, it may take up to 90 days to receive the funds and certain redemptions may be subject to other restrictions in accordance with subscription agreements.

Investment income or loss (including realized gains and losses on investments, equity earnings from investment companies, interest and dividends) is included in revenues in excess of expenses unless the income or loss is restricted by donor or law. Unrealized gains and losses on investments are included in investment income unless the investments are considered other-than-trading securities.

(p) Temporarily and Permanently Restricted Net Assets

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

(q) Donor-Restricted Gifts

Unconditional promises to give cash and other assets to Legacy are reported at fair value at the date the promise is received. Conditional promises to give and indications of intentions to give are reported at fair value at the date the gift is received. The gifts or grants are reported as either temporarily or permanently restricted contributions if they are received with donor or grantor stipulations that limit the use of the donated assets. When the terms of a donor or grantor restriction are met, temporarily restricted net assets are reclassified as unrestricted net assets and reported in the consolidated statements of operations or consolidated statements of changes in net assets as net assets released from restriction. Donor-restricted contributions whose restrictions are met within the same year as received are reported as unrestricted contributions.

(r) Charitable Gift Annuities

Legacy has a certificate of authority from the State of Oregon to receive transfers of money or property upon agreement to pay an annuity. A charitable gift annuity is an arrangement between a donor and Legacy in which the donor contributes assets to Legacy in exchange for Legacy's agreement to pay a fixed amount for a specified period of time to the donor or other individuals and organizations as designated by the donor (annuitant). Upon execution of such an arrangement, Legacy recognizes the assets received at fair value and an annuity payment liability at the present value of future cash flows expected to be paid. Unrestricted and restricted contribution revenue is recognized based upon the difference between these two amounts. In subsequent periods, payments to the annuitant reduce the annuity liability. Adjustments to the annuity liability to reflect amortization of the discount, changes in life expectancy, and death of the annuitant are recognized as other operating expenses. The annuity liability included in other current liabilities as of March 31, 2012 and 2011 was $23 and $9, respectively. The annuities are not issued by an insurance company and are not subject to regulation by the State of Oregon or protected by an insurance guaranty association.

Legacy maintains a separate and distinct trust fund adequate to meet the actuarially determined future payments of the charitable gift annuities as set forth under Oregon Revised Statute (ORS) 731.716. The trust fund is maintained with a bank custodian and, as of March 31, 2012 and 2011, held $9 of marketable securities to fund the annuity obligation. These marketable securities are comprised of cash, cash equivalents and other fixed-income instruments. On March 27, 2012, Legacy received a new gift annuity with an annuity liability of $15, for which the corresponding trust fund was established in April.

(s) *Recently Adopted Accounting Standards*

In August 2010, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2010-23, *Health Care Entities (Topic 954): Measuring Charity Care for Disclosure*. This ASU establishes standards of measurement for disclosure of charity care expense at actual cost, including direct and indirect costs. This ASU also requires disclosure of the method used to identify such costs. Legacy adopted ASU No. 2010-23 effective April 1, 2011. The adoption of this standard did not have a material impact on Legacy's consolidated financial statements.

In August 2010, the FASB issued ASU No. 2010-24, *Health Care Entities – Presentation of Insurance Claims and Related Insurance Recoveries*, which clarifies that insurance recoveries should not be netted against a related claim liability. The claim liability amount should be calculated without consideration of insurance recoveries. Legacy adopted this standard effective for fiscal year ended March 31, 2012 and reclassified the prior year. The adoption of this standard resulted in an increase of $1,561 and $2,709 to both Legacy's assets and liabilities as of March 31, 2012 and 2011, respectively.

In July 2011, the FASB issued ASU No. 2011-07, *Presentation and Disclosure of Patient Service Revenue, Provision for Bad Debts, and the Allowance for Doubtful Accounts for Certain Health Care Entities*, which provides financial statement users with greater transparency about a healthcare entity's net patient service revenue and the related allowance for doubtful accounts. This pronouncement requires healthcare entities to present the provision for bad debts related to patient service revenue as a deduction from patient service revenue (net of contractual allowances and discounts) on their statement of operations rather than as an operating expense. Management has elected to early adopt this standard in their consolidated financial statements for the year ended March 31, 2012 and retrospectively adjusted the statement of operations for the year ended March 31, 2011. As a result of this standard, management has reduced their operating expenses and net patient service revenues by $67,945 and $53,402 for the years ended March 31, 2012 and 2011, respectively. The change has no impact on excess of revenues over expenses.

(t) *Healthcare Reform*

The Patient Protection and Affordable Care Act (PPACA) and the Health Care and Education Reconciliation Act (Reconciliation Act) were both signed by President Obama in the first calendar quarter of 2010. On June 28, 2012, the Supreme Court ruled on the constitutionality of the PPACA and largely upheld the law. The legislation went into effect upon signing with provisions to become effective over the next ten years. This legislation is expected to broadly impact Legacy's operations, including patient access, service reimbursement rates, and reporting requirements. Legacy has evaluated those provisions which went into effect, noting they did not have a significant impact on the financial statements.

The State of Oregon has also initiated broad legislative actions related to delivery of healthcare within the state primarily impacting the Medicaid program. As the results of these actions are implemented, they may significantly impact Legacy's future operations.

(u) Reclassifications

Certain reclassifications have been made to prior year amounts to conform to the current year presentation to more consistently present financial information between years.

(2) Net Patient Service Revenues

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

The Medicare program reimburses Legacy at prospectively determined rates for the majority of inpatient and outpatient services rendered to patients, primarily on the basis of diagnosis-related groups (DRGs) and ambulatory payment classification groups (APCs), respectively. Nonacute inpatient services, defined capital, certain outpatient services, and defined medical education costs are paid based on a cost reimbursement methodology. The Medicaid program reimburses Legacy primarily at prospectively determined rates for inpatient services, similar to DRGs, and outpatient services under a cost reimbursement methodology. When paid under cost reimbursement, Legacy is reimbursed at an interim rate with final settlement determined after submission of annual cost reports and audits thereof by the fiscal intermediaries. PPOs and HMOs generally reimburse Legacy on prospectively negotiated rates or on a percentage of charges.

Revenue from the Medicare and Medicaid programs accounted for approximately 35.5% and 19.6%, respectively, of Legacy's gross patient charges for the year ended March 31, 2012, and 33.6% and 19.4%, respectively, of Legacy's gross patient charges for the year ended March 31, 2011. Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation. As a result, there is at least a possibility that recorded estimates will change by a material amount in the near term. In 2012 and 2011, respectively, Legacy recorded an increase to net patient service revenue of approximately $10,442 and $39 relating to favorable settlements of prior years' reimbursement from Medicare and Medicaid programs.

(Dollars in thousands)

A summary of patient revenues is as follows:

		Year ended March 31	
		2012	**2011**
Gross patient charges:			
Hospital inpatient services	$	1,771,936	1,669,327
Hospital and other outpatient services		1,274,523	1,230,049
		3,046,459	2,899,376
Deductions from gross patient charges:			
Charity allowances, based on charges		175,355	192,325
Medicare and Medicaid contractual adjustments		1,105,689	1,012,946
Commercial managed care contractual adjustments		427,440	430,425
		1,708,484	1,635,696
Patient service revenues		1,337,975	1,263,680
Provision for bad debts		67,945	53,402
Net patient service revenue	$	1,270,030	1,210,278

Legacy grants credit without collateral to its patients, most of whom are local residents and are insured under third-party payor agreements. The proportion of net accounts receivable from significant third-party payors for 2012 and 2011 was as follows:

	2012	**2011**
Medicare	23.8%	20.3%
Medicaid	9.7	12.0
Blue Cross	15.7	12.8
Private pay	11.4	14.3
Other	39.4	40.6
	100.0%	100.0%

Legacy provides an allowance against accounts receivable for amounts that could become uncollectible in the future. Collection risks relate primarily to uninsured patient accounts and patient accounts under third-party payor agreements for which deductibles and coinsurance are due from the patient. Legacy estimates the allowance for each category of patient accounts based on the respective aging of accounts receivable, historical collections, business and economic conditions, trends in federal and state governmental and private employer healthcare coverage and other collection indicators.

(Continued)

(Dollars in thousands)

(3) Benefits to the Community

The Board of Directors allocated $10,000 to establish a Community Health Fund (the Fund) in 1999. An amount equal to five percent of the principal of this Fund ($500 annually) may be dedicated to community-sponsored initiatives geared toward improving the health of the community. The Fund is intended to be a permanent source of funding for health initiatives and programs capable of impacting the health of the community either by prevention or health improvement. Contributions made to community-sponsored initiatives were $165 and $257 in 2012 and 2011, respectively.

In addition to funding selected community health initiatives, Legacy provides services to the community both for people in need and to enhance the health status of the broader community as part of its charitable mission. The following represents the estimated cost of providing certain services to the community, along with a description of selected activities sponsored by Legacy during 2012 and 2011:

	Year ended March 31, 2012			
	In-kind costs	**Other costs**	**Offsetting revenue**	**Net cost**
Services for people in need:				
Charity care	$	70,933		70,933
Medicaid		246,937	157,499	89,438
Medicare		443,339	374,591	68,748
Other government programs		14,432	12,780	1,652
		775,641	544,870	230,771
Benefits to the community:				
Medical education and support of research		22,602	6,055	16,547
Community health services		1,728	52	1,676
Community benefit activities	458	47		505
Donations to charitable organizations	172	964		1,136
Community Health Fund contributions		165		165
	630	25,506	6,107	20,029
	$ 630	801,147	550,977	250,800
Percentage of total operating expenses				19.8%

(Dollars in thousands)

		Year ended March 31, 2011			
		In-kind costs	**Other costs**	**Offsetting revenue**	**Net cost**
Services for people in need:					
Charity care	$		77,676		77,676
Medicaid			233,168	174,580	58,588
Medicare			401,050	352,925	48,125
Other government programs			10,275	8,745	1,530
			722,169	536,250	185,919
Benefits to the community:					
Medical education and support of research		153	21,381	6,782	14,752
Community health services			2,550	180	2,370
Community benefit activities		473	80		553
Donations to charitable organizations		255	938		1,193
Community Health Fund contributions			257		257
		881	25,206	6,962	19,125
	$	881	747,375	543,212	205,044
Percentage of total operating expenses					17.1%

(a) ***Services for People in Need***

In support of its mission, Legacy voluntarily provides medically necessary patient care services that are discounted or free of charge to persons who have insufficient resources and/or who are uninsured. The criteria for charity care is determined based on eligibility for insurance coverage, household income, qualified assets, catastrophic medical events, or other information supporting a patient's inability to pay for services provided. Specifically, Legacy provides an uninsured discount of 15% to patients who have resided within Legacy's primary service area for a period of six months, are uninsured for hospital care, and have a household income of less than $100,000 annually. Further discounts are available for patients, on a sliding scale, whose household income is less than 400% of the federal poverty level or roughly $92,200 for a family of four in Portland, Oregon. For patients whose household income is at or below 200% of the federal poverty level, a full subsidy is available. In addition to the household income criteria, the patients' qualified assets (e.g., 25% of household assets), and other catastrophic or economic circumstances are considered in determining eligibility for charity care.

During 2012 and 2011, Legacy provided charity care benefiting patients associated with 95,936 and 101,751 patient accounts, respectively, representing 10,008 and 9,091 inpatient accounts, respectively, and 85,928 and 92,660 outpatient accounts, respectively. In 2012 and 2011, 8% and

22%, respectively, of the patients receiving charity care received a full subsidy representing roughly 8% and 50%, respectively, of the total charity provided in those years.

In addition to charity care, Legacy provides services under various states' Medicaid programs for financially needy patients. The cost of providing services to Medicaid beneficiaries generally exceeds the reimbursement from these programs.

Legacy provides services to Medicare beneficiaries and beneficiaries under other government programs (such as TRICARE), for which the cost of treating these patients exceeds the government payments received.

The cost of services provided under these programs is determined based on the relationship of costs (excluding the provision for doubtful accounts and costs associated with medical education, research, community health services, and other contributions) to billed charges.

Legacy also employs financial counselors and social workers who assist patients in obtaining coverage for their healthcare needs. This includes assistance with workers' compensation, motor vehicle accident policies, COBRA, veterans' assistance, and public assistance programs, such as Medicaid. This program assisted many patients in obtaining coverage through a third party, reducing the patients' financial responsibility. The costs associated with this program were $710 and $614 in 2012 and 2011, respectively.

(b) Benefits to the Community

Medical education and research includes, among other initiatives, the unreimbursed cost of nursing, graduate medical education and research.

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

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

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

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

(c) Other Benefits

In furtherance of its mission, Legacy also commits significant time and resources to endeavors and critical services that meet unfilled community needs. Many of these activities are sponsored with the

(Continued)

(Dollars in thousands)

knowledge that they will not be self-supporting or financially viable. Such programs include hospice, mental and behavioral health, primary care clinics in underserved neighborhoods, free patient transportation, lodging, meals and medications for transient patients when needed, participation in blood drives, and the provision of educational opportunities for students interested in pursuing medical-related careers.

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

Legacy also pays taxes associated with various states' local business and occupation taxes, and property taxes that local and state governments use to fund healthcare services, civil and education services to the community. Legacy paid $5,356 and $5,456 in local and state taxes in 2012 and 2011, respectively.

(4) Property, Plant, and Equipment

Property, plant, and equipment balances as of March 31 were as follows:

		2012	2011
Buildings and improvements	$	1,015,449	851,416
Equipment and software		808,634	750,691
Land improvements		9,951	5,878
		1,834,034	1,607,985
Accumulated depreciation		(1,059,458)	(1,009,907)
		774,576	598,078
Construction in progress		16,687	129,003
Land		25,092	25,017
	$	816,355	752,098

There were capital expenditure purchase commitments outstanding as of March 31, 2012 for various construction and equipment projects. The estimated cost to complete such projects at March 31, 2012 was $23,088, of which $14,281 was contractually committed.

(Dollars in thousands)

(5) Long-Term Debt

A summary of long-term debt and capital lease obligations at March 31 is as follows:

		2012	2011
Hospital Revenue Bonds, Series 2001, payable in installments from $2,835 to $22,550 through 2021, at rates ranging from 4.50% to 5.75%, callable on or after May 2011	$		117,635
Hospital Revenue Bonds, Series 2008, payable in installments through 2038, subject to a seven-day put provision; interest at SIFMA index (0.19% at March 31, 2012) plus 10 basis points		150,000	150,000
Hospital Revenue Bonds, Series 2009A, payable in installments from $1,055 to $7,715 through 2035, at rates ranging from 3.0% to 5.5%, callable on or after July 2019		108,580	111,260
Hospital Revenue Bonds, Series 2009B and C, subject to mandatory tenders of $25,000 each in 2012 and 2014, respectively, at 5.0%		50,000	50,000
Hospital Revenue Bonds, Series 2010A, payable in installments from $1,120 to $12,430 through 2030, at rates ranging from 3.0% to 5.0%, $24,300 of the bonds are callable on or after March 2020		99,050	111,315
Hospital Revenue Bonds, Series 2011A, payable in installments from $5,495 to $22,060 through 2021, at rates ranging from 3.0% to 5.25%.		111,470	
Capital lease obligations, at imputed rates of 4.32% to 4.93%		9,186	5,451
Note payable, matures 2012, interest at 6.73%		830	854
		529,116	546,515
Less current portion		(22,902)	(20,781)
	$	506,214	525,734

Interest cost incurred related to funds borrowed was $19,929 and $21,763 in 2012 and 2011, respectively. These amounts were reduced by $5,180 and $7,446 in 2012 and 2011, respectively, in the consolidated statements of operations, for amounts capitalized for construction and other capital projects.

(Dollars in thousands)

Scheduled principal repayments of long-term debt, including mandatory tenders of bonds eligible for refinancing, and payments on capital lease obligations are according to their long-term amortization schedule as follows:

		Long-term debt		Capital lease obligations
2013	$	45,758		2,517
2014		20,847		2,517
2015		20,490		2,517
2016		46,295		1,462
2017		22,285		1,006
Thereafter		364,255		
	$	519,930		10,019
Less amount representing interest under capital lease obligation				(833)
			$	9,186

The master trust indenture and other loan agreements covering these obligations contain, among other things, provisions placing restrictions on additional borrowings and leases and requiring the maintenance of debt service coverage and other ratios.

In November 2008, Legacy issued $150,000 of Revenue Bonds Series 2008 (Series 2008 Bonds), which are unsecured, variable-rate debt in an initial short-term interest rate mode, through the Hospital Facility Authority of Clackamas County, Oregon. The proceeds from the Series 2008 Bonds were restricted for capital expenditures and to pay the expenses incurred with the issuance. The Series 2008 Bonds, while subject to a long-term amortization period, may be put to Legacy at the option of the bondholders in connection with certain remarketing dates. In conjunction with the issuance, in November 2010 Legacy entered into a three-year letter of credit and reimbursement agreement with a national bank, whereby the bank will purchase any bonds that are put by bondholders and not successfully remarketed. In the event of a draw under this agreement, there are no principal payments due within a year. If the bonds have not been remarketed or redeemed and amounts remain outstanding after a year, such amounts are converted to a term loan due in eight quarterly payments. As a result, the Series 2008 Bonds are classified as long-term, except for the portion that matures within 12 months after March 31, 2011.

In May 2009, Legacy issued $163,860 of Revenue Bonds Series 2009 (Series 2009 Bonds) in Series A, B, and C through the Hospital Facility Authority of Clackamas County, Oregon. The proceeds from the Series 2009 Bonds were restricted for capital expenditures, debt service during the construction period, and expenses incurred in connection with the issuance. The Series B ($25,000) of the Series 2009 Bonds is subject to a mandatory bondholder tender in July 2012, and the Series C ($25,000) of the Series 2009 Bonds is subject to a mandatory bondholder tender in July 2014. The remaining bonds are payable in annual installments beginning in 2010 through 2035 at interest rates from 3.00% to 5.50%. In connection with this issuance, certain modifications to the existing master trust indenture were made. In particular, a

gross revenue pledge was provided to all bondholders. The Series 2009 Bonds, and all outstanding previously issued Revenue Bonds, are obligations of the revised master trust indenture (the 2009 Master Trust Indenture).

In January 2010, Legacy issued $123,745 of Revenue Bonds Series 2010A (Series 2010A Bonds) through the State of Oregon, Oregon Facilities Authority. The proceeds from the Series 2010A Bonds were used to refund the Series 1999 Bonds and the Series 2003 Bonds and to pay for the cost of issuance of the Series 2010A Bonds. The Series 2010A Bonds are payable in annual installments beginning in 2011 at interest rates ranging from 3% to 5%. The Series 2010A Bonds are obligations of the 2009 Master Trust Indenture.

In September 2010, Legacy entered into a credit agreement with a commercial bank to secure a $30,000 line of credit to meet short-term cash needs. The line of credit was issued as an obligation of the 2009 Master Trust Indenture. Interest on the line is LIBOR plus 95 basis points. There were no amounts borrowed on the line during fiscal year 2012 and the agreement expired on March 1, 2012.

In May 2011, Legacy issued $111,470 of Refunding Revenue Bonds Series 2011 Series A (Series 2011 Bonds) through the State of Oregon, Oregon Facilities Authority. The proceeds from the Series 2011 Bonds were used to refund the Series 2001 Bonds and to pay for the cost of issuance of the Series 2011 Bonds. The Series 2011 Bonds are payable in annual installments beginning in May 2012 at interest rates ranging from 3.00% to 5.25%. The Series 2011 Bonds are obligations of the 2009 Master Trust Indenture. In conjunction with the issuance of the Series 2011 Bonds, the obligated group of the 2009 Master Trust Indenture was expanded to include Legacy Salmon Creek Hospital, formerly a designated affiliate.

In June 2012, Legacy entered into an agreement with a bank to borrow $25,000 at a fixed rate of 1.4%, repayable in July 2014. Proceeds from this borrowing will be used to satisfy the mandatory tender of the Series 2009B bonds scheduled for July 2012. This amount is included in the long-term debt, less current portion on the consolidated balance sheet at March 31, 2012.

(Dollars in thousands)

(6) Investments

Legacy invests in different classes of securities for a variety of financial assets, including short-term investments, assets limited as to use, and noncurrent investments. The composition of these assets is as follows:

	Year ended March 31	
	2012	2011
Cash and cash equivalents	$ 10,155	97,664
Short-term notes	6,619	16,166
State government obligations	3,823	4,262
Small/mid cap domestic equity securities	33,714	38,058
Large cap domestic equity securities	82,429	82,721
International equity securities	38,924	11,432
International common/collective trust	26,156	28,541
Fixed-income mutual fund	212,526	232,195
Fixed-income common/collective trust	22,436	
Absolute return funds	74,008	70,683
U.S. Treasury securities	44,637	42,328
Real estate partnerships	67,687	34,129
Private equity funds – funds of funds	5,484	6,613
Interest rate swaps	4,127	6,792
Guaranteed interest investment contracts (GIICs)	1,597	1,106
Other		437
	$ 634,322	673,127

As of March 31, 2012, Legacy has a remaining capital commitment of $950 to private equity funds in the form of limited partnership/trust investments. These commitments are due on demand from the general partners/advisors. These private equity funds invest in emerging companies, venture capital funds, and other alternative investments. The termination of these partnerships/trusts is based upon specific provisions in the agreement. In most cases the life of the trusts are for a minimum of ten years. Legacy can only transfer its interest in the investments with the consent of the general partner/advisor. The fair values of these investments are determined either by the underlying security value on the open market or by the general partner/advisor utilizing fair value principles. Legacy is accounting for these investments under the equity method, and therefore has excluded them from the fair value disclosures in note 7. Equity method investments total $111,874 and $77,317 as of March 31, 2012 and 2011, respectively.

Debt service reserve funds and unspent construction funds related to the Series 2009A, B and C Bonds are held in trust at a national bank and are invested in accordance with the respective bond indentures, primarily in government obligations with maturities of one year or less and in money market funds.

(Dollars in thousands)

Interest Rate Swaps

In February 2004, Legacy executed a 20-year basis swap with an investment-banking firm. The notional amount of the transaction was $82,000, and the cash flows settle semiannually. Under the transaction, Legacy pays at the SIFMA index, in exchange for receiving 62% of LIBOR plus 0.814%.

In September 2006, Legacy entered into a basis swap with an investment-banking firm. The notional amount of the transaction was $82,000, and the cash flows settled semiannually. Under the transaction, Legacy paid 62% of the LIBOR in exchange for 62% of the USD-ISDA swap rate (ten-year) minus 0.392%. This swap was terminated in August 2010 for a gain of $4,141.

In April 2009, Legacy entered into a basis swap with an investment-banking firm. The notional amount of the transaction was $50,000, and the cash flows settle quarterly. Under the transaction, Legacy pays SIFMA and receives 67% of LIBOR plus 0.60% for three years, and thereafter receives 94.1% of LIBOR until April 2029.

In September 2010, Legacy entered into two basis swaps with two investment-banking firms. The notional amount of each transaction was $50,000, and the cash flows settle quarterly. Under both transactions, Legacy pays SIFMA and receives 67% of LIBOR plus 0.60% for three years, and thereafter receives 84.45% of LIBOR on one swap and 84.0% of LIBOR on the other swap until September 2030.

The objective of these transactions is to assume the tax-basis risk for a portion of the fixed-rate exposure on outstanding long-term indebtedness in exchange for positive cash flows. These transactions do not meet the criteria for hedge accounting; therefore, any changes in fair value under these agreements are recorded as part of investment income in the accompanying consolidated statements of operations.

The fair value of these swaps is determined by the spread in interest rates. The fair value as of March 31, 2012 and 2011 represents a receivable of $4,127 and $6,792, respectively, and is included in noncurrent investments in the consolidated balance sheets.

Investment income, gains, and losses for cash and cash equivalents, short-term investments, assets limited as to use, and noncurrent investments comprise the following:

		Year ended March 31	
		2012	**2011**
Interest and dividend income	$	981	1,094
Realized gains on investments		21,172	28,728
Realized gain from swap termination			4,141
Equity earnings from investment companies		7,854	9,208
Change in fair value of trading securities and interest rate swaps		(4,983)	16,724
Total investment income	$	25,024	59,895

(7) Fair Value of Financial Instruments

Legacy applies Accounting Standards Codification (ASC) Topic 820, *Fair Value Measurements and Disclosures* (Topic 820) for fair value measurements of financial assets and financial liabilities and for fair value measurements of nonfinancial items that are recognized or disclosed at fair value in the consolidated financial statements on a recurring basis. Topic 820 establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to measurements involving significant unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets and liabilities. Level 1 securities include marketable equity securities and mutual funds.
- Level 2 inputs are other than quoted prices included within Level 1 that are observable in the market for the asset or liability, either directly or indirectly. Level 2 securities include fixed-income securities, corporate equity funds, common/collective trust funds and absolute return funds that are priced based on the net asset values (NAVs) provided by fund administrators.

  ASC Subtopic 820-10 allows for the use of a practical expedient for the estimation of the fair value of investments in investment companies for which the investment does not have a readily determinable fair value. The practical expedient used by Legacy is the NAV per share, or its equivalent. In some instances, the NAV may not equal the fair value that would be calculated under fair value accounting standards. Valuations provided by fund administrators consider variables such as the financial performance of underlying investments, recent sales prices of underlying investments and other pertinent information. In addition, actual market exchanges at year-end provide additional observable market inputs of the exit prices. Legacy reviews valuations and assumptions provided by fund administrators for reasonableness and believes that the carrying amounts of these financial instruments are reasonable estimates of fair value.

- Level 3 inputs are unobservable inputs for an asset or liability. Level 3 securities primarily include private equity funds but also include illiquid fixed-income securities that have no active trading. Private equity securities use a NAV equivalent as a practical expedient to estimate fair value. The transaction price is initially used as the best estimate of fair value. Accordingly, when a valuation is provided by a private equity fund administrator, the valuation is adjusted so that the value at inception equals the transaction price. The initial valuation is adjusted when changes to inputs and assumptions are corroborated by evidence, such as transactions in similar securities, completed or pending third-party transactions in the underlying security or comparable entities, offerings in the capital markets, and changes in financial results, data or cash flows. For positions that are not traded in active markets or are subject to notice provisions, valuations are adjusted to reflect such provisions, and such adjustments are generally based on available market evidence.

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

(Dollars in thousands)

The following tables present the financial instruments carried at fair value as of March 31, 2012 and 2011, by caption on the consolidated balance sheets, by the valuation hierarchy defined above:

		Fair value of financial instruments March 31, 2012		
		Level 1	**Level 2**	**Total fair value**
Assets:				
Cash and cash equivalents	$	10,155		10,155
Small/mid cap domestic equity securities		33,714		33,714
Large cap domestic equity securities		82,429		82,429
International equity securities		38,924		38,924
International common/collective trust funds			26,156	26,156
Fixed-income mutual fund		212,526		212,526
Fixed-income common/collective trust funds			22,436	22,436
Absolute return funds			36,902	36,902
U.S. Treasury securities			44,637	44,637
Short-term notes			6,619	6,619
State government obligations			3,823	3,823
Interest rate swaps			4,127	4,127
Total assets at fair value	$	377,748	144,700	522,448

(Dollars in thousands)

	Fair value of financial instruments March 31, 2011		
	Level 1	Level 2	Total fair value
Assets:			
Cash and cash equivalents	$ 97,664		97,664
Receivable under securities lending agreement		13,951	13,951
Small/mid cap domestic equity securities	38,058		38,058
Large cap domestic equity securities	82,721		82,721
International equity securities	11,432		11,432
International common/collective trust funds		28,541	28,541
Investment-grade quality fixed-income mutual fund	232,195		232,195
Absolute return funds		35,521	35,521
U.S. Treasury securities		42,328	42,328
Short-term notes		16,166	16,166
State government obligations		4,262	4,262
Real estate	130		130
Interest rate swaps		6,792	6,792
Total assets at fair value	$ 462,200	147,561	609,761
Liabilities:			
Payable under securities lending agreement	$ 14,015		14,015
Total liabilities at fair value	$ 14,015		14,015

The following table presents information for investments where the NAV was used as a practical expedient to measure fair value at March 31, 2012:

	Fair value	Redemption frequency	Redemption notice period
Common/collective trust funds	$ 48,592	Daily or monthly	1 – 5 days
Absolute return funds	36,902	Quarterly	60 – 95 days

Common/collective trust funds are investments that are operated by a trust company that manages a pooled group of trust accounts. Collective investment trusts combine the assets of various institutional investors to create a larger, well-diversified portfolio. The objectives of a collective trust are to lower the costs to investors through economies of scale available by combining assets of multiple investors, to provide daily liquidity, and to provide better diversification. Each investor owns a participating interest that is calculated in shares and represents its portion of the holdings of the fund.

(Dollars in thousands)

Absolute return funds primarily include investments in hedge funds that utilize strategies designed to generate consistent long-term capital appreciation with low volatility and little correlation with equity and bond markets. Absolute return funds calculate NAV monthly, which approximates fair value.

Other financial instruments of Legacy include other receivables, GIICs and accrued interest. The carrying amount of these instruments approximates fair value as these items mature in less than one year.

The carrying amounts reported in the consolidated balance sheets for accounts payable, accrued wages, salaries and benefits, settlements payable to third-party payors, and other current liabilities approximate fair value.

The fair value of long-term debt is estimated based on the discounted cash flows that would be paid using current market rates for debt with the same maturities, assuming the debt was repaid as of the first call date as stipulated in the bond indenture. The fair value of long-term debt was $32,155 and $7,024 greater than the carrying value as of March 31, 2012 and 2011, respectively.

(8) Temporarily and Permanently Restricted Net Assets

Temporarily restricted net assets are available for the following purposes:

		Year ended March 31	
		2012	**2011**
Education	$	5,187	5,238
Patient care		11,566	12,667
Research		8,186	5,239
Capital acquisition		5,070	8,073
Other		5,538	6,350
	$	35,547	37,567

Income from permanently restricted net assets is accounted for in accordance with the donors' instructions.

Legacy follows the guidance in the Uniform Prudent Management of Institutional Funds Act (UPMIFA) in determining the net asset classification of all donor-restricted endowment funds, as described in note 1. In accordance with board policy, assets classified as permanent endowments in accordance with donor intent are only utilized for current period expenditures to the extent that earnings on the endowment exceed the original fair value of the donation. To the extent earnings on endowment funds exceed identified expenditures on which to apply those earnings, the earnings are classified as temporarily restricted net assets.

(Dollars in thousands)

Legacy has adopted investment and spending policies for endowment assets to provide a predictable stream of funding to programs supported by its endowment and to maintain the value of the endowment assets. Asset allocation is reviewed quarterly with respect to: i) Legacy's tolerance for risk based on its financial condition and need for cash from investments to support operations; ii) expected asset class return, risk and correlation characteristics; iii) changes in accounting guidance or tax law; and iv) changes in bond covenants or other restrictions.

Legacy's spending practices are intended to comply with donors' wishes and meet all applicable laws and regulations. Spending must be for a purpose that is consistent with the documented intent of the donor, and may not exceed the amounts annually determined by Legacy. Factors that are considered in addressing the annual spending allocation are: i) market value of the fund relative to the principal of the gift and ii) the level of spending in prior years.

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or UPMIFA requires Legacy to retain as a fund of perpetual duration. Deficiencies of this nature are reported as a reduction to unrestricted net assets and are excluded from the performance indicator. During the years ended March 31, 2012 and 2011, Legacy reimbursed unrestricted net assets for $1 and $7, respectively, for amounts transferred in previous years from unrestricted net assets to permanently restricted net assets. Changes in endowment net assets for the years ended March 31, 2012 and 2011 are as follows:

		Unrestricted	Temporarily restricted	Permanently restricted	Total
Balance as of March 31, 2010	$	9,804	15,057	12,332	37,193
Investment Income		319	3,460		3,779
Contributions				368	368
Appropriated for expenditure		(257)	(834)		(1,091)
Balance as of March 31, 2011		9,866	17,683	12,700	40,249
Investment Income		319	646		965
Contributions				576	576
Appropriated for expenditure		(196)	(1,514)		(1,710)
Balance as of March 31, 2012	$	9,989	16,815	13,276	40,080

Amounts in permanently restricted net assets represent the corpus of donor-restricted endowments while temporarily restricted net assets represent unspent earnings on the donor-restricted endowments. Unrestricted net assets represent board-designated endowments.

(Dollars in thousands)

(9) Functional Expenses

Legacy provides healthcare services to residents within its geographic locations. Expenses related to providing these services are as follows:

		Year ended March 31	
		2012	2011
Healthcare services	$	1,023,948	981,545
General and administrative		247,310	220,030
	$	1,271,258	1,201,575

(10) Retirement Plans

(a) Defined Contribution Pension Plans

Substantially all employees who are 21 years of age, have worked 1,000 hours or more during the year and have been continuously employed by Legacy for one or more years are eligible to participate in a jointly contributory tax-sheltered annuity plan. Under this plan Legacy matches up to 3.5% of participating employees' annual salaries.

Expenses incurred by Legacy related to this plan were approximately $11,700 and $11,200 for 2012 and 2011, respectively.

(b) Pension Benefit Plans

Legacy sponsors a pension plan, the Legacy Employees' Retirement Plan (the Plan), covering the majority of employees who meet eligibility requirements as specified in the Plan. Plan assets are available to pay the benefits of all eligible employees of the Plan. Effective January 1, 2010, eligible employees are covered by a cash balance plan with contributions based on eligible compensation and accrued years of service. Prior to that date, the Plan provided retirement benefits using a formula that considered both years of service and the highest level of compensation for any consecutive five-year period during the last 10 years before retirement. Legacy uses a measurement date of March 31 for the Plan.

Legacy maintains other retirement plans for certain management employees, which include a pension restoration plan, deferred compensation plans, and supplemental executive retirement plans.

Legacy recognizes adjustments to the funded status of the Plan as increases or decreases to net assets in the corresponding accounting period. As of March 31, 2012 and 2011, Legacy recognized a decrease in net assets of $73,666 and $14,284, respectively, related to the change in funded status of the Plan.

(Dollars in thousands)

A summary of changes in benefit obligations, fair values of plan assets, and the pension liability at March 31, 2012 and 2011 and for the fiscal years then ended is as follows:

		2012	2011
Change in projected benefit obligation:			
Projected benefit obligation at beginning of year	$	530,641	465,441
Service cost		26,221	25,171
Interest cost		29,630	28,269
Actuarial loss		76,402	30,340
Benefits paid		(21,163)	(18,580)
Projected benefit obligation at end of year	$	641,731	530,641
Change in plan assets:			
Fair value of assets at beginning of year	$	435,128	384,398
Actual return on plan assets		28,551	48,333
Employer contribution		36,000	20,977
Benefits paid		(21,163)	(18,580)
Fair value of assets at end of year	$	478,516	435,128
Reconciliation of funded status:			
Funded status	$	(163,215)	(95,513)
Net amount recognized	$	(163,215)	(95,513)

Included in unrestricted net assets at March 31, 2012 are unrecognized prior service credits of $59,664 and unrecognized actuarial losses of $238,524 that have not yet been recognized in net periodic pension cost. The prior service credit and actuarial losses included in unrestricted net assets and expected to be recognized in net periodic pension cost during the year ending March 31, 2013 are $8,839 and $23,368, respectively. The accumulated benefit obligation as of March 31, 2012 and 2011 was $632,555 and $527,367, respectively.

Net periodic benefit cost for the years ended March 31 included the following components:

		2012	2011
Service cost	$	26,220	25,171
Interest cost		29,630	28,269
Expected return on plan assets		(32,120)	(33,801)
Amortization of prior service costs		(8,839)	(8,839)
Recognized net actuarial loss		15,144	10,363
Special recognition curtailments and settlements			125
Net periodic pension cost	$	30,035	21,288

(Dollars in thousands)

(c) *Assumptions*

Legacy used the following actuarial assumptions to determine its benefit obligations at March 31, 2012 and 2011, and its net periodic benefit cost for the years ended March 31, 2012 and 2011:

	2012	2011
Benefit obligation (measured as of March 31, 2012 and 2011):		
Discount rate	4.83%	5.73%
Rate of increase in future compensation levels	4% plus longevity scale	4% plus longevity scale
Net periodic benefit cost (measured as of March 31, 2011 and 2010):		
Discount rate	5.73%	6.22%
Expected long-term rate of return on plan assets	7.50%	8.00%
Rate of increase in future compensation levels	4% plus longevity scale	4% plus longevity scale

The expected long-term rate of return on plan assets was based on Legacy's asset allocation mix and the long-term historical return for each asset class, taking into account current and expected market conditions. Legacy utilizes a nationally recognized investment consultant to assist in the return assumptions used in determining the expected long-term rate of return. The actual return on pension plan assets was a net gain of approximately 5.9% and 12.4% for the years ended March 31, 2012 and 2011, respectively. In the calculation of pension plan expense, the expected long-term rate of return on plan assets is applied to a calculated value of plan assets that recognizes changes in fair value over a four-year period. This practice is intended to reduce year-to-year volatility in pension expense, but it can have the effect of delaying the recognition of differences between actual returns and expected returns based on the long-term rate-of-return assumptions. The source data for the discount rate used to determine the benefit obligation was a universe of AA or higher rated U.S. dollar denominated bonds with similar maturities to the projected benefit payments.

(d) *Pension Plan Assets*

The asset allocation of Legacy's pension plans at March 31, 2012 and 2011, and the target allocation were as follows:

	Target allocation	2012	2011
Equity securities	28% – 46%	35%	41%
Fixed income	21% – 34%	32%	25%
Real estate	0% – 17%	11%	11%
Absolute return funds	0% – 18%	12%	13%
Alternative investments	0% – 11%	10%	10%

Pension plan assets are managed according to an investment policy adopted by the Legacy Health Employees Retirement Plan Trustees. Professional investment managers are retained to manage specific asset classes and professional consulting is utilized for investment performance reporting. The primary objectives for the plans are to preserve and grow the assets to provide for the long-term benefit payments of the fund. Diversification is intended to reduce the risk of large losses and to enhance opportunities for appropriate appreciation along with current income. It is also an objective of the plans to invest a significant portion of the assets in fixed-income assets that have a similar interest rate sensitivity as the projected liabilities for the plans. The investment policy includes an asset allocation that includes equities, fixed-income instruments, real estate, market neutral hedge funds, and alternative investments (which include private equity and distressed debt). Assets are rebalanced quarterly when balances fall outside of the approved range for each asset class.

(Dollars in thousands)

In accordance with ASC Subtopic 820-10, financial assets and financial liabilities measured at fair value are grouped in three levels, based on the markets in which the assets and liabilities are traded and the reliability of the assumptions used to estimate fair value. These levels and associated valuation methodologies are described in note 7. The following tables set forth by level, within the fair value hierarchy, list the Plan's assets at fair value as of March 31, 2012 and 2011:

	Fair value of financial instruments March 31, 2012			
	Level 1	**Level 2**	**Level 3**	**Total fair value**
Assets:				
Cash and cash equivalents	$ 5,731			5,731
Receivable under securities lending agreement		1,762		1,762
Small/mid cap domestic equity securities	25,761			25,761
Large cap domestic equity securities	60,796			60,796
International equity securities	14,487			14,487
International common/collective trust		60,826		60,826
Fixed-income mutual fund	127,286			127,286
Fixed-income common/ collective trust		24,264		24,264
Absolute return funds		54,996		54,996
Private equity funds:				
Funds of funds			35,069	35,069
Distressed situations			12,469	12,469
Real estate partnerships		26,508	30,350	56,858
Total assets at fair value	$ 234,061	168,356	77,888	480,305
Liabilities:				
Payable under securities lending agreement	$ 1,789			1,789
Total liabilities at fair value	$ 1,789			1,789

CONFIDENTIAL

(Dollars in thousands)

	Fair value of financial instruments March 31, 2011			
	Level 1	Level 2	Level 3	Total fair value
Assets:				
Cash and cash equivalents	$ 5,958			5,958
Receivable under securities lending agreement		8,739		8,739
Small/mid cap domestic equity securities	30,328			30,328
Large cap domestic equity securities	63,719			63,719
International equity securities	16,969			16,969
International common/collective trust		63,327		63,327
Investment-grade quality fixed-income mutual fund	107,971			107,971
Absolute return funds		56,204		56,204
Private equity funds:				
Funds of funds			30,786	30,786
Distressed situations			14,245	14,245
Real estate partnerships		24,290	21,358	45,648
Total assets at fair value	$ 224,945	152,560	66,389	443,894
Liabilities:				
Payable under securities lending agreement	$ 8,765			8,765
Total liabilities at fair value	$ 8,765			8,765

(Dollars in thousands)

The following table presents a reconciliation of the beginning and ending balances of Level 3 assets:

		Fair value measurements Level 3
Fair value March 31, 2010	$	56,482
Realized and unrealized (losses) gains, net		9,431
Purchases, issuances and settlements, net		476
Fair value March 31, 2011		66,389
Realized and unrealized (losses) gains, net		7,285
Purchases, issuances and settlements, net		4,214
Fair value March 31, 2012	$	77,888

(e) *Cash Flows*

Legacy's policy with respect to funding the qualified plans is to fund at least the minimum required by the Employee Retirement Income Security Act of 1974 (ERISA), as amended, plus such additional amounts as deemed appropriate. In fiscal year 2013, Legacy expects to contribute, from ongoing cash flows and current assets, approximately $40,000 to its defined benefit pension plans.

Benefit payments, which reflect expected future service, as appropriate, are expected to be paid as follows for the years ending December 31:

2012	$	29,986
2013		34,354
2014		38,202
2015		41,833
2016		46,204
2017 – 2021		282,011

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

Management is not aware of any settlements or curtailments that would require additional recognition during 2012.

(Dollars in thousands)

(11) Commitments and Contingencies

(a) Professional and General Liability

Legacy is self-insured for professional and general liability coverage. Coverage in excess of the self-insurance limits is provided on a claims-made basis through commercial insurance for claims made prior to June 1, 2004 and through its captive insurance company, LHSIC, effective June 1, 2004. LHSIC is a Cayman Islands domiciled insurance company created to access the reinsurance markets. General and professional liability costs have been accrued based upon an actuarial determination. In 2012 and 2011, Legacy recognized favorable adjustments to its professional and general liability reserves associated with actuarial estimates on prior year activity of $3,827 and $8,700, respectively, as a reduction to utilities, insurance and other expenses. Legacy is involved in litigation arising in the ordinary course of business. Claims, including alleged malpractice, have been asserted against Legacy and are currently in various stages of litigation. Additional claims may be asserted against Legacy arising from services provided to patients through March 31, 2012. In management's opinion, however, the estimated liability accrued at March 31, 2012 is adequate to provide for potential losses resulting from pending or threatened litigation.

(b) Operating Leases

Legacy leases various equipment and real property under operating leases expiring at various dates through December 2015. The following is a schedule by year of future minimum lease payments under operating leases as of March 31, 2012, with an initial or remaining lease term in excess of one year.

Year ending March 31:		
2013	$	3,845
2014		2,453
2015		2,100
2016		1,859
2017		1,308
Thereafter		1,213
	$	12,778

Rent expense for 2012 and 2011 totaled $6,361 and $6,029, respectively.

CONFIDENTIAL

(c) Employee Benefits

Legacy is self-insured for workers' compensation, employee health, and long-term and short-term disability. Legacy provides two employee transition plans (severance) under its ERISA-governed health and welfare plan.

For workers' compensation, employee health, and long-term and short-term disability, Legacy accrues the unpaid portion of claims that have been reported and estimates of claims that have been incurred but not reported, based on an actuarial study.

Legacy recognizes a severance obligation when the amount can be reasonably estimated, typically at the date of a triggering event (e.g., a reduction in force). During 2012 and 2011, Legacy expensed $3,744 and $2,421, respectively, associated with these plans.

(d) Collective Bargaining Agreements

Approximately 10% of Legacy employees were covered under collective bargaining agreements at March 31, 2012, including certain service and maintenance employees. Approximately 4% of Legacy employees are covered by collective bargaining agreements that expire within one year.

(12) Compliance with Laws and Regulations

The healthcare industry is governed by various laws and regulations of federal, state, and local governments. These laws and regulations are subject to ongoing government review and interpretation, and include matters such as licensure, accreditation, reimbursement for patient services and referrals for Medicare and Medicaid beneficiaries. Compliance with these laws and regulations is required for participation in government healthcare programs. Certain governmental agencies routinely investigate and pursue allegations concerning possible overpayments resulting from violation of fraud and abuse statutes by healthcare providers. These investigations may result in settlements involving fines and penalties as well as repayment of improper reimbursement. Legacy has implemented procedures for monitoring and enforcing compliance with laws and regulations and is not aware of instances of noncompliance.

(13) Subsequent Events

On April 19, 2012, CMS signed a Final Settlement Agreement for the Rural Floor Budget Neutrality Appeal with a large group of Medicare IPPS facilities. The appeal asserted that CMS calculated PPS rates in violation of the Balanced Budget Act of 1997 and used invalid rates for cost report years 1998 through 2011. As a participant in the appeal, Legacy received settlement payments of $6,090 and paid contingent legal fees of $1,522 in May 2012. The net settlement amount of $4,568 was recorded as net patient revenue and settlement receivable from third parties as of March 31, 2012, and is included in the favorable settlement amount in note 2.

Legacy evaluated subsequent events through June 28, 2012, the date the consolidated financial statements were issued.

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

Independent Auditors' Report on Supplementary Information

The Board of Directors
Legacy Health:

We have audited the consolidated financial statements of Legacy Health (an Oregon nonprofit corporation) and Affiliates as of and for the years ended March 31, 2012 and 2011, and have issued our report thereon dated June 28, 2012 which contained an unqualified opinion on those consolidated financial statements. Our audits were performed for the purpose of forming an opinion on the consolidated financial statements as a whole. We have not performed any procedures with respect to the audited consolidated financial statements subsequent to June 28, 2012.

The supplementary information included is presented for the purposes of additional analysis and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information, except for the portion marked "unaudited," on which we express no opinion, has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

(signed) KPMG LLP

June 28, 2012

LEGACY HEALTH AND AFFILIATES

Consolidating Balance Sheet

March 31, 2012

(Dollars in thousands)

Assets	Legacy Health	Legacy Emanuel Hospital & Health Center	Legacy Good Samaritan Hospital and Medical Center	Legacy Meridian Park Hospital
Current assets:				
Cash and cash equivalents	$ 35,797	800	98	100
Short-term investments	45,412			
Accounts receivable from patients		104,187	40,358	25,635
Allowance for uncollectible accounts		(23,508)	(6,354)	(5,770)
		80,679	34,004	19,865
Settlements receivable from third-party payors, net		4,829	3,895	1,879
Other receivables	2,668	13,620	6,294	3,621
Inventories, at cost		6,596	3,684	3,016
Prepaid expenses	8,252	493	218	85
Total current assets	92,129	107,017	48,193	28,566
Assets limited as to use:				
Held by trustee		12,173		
Community health fund	9,990			
Noncurrent investments restricted for capital acquisitions	351			
	10,341	12,173		
Other assets:				
Property, plant and equipment	482,078	526,380	281,960	149,099
Accumulated depreciation	(328,978)	(224,252)	(212,220)	(108,753)
	153,100	302,128	69,740	40,346
Noncurrent investments	565,187	18		
Property held for development or sale	11,745			7,065
Goodwill and other intangibles	538			
Other assets	17,091	5,886	547	
	747,661	308,032	70,287	47,411
Intercompany affiliate receivable (payable)	(566,014)	121,594	111,926	172,766
	$ 284,117	548,816	230,406	248,743

(Continued)

	Legacy Mount Hood Medical Center	Legacy Salmon Creek Hospital	Legacy Visiting Nurse Association	Foundations	Credit Reporting Group	Other affiliates and eliminations	March 31, 2012 consolidated
	132	328	(2)	7	37,260	1,818	39,078
					45,412	—	45,412
	18,986	34,536	1,253		224,955	4,810	229,765
	(8,250)	(9,917)			(53,799)	(845)	(54,644)
	10,736	24,619	1,253		171,156	3,965	175,121
	1,873	(254)			12,222		12,222
	2,381	(16)	(8)	4,881	33,441	(17)	33,424
	1,479	1,719			16,494	279	16,773
	25	562	(2)		9,633	385	10,018
	16,626	26,958	1,241	4,888	325,618	6,430	332,048
					12,173		12,173
					9,990		9,990
					351		351
					22,514		22,514
	95,509	332,166	3,589		1,870,781	5,031	1,875,812
	(55,753)	(126,581)	(1,064)		(1,057,601)	(1,856)	(1,059,457)
	39,756	205,585	2,525		813,180	3,175	816,355
				1,191	566,396		566,396
		3,203			22,013		22,013
					538	26,482	27,020
	623	14	1,316	7,064	32,541	(12,120)	20,421
	40,379	208,802	3,841	8,255	1,434,668	17,537	1,452,205
	19,822	41,942	(1,541)	98,725	(780)	780	
	76,827	277,702	3,541	111,868	1,782,020	24,747	1,806,767

LEGACY HEALTH AND AFFILIATES

Consolidating Balance Sheet

March 31, 2012

(Dollars in thousands)

Liabilities and Net Assets		Legacy Health	Legacy Emanuel Hospital & Health Center	Legacy Good Samaritan Hospital and Medical Center	Legacy Meridian Park Hospital
Current liabilities:					
Accounts payable	$	17,480	13,532	4,844	3,896
Accrued wages, salaries, and benefits		17,386	26,191	9,087	4,683
Accrued interest		2,435	1,674		
Other current liabilities		23,886	11,946	7,167	4,422
Current portion of long-term debt		6,350	7,950	2,950	3,578
Total current liabilities		67,537	61,293	24,048	16,579
Long-term debt, less current portion		71,149	274,958	69,136	45,922
Other liabilities:					
Estimated general and professional claims liability		27,969			
Accrued pension liability		16,632	67,559	34,160	13,344
Other noncurrent liabilities		14,354	2,792	781	557
		58,955	70,351	34,941	13,901
Total liabilities		197,641	406,602	128,125	76,402
Net assets:					
Unrestricted		86,476	141,745	102,281	172,341
Unrestricted, noncontrolling interest					
Temporarily restricted			469		
Permanently restricted					
		86,476	142,214	102,281	172,341
	$	284,117	548,816	230,406	248,743

See accompanying independent auditors' report on other financial information.

Legacy Mount Hood Medical Center	Legacy Salmon Creek Hospital	Legacy Visiting Nurse Association	Foundations	Credit Reporting Group	Other affiliates and eliminations	March 31, 2012 consolidated
1,187	2,944	146		44,029	529	44,558
3,344	9,429	547		70,667	385	71,052
				4,109		4,109
2,926	966	8	833	52,154	891	53,045
1,587			—	22,415	487	22,902
9,044	13,339	701	833	193,374	2,292	195,666
44,706				505,871	343	506,214
				27,969	287	28,256
9,448	21,050	1,022		163,215		163,215
259	346	43		19,132	132	19,264
9,707	21,396	1,065		210,316	419	210,735
63,457	34,735	1,766	833	909,561	3,054	912,615
13,370	242,967	1,775	62,682	823,637	311	823,948
					21,382	21,382
			35,078	35,547		35,547
			13,275	13,275		13,275
13,370	242,967	1,775	111,035	872,459	21,693	894,152
76,827	277,702	3,541	111,868	1,782,020	24,747	1,806,767

LEGACY HEALTH AND AFFILIATES

Consolidating Balance Sheet

March 31, 2011

(Dollars in thousands)

Assets	Legacy Health	Legacy Emanuel Hospital & Health Center	Legacy Good Samaritan Hospital and Medical Center	Legacy Meridian Park Hospital
Current assets:				
Cash and cash equivalents	$ 52,151	8	327	236
Short-term investments	43,978			
Cash and equivalents held under securities lending program	13,951			
Accounts receivable from patients		99,755	36,408	24,100
Allowance for uncollectible accounts		(26,023)	(6,830)	(5,565)
		73,732	29,578	18,535
Settlements receivable from third-party payors, net				
Other receivables	3,347	5,114	1,391	783
Inventories, at cost		6,665	3,706	2,885
Prepaid expenses	5,698	434	276	107
Total current assets	119,125	85,953	35,278	22,546
Assets limited as to use:				
Held by trustee		86,358		
Community health fund	9,867			
Noncurrent investments restricted for capital acquisitions	198	9,587		
	10,065	95,945		
Other assets:				
Property, plant and equipment	477,033	436,185	276,237	144,002
Accumulated depreciation	(318,040)	(219,185)	(200,671)	(105,375)
	158,993	217,000	75,566	38,627
Noncurrent investments	531,485	(9,546)		
Property held for development or sale	11,745			7,065
Goodwill and other intangibles	639			
Other assets	18,477	5,180	813	11
	721,339	212,634	76,379	45,703
Intercompany affiliate receivable (payable)	(563,888)	144,742	117,357	161,826
	$ 286,641	539,274	229,014	230,075

(Continued)

Legacy Mount Hood Medical Center	Legacy Salmon Creek Hospital	Legacy Visiting Nurse Association	Foundations	Credit Reporting Group	Other affiliates and eliminations	March 31, 2011 consolidated
134	7	13	2	52,878	2,709	55,587
				43,978		43,978
				13,951		13,951
19,672	34,966	1,368		216,269	5,095	221,364
(7,671)	(9,340)	—		(55,429)	(1,151)	(56,580)
12,001	25,626	1,368		160,840	3,944	164,784
537	121	(8)	2,548	13,833	67	13,900
1,526	1,649			16,431	346	16,777
24	544			7,083	407	7,490
14,222	27,947	1,373	2,550	308,994	7,473	316,467
				86,358		86,358
				9,867		9,867
				9,785		9,785
				106,010		106,010
92,825	327,866	3,420		1,757,568	4,436	1,762,004
(52,570)	(112,061)	(877)		(1,008,779)	(1,127)	(1,009,906)
40,255	215,805	2,543		748,789	3,309	752,098
			1,200	523,139		523,139
	3,203			22,013		22,013
				639	26,482	27,121
1,092	150	1,187	4,249	31,159	(12,530)	18,629
41,347	219,158	3,730	5,449	1,325,739	17,261	1,343,000
21,304	22,556	(880)	96,189	(794)	794	
76,873	269,661	4,223	104,188	1,739,949	25,528	1,765,477

LEGACY HEALTH AND AFFILIATES

Consolidating Balance Sheet

March 31, 2011

(Dollars in thousands)

Liabilities and Net Assets		Legacy Health	Legacy Emanuel Hospital & Health Center	Legacy Good Samaritan Hospital and Medical Center	Legacy Meridian Park Hospital
Current liabilities:					
Accounts payable	$	8,919	18,984	6,092	2,734
Accrued wages, salaries, and benefits		12,352	33,052	12,176	5,841
Accrued interest		990	2,433	502	310
Settlements payable to third-party payors, net			4,002	927	(16)
Other current liabilities		20,844	3,283	1,839	1,115
Payable under securities lending program		14,015			
Current portion of long-term debt		6,005	7,245	2,437	3,291
Total current liabilities		63,125	68,999	23,973	13,275
Long-term debt, less current portion		78,152	281,569	70,939	48,739
Other liabilities:					
Estimated general and professional claims liability		29,994			
Accrued pension liability		11,855	37,182	22,384	7,885
Other noncurrent liabilities		13,466	2,896	812	585
		55,315	40,078	23,196	8,470
Total liabilities		196,592	390,646	118,108	70,484
Net assets:					
Unrestricted		90,049	140,105	110,906	159,591
Unrestricted, noncontrolling interest					
Temporarily restricted			8,523		
Permanently restricted					
		90,049	148,628	110,906	159,591
	$	286,641	539,274	229,014	230,075

See accompanying independent auditors' report on other financial information.

Legacy Mount Hood Medical Center	Legacy Salmon Creek Hospital	Legacy Visiting Nurse Association	Foundations	Credit Reporting Group	Other affiliates and eliminations	March 31, 2011 consolidated
2,681	3,251	88		42,749	566	43,315
4,472	11,807	768		80,468	472	80,940
419				4,654		4,654
537	1,373			6,823		6,823
1,314	43	10	820	29,268	888	30,156
				14,015		14,015
1,354				20,332	449	20,781
10,777	16,474	866	820	198,309	2,375	200,684
45,930				525,329	405	525,734
				29,994	294	30,288
5,686	10,052	469		95,513		95,513
258	267	43		18,327	143	18,470
5,944	10,319	512		143,834	437	144,271
62,651	26,793	1,378	820	867,472	3,217	870,689
14,222	242,868	2,845	61,625	822,211	332	822,543
					21,979	21,979
			29,044	37,567		37,567
			12,699	12,699		12,699
14,222	242,868	2,845	103,368	872,477	22,311	894,788
76,873	269,661	4,223	104,188	1,739,949	25,528	1,765,477

LEGACY HEALTH AND AFFILIATES

Consolidating Statement of Operations

Year ended March 31, 2012

(Dollars in thousands)

	Legacy Health	Legacy Emanuel Hospital & Health Center	Legacy Good Samaritan Hospital and Medical Center	Legacy Meridian Park Hospital	Legacy Mount Hood Medical Center
Gross patient charges	$	1,208,539	637,967	377,789	263,438
Adjustments to gross patient charges:					
Charity allowances		73,093	33,849	16,536	26,192
Third-party contractual adjustments		564,445	318,340	193,261	130,760
Patient service revenue		571,001	285,778	167,992	106,486
Less provision for bad debts		26,463	9,856	7,098	7,453
Net patient service revenues		544,538	275,922	160,894	99,033
Other revenues	182,938	26,746	6,925	3,164	3,240
Total operating revenues	182,938	571,284	282,847	164,058	102,273
Operating expenses:					
Wages, salaries, and benefits	83,982	327,402	131,562	64,270	46,411
Supplies	2,437	76,792	46,047	25,981	10,557
Professional fees	2,952	24,819	8,787	2,474	2,559
Purchased services	47,074	(10,079)	15,723	8,796	6,885
Utilities, insurance and other expenses	10,987	39,718	8,703	7,175	7,498
Depreciation	25,249	20,748	15,275	8,977	5,554
Interest and amortization	3,517	5,978	2,085	1,874	1,356
Management fees		87,881	47,782	25,982	15,881
	176,198	573,259	275,964	145,529	96,701
Income (loss) from operations	6,740	(1,975)	6,883	18,529	5,572
Other income (expenses):					
Investment income (loss), net	1,027	6,995	4,793	6,777	1,021
Loss on extinguishment of debt	(1,216)				
Other, net	(1,589)	(1,508)	(228)	(144)	(148)
	(1,778)	5,487	4,565	6,633	873
Revenues in excess of (less than) expenses	$ 4,962	3,512	11,448	25,162	6,445

See accompanying independent auditors' report on other financial information.

Legacy Salmon Creek Hospital	Legacy Visiting Nurse Association	Foundations	Interentity eliminations	Credit Reporting Group	Other affiliates and eliminations	Year ended March 31, 2012 consolidated
492,896	12,634		(193)	2,993,070	53,389	3,046,459
25,374	311			175,355		175,355
258,625	1,086		34,672	1,501,189	31,940	1,533,129
208,897	11,237		(34,865)	1,316,526	21,449	1,337,975
15,896	61			66,827	1,118	67,945
193,001	11,176		(34,865)	1,249,699	20,331	1,270,030
7,724	1,131	4,900	(180,646)	56,122	276	56,398
200,725	12,307	4,900	(215,511)	1,305,821	20,607	1,326,428
131,300	8,991		(45,166)	748,752	5,895	754,647
24,817	704		10,864	198,199	4,077	202,276
3,628	69		(436)	44,852	558	45,410
1,362	306		(369)	69,698	2,645	72,343
14,967	906	5,172	(6,468)	88,658	1,713	90,371
14,620	187			90,610	750	91,360
				14,810	41	14,851
937	1,617		(180,080)			
191,631	12,780	5,172	(221,655)	1,255,579	15,679	1,271,258
9,094	(473)	(272)	6,144	50,242	4,928	55,170
1,968		1,758		24,339	10	24,349
				(1,216)		(1,216)
(1,165)	1	(333)	(6,063)	(11,177)	7	(11,170)
803	1	1,425	(6,063)	11,946	17	11,963
9,897	(472)	1,153	81	62,188	4,945	67,133

LEGACY HEALTH AND AFFILIATES

Consolidating Statement of Operations

Year ended March 31, 2011

(Dollars in thousands)

		Legacy Health	Legacy Emanuel Hospital & Health Center	Legacy Good Samaritan Hospital and Medical Center	Legacy Meridian Park Hospital	Legacy Mount Hood Medical Center
Gross patient charges	$		1,161,755	610,125	352,177	248,165
Adjustments to gross patient charges:						
Charity allowances			85,866	35,236	16,862	24,550
Third-party contractual adjustments			533,984	299,055	176,268	121,572
Patient service revenue			541,905	275,834	159,047	102,043
Less provision for bad debts		18	24,218	5,886	5,099	8,215
Net patient service revenues		(18)	517,687	269,948	153,948	93,828
Other revenues		163,980	16,710	3,505	737	399
Total operating revenues		163,962	534,397	273,453	154,685	94,227
Operating expenses:						
Wages, salaries, and benefits		92,486	309,178	127,541	60,268	43,767
Supplies		2,250	76,879	48,382	24,534	10,231
Professional fees		2,193	23,601	9,219	3,329	3,110
Purchased services		37,739	(2,394)	16,061	8,075	6,052
Utilities, insurance and other expenses		10,273	28,535	8,006	6,471	5,347
Depreciation		20,821	22,080	15,751	9,171	4,661
Interest and amortization		3,145	5,335	2,424	2,117	1,414
Management fees		—	73,746	43,124	23,446	14,215
		168,907	536,960	270,508	137,411	88,797
Income (loss) from operations		(4,945)	(2,563)	2,945	17,274	5,430
Other income (expenses):						
Investment income (loss), net		6,446	14,452	10,784	14,593	1,919
Loss on extinguishment of debt						
Other, net		(3,504)	(868)	440	(10)	(16)
		2,942	13,584	11,224	14,583	1,903
Revenues (less than) in excess of expenses	$	(2,003)	11,021	14,169	31,857	7,333

See accompanying independent auditors' report on other financial information.

Legacy Salmon Creek Hospital	Legacy Visiting Nurse Association	Foundations	Interentity eliminations	Credit Reporting Group	Other affiliates and eliminations	Year ended March 31, 2011 consolidated
457,944	13,100		(114)	2,843,152	56,224	2,899,376
29,608	203			192,325		192,325
245,472	1,482		34,158	1,411,991	31,380	1,443,371
182,864	11,415		(34,272)	1,238,836	24,844	1,263,680
8,669	89			52,194	1,208	53,402
174,195	11,326		(34,272)	1,186,642	23,636	1,210,278
3,439	1,117	4,858	(160,715)	34,030	(448)	33,582
177,634	12,443	4,858	(194,987)	1,220,672	23,188	1,243,860
102,985	8,631		(44,078)	700,778	5,899	706,677
23,212	795		10,609	196,892	4,434	201,326
3,758	76		(332)	44,954	577	45,531
5,597	300		(689)	70,741	2,830	73,571
9,940	872	6,276	(6,884)	68,836	1,663	70,499
16,102	184			88,770	699	89,469
				14,435	67	14,502
4,081	1,570		(160,182)			
165,675	12,428	6,276	(201,556)	1,185,406	16,169	1,201,575
11,959	15	(1,418)	6,569	35,266	7,019	42,285
11		8,090		56,295	7	56,302
(1,618)	3	(475)	(5,333)	(11,381)	10	(11,371)
(1,607)	3	7,615	(5,333)	44,914	17	44,931
10,352	18	6,197	1,236	80,180	7,036	87,216

LEGACY HEALTH AND AFFILIATES

Consolidating Statement of Changes in Net Assets

Year ended March 31, 2012

(Dollars in thousands)

		Legacy Health	Legacy Emanuel Hospital & Health Center	Legacy Good Samaritan Hospital and Medical Center	Legacy Meridian Park Hospital
Unrestricted net assets, controlling interest:					
Revenues in excess of (less than) expenses	$	4,962	3,512	11,448	25,162
Net assets released from restriction used for property, plant and equipment			12,077	767	149
Pension and other postretirement adjustments		(8,535)	(30,681)	(13,424)	(6,296)
Investment gains, other than trading securities					
Other transfers			16,731	(7,416)	(6,265)
Change in unrestricted net assets, controlling interest		(3,573)	1,639	(8,625)	12,750
Unrestricted net assets, noncontrolling interest:					
Revenues in excess of expenses					
Distributions					
Change in unrestricted net assets, noncontrolling interest					
Temporarily restricted net assets:					
Donor-restricted contributions and grants			7,386		
Investment income, net			—		
Net assets released from restriction			(19,870)		
Transfers			4,430		
Change in temporarily restricted net assets			(8,054)		
Permanently restricted net assets:					
Donor-restricted contributions and grants					
Change in permanently restricted net assets					
Change in net assets		(3,573)	(6,415)	(8,625)	12,750
Net assets, beginning of year		90,049	148,629	110,906	159,591
Net assets, end of year	$	86,476	142,214	102,281	172,341

See accompanying independent auditors' report on other financial information.

Legacy Mount Hood Medical Center	Legacy Salmon Creek Hospital	Legacy Visiting Nurse Association	Foundations	Interentity eliminations	Credit Reporting Group	Other affiliates and eliminations	Year ended March 31, 2012 consolidated
6,445	9,897	(472)	1,153	81	62,188	(43)	62,145
14		73	(97)	(81)	12,902		12,902
(4,261)	(9,798)	(671)			(73,666)		(73,666)
(3,050)			2		2	22	24
(852)	99	(1,070)	1,058		1,426	(21)	1,405
						4,988	4,988
						(5,585)	(5,585)
						(597)	(597)
			12,911		20,297		20,297
			675		675		675
			(3,122)		(22,992)		(22,992)
			(4,430)				
			6,034		(2,020)		(2,020)
			576		576		576
			576		576		576
(852)	99	(1,070)	7,668		(18)	(618)	(636)
14,222	242,868	2,845	103,367		872,477	22,311	894,788
13,370	242,967	1,775	111,035		872,459	21,693	894,152

LEGACY HEALTH AND AFFILIATES

Consolidating Statement of Changes in Net Assets

Year ended March 31, 2011

(Dollars in thousands)

		Legacy Health	Legacy Emanuel Hospital & Health Center	Legacy Good Samaritan Hospital and Medical Center	Legacy Meridian Park Hospital	Legacy Mount Hood Medical Center
Unrestricted net assets, controlling interest:						
Revenues (less than) in excess of expenses	$	(2,003)	11,021	14,169	31,857	7,333
Net assets released from restriction used for property, plant and equipment		23	2,094	1,182	248	14
Pension and other postretirement adjustments		(2,509)	(5,288)	(2,743)	(1,345)	(886)
Other transfers			(971)			
Change in unrestricted net assets, controlling interest		(4,489)	6,856	12,608	30,760	6,461
Unrestricted net assets, noncontrolling interest:						
Revenues in excess of expenses						
Distributions						
Change in unrestricted net assets, noncontrolling interest						
Temporarily restricted net assets:						
Donor-restricted contributions and grants			11,133			
Investment income, net						
Net assets released from restriction			(12,189)			
Transfers			9,024			
Change in temporarily restricted net assets			7,968			
Permanently restricted net assets:						
Donor-restricted contributions and grants						
Change in permanently restricted net assets						
Change in net assets		(4,489)	14,824	12,608	30,760	6,461
Net assets, beginning of year		94,538	133,805	98,298	128,831	7,761
Net assets, end of year	$	90,049	148,629	110,906	159,591	14,222

See accompanying independent auditors' report on other financial information.

	Legacy Salmon Creek Hospital	Legacy Visiting Nurse Association	Foundations	Interentity eliminations	Credit Reporting Group	Other affiliates and eliminations	Year ended March 31, 2011 consolidated
	10,352	18	6,197	1,236	80,180	(29)	80,151
			(1,534)	(1,236)	791	(1)	790
	(1,363)	(150)			(14,284)		(14,284)
			6		(965)		(965)
	8,989	(132)	4,669		65,722	(30)	65,692
						7,065	7,065
						(6,014)	(6,014)
						1,051	1,051
			7,435		18,568		18,568
			3,586		3,586		3,586
			(2,810)		(14,999)		(14,999)
			(8,053)		971		971
			158		8,126		8,126
			367		367		367
			367		367		367
	8,989	(132)	5,194		74,215	1,021	75,236
	233,879	2,977	98,173		798,262	21,290	819,552
	242,868	2,845	103,367		872,477	22,311	894,788

LEGACY HEALTH AND AFFILIATES

Consolidated Financial and Statistical Highlights
(Unaudited)

Years ended March 31

	2012	2011	2010	2009
Utilization:				
Average number of available beds	1,071	1,064	1,027	993
Percentage occupancy	60.0%	60.7%	65.2%	70.0%
Patient days	235,358	235,569	244,257	253,800
Medicare percent of discharge revenue	35.5%	33.6%	32.6%	33.7%
Average length of stay	4.3	4.5	4.4	4.6
Discharges:				
Adult and pediatric acute	50,701	49,623	52,479	52,154
Rehab. and psychiatric	2,437	2,282	2,469	2,288
NICU	1,758	1,010	874	872
Total discharges	54,896	52,915	55,822	55,314
Outpatient revenues as a percent of gross patient revenue	41.8%	42.4%	40.9%	38.6%
Average full-time equivalent (FTE) employees:				
Number of paid FTEs	8,020	7,997	7,767	7,725
FTEs per adjusted occupied bed:	7.3	7.1	6.9	6.8
Ratios:				
Deductions from revenues	58.3%	58.3%	57.7%	56.7%
Operating margin	4.2%	3.4%	3.8%	3.3%
Debt service coverage (A)	4.5	5.0	5.3	3.4
Net days in accounts receivable	48.2	46.4	45.1	46.9
Days cash on hand	201.1	198.1	175.6	137.9

Note: (A) Debt service coverage is calculated solely on the Master Trust Reporting Group.

See accompanying independent auditors' report on other financial information.

LEGACY HEALTH AND AFFILIATES

Consolidating Financial and Statistical Highlights
(Unaudited)

Years ended March 31, 2012 and 2011

	Consolidated	Legacy Emanuel Hospital & Health Center	Legacy Good Samaritan Hospital and Medical Center	Legacy Meridian Park Hospital	Legacy Mount Hood Medical Center	Legacy Salmon Creek Hospital
Utilization:						
Average available beds:						
2012	1,071	408	249	130	90	194
2011	1,064	406	249	130	84	195
Percentage occupancy:						
2012	60.0%	66.0%	59.3%	56.1%	54.6%	54.5%
2011	60.7	68.5	59.1	54.5	55.9	52.5
Patient days:						
2012	235,358	97,966	54,032	26,702	17,988	38,670
2011	235,569	101,485	53,729	25,844	17,139	37,372
Medicare percentage of discharge revenue:						
2012	35.5%	20.8%	48.6%	50.1%	36.6%	37.2%
2011	33.6	19.1	47.3	47.0	36.0	36.1
Average length of stay (days):						
2012	4.3	5.3	4.6	3.4	3.3	3.5
2011	4.5	5.5	4.7	3.5	3.4	3.5
Discharges:						
2012:						
Adult and pediatric acute	50,701	16,421	10,576	7,863	5,410	10,431
Rehab. and psychiatric	2,437	1,143	1,294	—	—	—
NICU	1,758	1,025	—	—	—	733
Total discharges	54,896	18,589	11,870	7,863	5,410	11,164
2011:						
Adult and pediatric acute	49,623	16,988	9,878	7,377	4,990	10,390
Rehab. and psychiatric	2,282	845	1,437	—	—	—
NICU	1,010	604	—	—	—	406
Total discharges	52,915	18,437	11,315	7,377	4,990	10,796
Outpatient revenues as a percentage of gross patient revenue:						
2012	41.8%	25.5%	40.3%	46.3%	52.6%	39.8%
2011	42.4	25.8	42.2	47.9	53.9	41.1
Average full-time equivalent (FTE) employees:						
Number of paid FTEs:						
2012	8,020	2,135	1,360	673	473	860
2011	7,997	2,299	1,391	656	467	988
FTEs per adjusted occupied bed:						
Paid FTEs:						
2012	7.3	6.0	5.5	5.0	4.6	5.2
2011	7.1	5.9	5.5	4.8	4.6	5.4
Worked FTEs:						
2012	6.3	5.2	4.8	4.3	3.9	4.5
2011	6.2	5.1	4.7	4.1	3.9	4.7
Ratios:						
Deductions from revenues:						
2012	58.3%	55.6%	56.7%	57.4%	62.4%	61.4%
2011	58.3	55.9	55.8	56.3	62.2	62.4
Operating margin:						
2012	4.2%	5.9%	2.4%	11.3%	5.4%	8.5%
2011	3.4	6.7	1.1	11.2	5.8	16.4

Note: Statistics for hospital entities listed above represent information related to hospital operations only. Professional clinics, laboratory services, system office and other operations are included in the consolidated total.

See accompanying independent auditors' report on other financial information.

LEGACY HEALTH AND AFFILIATES

Consolidated Financial Statements and Other Financial Information

March 31, 2013 and 2012

(With Independent Auditors' Reports Thereon)

LEGACY HEALTH AND AFFILIATES

Table of Contents

	Page
Report of Management	1
Independent Auditors' Report	2
Consolidated Financial Statements:	
Consolidated Balance Sheets	3
Consolidated Statements of Operations	5
Consolidated Statements of Changes in Net Assets	6
Consolidated Statements of Cash Flows	7
Notes to Consolidated Financial Statements	8
Other Financial Information	
Independent Auditors' Report on Supplementary Information	39
Consolidating Financial Information:	
Consolidating Balance Sheets	40
Consolidating Statements of Operations	48
Consolidating Statements of Changes in Net Assets	52
Consolidated Financial and Statistical Highlights (Unaudited)	56
Consolidating Financial and Statistical Highlights (Unaudited)	57

Legacy Health
1919 N.W. Lovejoy St.
Portland, OR 97209
503.415.5600 phone
503.415.5777 fax

Report of Management

The management of Legacy Health and Affiliates (Legacy) is responsible for the integrity and objectivity of the consolidated financial statements of Legacy and all of its affiliates. The annual consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America, and include amounts that are based on our best judgments with due consideration given to materiality.

Management is responsible for establishing and maintaining a system of internal controls over financial reporting and safeguarding assets against unauthorized acquisition, use or disposition. This system is designed to provide reasonable assurance as to the integrity and reliability of financial reporting and safeguarding of assets. The concept of reasonable assurance is based on the recognition that there are inherent limitations in all systems of internal controls, and that the cost of such systems should not exceed the benefits to be derived from them.

Management believes that the foundation of an appropriate system of internal controls is the expectation from all covered individuals throughout Legacy to conduct themselves in an ethical and responsible manner. This responsibility is characterized and reflected in Legacy's Standards of Conduct Policy that is distributed throughout Legacy and its affiliates. Management maintains a systematic program to ensure compliance with this policy.

The Audit Committee of the Board of Directors, which is composed of independent directors who are not employees, meets periodically with management, the internal auditors and the independent auditors to review the manner in which these groups are performing their responsibilities and to carry out the Audit Committee's oversight role with respect to auditing, internal controls and financial reporting matters. Both the internal auditors and the independent auditors periodically meet privately with the Audit Committee and have access to its individual members.

Legacy engaged KPMG, independent auditors, to audit our consolidated financial statements in accordance with auditing standards generally accepted in the United States of America. Their report follows.

George J. Brown, MD, FACP
President and Chief Executive Officer

Dave Eager
Chief Financial Officer

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

Independent Auditors' Report

The Board of Directors
Legacy Health:

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Legacy Health (an Oregon nonprofit corporation) and Affiliates, which comprise the consolidated balance sheets as of March 31, 2013 and 2012, and the related consolidated statements of operations, changes in net assets, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly in all material respects, the financial position of Legacy Health and Affiliates as of March 31, 2013 and 2012, and the results of their operations and their cash flows for the years then ended in accordance with U.S. generally accepted accounting principles.

KPMG LLP

Portland, Oregon
June 28, 2013

LEGACY HEALTH AND AFFILIATES

Consolidated Balance Sheets

March 31, 2013 and 2012

(Dollars in thousands)

Assets		2013	2012
Current assets:			
Cash and cash equivalents	$	53,613	39,078
Short-term investments		46,241	45,412
Accounts receivable from patients, less allowance for uncollectible accounts of $45,236 in 2013 and $54,644 in 2012		170,051	175,121
Settlements receivable from third-party payors, net		3,358	12,222
Other receivables		23,165	33,424
Inventories, at cost		17,382	16,773
Prepaid expenses		10,498	10,018
Total current assets		324,308	332,048
Assets limited as to use:			
Held by trustee		12,265	12,173
Community health fund		9,933	9,990
Noncurrent investments restricted for capital acquisitions		784	351
		22,982	22,514
Other assets:			
Property, plant and equipment, net		810,798	816,355
Noncurrent investments		620,814	566,396
Property held for development		23,562	22,013
Goodwill and other intangibles		26,918	27,020
Other assets		18,297	20,421
		1,500,389	1,452,205
	$	1,847,679	1,806,767

See accompanying notes to consolidated financial statements.

Liabilities and Net Assets		2013	2012
Current liabilities:			
Accounts payable	$	45,185	44,558
Accrued wages, salaries, and benefits		75,512	71,052
Accrued interest		3,750	4,109
Other current liabilities		39,892	53,045
Current portion of long-term debt		23,749	22,902
Total current liabilities		188,088	195,666
Long-term debt, less current portion		483,812	506,214
Other liabilities:			
Estimated general and professional claims liability		22,472	28,256
Accrued pension liability		177,355	163,215
Other noncurrent liabilities		20,776	19,264
		220,603	210,735
Total liabilities		892,503	912,615
Net assets:			
Unrestricted		887,396	823,948
Unrestricted, noncontrolling interest		20,875	21,382
Temporarily restricted		33,104	35,547
Permanently restricted		13,801	13,275
		955,176	894,152
	$	1,847,679	1,806,767

LEGACY HEALTH AND AFFILIATES

Consolidated Statements of Operations

Years ended March 31, 2013 and 2012

(Dollars in thousands)

		2013	2012
Patient service revenues	$	1,383,098	1,337,975
Less provision for bad debts		70,765	67,945
Net patient service revenues		1,312,333	1,270,030
Other revenues		52,827	56,398
Total operating revenues		1,365,160	1,326,428
Operating expenses:			
Wages, salaries, and benefits		773,815	754,647
Supplies		210,091	202,276
Professional fees		44,979	45,410
Purchased services		79,717	72,343
Utilities, insurance, and other expenses		90,771	90,371
Depreciation		99,131	91,360
Interest and amortization		17,562	14,851
Total operating expenses		1,316,066	1,271,258
Income from operations		49,094	55,170
Other income (expenses):			
Investment income, net		48,449	24,349
Loss on extinguishment of debt		—	(1,216)
Other, net		(8,965)	(11,170)
Total other income		39,484	11,963
Revenues in excess of expenses		88,578	67,133
Net assets released from restriction used for property, plant and equipment		5,926	12,902
Pension and other postretirement adjustments		(26,367)	(73,666)
Distributions to joint venture partners		(5,187)	(5,585)
Other transfers, net		(9)	24
Change in unrestricted net assets	$	62,941	808

See accompanying notes to consolidated financial statements.

LEGACY HEALTH AND AFFILIATES

Consolidated Statements of Changes in Net Assets

Years ended March 31, 2013 and 2012

(Dollars in thousands)

		2013	2012
Unrestricted net assets, controlling interest:			
Revenues in excess of expenses	$	83,771	62,145
Net assets released from restriction used for property, plant and equipment		5,926	12,902
Pension and other postretirement adjustments		(26,367)	(73,666)
Distributions		127	—
Other transfers		(9)	24
Change in unrestricted net assets, controlling interest		63,448	1,405
Unrestricted net assets, noncontrolling interest:			
Revenues in excess of expenses		4,807	4,988
Distributions		(5,314)	(5,585)
Change in unrestricted net assets, noncontrolling interest		(507)	(597)
Temporarily restricted net assets:			
Donor-restricted contributions and grants		12,045	20,297
Investment gain, net		2,803	675
Net assets released from restriction		(17,217)	(22,992)
Other transfers		(74)	—
Change in temporarily restricted net assets		(2,443)	(2,020)
Permanently restricted net assets:			
Donor-restricted contributions and grants		443	576
Other transfers		83	—
Change in permanently restricted net assets		526	576
Change in net assets		61,024	(636)
Net assets, beginning of year		894,152	894,788
Net assets, end of year	$	955,176	894,152

See accompanying notes to consolidated financial statements.

LEGACY HEALTH AND AFFILIATES

Consolidated Statements of Cash Flows

Years ended March 31, 2013 and 2012

(Dollars in thousands)

		2013	2012
Cash flows from operating activities:			
Change in net assets	$	61,024	(636)
Adjustments to reconcile change in net assets to net cash provided by operating activities:			
Net distributions to noncontrolling partners		5,314	5,585
Depreciation and amortization		105,062	97,997
Loss on disposal of assets		402	1,030
Change in net realized and unrealized gains on investments		(40,811)	(15,400)
Restricted contributions		(2,488)	(12,958)
Equity earnings from joint ventures and investment companies, net		(11,404)	(10,266)
Pension and other postretirement adjustments		26,367	73,666
Change in certain current assets and current liabilities		14,710	(46,720)
Change in long-term operating assets and liabilities		(14,883)	(8,432)
Net cash provided by operating activities		143,293	83,866
Cash flows from investing activities:			
Purchase of property, plant and equipment, net		(99,849)	(154,354)
Proceeds from sale of assets		146	117
Change in funds held by trustee		(92)	74,185
Change in other long-term assets		(96)	10,203
Change in securities lending receivable		—	13,951
Investment in joint ventures and investment companies		(5,000)	(31,508)
Distributions from joint ventures and investment companies		4,646	6,295
Purchases of trading securities		(203,057)	(152,299)
Sales of trading securities		198,925	157,075
Net cash used in investing activities		(104,377)	(76,335)
Cash flows from financing activities:			
Proceeds from issuance of long-term debt		26,718	116,945
Repayment of long-term debt		(48,273)	(134,343)
Change in securities lending payable		—	(14,015)
Distributions to noncontrolling partners		(5,314)	(5,585)
Proceeds from restricted contributions		2,488	12,958
Net cash used in financing activities		(24,381)	(24,040)
Increase (decrease) in cash and cash equivalents		14,535	(16,509)
Cash and cash equivalents, beginning of year		39,078	55,587
Cash and cash equivalents, end of year	$	53,613	39,078
Supplemental disclosures of cash flow information:			
Cash paid for interest (net of amount capitalized)	$	18,826	15,977
Amounts accrued for property, plant and equipment, net		5,252	5,222

See accompanying notes to consolidated financial statements.

(1) Organization and Summary of Significant Accounting Policies

(a) Organization and Basis of Consolidation

Legacy Health and Affiliates (Legacy) provides healthcare and various healthcare-related services. They are organized primarily as nonprofit corporations under the laws of the State of Oregon or Washington.

The consolidated financial statements include the accounts of Legacy and its direct affiliates, including the following:

Legacy Emanuel Hospital & Health Center
Legacy Good Samaritan Hospital and Medical Center
Legacy Meridian Park Hospital
Legacy Mount Hood Medical Center
Legacy Salmon Creek Hospital
Legacy Visiting Nurse Association and Affiliates
Managed HealthCare Northwest, Inc. (MHN)
Legacy Health System Insurance Company (LHSIC)
Legacy USP Surgery Centers, LLC (LUSC)

All significant interentity accounts and transactions have been eliminated.

The consolidated financial statements also include the accounts of affiliated foundations (Emanuel Medical Center Foundation and The Children's Hospital Foundation, Good Samaritan Foundation, Meridian Park Medical Foundation, Mt. Hood Medical Center Foundation and Salmon Creek Hospital Foundation) whose activities benefit and are controlled by the corresponding facilities of Legacy Emanuel Hospital & Health Center, Legacy Good Samaritan Hospital and Medical Center, Legacy Meridian Park Hospital, Legacy Mount Hood Medical Center, and Legacy Salmon Creek Hospital, respectively.

Investments in joint ventures, which represent 20% or more ownership or control, are accounted for by the equity method and are included in the consolidated balance sheets as other assets.

(b) Use of Estimates

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Key estimates include uncollectible and contractual allowances on patient accounts receivable, third-party payor settlements, self-insured liabilities, fair value of investments, and pension obligations.

(c) ***Income Taxes***

Legacy, except for MHN, LHSIC, and LUSC, has been recognized as exempt from federal income taxes, except on unrelated business income under the provisions of the Internal Revenue Code.

Legacy's wholly owned insurance captive, LHSIC, operates in the Cayman Islands and is currently not subject to income taxes.

For the taxable affiliates, income taxes are accounted for on the liability method. Accordingly, deferred income taxes are provided to reflect temporary differences between financial and tax reporting. Deferred tax assets and liabilities are measured based on enacted tax laws and rates without anticipation of future changes.

Accounting principles generally accepted in the United States of America require Legacy management to evaluate tax positions taken by the organization and recognize a tax liability (or asset) if the organization has taken an uncertain position that more likely than not would not be sustained upon examination by the IRS. Management has analyzed tax positions taken by the organization and has concluded that as of March 31, 2013, 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. Legacy is subject to routine audits by taxing jurisdictions and currently the State of Washington is auditing excise taxes from January 2009 through March 2013 for Legacy Salmon Creek Hospital. Legacy management believes it is no longer subject to income tax examinations for years prior to 2009.

(d) ***Net Patient Service Revenues***

Legacy has agreements with third-party payors that provide for payments to Legacy at amounts different from its established rates. Payment arrangements include prospectively determined rates per discharge, reimbursed costs, discounted charges and per diem payments. Net patient service revenues are reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered.

Contractual adjustments arising under reimbursement arrangements with third-party payors are accrued on an estimated basis in the period the related services are rendered and are adjusted in future periods as final settlements are determined.

(e) ***Other Revenues***

The Health Information Technology for Economic and Clinical Health Act, part of the American Recovery and Reinvestment Act of 2009, created an incentive program, beginning in 2012, to promote the "meaningful use" of Electronic Health Records (EHR). To qualify, Medicare providers must attest to the Centers for Medicare and Medicaid Services (CMS) that they are using certified EHR in a "meaningful" way by meeting objectives at established thresholds, as defined by CMS. The states of Oregon and Washington have also established EHR incentive programs for Medicaid providers with similar requirements. Meaningful use revenues are recognized as grant revenue. Grant revenue is recognized when there is reasonable assurance that the grant will be received and that the organization will comply with the conditions attached to the grant. In fiscal 2013 and 2012, respectively, Legacy recorded meaningful use revenues of $7,046 and $18,908, which were recognized in other revenue in the consolidated statements of activities. The amount recognized is based on management's best estimate and is subject to audit and potential retrospective adjustment.

(f) Income from Operations

Income from operations excludes certain items that Legacy deems to be outside the scope of its primary business. Investment income includes interest income, dividends, realized and unrealized gains and losses on short-term and noncurrent investments and equity earnings from investment companies. Other income includes rental income and research activities, net of any corresponding expenses to operate these programs.

(g) Performance Indicator

The performance indicator is revenues in excess of expenses. Changes in unrestricted net assets, which are excluded from revenues in excess of expenses, consistent with industry practice, include permanent transfers of assets to and from affiliates for other than goods and services, pension and other postretirement adjustments, the cumulative effect of changes in accounting principles, and contributions of long-lived assets (including assets acquired using contributions, which, by donor restriction, were to be used for the purpose of acquiring such assets).

(h) Charity Care

Legacy provides care without charge or at amounts less than its established rates to patients who meet certain criteria under its financial assistance policy. Since Legacy does not pursue collection of amounts determined to qualify as charity care, they are excluded from patient revenues.

(i) Cash and Cash Equivalents

Cash equivalents include investments in money market funds and highly liquid debt instruments with original maturities of three months or less.

Legacy maintains cash and cash equivalents on deposit at financial institutions, which at times exceed the limits insured by the Federal Deposit Insurance Corporation. This exposes Legacy to potential risk of loss in the event the financial institution becomes insolvent.

(j) Short-Term Investments

Short-term investments include corporate and government obligation securities, which are included in managed, low-duration portfolios. The maturities of these related securities can exceed one year. Management anticipates the securities will be liquidated within the next year. These investments are considered trading securities.

(k) Inventories

Inventories are stated at the lower of average cost, as determined by the first-in, first-out method, or market.

(l) Assets Limited as to Use

Assets limited as to use primarily include assets held by trustees under indenture agreements. Community health fund represents designated assets set aside by the Board of Directors to provide funding for certain community health projects. The Board of Directors retains control over these assets and may, at its discretion, use these assets for other purposes.

(m) Property, Plant and Equipment

Property, plant and equipment is reported at cost. Donated items are reported on the basis of fair market value at the date of donation.

Interest cost incurred on borrowed funds during the period of construction of capital assets is capitalized as a component of acquiring those assets. In 2013 and 2012, Legacy capitalized $381 and $5,180, respectively, of interest expense. Legacy assesses potential impairment to its long-lived assets when there is evidence that events or changes in circumstances have made recovery of an asset's carrying value unlikely. An impairment loss is indicated when the sum of expected undiscounted future net cash flows is less than the carrying amount. The loss recognized is the difference between the fair value and the carrying amount.

Depreciation is computed under the straight-line method over estimated useful lives with average useful lives as follows: building and improvements, 27 years; equipment and software, 7 years; and land improvements, 13 years. Leased assets that have been capitalized are amortized over the term of the leases or the useful lives of the assets, whichever is shorter. Leased asset amortization is reported as part of depreciation.

(n) Noncurrent Investments

Noncurrent investments include investments in equity securities of publicly traded U.S. and international companies, investments in foreign government and commercial bank obligations, real estate, market neutral hedge funds, alternative investments (which include private equity and distressed debt) and interest rate swaps. Investments in equity securities with readily determinable fair values and all investments in debt securities are recorded at fair value in the consolidated balance sheets. Investments in limited liability partnerships or companies, which are investment companies, are recorded at the fair value of the underlying assets using the equity method of accounting. As of March 31, 2013, approximately 13.1% of noncurrent investments require advance written notice of 90 days or longer to redeem the securities. For certain of these investments, it may take up to 90 days to receive the funds after the requested redemption date and certain redemptions may be subject to other restrictions in accordance with subscription agreements.

Investment income or loss (including realized gains and losses on investments, equity earnings from investment companies, interest and dividends) is included in revenues in excess of expenses unless the income or loss is restricted by donor or law. Unrealized gains and losses on investments are included in investment income.

(o) Temporarily and Permanently Restricted Net Assets

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

(p) Donor-Restricted Gifts

Unconditional promises to give cash and other assets to Legacy are reported at fair value at the date the promise is received. Conditional promises to give and indications of intentions to give are reported at fair value at the date the gift is received. The gifts or grants are reported as either temporarily or permanently restricted contributions if they are received with donor or grantor stipulations that limit the use of the donated assets. When the terms of a donor or grantor restriction are met, temporarily restricted net assets are reclassified as unrestricted net assets and reported in the consolidated statements of operations or consolidated statements of changes in net assets as net assets released from restriction. Donor-restricted contributions whose restrictions are met within the same year as received are reported as unrestricted contributions.

(q) Charitable Gift Annuities

Legacy has a certificate of authority from the State of Oregon to receive transfers of money or property upon agreement to pay an annuity. A charitable gift annuity is an arrangement between a donor and Legacy in which the donor contributes assets to Legacy in exchange for Legacy's agreement to pay a fixed amount for a specified period of time to the donor or other individuals and organizations as designated by the donor (annuitant). Upon execution of such an arrangement, Legacy recognizes the assets received at fair value and an annuity payment liability at the present value of future cash flows expected to be paid. Unrestricted or restricted contribution revenue is recognized based upon the difference between these two amounts based on donor intent for the proceeds. In subsequent periods, payments to the annuitant reduce the annuity liability. Adjustments to the annuity liability to reflect amortization of the discount, changes in life expectancy, and death of the annuitant are recognized as other operating expenses. The annuity liability included in other current liabilities as of March 31, 2013 and 2012 was $78 and $23, respectively. The annuities are not issued by an insurance company and are not subject to regulation by the State of Oregon or protected by an insurance guaranty association.

Although Legacy is exempt under Oregon Revised Statute (ORS) 731.039 from the requirement to maintain a separate and distinct trust fund adequate to meet the actuarially determined future payments of the charitable gift annuities. Legacy does maintain trust accounts with a bank for all gift annuities. The amounts under trust were $78 and $8 as of March 31, 2013 and 2012, respectively. These marketable securities are comprised of cash, cash equivalents and other fixed income instruments.

(r) Recently Adopted Accounting Standards

In May 2011, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2011-04, *Amendments to Achieve Common Fair Value Measurement and*

Disclosure Requirements in U.S. GAAP and IFRSs, which clarifies the measurement and disclosure requirements for fair value of financial assets. Legacy adopted ASU No. 2011-04 effective April 1, 2012. The adoption of this standard did not have an impact on Legacy's consolidated financial statements but resulted in additional disclosures of investment assets.

(s) Healthcare Reform

The Patient Protection and Affordable Care Act (PPACA) and the Health Care and Education Reconciliation Act (Reconciliation Act) were both signed by President Obama in the first calendar quarter of 2010. On June 28, 2012, the Supreme Court ruled on the constitutionality of the PPACA and largely upheld the law. The legislation went into effect upon signing with provisions to become effective over the next ten years. This legislation is expected to broadly impact Legacy's operations, including patient access, service reimbursement rates, and reporting requirements. The State of Oregon has also initiated broad legislative actions related to delivery of healthcare within the state primarily impacting the Medicaid program. As the results of these actions are implemented, they may significantly impact Legacy's future operations.

(2) Net Patient Service Revenues

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

The Medicare program reimburses Legacy at prospectively determined rates for the majority of inpatient and outpatient services rendered to patients, primarily on the basis of diagnosis-related groups (DRGs) and ambulatory payment classification groups (APCs), respectively. Nonacute inpatient services, defined capital, certain outpatient services, and defined medical education costs are paid based on a cost reimbursement methodology. The Medicaid program reimburses Legacy primarily at prospectively determined rates for inpatient services, similar to DRGs, and outpatient services under a cost reimbursement methodology. When paid under cost reimbursement, Legacy is reimbursed at an interim rate with final settlement determined after submission of annual cost reports and audits thereof by the fiscal intermediaries. PPOs and HMOs generally reimburse Legacy on prospectively negotiated rates or on a percentage of charges.

Revenue from the Medicare and Medicaid programs accounted for approximately 37.1% and 18.5%, respectively, of Legacy's gross patient charges for the year ended March 31, 2013, and 35.5% and 19.6%, respectively, of Legacy's gross patient charges for the year ended March 31, 2012. Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation. As a result, there is at least a possibility that recorded estimates will change by a material amount in the near term. In 2013 and 2012, respectively, Legacy recorded an increase to net patient service revenue of approximately $3,263 and $10,442 relating to favorable settlements of prior years' reimbursement from Medicare and Medicaid programs.

(Dollars in thousands)

A summary of patient revenues is as follows:

		Year ended March 31	
		2013	2012
Gross patient charges:			
Hospital inpatient services	$	1,855,579	1,771,936
Hospital and other outpatient services		1,394,003	1,274,523
		3,249,582	3,046,459
Deductions from gross patient charges:			
Charity allowances, based on charges		167,338	175,355
Medicare and Medicaid contractual adjustments		1,239,425	1,105,689
Commercial managed care contractual adjustments		459,721	427,440
		1,866,484	1,708,484
Patient service revenues		1,383,098	1,337,975
Provision for bad debts		70,765	67,945
Net patient service revenue	$	1,312,333	1,270,030

Legacy grants credit without collateral to its patients, most of whom are local residents and are insured under third-party payor agreements. The proportion of net accounts receivable from significant third-party payors for 2013 and 2012 was as follows:

	2013	2012
Medicare	23.0%	23.8%
Medicaid	11.3	9.7
Blue cross	14.0	15.7
Private pay	9.3	11.4
Other	42.4	39.4
	100.0%	100.0%

Legacy provides an allowance against accounts receivable for amounts that could become uncollectible in the future. Collection risks relate primarily to uninsured patient accounts and patient accounts under third-party payor agreements for which deductibles and coinsurance are due from the patient. Legacy estimates the allowance for each category of patient accounts based on the respective aging of accounts receivable, historical collections, business and economic conditions, trends in federal and state governmental and private employer healthcare coverage and other collection indicators.

(Dollars in thousands)

(3) Benefits to the Community

The Board of Directors allocated $10,000 to establish a Community Health Fund (the Fund) in 1999. An amount equal to five percent of the principal of this Fund ($500 annually) may be dedicated to community-sponsored initiatives geared toward improving the health of the community. The Fund is intended to be a permanent source of funding for health initiatives and programs capable of impacting the health of the community either by prevention or health improvement. Contributions made to community-sponsored initiatives were $307 and $165 in 2013 and 2012, respectively.

In addition to funding selected community health initiatives, Legacy provides services to the community both for people in need and to enhance the health status of the broader community as part of its charitable mission. The following represents the estimated cost of providing certain services to the community, along with a description of selected activities sponsored by Legacy during 2013 and 2012:

	Year ended March 31, 2013			
	In-kind costs	**Other costs**	**Offsetting revenue**	**Net cost**
Services for people in need:				
Charity care	$ —	66,164	—	66,164
Medicaid	—	255,055	136,251	118,804
Medicare	—	455,213	378,873	76,340
Other government programs	—	17,877	15,583	2,294
	—	794,309	530,707	263,602
Benefits to the community:				
Medical education and support of research	—	22,579	6,162	16,417
Community health services	—	6,590	4,497	2,093
Community benefit activities	629	35	—	664
Donations to charitable organizations	243	833	—	1,076
Community Health Fund	—	—	—	—
contributions	—	307	—	307
	872	30,344	10,659	20,557
	$ 872	824,653	541,366	284,159
Percentage of total operating expenses				21.6%

(Dollars in thousands)

	Year ended March 31, 2012			
	In-kind costs	Other costs	Offsetting revenue	Net cost
Services for people in need:				
Charity care	$ —	70,933	—	70,933
Medicaid	—	246,937	157,499	89,438
Medicare	—	443,339	374,591	68,748
Other government programs	—	14,432	12,780	1,652
	—	775,641	544,870	230,771
Benefits to the community:				
Medical education and support of research	—	22,602	6,055	16,547
Community health services	—	1,728	52	1,676
Community benefit activities	458	47	—	505
Donations to charitable organizations	172	964	—	1,136
Community Health Fund contributions	—	165	—	165
	630	25,506	6,107	20,029
	$ 630	801,147	550,977	250,800
Percentage of total operating expenses				19.8%

(a) Services for People in Need

In support of its mission, Legacy voluntarily provides medically necessary patient care services that are discounted or free of charge to persons who have insufficient resources and/or who are uninsured. The criteria for charity care is determined based on eligibility for insurance coverage, household income, qualified assets, catastrophic medical events, or other information supporting a patient's inability to pay for services provided. Specifically, Legacy provides an uninsured discount of 15% to patients who have resided within Legacy's primary service area for a period of six months, are uninsured for hospital care, and have a household income of less than $100,000 annually. Further discounts are available for patients, on a sliding scale, whose household income is less than 400% of the federal poverty level or roughly $94,200 for a family of four in Portland, Oregon. For patients whose household income is at or below 200% of the federal poverty level, a full subsidy is available. In addition to the household income criteria, the patients' qualified assets (e.g., 25% of household assets), and other catastrophic or economic circumstances are considered in determining eligibility for charity care.

During 2013 and 2012, Legacy provided charity care benefiting patients associated with 76,847 and 95,936 patient accounts, respectively, representing 7,944 and 10,008 inpatient accounts, respectively, and 68,903 and 85,928 outpatient accounts, respectively. In 2013 and 2012, 6% and 8%,

(Continued)

respectively, of the patients receiving charity care received a full subsidy representing roughly 4% and 8%, respectively, of the total charity provided in those years.

In addition to charity care, Legacy provides services under various states' Medicaid programs for financially needy patients. The cost of providing services to Medicaid beneficiaries generally exceeds the reimbursement from these programs.

Legacy provides services to Medicare beneficiaries and beneficiaries under other government programs (such as TRICARE), for which the cost of treating these patients exceeds the government payments received.

The cost of services provided under these programs is determined based on the relationship of costs (excluding the provision for doubtful accounts and costs associated with medical education, research, community health services, and other contributions) to billed charges.

Legacy also employs financial counselors and social workers who assist patients in obtaining coverage for their healthcare needs. This includes assistance with workers' compensation, motor vehicle accident policies, COBRA, veterans' assistance, and public assistance programs, such as Medicaid. This program assisted many patients in obtaining coverage through a third party, reducing the patients' financial responsibility. The costs associated with this program were $672 and $710 in 2013 and 2012, respectively.

(b) Benefits to the Community

Medical education and research includes, among other initiatives, the unreimbursed cost of nursing, graduate medical education and research.

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

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

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

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

(c) Other Benefits

In furtherance of its mission, Legacy also commits significant time and resources to endeavors and critical services that meet unfilled community needs. Many of these activities are sponsored with the

(Dollars in thousands)

knowledge that they will not be self-supporting or financially viable. Such programs include hospice, mental and behavioral health, primary care clinics in underserved neighborhoods, free patient transportation, lodging, meals and medications for transient patients when needed, participation in blood drives, and the provision of educational opportunities for students interested in pursuing medical-related careers.

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

Legacy also pays taxes associated with various states' local business and occupation taxes, and property taxes that local and state governments use to fund healthcare services, civil and education services to the community. Legacy paid $5,511 and $5,356 in local and state taxes in 2013 and 2012, respectively.

(4) Property, Plant, and Equipment

Property, plant, and equipment balances as of March 31 were as follows:

	2013	2012
Buildings and improvements	$ 1,055,639	1,015,449
Equipment and software	729,804	808,634
Land improvements	10,117	9,951
	1,795,560	1,834,034
Accumulated depreciation	(1,044,675)	(1,059,458)
	750,885	774,576
Construction in progress	34,821	16,687
Land	25,092	25,092
	$ 810,798	816,355

There were capital expenditure purchase commitments outstanding as of March 31, 2013 for various construction and equipment projects. The estimated cost to complete such projects at March 31, 2013 was $65,674, of which $15,551 was contractually committed.

(Continued)

(Dollars in thousands)

(5) Long-Term Debt

A summary of long-term debt and capital lease obligations at March 31 is as follows:

		2013	2012
Hospital Revenue Bonds, Series 2008, payable in installments through 2038, subject to a seven-day put provision; interest at SIFMA index (0.12% at March 31, 2013) plus 10 basis points	$	150,000	150,000
Hospital Revenue Bonds, Series 2009A, payable in installments from $1,055 to $7,715 through 2035, at rates ranging from 3.0% to 5.5%, callable on or after July 2019		105,820	108,580
Hospital Revenue Bonds, Series 2009B and C, subject to mandatory tenders of $25,000 each in July of 2012 and 2014, respectively, at 5.0%		25,000	50,000
Hospital Revenue Bonds, Series 2010A, payable in installments from $1,120 to $12,430 through 2030, at rates ranging from 3.0% to 5.0%, $24,300 of the bonds are callable on or after March 2020		87,035	99,050
Hospital Revenue Bonds, Series 2011A, payable in installments from $5,495 to $22,060 through 2021, at rates ranging from 3.0% to 5.25%.		105,975	111,470
Loan agreement with a bank at fixed rate of 1.4%, repayable July 2014.		25,000	—
Capital lease obligations, at imputed rates of 3.4% to 5.1%		8,196	9,186
Note payable, matures 2013, interest at 6.73%		535	830
		507,561	529,116
Less current portion		(23,749)	(22,902)
	$	483,812	506,214

Interest cost incurred related to funds borrowed was $17,842 and $19,929 in 2013 and 2012, respectively. These amounts were reduced by $381 and $5,180 in 2013 and 2012, respectively, in the consolidated statements of operations, for amounts capitalized for construction and other capital projects.

(Dollars in thousands)

Scheduled principal repayments of long-term debt, including mandatory tenders of bonds eligible for refinancing, and payments on capital lease obligations are according to their long-term amortization schedule as follows:

	Long-term debt	Capital lease obligations
2014	$ 20,866	3,144
2015	70,644	2,756
2016	21,295	1,638
2017	22,285	1,267
2018	23,245	—
Thereafter	341,040	—
	$ 499,375	8,805
Less amount representing interest under capital lease obligation		(609)
		$ 8,196

The master trust indenture and other loan agreements covering these obligations contain, among other things, provisions placing restrictions on additional borrowings and leases and requiring the maintenance of debt service coverage and other ratios.

In November 2008, Legacy issued $150,000 of Revenue Bonds Series 2008 (Series 2008 Bonds), which are unsecured, variable-rate debt in an initial short-term interest rate mode, through the Hospital Facility Authority of Clackamas County, Oregon. The proceeds from the Series 2008 Bonds were restricted for capital expenditures and to pay the expenses incurred with the issuance. The Series 2008 Bonds, while subject to a long-term amortization period, may be put to Legacy at the option of the bondholders in connection with certain remarketing dates. In conjunction with the issuance, in November 2011 Legacy entered into three year letter of credit and reimbursement agreement with a national bank, whereby the bank will purchase any bonds that are put by bondholders and not successfully remarketed. In the event of a draw under this agreement, there are no principal payments due within a year. If the bonds have not been remarketed or redeemed and amounts remain outstanding after a year, such amounts are converted to a term loan due in eight quarterly payments. As a result, the Series 2008 Bonds are classified as long-term, except for the portion that matures within 12 months after March 31, 2013.

In May 2009, Legacy issued $163,860 of Revenue Bonds Series 2009 (Series 2009 Bonds) in Series A, B, and C through the Hospital Facility Authority of Clackamas County, Oregon. The proceeds from the Series 2009 Bonds were restricted for capital expenditures, debt service during the construction period, and expenses incurred in connection with the issuance. The Series B ($25,000) of the Series 2009 Bonds is subject to a mandatory bondholder tender was July 2012, and the Series C ($25,000) of the Series 2009 Bonds is subject to a mandatory bondholder tender in July 2014. The remaining bonds are payable in annual installments beginning in 2010 through 2035 at interest rates from 3.00% to 5.50%. In connection with this issuance, certain modifications to the existing master trust indenture were made. In particular, a

gross revenue pledge was provided to all bondholders. The Series 2009 Bonds, and all outstanding previously issued Revenue Bonds, are obligations of the revised master trust indenture (the 2009 Master Trust Indenture).

In January 2010, Legacy issued $123,745 of Revenue Bonds Series 2010A (Series 2010A Bonds) through the State of Oregon, Oregon Facilities Authority. The proceeds from the Series 2010A Bonds were used to refund the Series 1999 Bonds and the Series 2003 Bonds and to pay for the cost of issuance of the Series 2010A Bonds. The Series 2010A Bonds are payable in annual installments beginning in 2011 at interest rates ranging from 3% to 5%. The Series 2010A Bonds are obligations of the 2009 Master Trust Indenture.

In May 2011, Legacy issued $111,470 of Refunding Revenue Bonds Series 2011A (Series 2011 Bonds) through the State of Oregon, Oregon Facilities Authority. The proceeds from the Series 2011 Bonds were used to refund the Series 2001 Bonds and to pay for the cost of issuance of the Series 2011 Bonds. The Series 2011 Bonds are payable in annual installments beginning in May 2012 at interest rates ranging from 3.00% to 5.25%. The Series 2011 Bonds are obligations of the 2009 Master Trust Indenture. In conjunction with the issuance of the Series 2011 Bonds, the obligated group of the 2009 Master Trust Indenture was expanded to include Legacy Salmon Creek Hospital, formerly, a designated affiliate.

In June 2012, Legacy entered into an agreement with a bank to borrow $25,000 at a fixed rate of 1.4%, repayable in July 2014. Proceeds from this borrowing were used to satisfy the mandatory tender of the Series 2009B bonds in 2012. This amount is included in the long-term debt, less current portion on the consolidated balance sheet at March 31, 2013.

(Dollars in thousands)

(6) Investments

Legacy invests in different classes of securities for a variety of financial assets, including short-term investments, assets limited as to use, and noncurrent investments. The composition of these assets is as follows:

	Year ended March 31	
	2013	2012
Cash and cash equivalents	$ 6,834	10,155
Short-term notes	6,797	6,619
State government obligations	3,822	3,823
Small/mid cap domestic equity securities	50,589	33,714
Large cap domestic equity securities	78,697	82,429
International equity securities	50,925	38,924
International common/collective trust	34,526	26,156
Fixed income mutual fund	155,485	212,526
Fixed income common/collective trust	94,100	22,436
Absolute return funds	84,175	74,008
U.S. Treasury securities	38,199	44,637
Real estate partnerships	76,303	67,687
Private equity funds – funds of funds	3,822	5,484
Interest rate swaps	4,703	4,127
Guaranteed interest investment contracts (GIICs)	1,060	1,597
	$ 690,037	634,322

As of March 31, 2013, Legacy has a remaining capital commitment of $942 to private equity funds in the form of limited partnership/trust investments. These commitments are due on demand from the general partners/advisors. These private equity funds invest in emerging companies, venture capital funds, and other alternative investments. The termination of these partnerships/trusts is based upon specific provisions in the agreement. In most cases the life of the trusts are for a minimum of ten years. Legacy can only transfer its interest in the investments with the consent of the general partner/advisor. The fair values of these investments are determined either by the underlying security value on the open market or by the general partner/advisor utilizing fair value principles. Debt service reserve funds and unspent construction funds related to the Series 2009A, B and C Bonds are held in trust at a national bank and are invested in accordance with the respective bond indentures, primarily in government obligations with maturities of one year or less and in money market funds. Equity method investments total $121,641 and $111,874 as of March 31, 2013 and 2012, respectively.

Interest Rate Swaps

In February 2004, Legacy executed a 20-year basis swap with an investment-banking firm. The notional amount of the transaction was $82,000, and the cash flows settle semiannually. Under the transaction, Legacy pays at the SIFMA index, in exchange for receiving 62% of LIBOR plus 0.814%.

(Dollars in thousands)

In April 2009, Legacy entered into a basis swap with an investment-banking firm. The notional amount of the transaction was $50,000, and the cash flows settle quarterly. Under the transaction, Legacy pays SIFMA and receives 67% of LIBOR plus 0.60% for three years, and thereafter receives 94.1% of LIBOR until April 2029.

In September 2010, Legacy entered into two basis swaps with two investment-banking firms. The notional amount of each transaction was $50,000, and the cash flows settle quarterly. Under both transactions, Legacy pays SIFMA and receives 67% of LIBOR plus 0.60% for three years, and thereafter receives 84.45% of LIBOR on one swap and 84.0% of LIBOR on the other swap until September 2030.

The objective of these transactions is to assume the tax-basis risk for a portion of the fixed-rate exposure on outstanding long-term indebtedness in exchange for positive cash flows. These transactions do not meet the criteria for hedge accounting; therefore, any changes in fair value under these agreements are recorded as part of investment income in the accompanying consolidated statements of operations.

The fair value of these swaps is determined by the spread in interest rates. The fair value as of March 31, 2013 and 2012 represents a receivable of $4,703 and $4,127, respectively, and is included in noncurrent investments in the consolidated balance sheets.

Investment income, gains, and losses for cash and cash equivalents, short-term investments, assets limited as to use, and noncurrent investments comprise the following:

		Year ended March 31	
		2013	2012
Interest and dividend income	$	928	981
Realized gains on investments		24,401	21,172
Equity earnings from investment companies		9,150	7,854
Change in fair value of trading securities and interest rate swaps		16,777	(4,983)
Total investment income	$	51,256	25,024

(7) Fair Value of Financial Instruments

Legacy applies Accounting Standards Codification (ASC) Topic 820, *Fair Value Measurements*, for fair value measurements of financial assets and financial liabilities and for fair value measurements of nonfinancial items that are recognized or disclosed at fair value in the consolidated financial statements on a recurring basis. Topic 820 establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to measurements involving significant unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets and liabilities. Level 1 securities include marketable equity securities and mutual funds.

- Level 2 inputs are other than quoted prices included within Level 1 that are observable in the market for the asset or liability, either directly or indirectly. Level 2 securities include fixed income securities, corporate equity funds, common/collective trust funds and absolute return funds that are priced based on the net asset values (NAVs) provided by fund administrators.

  ASC SubTopic 820-10 allows for the use of a practical expedient for the estimation of the fair value of investments in investment companies for which the investment does not have a readily determinable fair value. The practical expedient used by Legacy is the NAV per share, or its equivalent. In some instances, the NAV may not equal the fair value that would be calculated under fair value accounting standards. Valuations provided by fund administrators consider variables such as the financial performance of underlying investments, recent sales prices of underlying investments and other pertinent information. In addition, actual market exchanges at year-end provide additional observable market inputs of the exit prices. Legacy reviews valuations and assumptions provided by fund administrators for reasonableness and believes that the carrying amounts of these financial instruments are reasonable estimates of fair value.

- Level 3 inputs are unobservable inputs for an asset or liability. Level 3 securities primarily include private equity funds but also include illiquid fixed income securities that have no active trading. Private equity securities use a NAV equivalent as a practical expedient to estimate fair value. The transaction price is initially used as the best estimate of fair value. Accordingly, when a valuation is provided by a private equity fund administrator, the valuation is adjusted so that the value at inception equals the transaction price. The initial valuation is adjusted when changes to inputs and assumptions are corroborated by evidence, such as transactions in similar securities, completed or pending third-party transactions in the underlying security or comparable entities, offerings in the capital markets, and changes in financial results, data or cash flows. For positions that are not traded in active markets or are subject to notice provisions, valuations are adjusted to reflect such provisions, and such adjustments are generally based on available market evidence.

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

(Dollars in thousands)

The following tables present the financial instruments carried at fair value and financial instruments valued using the equity method of accounting as of March 31, 2013 and 2012, by caption on the consolidated balance sheets, by the valuation hierarchy defined above:

	March 31, 2013			
	Level 1	**Level 2**	**Level 3**	**Total fair value**
Assets:				
Cash and cash equivalents	$ 6,834	—	—	6,834
Small/mid cap domestic equity securities	50,590	—	—	50,590
Large cap domestic equity securities	78,697	—	—	78,697
International equity securities	50,925	—	—	50,925
International common/ collective trust funds	—	34,526	—	34,526
Fixed income mutual fund	155,485	—	—	155,485
Fixed income common/ collective trust funds	—	94,100	—	94,100
Absolute return funds	5,017	79,157	—	84,174
Real estate partnerships	—	76,303	—	76,303
Private equity fund of funds	—	—	3,822	3,822
U.S. Treasury securities	—	38,199	—	38,199
Short-term notes	—	6,797	—	6,797
State government obligations	—	3,822	—	3,822
Interest rate swaps	—	4,703	—	4,703
GIIC	—	1,060	—	1,060
Total assets at fair value	$ 347,548	338,667	3,822	690,037

(Dollars in thousands)

	Fair value of financial instruments March 31, 2012			
	Level 1	Level 2	Level 3	Total fair value
Assets:				
Cash and cash equivalents	$ 10,155	—	—	10,155
Small/mid cap domestic equity securities	33,714	—	—	33,714
Large cap domestic equity securities	82,429	—	—	82,429
International equity securities	38,924	—	—	38,924
International common/ collective trust funds	—	26,156	—	26,156
Fixed income mutual fund	212,526	—	—	212,526
Fixed income common/ collective trust funds	—	22,436	—	22,436
Absolute return funds	—	74,008	—	74,008
Real estate partnerships	—	67,687	—	67,687
Private equity fund of funds	—	—	5,484	5,484
U.S. Treasury securities	—	44,637	—	44,637
Short-term notes	—	6,619	—	6,619
State government obligations	—	3,823	—	3,823
Interest rate swaps	—	4,127	—	4,127
GIIC	—	1,597	—	1,597
Total assets at fair value	$ 377,748	251,090	5,484	634,322

The following table presents a reconciliation of the beginning and ending balances of Level 3 assets:

	Fair value measurements Level 3
Fair value March 31, 2011	$ 6,620
Realized and unrealized (losses) gains, net	508
Purchases and settlements, net	(1,644)
Fair value March 31, 2012	5,484
Realized and unrealized (losses) gains, net	(161)
Purchases and settlements, net	(1,501)
Fair value March 31, 2013	$ 3,822

(Dollars in thousands)

The following table presents information for investments where the NAV was used as a practical expedient to measure fair value at March 31, 2013:

		Fair value	Redemption frequency	Redemption notice period
Common/collective trust funds	$	128,626	Daily or monthly	1 – 5 days
Absolute return funds		79,157	Quarterly	60 – 95 days
Real estate partnerships		76,303	Quarterly	60 – 95 days

Common/collective trust funds are investments that are operated by a trust company that manages a pooled group of trust accounts. Collective investment trusts combine the assets of various institutional investors to create a larger, well-diversified portfolio. The objectives of a collective trust are to lower the costs to investors through economies of scale available by combining assets of multiple investors, to provide daily liquidity, and to provide better diversification. Each investor owns a participating interest that is calculated in shares and represents its portion of the holdings of the fund.

Absolute return funds primarily include investments in hedge funds that utilize strategies designed to generate consistent long-term capital appreciation with low volatility and little correlation with equity and bond markets. Absolute return funds calculate NAV monthly, which approximates fair value.

Other financial instruments of Legacy include other receivables, GIICs and accrued interest. The carrying amount of these instruments approximates fair value as these items mature in less than one year.

The carrying amounts reported in the consolidated balance sheets for accounts payable, accrued wages, salaries and benefits, settlements payable to third-party payors, and other current liabilities approximate fair value.

The fair value of long-term debt is estimated based on the discounted cash flows that would be paid using current market rates for debt with the same maturities, assuming the debt was repaid as of the first call date as stipulated in the bond indenture. The fair value of long-term debt was $35,245 and $32,155 greater than the carrying value as of March 31, 2013 and 2012, respectively. This valuation represents a Level 2 fair value measurement per ASC 820.

(Dollars in thousands)

(8) Temporarily and Permanently Restricted Net Assets

Restricted net assets are available for the following purposes:

		Year ended March 31	
Temporarily Restricted Net Assets:		2013	2012
Education	$	5,608	5,187
Patient care		11,943	11,566
Research		4,723	8,186
Capital acquisition		5,961	5,070
Other		4,869	5,538
	$	33,104	35,547

		Year ended March 31	
Permanently Restricted Net Assets:		2013	2012
Education	$	2,650	2,613
Patient care		8,837	8,452
Research		1,932	1,827
Other		382	383
	$	13,801	13,275

Income from permanently restricted net assets is accounted for in accordance with the donors' instructions.

Legacy follows the guidance in the Uniform Prudent Management of Institutional Funds Act (UPMIFA) in determining the net asset classification of all donor-restricted endowment funds, as described in note 1. In accordance with board policy, assets classified as permanent endowments in accordance with donor intent are only utilized for current period expenditures to the extent that earnings on the endowment exceed the original fair value of the donation. To the extent earnings on endowment funds exceed identified expenditures on which to apply those earnings, the earnings are classified as temporarily restricted net assets.

Legacy has adopted investment and spending policies for endowment assets to provide a predictable stream of funding to programs supported by its endowment and to maintain the value of the endowment assets. Asset allocation is reviewed quarterly with respect to: i) Legacy's tolerance for risk based on its financial condition and need for cash from investments to support operations; ii) expected asset class return, risk and correlation characteristics; iii) changes in accounting guidance or tax law; and iv) changes in bond covenants or other restrictions.

Legacy's spending practices are intended to comply with donors' wishes and meet all applicable laws and regulations. Spending must be for a purpose that is consistent with the documented intent of the donor, and may not exceed the amounts annually determined by Legacy. Factors that are considered in addressing the annual spending allocation are: i) market value of the fund relative to the principal of the gift and ii) the level of spending in prior years.

(Dollars in thousands)

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or UPMIFA requires Legacy to retain as a fund of perpetual duration. Deficiencies of this nature are reported as a reduction to unrestricted net assets and are excluded from the performance indicator. During the years ended March 31, 2013 and 2012, Legacy reimbursed unrestricted net assets for $4 and $1, respectively, for amounts transferred in previous years from unrestricted net assets to permanently restricted net assets. Changes in endowment net assets for the years ended March 31, 2013 and 2012 are as follows:

		Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Balance as of March 31, 20111	$	9,867	17,683	12,699	40,249
Investment income		319	646	—	965
Contributions		—	—	576	576
Appropriated for expenditure		(196)	(1,514)	—	(1,710)
Balance as of March 31, 2012		9,990	16,815	13,275	40,080
Investment income		250	2,711	—	2,961
Contributions		—	—	526	526
Appropriated for expenditure		(307)	(1,626)	—	(1,933)
Balance as of March 31, 2013	$	9,933	17,900	13,801	41,634

Amounts in permanently restricted net assets represent the corpus of donor-restricted endowments while temporarily restricted net assets represent unspent earnings on the donor-restricted endowments. Unrestricted net assets represent board-designated endowments.

(9) Functional Expenses

Legacy provides healthcare services to residents within its geographic locations. Expenses related to providing these services are as follows:

		Year ended March 31	
		2013	2012
Healthcare services	$	1,062,738	1,023,948
General and administrative		253,328	247,310
	$	1,316,066	1,271,258

(10) Retirement Plans

(a) *Defined Contribution Pension Plans*

Substantially all employees who are 21 years of age, have worked 1,000 hours or more during the year and have been continuously employed by Legacy for one or more years are eligible to participate in a jointly contributory tax-sheltered annuity plan. Under this plan, Legacy matches up to 3.5% of participating employees' annual salaries.

Expenses incurred by Legacy related to this plan were approximately $12,200 and $11,700 for 2013 and 2012, respectively.

(b) Pension Benefit Plans

Legacy sponsors a pension plan, the Legacy Employees' Retirement Plan (the Plan), covering the majority of employees who meet eligibility requirements as specified in the Plan. Plan assets are available to pay the benefits of all eligible employees of the Plan. Effective January 1, 2010, the Plan was amended such that eligible employees are covered by a cash balance formula with contributions based on eligible compensation and accrued years of service. Prior to that date, the Plan provided retirement benefits using a formula that considered both years of service and the highest level of compensation for any consecutive five-year period during the last 10 years before retirement. Legacy uses a measurement date of March 31 for the Plan.

Legacy maintains other retirement plans for certain management employees, which include a pension restoration plan, deferred compensation plans, and supplemental executive retirement plans.

Legacy recognizes adjustments to the funded status of the Plan as increases or decreases to net assets in the corresponding accounting period. As of March 31, 2013 and 2012, Legacy recognized a decrease in net assets of $26,367 and $73,666, respectively, related to the change in funded status of the Plan.

(Dollars in thousands)

A summary of changes in benefit obligations, fair values of plan assets, and the pension liability at March 31, 2013 and 2012 and for the fiscal years then ended is as follows:

		2013	2012
Change in projected benefit obligation:			
Projected benefit obligation at beginning of year	$	641,731	530,641
Service cost		28,888	26,221
Interest cost		30,271	29,630
Actuarial loss		52,578	76,402
Benefits paid		(24,565)	(21,163)
Projected benefit obligation at end of year	$	728,903	641,731
Change in plan assets:			
Fair value of assets at beginning of year	$	478,516	435,128
Actual return on plan assets		47,387	28,551
Employer contribution		50,209	36,000
Benefits paid		(24,565)	(21,163)
Fair value of assets at end of year	$	551,547	478,516
Reconciliation of funded status:			
Funded status	$	(177,355)	(163,215)
Net amount recognized	$	(177,355)	(163,215)

Included in unrestricted net assets at March 31, 2013 are unrecognized prior service credits of $50,785 and unrecognized actuarial losses of $256,212 that have not yet been recognized in net periodic pension cost. The prior service credit and actuarial losses included in unrestricted net assets and expected to be recognized in net periodic pension cost during the year ending March 31, 2013 are $8,839 and $17,580, respectively. The accumulated benefit obligation as of March 31, 2013 and 2012 was $715,533 and $632,555, respectively.

Net periodic benefit cost for the years ended March 31 included the following components:

		2013	2012
Service cost	$	28,887	26,220
Interest cost		30,271	29,630
Expected return on plan assets		(35,705)	(32,120)
Amortization of prior service costs		(8,839)	(8,839)
Recognized net actuarial loss		23,369	15,144
Net periodic pension cost	$	37,983	30,035

(Dollars in thousands)

(c) *Assumptions*

Legacy used the following actuarial assumptions to determine its benefit obligations at March 31, 2013 and 2012, and its net periodic benefit cost for the years ended March 31, 2013 and 2012:

	2013	2012
Benefit obligation (measured as of March 31, 2013 and 2012):		
Discount rate	4.34%	4.83%
Rate of increase in future compensation levels	4% plus longevity scale	4% plus longevity scale
Net periodic benefit cost (measured as of March 31, 2012 and 2011):		
Discount rate	4.83%	5.73%
Expected long-term discount rate of return on plan assets	7.50	7.50
Rate of increase in future compensation levels	4% plus longevity scale	4% plus longevity scale

The expected long-term rate of return on plan assets was based on Legacy's asset allocation mix and the long-term historical return for each asset class, taking into account current and expected market conditions. Legacy utilizes a nationally recognized investment consultant to assist in the return assumptions used in determining the expected long-term rate of return. The actual return on pension plan assets was a net gain of approximately 9.5% and 5.9% for the years ended March 31, 2013 and 2012, respectively. In the calculation of pension plan expense, the expected long-term rate of return on plan assets is applied to a calculated value of plan assets that recognizes changes in fair value over a four-year period. This practice is intended to reduce year-to-year volatility in pension expense, but it can have the effect of delaying the recognition of differences between actual returns and expected returns based on the long-term rate-of-return assumptions. The source data for the discount rate used to determine the benefit obligation was a universe of AA or higher rated U.S. dollar denominated bonds with similar maturities to the projected benefit payments.

(Continued)

(Dollars in thousands)

(d) Pension Plan Assets

The asset allocation of Legacy's pension plans at March 31, 2013 and 2012, and the target allocation were as follows:

	Target allocation	**2013**	**2012**
Equity securities	28% – 46%	37%	35%
Fixed income	21% – 34%	32	32
Real estate	0% – 17%	11	11
Absolute return funds	0% – 18%	13	12
Alternative investments	0% – 11%	7	10

Pension plan assets are managed according to an investment policy adopted by the Legacy Health Employees Retirement Plan Trustees. Professional investment managers are retained to manage specific asset classes and professional consulting is utilized for investment performance reporting. The primary objectives for the plans are to preserve and grow the assets to provide for the long-term benefit payments of the fund. Diversification is intended to reduce the risk of large losses and to enhance opportunities for appropriate appreciation along with current income. It is also an objective of the plans to invest a significant portion of the assets in fixed-income assets that have a similar interest rate sensitivity as the projected liabilities for the plans. The investment policy includes an asset allocation that includes equities, fixed income instruments, real estate, market neutral hedge funds, and alternative investments (which include private equity and distressed debt). Assets are rebalanced quarterly when balances fall outside of the approved range for each asset class.

(Dollars in thousands)

In accordance with ASC SubTopic 820-10, financial assets and financial liabilities measured at fair value are grouped in three levels, based on the markets in which the assets and liabilities are traded and the reliability of the assumptions used to estimate fair value. These levels and associated valuation methodologies are described in note 7. The following tables set forth by level, within the fair value hierarchy, list the Plan's assets at fair value as of March 31, 2013 and 2012:

	Fair value of financial instruments March 31, 2013			
	Level 1	**Level 2**	**Level 3**	**Total fair value**
Assets:				
Cash and cash equivalents	$ 10,075	—	—	10,075
Small/mid cap domestic equity securities	46,238	—	—	46,238
Large cap domestic equity securities	60,931	—	—	60,931
International equity securities	17,961	—	—	17,961
International common/ collective trust	—	70,427	—	70,427
Fixed income mutual fund	87,845	—	—	87,845
Fixed income common/ collective trust	—	86,872	—	86,872
Absolute return funds	12,521	58,765	—	71,286
Private equity funds:				
Funds of funds	—	—	32,174	32,174
Distressed situations	—	—	7,841	7,841
Real estate partnerships	—	53,570	6,327	59,897
Total assets at fair value	$ 235,571	269,634	46,342	551,547

(Dollars in thousands)

	Fair value of financial instruments March 31, 2012			
	Level 1	**Level 2**	**Level 3**	**Total fair value**
Assets:				
Cash and cash equivalents	$ 5,731	—	—	5,731
Receivable under securities lending agreement	—	1,762	—	1,762
Small/mid cap domestic equity securities	25,761	—	—	25,761
Large cap domestic equity securities	60,796	—	—	60,796
International equity securities	14,487	—	—	14,487
International common/ collective trust	—	60,826	—	60,826
Fixed income mutual fund	127,286	—	—	127,286
Fixed income common/ collective trust	—	24,264	—	24,264
Absolute return funds	—	54,996	—	54,996
Private equity funds:				
Funds of funds	—	—	35,069	35,069
Distressed situations	—	—	12,469	12,469
Real estate partnerships	—	26,508	30,350	56,858
Total assets at fair value	$ 234,061	168,356	77,888	480,305
Liabilities:				
Payable under securities lending agreement	$ 1,789	—	—	1,789
Total liabilities at fair value	$ 1,789	—	—	1,789

(Dollars in thousands)

The following table presents a reconciliation of the beginning and ending balances of Level 3 assets:

		Fair value measurements Level 3
Fair value March 31, 2011	$	66,389
Realized and unrealized (losses) gains, net		7,285
Purchases and settlements, net		4,214
Fair value March 31, 2012		77,888
Realized and unrealized (losses) gains, net		2,384
Purchases and settlements, net		(10,035)
Transfers, net		(23,895)
Fair value March 31, 2013	$	46,342

The transfers noted above from Level 3 to Level 2 were the result of lifting the termination restrictions previously established by the investment manager, which allowed increased use of observable inputs for the noted security.

(e) Cash Flows

Legacy's policy with respect to funding the qualified plans is to fund at least the minimum required by the Employee Retirement Income Security Act of 1974 (ERISA), as amended, plus such additional amounts as deemed appropriate. In fiscal year 2013, Legacy expects to contribute, from ongoing cash flows and current assets, approximately $40,000 to its defined-benefit pension plans.

Benefit payments, which reflect expected future service, as appropriate, are expected to be paid as follows for the years ending December 31:

2013	$	30,607
2014		33,065
2015		36,269
2016		40,236
2017		44,275
2018 – 2021		271,392

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

Management is not aware of any expected settlements or curtailments that would require additional recognition during 2013.

(Dollars in thousands)

(11) Commitments and Contingencies

(a) Professional and General Liability

Legacy is self-insured for professional and general liability coverage. Coverage in excess of the self-insurance limits is provided on a claims-made basis through commercial insurance for claims made prior to June 1, 2004 and through its captive insurance company, LHSIC, effective June 1, 2004. LHSIC is a Cayman Islands domiciled insurance company created to access the reinsurance markets. General and professional liability costs have been accrued based upon an actuarial determination. In 2013 and 2012, Legacy recognized favorable adjustments to its professional and general liability reserves associated with actuarial estimates on prior year activity of $5,918 and $3,827, respectively, as a reduction to utilities, insurance and other expenses. Legacy is involved in litigation arising in the ordinary course of business. Claims, including alleged malpractice, have been asserted against Legacy and are currently in various stages of litigation. Additional claims may be asserted against Legacy arising from services provided to patients through March 31, 2013. In management's opinion, however, the estimated liability accrued at March 31, 2013 is adequate to provide for potential losses resulting from pending or threatened litigation.

(b) Operating Leases

Legacy leases various equipment and real property under operating leases expiring at various dates through March 2020. The following is a schedule by year of future minimum lease payments under operating leases as of March 31, 2013, with an initial or remaining lease term in excess of one year.

Year ending March 31:		
2014	$	3,341
2015		3,329
2016		2,946
2017		2,432
2018		1,676
Thereafter		1,986
	$	15,710

Rent expense for 2013 and 2012 totaled $6,460 and $6,361, respectively.

(c) Employee Benefits

Legacy is self-insured for workers' compensation, employee health, and long-term and short-term disability. Legacy provides two employee transition plans (severance) under its ERISA-governed health and welfare plan.

For workers' compensation, employee health, and long-term and short-term disability, Legacy accrues the unpaid portion of claims that have been reported and estimates of claims that have been incurred but not reported, based on an actuarial study.

Legacy recognizes a severance obligation when the amount can be reasonably estimated, typically at the date of a triggering event (e.g., a reduction in force). During 2013 and 2012, Legacy expensed $13 and $3,744, respectively, associated with these plans.

(d) Collective Bargaining Agreements

Approximately 10% of Legacy employees were covered under collective bargaining agreements at March 31, 2013, including certain service and maintenance employees. Approximately 23 employees are covered by collective bargaining agreements that expire within one year.

(12) Compliance with Laws and Regulations

The healthcare industry is governed by various laws and regulations of federal, state, and local governments. These laws and regulations are subject to ongoing government review and interpretation, and include matters such as licensure, accreditation, reimbursement for patient services and referrals for Medicare and Medicaid beneficiaries. Compliance with these laws and regulations is required for participation in government healthcare programs. Certain governmental agencies routinely investigate and pursue allegations concerning possible overpayments resulting from violation of fraud and abuse statutes by healthcare providers. These investigations may result in settlements involving fines and penalties as well as repayment of improper reimbursement. Legacy has implemented procedures for monitoring and enforcing compliance with laws and regulations and is not aware of instances of noncompliance.

(13) Subsequent Events

Legacy evaluated and disclosed all material subsequent events through June 28, 2013, the date the consolidated financial statements were issued.

KPMG

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

Independent Auditors' Report on Supplementary Information

The Board of Directors
Legacy Health:

We have audited the consolidated financial statements of Legacy Health (an Oregon nonprofit corporation) and Affiliates as of and for the years ended March 31, 2013 and 2012, and have issued our report thereon dated June 28, 2013, which contained an unmodified opinion on those consolidated financial statements. Our audit was performed for the purpose of forming an opinion on the consolidated financial statements as a whole. The supplemental information included in the consolidating balance sheets, consolidating statements of operations, and consolidating statements of changes in net assets is presented for the purposes of additional analysis and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

The schedule of consolidated financial and statistical highlights and the schedule of consolidating financial and statistical highlights are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

KPMG LLP

Portland, Oregon
June 28, 2013

LEGACY HEALTH AND AFFILIATES

Consolidating Balance Sheet

March 31, 2013

(Dollars in thousands)

Assets		Legacy Health	Legacy Emanuel Hospital & Health Center	Legacy Good Samaritan Hospital and Medical Center	Legacy Meridian Park Hospital
Current assets:					
Cash and cash equivalents	$	49,561	2,023	119	349
Short-term investments		46,241	—	—	—
Accounts receivable from patients		—	99,950	34,498	24,540
Allowance for uncollectible accounts		—	(21,168)	(5,031)	(4,541)
		—	78,782	29,467	19,999
Settlements receivable from third-party payors, net		—	133	1,180	991
Other receivables		706	9,496	3,053	1,748
Inventories, at cost		—	6,842	3,822	3,203
Prepaid expenses		8,607	526	235	142
Total current assets		105,115	97,802	37,876	26,432
Assets limited as to use:					
Held by trustee		—	12,265	—	—
Community health fund		9,933	—	—	—
Noncurrent investments restricted for capital acquisitions		784	—	—	—
		10,717	12,265	—	—
Other assets:					
Property, plant and equipment		396,874	566,155	286,741	157,053
Accumulated depreciation		(258,993)	(245,462)	(215,653)	(118,923)
		137,881	320,693	71,088	38,130
Noncurrent investments		619,481	14	—	—
Property held for development or sale		13,294	—	—	7,065
Goodwill and other intangibles		436	—	—	—
Other assets		16,727	7,181	313	—
		787,819	327,888	71,401	45,195
Intercompany affiliate receivable (payable)		(630,839)	107,465	137,177	200,513
	$	272,812	545,420	246,454	272,140

(Continued)

Legacy Mount Hood Medical Center	Legacy Salmon Creek Hospital	Legacy Visiting Nurse Association	Foundations	Credit Reporting Group	Other affiliates and eliminations	March 31, 2013 consolidated
(115)	(175)	(74)	18	51,706	1,907	53,613
—	—	—	—	46,241	—	46,241
17,643	32,045	2,097	—	210,773	4,514	215,287
(6,410)	(7,251)	—	—	(44,401)	(835)	(45,236)
11,233	24,794	2,097	—	166,372	3,679	170,051
796	258	—	—	3,358	—	3,358
1,631	385	—	4,559	21,578	1,587	23,165
1,573	1,654	—	—	17,094	288	17,382
26	573	(3)	—	10,106	392	10,498
15,144	27,489	2,020	4,577	316,455	7,853	324,308
—	—	—	—	12,265	—	12,265
—	—	—	—	9,933	—	9,933
—	—	—	—	784	—	784
—	—	—	—	22,982	—	22,982
103,063	336,826	3,595	—	1,850,307	5,166	1,855,473
(60,066)	(141,830)	(1,248)	—	(1,042,175)	(2,500)	(1,044,675)
42,997	194,996	2,347	—	808,132	2,666	810,798
—	—	—	1,319	620,814	—	620,814
—	3,203	—	—	23,562	—	23,562
—	—	—	—	436	26,482	26,918
1,092	—	1,404	3,819	30,536	(12,239)	18,297
44,089	198,199	3,751	5,138	1,483,480	16,909	1,500,389
18,627	63,196	(2,148)	105,122	(887)	887	—
77,860	288,884	3,623	114,837	1,822,030	25,649	1,847,679

LEGACY HEALTH AND AFFILIATES

Consolidating Balance Sheet

March 31, 2013

(Dollars in thousands)

Liabilities and Net Assets		**Legacy Health**	**Legacy Emanuel Hospital & Health Center**	**Legacy Good Samaritan Hospital and Medical Center**	**Legacy Meridian Park Hospital**
Current liabilities:					
Accounts payable	$	18,060	13,234	5,311	2,772
Accrued wages, salaries, and benefits		16,154	28,232	9,587	5,776
Accrued interest		2,332	1,418	—	—
Other current liabilities		21,121	6,170	3,356	2,191
Current portion of long-term debt		6,953	8,218	2,997	3,585
Total current liabilities		64,620	57,272	21,251	14,324
Long-term debt, less current portion		64,731	267,574	66,139	42,336
Other liabilities:					
Estimated general and professional claims liability		22,236	—	—	—
Accrued pension liability		17,932	74,107	36,718	14,420
Other noncurrent liabilities		15,946	2,599	747	538
		56,114	76,706	37,465	14,958
Total liabilities		185,465	401,552	124,855	71,618
Net assets:					
Unrestricted		87,347	143,401	121,599	200,522
Unrestricted, noncontrolling interest		—	—	—	—
Temporarily restricted		—	467	—	—
Permanently restricted		—	—	—	—
		87,347	143,868	121,599	200,522
	$	272,812	545,420	246,454	272,140

See accompanying independent auditors' report on other financial information.

Legacy Mount Hood Medical Center	Legacy Salmon Creek Hospital	Legacy Visiting Nurse Association	Foundations	Credit Reporting Group	Other affiliates and eliminations	March 31, 2013 consolidated
1,778	3,137	146	—	44,438	747	45,185
3,838	10,904	603	—	75,094	418	75,512
—	—	—	—	3,750	—	3,750
2,043	1,890	1	835	37,607	2,285	39,892
1,614	—	—	—	23,367	382	23,749
9,273	15,931	750	835	184,256	3,832	188,088
42,879	—	—	—	483,659	153	483,812
—	—	—	—	22,236	236	22,472
10,150	23,027	1,002	—	177,356	(1)	177,355
372	322	41	—	20,565	211	20,776
10,522	23,349	1,043	—	220,157	446	220,603
62,674	39,280	1,793	835	888,072	4,431	892,503
15,186	249,604	1,830	67,564	887,053	343	887,396
—	—	—	—	—	20,875	20,875
—	—	—	32,637	33,104	—	33,104
—	—	—	13,801	13,801	—	13,801
15,186	249,604	1,830	114,002	933,958	21,218	955,176
77,860	288,884	3,623	114,837	1,822,030	25,649	1,847,679

LEGACY HEALTH AND AFFILIATES

Consolidating Balance Sheet

March 31, 2012

(Dollars in thousands)

Assets	Legacy Health	Legacy Emanuel Hospital & Health Center	Legacy Good Samaritan Hospital and Medical Center	Legacy Meridian Park Hospital
Current assets:				
Cash and cash equivalents	$ 35,797	800	98	100
Short-term investments	45,412	—	—	—
Accounts receivable from patients	—	104,187	40,358	25,635
Allowance for uncollectible accounts	—	(23,508)	(6,354)	(5,770)
	—	80,679	34,004	19,865
Settlements receivable from third-party payors, net	—	4,829	3,895	1,879
Other receivables	2,668	13,620	6,294	3,621
Inventories, at cost	—	6,596	3,684	3,016
Prepaid expenses	8,252	493	218	85
Total current assets	92,129	107,017	48,193	28,566
Assets limited as to use:				
Held by trustee	—	12,173	—	—
Community health fund	9,990	—	—	—
Noncurrent investments restricted for capital acquisitions	351	—	—	—
	10,341	12,173	—	—
Other assets:				
Property, plant, and equipment	482,078	526,380	281,960	149,099
Accumulated depreciation	(328,978)	(224,252)	(212,220)	(108,753)
	153,100	302,128	69,740	40,346
Noncurrent investments	565,187	18	—	—
Property held for development or sale	11,745	—	—	7,065
Goodwill and other intangibles	538	—	—	—
Other assets	17,091	5,886	547	—
	747,661	308,032	70,287	47,411
Intercompany affiliate receivable (payable)	(566,014)	121,594	111,926	172,766
	$ 284,117	548,816	230,406	248,743

(Continued)

Legacy Mount Hood Medical Center	Legacy Salmon Creek Hospital	Legacy Visiting Nurse Association	Foundations	Credit Reporting Group	Other affiliates and eliminations	March 31, 2012 consolidated
132	328	(2)	7	37,260	1,818	39,078
—	—	—	—	45,412	—	45,412
18,986	34,536	1,253	—	224,955	4,810	229,765
(8,250)	(9,917)	—	—	(53,799)	(845)	(54,644)
10,736	24,619	1,253	—	171,156	3,965	175,121
1,873	(254)	—	—	12,222	—	12,222
2,381	(16)	(8)	4,881	33,441	(17)	33,424
1,479	1,719	—	—	16,494	279	16,773
25	562	(2)	—	9,633	385	10,018
16,626	26,958	1,241	4,888	325,618	6,430	332,048
—	—	—	—	12,173	—	12,173
—	—	—	—	9,990	—	9,990
—	—	—	—	351	—	351
—	—	—	—	22,514	—	22,514
95,509	332,166	3,589	—	1,870,781	5,031	1,875,812
(55,753)	(126,581)	(1,064)	—	(1,057,601)	(1,856)	(1,059,457)
39,756	205,585	2,525	—	813,180	3,175	816,355
—	—	—	1,191	566,396	—	566,396
—	3,203	—	—	22,013	—	22,013
—	—	—	—	538	26,482	27,020
623	14	1,316	7,064	32,541	(12,120)	20,421
40,379	208,802	3,841	8,255	1,434,668	17,537	1,452,205
19,822	41,942	(1,541)	98,725	(780)	780	—
76,827	277,702	3,541	111,868	1,782,020	24,747	1,806,767

(Continued)

LEGACY HEALTH AND AFFILIATES

Consolidating Balance Sheet

March 31, 2012

(Dollars in thousands)

Liabilities and Net Assets		Legacy Health	Legacy Emanuel Hospital & Health Center	Legacy Good Samaritan Hospital and Medical Center	Legacy Meridian Park Hospital
Current liabilities:					
Accounts payable	$	17,480	13,532	4,844	3,896
Accrued wages, salaries, and benefits		17,386	26,191	9,087	4,683
Accrued interest		2,435	1,674	—	—
Other current liabilities		23,886	11,946	7,167	4,422
Current portion of long-term debt		6,350	7,950	2,950	3,578
Total current liabilities		67,537	61,293	24,048	16,579
Long-term debt, less current portion		71,149	274,958	69,136	45,922
Other liabilities:					
Estimated general and professional claims liability		27,969	—	—	—
Accrued pension liability		16,632	67,559	34,160	13,344
Other noncurrent liabilities		14,354	2,792	781	557
		58,955	70,351	34,941	13,901
Total liabilities		197,641	406,602	128,125	76,402
Net assets:					
Unrestricted		86,476	141,745	102,281	172,341
Unrestricted, noncontrolling interest		—	—	—	—
Temporarily restricted		—	469	—	—
Permanently restricted		—	—	—	—
		86,476	142,214	102,281	172,341
	$	284,117	548,816	230,406	248,743

See accompanying independent auditors' report on other financial information.

Legacy Mount Hood Medical Center	Legacy Salmon Creek Hospital	Legacy Visiting Nurse Association	Foundations	Credit Reporting Group	Other affiliates and eliminations	March 31, 2012 consolidated
1,187	2,944	146	—	44,029	529	44,558
3,344	9,429	547	—	70,667	385	71,052
—	—	—	—	4,109	—	4,109
2,926	966	8	833	52,154	891	53,045
1,587	—	—	—	22,415	487	22,902
9,044	13,339	701	833	193,374	2,292	195,666
44,706	—	—	—	505,871	343	506,214
—	—	—	—	27,969	287	28,256
9,448	21,050	1,022	—	163,215	—	163,215
259	346	43	—	19,132	132	19,264
9,707	21,396	1,065	—	210,316	419	210,735
63,457	34,735	1,766	833	909,561	3,054	912,615
13,370	242,967	1,775	62,682	823,637	311	823,948
—	—	—	—	—	21,382	21,382
—	—	—	35,078	35,547	—	35,547
—	—	—	13,275	13,275	—	13,275
13,370	242,967	1,775	111,035	872,459	21,693	894,152
76,827	277,702	3,541	111,868	1,782,020	24,747	1,806,767

LEGACY HEALTH AND AFFILIATES

Consolidating Statement of Operations

Year ended March 31, 2013

(Dollars in thousands)

	Legacy Health	Legacy Emanuel Hospital & Health Center	Legacy Good Samaritan Hospital and Medical Center	Legacy Meridian Park Hospital	Legacy Mount Hood Medical Center
Gross patient charges	$ —	1,293,948	657,672	417,427	289,256
Adjustments to gross patient charges:					
Charity allowances	—	69,585	32,773	15,945	25,106
Third-party contractual adjustments	—	631,905	343,600	218,438	151,872
Patient service revenue	—	592,458	281,299	183,044	112,278
Less provision for bad debts	—	26,366	9,446	8,583	10,801
Net patient service revenues	—	566,092	271,853	174,461	101,477
Other revenues	178,849	27,539	4,870	1,955	2,656
Total operating revenues	178,849	593,631	276,723	176,416	104,133
Operating expenses:					
Wages, salaries, and benefits	80,969	335,224	127,122	74,594	48,790
Supplies	2,514	81,810	46,403	28,041	12,152
Professional fees	3,487	25,134	7,341	2,533	2,641
Purchased services	46,762	(8,574)	15,925	9,619	7,989
Utilities, insurance and other expenses	13,321	37,975	7,380	6,908	7,794
Depreciation	26,181	28,795	14,343	8,973	5,507
Interest and amortization	3,036	9,793	1,843	1,630	1,205
Management fees	—	86,162	44,624	27,129	16,334
	176,270	596,319	264,981	159,427	102,412
Income (loss) from operations	2,579	(2,688)	11,742	16,989	1,721
Other income (expenses):					
Investment income (loss), net	1,922	10,232	9,547	13,542	1,620
Loss on extinguishment of debt	—	—	—	—	—
Other, net	(589)	(1,303)	(4)	(14)	(21)
	1,333	8,929	9,543	13,528	1,599
Revenues in excess of (less than) expenses	$ 3,912	6,241	21,285	30,517	3,320

See accompanying independent auditors' report on other financial information.

Legacy Salmon Creek Hospital	Legacy Visiting Nurse Association	Foundations	Interentity eliminations	Credit Reporting Group	Other affiliates and eliminations	Year ended March 31, 2013 consolidated
523,691	12,589	—	(346)	3,194,237	55,345	3,249,582
23,810	119	—	—	167,338	—	167,338
285,167	965	—	33,053	1,665,000	34,146	1,699,146
214,714	11,505	—	(33,399)	1,361,899	21,199	1,383,098
15,138	(9)	—	—	70,325	440	70,765
199,576	11,514	—	(33,399)	1,291,574	20,759	1,312,333
6,814	960	6,555	(177,449)	52,749	78	52,827
206,390	12,474	6,555	(210,848)	1,344,323	20,837	1,365,160
134,354	9,092	—	(42,145)	768,000	5,815	773,815
25,280	737	—	8,323	205,260	4,831	210,091
3,749	76	—	(549)	44,412	567	44,979
5,424	269	—	(232)	77,182	2,535	79,717
15,114	772	8,010	(8,093)	89,181	1,590	90,771
14,376	184	—	—	98,359	772	99,131
—	—	—	—	17,507	55	17,562
985	1,100	—	(176,334)	—	—	—
199,282	12,230	8,010	(219,030)	1,299,901	16,165	1,316,066
7,108	244	(1,455)	8,182	44,422	4,672	49,094
4,779	1	6,799	—	48,442	7	48,449
—	—	—	—	—	—	—
(1,187)	—	(305)	(5,575)	(8,998)	33	(8,965)
3,592	1	6,494	(5,575)	39,444	40	39,484
10,700	245	5,039	2,607	83,866	4,712	88,578

LEGACY HEALTH AND AFFILIATES

Consolidating Statement of Operations

Year ended March 31, 2012

(Dollars in thousands)

	Legacy Health	Legacy Emanuel Hospital & Health Center	Legacy Good Samaritan Hospital and Medical Center	Legacy Meridian Park Hospital	Legacy Mount Hood Medical Center
Gross patient charges	$ —	1,208,539	637,967	377,789	263,438
Adjustments to gross patient charges:					
Charity allowances	—	73,093	33,849	16,536	26,192
Third-party contractual adjustments	—	564,445	318,340	193,261	130,760
Patient service revenue	—	571,001	285,778	167,992	106,486
Less provision for bad debts	—	26,463	9,856	7,098	7,453
Net patient service revenues	—	544,538	275,922	160,894	99,033
Other revenues	182,938	26,746	6,925	3,164	3,240
Total operating revenues	182,938	571,284	282,847	164,058	102,273
Operating expenses:					
Wages, salaries, and benefits	83,982	327,402	131,562	64,270	46,411
Supplies	2,437	76,792	46,047	25,981	10,557
Professional fees	2,952	24,819	8,787	2,474	2,559
Purchased services	47,074	(10,079)	15,723	8,796	6,885
Utilities, insurance and other expenses	10,987	39,718	8,703	7,175	7,498
Depreciation	25,249	20,748	15,275	8,977	5,554
Interest and amortization	3,517	5,978	2,085	1,874	1,356
Management fees	—	87,881	47,782	25,982	15,881
	176,198	573,259	275,964	145,529	96,701
Income (loss) from operations	6,740	(1,975)	6,883	18,529	5,572
Other income (expenses):					
Investment income (loss), net	1,027	6,995	4,793	6,777	1,021
Loss on extinguishment of debt	(1,216)	—	—	—	—
Other, net	(1,589)	(1,508)	(228)	(144)	(148)
	(1,778)	5,487	4,565	6,633	873
Revenues in excess of (less than) expenses	$ 4,962	3,512	11,448	25,162	6,445

See accompanying independent auditors' report on other financial information.

Legacy Salmon Creek Hospital	Legacy Visiting Nurse Association	Foundations	Interentity eliminations	Credit Reporting Group	Other affiliates and eliminations	Year ended March 31, 2012 consolidated
492,896	12,634	—	(193)	2,993,070	53,389	3,046,459
25,374	311	—	—	175,355	—	175,355
258,625	1,086	—	34,672	1,501,189	31,940	1,533,129
208,897	11,237	—	(34,865)	1,316,526	21,449	1,337,975
15,896	61	—	—	66,827	1,118	67,945
193,001	11,176	—	(34,865)	1,249,699	20,331	1,270,030
7,724	1,131	4,900	(180,646)	56,122	276	56,398
200,725	12,307	4,900	(215,511)	1,305,821	20,607	1,326,428
131,300	8,991	—	(45,166)	748,752	5,895	754,647
24,817	704	—	10,864	198,199	4,077	202,276
3,628	69	—	(436)	44,852	558	45,410
1,362	306	—	(369)	69,698	2,645	72,343
14,967	906	5,172	(6,468)	88,658	1,713	90,371
14,620	187	—	—	90,610	750	91,360
—	—	—	—	14,810	41	14,851
937	1,617	—	(180,080)	—	—	—
191,631	12,780	5,172	(221,655)	1,255,579	15,679	1,271,258
9,094	(473)	(272)	6,144	50,242	4,928	55,170
1,968	—	1,758	—	24,339	10	24,349
—	—	—	—	(1,216)	—	(1,216)
(1,165)	1	(333)	(6,063)	(11,177)	7	(11,170)
803	1	1,425	(6,063)	11,946	17	11,963
9,897	(472)	1,153	81	62,188	4,945	67,133

LEGACY HEALTH AND AFFILIATES

Consolidating Statement of Changes in Net Assets

Year ended March 31, 2013

(Dollars in thousands)

	Legacy Health	Legacy Emanuel Hospital & Health Center	Legacy Good Samaritan Hospital and Medical Center	Legacy Meridian Park Hospital	Legacy Mount Hood Medical Center
Unrestricted net assets, controlling interest:					
Revenues in excess of (less than) expenses	$ 3,912	6,241	21,285	30,517	3,320
Net assets released from restriction used for property, plant and equipment	16	5,981	2,567	64	18
Pension and other postretirement adjustments	(3,057)	(10,557)	(4,534)	(2,400)	(1,522)
Distributions	—	—	—	—	—
Other transfers	—	(9)	—	—	—
Change in unrestricted net assets, controlling interest	871	1,656	19,318	28,181	1,816
Unrestricted net assets, noncontrolling interest:					
Revenues in excess of expenses	—	—	—	—	—
Distributions	—	—	—	—	—
Change in unrestricted net assets, noncontrolling interest	—	—	—	—	—
Temporarily restricted net assets:					
Donor-restricted contributions and grants	—	7,555	—	—	—
Investment income, net	—	—	—	—	—
Net assets released from restriction	—	(7,566)	—	—	—
Transfers	—	9	—	—	—
Change in temporarily restricted net assets	—	(2)	—	—	—
Permanently restricted net assets:					
Donor-restricted contributions and grants	—	—	—	—	—
Other transfers	—	—	—	—	—
Change in permanently restricted net assets	—	—	—	—	—
Change in net assets	871	1,654	19,318	28,181	1,816
Net assets, beginning of year	86,476	142,214	102,281	172,341	13,370
Net assets, end of year	$ 87,347	143,868	121,599	200,522	15,186

See accompanying independent auditors' report on other financial information.

Legacy Salmon Creek Hospital	Legacy Visiting Nurse Association	Foundations	Interentity eliminations	Credit Reporting Group	Other affiliates and eliminations	Year ended March 31, 2013 consolidated
10,700	245	5,039	2,607	83,866	(95)	83,771
35	9	(157)	(2,607)	5,926	—	5,926
(4,098)	(199)	—	—	(26,367)	—	(26,367)
—	—	—	—	—	127	127
—	—	—	—	(9)	—	(9)
6,637	55	4,882	—	63,416	32	63,448
—	—	—	—	—	4,807	4,807
—	—	—	—	—	(5,314)	(5,314)
—	—	—	—	—	(507)	(507)
—	—	4,490	—	12,045	—	12,045
—	—	2,803	—	2,803	—	2,803
—	—	(9,651)	—	(17,217)	—	(17,217)
—	—	(83)	—	(74)	—	(74)
—	—	(2,441)	—	(2,443)	—	(2,443)
—	—	443	—	443	—	443
—	—	83	—	83	—	83
—	—	526	—	526	—	526
6,637	55	2,967	—	61,499	(475)	61,024
242,967	1,775	111,035	—	872,459	21,693	894,152
249,604	1,830	114,002	—	933,958	21,218	955,176

LEGACY HEALTH AND AFFILIATES

Consolidating Statement of Changes in Net Assets

Year ended March 31, 2012

(Dollars in thousands)

		Legacy Health	Legacy Emanuel Hospital & Health Center	Legacy Good Samaritan Hospital and Medical Center	Legacy Meridian Park Hospital	Legacy Mount Hood Medical Center
Unrestricted net assets, controlling interest:						
Revenues in excess of (less than) expenses	$	4,962	3,512	11,448	25,162	6,445
Net assets released from restriction used for property, plant and equipment		—	12,077	767	149	14
Pension and other postretirement adjustments		(8,535)	(30,681)	(13,424)	(6,296)	(4,261)
Distributions		—	—	—	—	—
Other transfers		—	16,731	(7,416)	(6,265)	(3,050)
Change in unrestricted net assets, controlling interest		(3,573)	1,639	(8,625)	12,750	(852)
Unrestricted net assets, noncontrolling interest:						
Revenues in excess of expenses		—	—	—	—	—
Distributions		—	—	—	—	—
Change in unrestricted net assets, noncontrolling interest		—	—	—	—	—
Temporarily restricted net assets:						
Donor-restricted contributions and grants		—	7,386	—	—	—
Investment income, net		—	—	—	—	—
Net assets released from restriction		—	(19,870)	—	—	—
Transfers		—	4,430	—	—	—
Change in temporarily restricted net assets		—	(8,054)	—	—	—
Permanently restricted net assets:						
Donor-restricted contributions and grants		—	—	—	—	—
Change in permanently restricted net assets		—	—	—	—	—
Change in net assets		(3,573)	(6,415)	(8,625)	12,750	(852)
Net assets, beginning of year		90,049	148,629	110,906	159,591	14,222
Net assets, end of year	$	86,476	142,214	102,281	172,341	13,370

See accompanying independent auditors' report on other financial information.

Legacy Salmon Creek Hospital	Legacy Visiting Nurse Association	Foundations	Interentity eliminations	Credit Reporting Group	Other affiliates and eliminations	Year ended March 31, 2012 consolidated
9,897	(472)	1,153	81	62,188	(43)	62,145
—	73	(97)	(81)	12,902	—	12,902
(9,798)	(671)	—	—	(73,666)	—	(73,666)
—	—	—	—	—	—	—
—	—	2	—	2	22	24
99	(1,070)	1,058	—	1,426	(21)	1,405
—	—	—	—	—	4,988	4,988
—	—	—	—	—	(5,585)	(5,585)
—	—	—	—	—	(597)	(597)
—	—	12,911	—	20,297	—	20,297
—	—	675	—	675	—	675
—	—	(3,122)	—	(22,992)	—	(22,992)
—	—	(4,430)	—	—	—	—
—	—	6,034	—	(2,020)	—	(2,020)
—	—	576	—	576	—	576
—	—	576	—	576	—	576
99	(1,070)	7,668	—	(18)	(618)	(636)
242,868	2,845	103,367	—	872,477	22,311	894,788
242,967	1,775	111,035	—	872,459	21,693	894,152

LEGACY HEALTH AND AFFILIATES

Consolidated Financial and Statistical Highlights

Years ended March 31

(Unaudited)

	2013	2012	2011	2010
Utilization:				
Average number of available beds	1,068	1,071	1,064	1,027
Percentage occupancy	61.7%	60.0%	60.7%	65.2%
Patient days	240,395	235,358	235,569	244,257
Medicare percent of discharge revenue	37.1%	35.5%	33.6%	32.6%
Average length of stay	4.4	4.3	4.5	4.4
Discharges:	54,533	54,896	52,915	55,822
Outpatient revenues as a percent of gross patient revenue	42.9%	41.8%	42.4%	40.9%
Average full-time equivalent (FTE) employees:				
Number of paid FTEs	7,941	8,020	7,997	7,767
Worked FTEs	6,854	6,926	6,894	6,821
FTEs per adjusted occupied bed:	6.9	7.3	7.1	6.9
Ratios:				
Deductions from revenues	59.6%	58.3%	58.3%	57.7%
Operating margin	3.6%	4.2%	3.4%	3.8%
Debt service coverage (A)	4.4	4.5	5.0	5.3
Net days in accounts receivable	46.4	48.2	46.4	45.1
Days cash on hand	214.9	201.1	198.1	175.6

Note: (A) Debt service coverage is calculated solely on the Master Trust Reporting Group.

See accompanying independent auditors' report on other financial information.

LEGACY HEALTH AND AFFILIATES

Consolidating Financial and Statistical Highlights

Years ended March 31, 2013 and 2012

(Unaudited)

	Consolidated	Legacy Emanuel Hospital & Health Center	Legacy Good Samaritan Hospital and Medical Center	Legacy Meridian Park Hospital	Legacy Mount Hood Medical Center	Legacy Salmon Creek Hospital
Utilization:						
Average available beds:						
2013	1,068	419	233	130	91	195
2012	1,071	408	249	130	90	194
Percentage occupancy:						
2013	61.7%	67.3%	60.4%	57.5%	55.5%	56.7%
2012	60.0	66.0	59.3	56.1	54.6	54.5
Patient days:						
2013	240,395	102,910	51,366	27,300	18,440	40,379
2012	235,358	97,966	54,032	26,702	17,988	38,670
Medicare percentage of discharge revenue:						
2013	37.1%	23.5%	49.1%	51.2%	42.3%	37.6%
2012	35.5	20.8	48.6	50.1	36.6	37.2
Average length of stay (days):						
2013	4.4	5.5	4.7	3.4	3.4	3.7
2012	4.3	5.3	4.6	3.4	3.3	3.5
Discharges:						
2013	54,533	18,880	11,030	8,069	5,512	11,042
2012	54,896	18,589	11,870	7,863	5,410	11,164
Outpatient revenues as a percentage of gross patient revenue:						
2013	42.9%	26.2%	42.8%	46.1%	52.4%	38.2%
2012	41.8	25.5	40.3	46.3	52.6	39.8
Average full-time equivalent (FTE) employees:						
Number of paid FTEs:						
2013	7,941	2,163	1,284	659	482	860
2012	8,020	2,135	1,360	673	473	860
FTEs per adjusted occupied bed:						
Paid FTEs:						
2013	6.9	5.7	5.2	4.8	4.5	4.8
2012	7.3	6.0	5.5	5.0	4.6	5.2
Worked FTEs:						
2013	5.9	4.9	4.5	4.1	3.9	4.2
2012	6.3	5.2	4.8	4.3	3.9	4.5
Ratios:						
Deductions from revenues:						
2013	59.6%	56.6%	58.7%	59.1%	64.9%	62.5%
2012	58.3	55.6	56.7	57.4	62.4	61.4
Operating margin:						
2013	3.6%	5.8%	4.2%	12.2%	1.7%	7.0%
2012	4.2	5.9	2.4	11.3	5.4	8.5

Note: Statistics for hospital entities listed above represent information related to hospital operations only. Professional clinics, laboratory services, system office and other operations are included in the consolidated total.

See accompanying independent auditors' report on other financial information.

KPMG

LEGACY HEALTH AND AFFILIATES

Consolidated Financial Statements and Other Financial Information

March 31, 2014 and 2013

(With Independent Auditors' Reports Thereon)

LEGACY HEALTH AND AFFILIATES

Table of Contents

	Page
Independent Auditors' Report	1
Consolidated Financial Statements:	
Consolidated Balance Sheets	3
Consolidated Statements of Operations	5
Consolidated Statements of Changes in Net Assets	6
Consolidated Statements of Cash Flows	7
Notes to Consolidated Financial Statements	8
Other Financial Information	
Independent Auditors' Report on Supplementary Information	38
Consolidating Financial Information:	
Consolidating Balance Sheets	39
Consolidating Statements of Operations	47
Consolidating Statements of Changes in Net Assets	51
Consolidated Financial and Statistical Highlights (Unaudited)	55
Consolidating Financial and Statistical Highlights (Unaudited)	56

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

Independent Auditors' Report

The Board of Directors
Legacy Health and Affiliates:

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Legacy Health (an Oregon nonprofit corporation) and Affiliates, which comprise the consolidated balance sheets as of March 31, 2014 and 2013, and the related consolidated statements of operations, changes in net assets, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

KPMG

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Legacy Health and Affiliates as of March 31, 2014 and 2013, and the results of their operations and their cash flows for the years then ended, in accordance with U.S. generally accepted accounting principles.

KPMG LLP

Portland, Oregon
June 27, 2014

LEGACY HEALTH AND AFFILIATES

Consolidated Balance Sheets

March 31, 2014 and 2013

(Dollars in thousands)

Assets		2014	2013
Current assets:			
Cash and cash equivalents	$	71,007	53,613
Short-term investments		46,434	46,241
Accounts receivable from patients, less allowance for uncollectible accounts of $46,750 in 2014 and $45,236 in 2013		200,624	170,051
Settlements receivable from third-party payors, net		1,565	3,358
Other receivables		28,148	23,165
Inventories, at cost		19,035	17,382
Prepaid expenses		14,315	10,498
Total current assets		381,128	324,308
Assets limited as to use:			
Held by trustee		12,318	12,265
Community health fund		9,930	9,933
Noncurrent investments restricted for capital acquisitions		1,072	784
		23,320	22,982
Other assets:			
Property, plant and equipment, net		778,742	810,798
Noncurrent investments		675,706	620,814
Property held for development		23,555	23,562
Goodwill and other intangibles		26,862	26,918
Other assets		17,308	18,297
		1,522,173	1,500,389
	$	1,926,621	1,847,679

See accompanying notes to consolidated financial statements.

Liabilities and Net Assets		2014	2013
Current liabilities:			
Accounts payable	$	34,484	45,185
Accrued wages, salaries, and benefits		86,249	75,512
Accrued interest		3,614	3,750
Other current liabilities		44,050	39,892
Current portion of long-term debt		23,228	23,749
Total current liabilities		191,625	188,088
Long-term debt, less current portion		460,680	483,812
Other liabilities:			
Estimated general and professional claims liability		35,356	22,472
Accrued pension liability		99,610	177,355
Other noncurrent liabilities		23,343	20,776
		158,309	220,603
Total liabilities		810,614	892,503
Net assets:			
Unrestricted		1,047,857	887,396
Unrestricted, noncontrolling interest		20,206	20,875
Temporarily restricted		32,828	33,104
Permanently restricted		15,116	13,801
		1,116,007	955,176
	$	1,926,621	1,847,679

LEGACY HEALTH AND AFFILIATES

Consolidated Statements of Operations

Years ended March 31, 2014 and 2013

(Dollars in thousands)

		2014	2013
Patient service revenues	$	1,495,952	1,383,098
Less provision for bad debts		70,556	70,765
Net patient service revenues		1,425,396	1,312,333
Other revenues		59,724	52,827
Total operating revenues		1,485,120	1,365,160
Operating expenses:			
Wages, salaries, and benefits		831,404	773,815
Supplies		226,997	210,091
Professional fees		45,171	44,979
Purchased services		86,081	79,717
Utilities, insurance, and other expenses		127,804	90,771
Depreciation		100,634	99,131
Interest and amortization		16,919	17,562
Total operating expenses		1,435,010	1,316,066
Income from operations		50,110	49,094
Other income (expenses):			
Investment income, net		55,507	48,449
Other, net		(10,614)	(8,965)
Total other income		44,893	39,484
Revenues in excess of expenses		95,003	88,578
Net assets released from restriction used for property, plant and equipment		5,840	5,926
Pension and other postretirement adjustments		62,808	(26,367)
Distributions to joint venture partners		(3,859)	(5,187)
Other transfers, net		—	(9)
Change in unrestricted net assets	$	159,792	62,941

See accompanying notes to consolidated financial statements.

LEGACY HEALTH AND AFFILIATES

Consolidated Statements of Changes in Net Assets

Years ended March 31, 2014 and 2013

(Dollars in thousands)

	2014	2013
Unrestricted net assets, controlling interest:		
Revenues in excess of expenses	$ 91,813	83,771
Net assets released from restriction used for property, plant and equipment	5,840	5,926
Pension and other postretirement adjustments	62,808	(26,367)
Distributions	—	127
Other transfers	—	(9)
Change in unrestricted net assets, controlling interest	160,461	63,448
Unrestricted net assets, noncontrolling interest:		
Revenues in excess of expenses	3,190	4,807
Distributions	(3,859)	(5,314)
Change in unrestricted net assets, noncontrolling interest	(669)	(507)
Temporarily restricted net assets:		
Donor-restricted contributions and grants	6,566	12,045
Investment gain, net	4,273	2,803
Net assets released from restriction	(11,115)	(17,217)
Other transfers	—	(74)
Change in temporarily restricted net assets	(276)	(2,443)
Permanently restricted net assets:		
Donor-restricted contributions and grants	1,315	443
Other transfers	—	83
Change in permanently restricted net assets	1,315	526
Change in net assets	160,831	61,024
Net assets, beginning of year	955,176	894,152
Net assets, end of year	$ 1,116,007	955,176

See accompanying notes to consolidated financial statements.

LEGACY HEALTH AND AFFILIATES

Consolidated Statements of Cash Flows

Years ended March 31, 2014 and 2013

(Dollars in thousands)

		2014	2013
Cash flows from operating activities:			
Change in net assets	$	160,831	61,024
Adjustments to reconcile change in net assets to net cash provided by operating activities:			
Net distributions to noncontrolling partners		3,859	5,314
Depreciation and amortization		105,973	105,062
Loss on disposal of assets		374	402
Change in net realized and unrealized gains on investments		(44,678)	(40,811)
Restricted contributions		(3,029)	(2,488)
Equity earnings from joint ventures and investment companies, net		(15,711)	(11,404)
Pension and other postretirement adjustments		(62,808)	26,367
Change in certain current assets and current liabilities		(37,518)	14,710
Change in long-term operating assets and liabilities		1,785	(14,883)
Net cash provided by operating activities		109,078	143,293
Cash flows from investing activities:			
Purchase of property, plant and equipment, net		(72,003)	(99,849)
Proceeds from sale of assets		331	146
Change in funds held by trustee		(53)	(92)
Change in other long-term assets		(221)	(96)
Investment in joint ventures and investment companies		(100)	(5,000)
Distributions from joint ventures and investment companies		3,726	4,646
Purchases of trading securities		(265,187)	(203,057)
Sales of trading securities		266,306	198,925
Net cash used in investing activities		(67,201)	(104,377)
Cash flows from financing activities:			
Proceeds from issuance of long-term debt		66	26,718
Repayment of long-term debt		(23,719)	(48,273)
Distributions to noncontrolling partners		(3,859)	(5,314)
Proceeds from restricted contributions		3,029	2,488
Net cash used in financing activities		(24,483)	(24,381)
Increase in cash and cash equivalents		17,394	14,535
Cash and cash equivalents, beginning of year		53,613	39,078
Cash and cash equivalents, end of year	$	71,007	53,613
Supplemental disclosures of cash flow information:			
Cash paid for interest (net of amount capitalized)	$	17,390	18,826
Amounts accrued for property, plant and equipment, net		2,392	5,252

See accompanying notes to consolidated financial statements.

(1) Organization and Summary of Significant Accounting Policies

(a) Organization and Basis of Consolidation

Legacy Health and Affiliates (Legacy) provides healthcare and various healthcare-related services. They are organized primarily as nonprofit corporations under the laws of the State of Oregon or Washington.

The consolidated financial statements include the accounts of Legacy and its direct affiliates, including the following:

Legacy Emanuel Hospital & Health Center
Legacy Good Samaritan Hospital and Medical Center
Legacy Meridian Park Hospital
Legacy Mount Hood Medical Center
Legacy Salmon Creek Hospital
Legacy Visiting Nurse Association and Affiliates
Managed HealthCare Northwest, Inc. (MHN)
Legacy Health System Insurance Company (LHSIC)
Legacy USP Surgery Centers, LLC (LUSC)

All significant interentity accounts and transactions have been eliminated.

The consolidated financial statements also include the accounts of affiliated foundations (Emanuel Medical Center Foundation and Randall Children's Hospital Foundation, Good Samaritan Foundation, Meridian Park Medical Foundation, Mt. Hood Medical Center Foundation and Salmon Creek Hospital Foundation) whose activities benefit and are controlled by the corresponding facilities of Legacy Emanuel Hospital & Health Center, Legacy Good Samaritan Hospital and Medical Center, Legacy Meridian Park Hospital, Legacy Mount Hood Medical Center, and Legacy Salmon Creek Hospital, respectively.

Investments in joint ventures, which represent 20% or more ownership or control, are accounted for by the equity method and are included in the consolidated balance sheets as other assets.

(b) Use of Estimates

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Key estimates include uncollectible and contractual allowances on patient accounts receivable, third-party payor settlements, self-insured liabilities, fair value of investments, and pension obligations.

(c) ***Income Taxes***

Legacy, except for MHN, LHSIC, and LUSC, is exempt from federal income taxes under Section 501(a) of the IRC as an organization described in Section 501(c)(3) of the IRC, except on unrelated business income under the provisions of the Internal Revenue Code.

Legacy's wholly owned insurance captive, LHSIC, operates in the Cayman Islands and is currently not subject to income taxes.

For the taxable affiliates, income taxes are accounted for on the liability method. Accordingly, deferred income taxes are provided to reflect temporary differences between financial and tax reporting. Deferred tax assets and liabilities are measured based on enacted tax laws and rates without anticipation of future changes.

Accounting principles generally accepted in the United States of America require Legacy management to evaluate tax positions taken by the organization and recognize a tax liability (or asset) if the organization has taken an uncertain position that more likely than not would not be sustained upon examination by the IRS. Management has analyzed tax positions taken by the organization and has concluded that as of March 31, 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 consolidated financial statements. Legacy is subject to routine audits by taxing jurisdictions and currently the State of Washington is auditing excise taxes from January 2009 through March 2013 for Legacy Salmon Creek Hospital. Legacy management believes it is no longer subject to income tax examinations for years prior to 2009.

(d) ***Net Patient Service Revenues***

Legacy has agreements with third-party payors that provide for payments to Legacy at amounts different from its established rates. Payment arrangements include prospectively determined rates per discharge, reimbursed costs, discounted charges and per diem payments. Net patient service revenues are reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered.

Contractual adjustments arising under reimbursement arrangements with third-party payors are accrued on an estimated basis in the period the related services are rendered and are adjusted in future periods as final settlements are determined.

(e) ***Other Revenues***

The Health Information Technology for Economic and Clinical Health Act, part of the American Recovery and Reinvestment Act of 2009, created an incentive program, beginning in 2012, to promote the "meaningful use" of Electronic Health Records (EHR). To qualify, Medicare providers must attest to the Centers for Medicare and Medicaid Services (CMS) that they are using certified EHR in a "meaningful" way by meeting objectives at established thresholds, as defined by CMS. The states of Oregon and Washington have also established EHR incentive programs for Medicaid providers with similar requirements. Meaningful use revenues are recognized as grant revenue. Grant revenue is recognized when there is reasonable assurance that the grant will be received and that the organization will comply with the conditions attached to the grant. In fiscal 2014 and 2013, respectively, Legacy recorded meaningful use revenues of $6,498 and $7,046, which were recognized in other revenues in the consolidated statements of operations. The amount recognized is based on management's best estimate and is subject to audit and potential retrospective adjustment.

(f) ***Income from Operations***

Income from operations excludes certain items that Legacy deems to be outside the scope of its primary business. Investment income includes interest income, dividends, realized and unrealized gains and losses on short-term and noncurrent investments and equity earnings from investment companies. Other income includes rental income and research activities, net of any corresponding expenses to operate these programs.

(g) ***Performance Indicator***

The performance indicator is revenues in excess of expenses. Changes in unrestricted net assets, which are excluded from revenues in excess of expenses, consistent with industry practice, include permanent transfers of assets to and from affiliates for other than goods and services, pension and other postretirement adjustments, the cumulative effect of changes in accounting principles, and contributions of long-lived assets (including assets acquired using contributions, which, by donor restriction, were to be used for the purpose of acquiring such assets).

(h) ***Charity Care***

Legacy provides care without charge or at amounts less than its established rates to patients who meet certain criteria under its financial assistance policy. Since Legacy does not pursue collection of amounts determined to qualify as charity care, they are excluded from patient revenues.

(i) ***Cash and Cash Equivalents***

Cash equivalents include investments in money market funds and highly liquid debt instruments with original maturities of three months or less.

Legacy maintains cash and cash equivalents on deposit at financial institutions, which at times exceed the limits insured by the Federal Deposit Insurance Corporation. This exposes Legacy to potential risk of loss in the event the financial institution becomes insolvent.

(j) ***Short-Term Investments***

Short-term investments include corporate and government obligation securities, which are included in managed, low-duration portfolios. The maturities of these related securities can exceed one year. Management anticipates the securities will be liquidated within the next year. These investments are considered trading securities.

(k) Inventories

Inventories are stated at the lower of average cost, as determined by the first-in, first-out method, or market.

(l) Assets Limited as to Use

Assets limited as to use primarily include assets held by trustees under indenture agreements. Community health fund represents designated assets set aside by the Board of Directors to provide funding for certain community health projects. The Board of Directors retains control over these assets and may, at its discretion, use these assets for other purposes.

(m) Property, Plant and Equipment

Property, plant and equipment is reported at cost. Donated items are reported on the basis of fair market value at the date of donation.

Interest cost incurred on borrowed funds during the period of construction of capital assets is capitalized as a component of acquiring those assets. In 2014 and 2013, Legacy capitalized $154 and $381, respectively, of interest expense. Legacy assesses potential impairment to its long-lived assets when there is evidence that events or changes in circumstances have made recovery of an asset's carrying value unlikely. An impairment loss is indicated when the sum of expected undiscounted future net cash flows is less than the carrying amount. The loss recognized is the difference between the fair value and the carrying amount. No impairment losses were recorded in 2014 or 2013.

Depreciation is computed under the straight-line method over estimated useful lives with average useful lives as follows: building and improvements, 27 years; equipment and software, 7 years; and land improvements, 13 years. Leased assets that have been capitalized are amortized over the term of the leases or the useful lives of the assets, whichever is shorter. Leased asset amortization is reported as part of depreciation expense.

(n) Noncurrent Investments

Noncurrent investments include investments in equity securities of publicly traded U.S. and international companies, investments in foreign government and commercial bank obligations, real estate, market neutral hedge funds, alternative investments (which include private equity and distressed debt) and interest rate swaps. Investments in equity securities with readily determinable fair values and all investments in debt securities are recorded at fair value in the consolidated balance sheets. Investments in limited liability partnerships or companies, which are investment companies, are recorded at the fair value of the underlying assets using the equity method of accounting. As of March 31, 2014, approximately 13.3% of noncurrent investments require advance written notice of 90 days or longer to redeem the securities. For certain of these investments, it may take up to 90 days to receive the funds after the requested redemption date and certain redemptions may be subject to other restrictions in accordance with subscription agreements.

Investment income or loss (including realized gains and losses on investments, equity earnings from investment companies, interest and dividends) is included in revenues in excess of expenses unless the income or loss is restricted by donor or law. Unrealized gains and losses on investments are included in investment income.

(o) Temporarily and Permanently Restricted Net Assets

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

(p) Donor-Restricted Gifts

Unconditional promises to give cash and other assets to Legacy are reported at fair value at the date the promise is received. Conditional promises to give and indications of intentions to give are reported at fair value at the date the condition is satisfied or the gift is received. The gifts or grants are reported as either temporarily or permanently restricted contributions if they are received with donor or grantor stipulations that limit the use of the donated assets. When the terms of a donor or grantor restriction are met, temporarily restricted net assets are reclassified as unrestricted net assets and reported in the consolidated statements of operations or consolidated statements of changes in net assets as net assets released from restriction. Donor-restricted contributions whose restrictions are met within the same year as received are reported as unrestricted contributions.

(q) Charitable Gift Annuities

Legacy has a certificate of authority from the State of Oregon and from the State of Washington to receive transfers of money or property upon agreement to pay an annuity. A charitable gift annuity is an arrangement between a donor and Legacy in which the donor contributes assets to Legacy in exchange for Legacy's agreement to pay a fixed amount for a specified period of time to the donor or other individuals and organizations as designated by the donor (annuitant). Upon execution of such an arrangement, Legacy recognizes the assets received at fair value and an annuity payment liability at the present value of future cash flows expected to be paid. Unrestricted or restricted contribution revenue is recognized based upon the difference between these two amounts based on donor intent for the proceeds. In subsequent periods, payments to the annuitant reduce the annuity liability. Adjustments to the annuity liability to reflect amortization of the discount, changes in life expectancy, and death of the annuitant are recognized as other operating expenses. The annuity liability included in other current liabilities as of March 31, 2014 and 2013 was $67 and $78, respectively. The annuities are not issued by an insurance company and are not subject to regulation by the State of Oregon or protected by an insurance guaranty association.

Although Legacy is exempt under Oregon Revised Statute (ORS) 731.039 from the requirement to maintain a separate and distinct trust fund adequate to meet the actuarially determined future payments of the charitable gift annuities. Legacy does maintain trust accounts with a bank for all gift annuities. The amounts under trust were $69 and $78 as of March 31, 2014 and 2013, respectively. These marketable securities are comprised of cash, cash equivalents and other fixed income instruments. No annuity contracts have been issued in the State of Washington as of March 31, 2014.

(Dollars in thousands)

(2) Net Patient Service Revenues

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

The Medicare program reimburses Legacy at prospectively determined rates for the majority of inpatient and outpatient services rendered to patients, primarily on the basis of diagnosis-related groups (DRGs) and ambulatory payment classification groups (APCs), respectively. Nonacute inpatient services, defined capital, certain outpatient services, and defined medical education costs are paid based on a cost reimbursement methodology. The Medicaid program reimburses Legacy primarily at prospectively determined rates for inpatient services, similar to DRGs, and outpatient services under a cost reimbursement methodology. When paid under cost reimbursement, Legacy is reimbursed at an interim rate with final settlement determined after submission of annual cost reports and audits thereof by the fiscal intermediaries. PPOs and HMOs generally reimburse Legacy on prospectively negotiated rates or on a percentage of charges.

Revenue from the Medicare and Medicaid programs accounted for approximately 36.9% and 20.1%, respectively, of Legacy's gross patient charges for the year ended March 31, 2014, and 37.1% and 18.5%, respectively, of Legacy's gross patient charges for the year ended March 31, 2013. Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation. As a result, there is at least a possibility that recorded estimates will change by a material amount in the near term. In 2014 and 2013, respectively, Legacy recorded an increase to net patient service revenue of approximately $1,446 and $3,263 relating to favorable settlements of prior years' reimbursement from Medicare and Medicaid programs.

Legacy grants credit without collateral to its patients, most of whom are local residents and are insured under third-party payor agreements. The proportion of net accounts receivable from significant third-party payors for 2014 and 2013 was as follows:

	2014	2013
Medicare	24.2%	23.0%
Medicaid	11.7	11.3
Blue cross	17.2	14.0
Private pay	8.0	9.3
Other	38.9	42.4
	100.0%	100.0%

Legacy provides an allowance against accounts receivable for amounts that could become uncollectible in the future. Collection risks relate primarily to uninsured patient accounts and patient accounts under third-party payor agreements for which deductibles and coinsurance are due from the patient. Legacy estimates the allowance for each category of patient accounts based on the respective aging of accounts

(Continued)

(Dollars in thousands)

receivable, historical collections, business and economic conditions, trends in federal and state governmental and private employer healthcare coverage and other collection indicators.

(3) Benefits to the Community

The Board of Directors allocated $10,000 to establish a Community Health Fund (the Fund) in 1999. An amount equal to five percent of the principal of this Fund ($500 annually) may be dedicated to community-sponsored initiatives geared toward improving the health of the community. The Fund is intended to be a permanent source of funding for health initiatives and programs capable of impacting the health of the community either by prevention or health improvement. Contributions made to community-sponsored initiatives were $419 and $307 in 2014 and 2013, respectively.

In addition to funding selected community health initiatives, Legacy provides services to the community both for people in need and to enhance the health status of the broader community as part of its charitable mission. The following represents the estimated cost of providing certain services to the community, along with a description of selected activities sponsored by Legacy during 2014 and 2013:

	Year ended March 31, 2014			
	In-kind costs	Other costs	Offsetting revenue	Net cost
Services for people in need:				
Charity care	$ —	63,197	—	63,197
Medicaid	—	285,489	173,050	112,439
Medicare	—	499,424	409,682	89,742
Other government programs	—	15,695	14,466	1,229
	—	863,805	597,198	266,607
Benefits to the community:				
Medical education and support of research	—	23,133	6,011	17,122
Community health services	—	7,828	5,629	2,199
Community benefit activities	483	39	—	522
Donations to charitable organizations	353	1,071	—	1,424
Community Health Fund contributions	—	419	—	419
	836	32,490	11,640	21,686
	$ 836	896,295	608,838	288,293
Percentage of total operating expenses				20.1%

CONFIDENTIAL

(Dollars in thousands)

		Year ended March 31, 2013		
	In-kind costs	**Other costs**	**Offsetting revenue**	**Net cost**
Services for people in need:				
Charity care	$ —	66,164	—	66,164
Medicaid	—	255,055	136,251	118,804
Medicare	—	455,213	378,873	76,340
Other government programs	—	17,877	15,583	2,294
	—	794,309	530,707	263,602
Benefits to the community:				
Medical education and support of research	—	22,579	6,162	16,417
Community health services	—	6,590	4,497	2,093
Community benefit activities	629	35	—	664
Donations to charitable organizations	243	833	—	1,076
Community Health Fund contributions	—	307	—	307
	872	30,344	10,659	20,557
	$ 872	824,653	541,366	284,159
Percentage of total operating expenses				21.6%

(a) Services for People in Need

In support of its mission, Legacy voluntarily provides medically necessary patient care services that are discounted or free of charge to persons who have insufficient resources and/or who are uninsured. The criteria for charity care is determined based on eligibility for insurance coverage, household income, qualified assets, catastrophic medical events, or other information supporting a patient's inability to pay for services provided. Specifically, Legacy provides an uninsured discount of 15% to patients who have resided within Legacy's primary service area for a period of six months, are uninsured for hospital care, and have a household income of less than $100,000 annually. Further discounts are available for patients, on a sliding scale, whose household income is less than 400% of the federal poverty level or roughly $95,400 for a family of four in Portland, Oregon. For patients whose household income is at or below 200% of the federal poverty level, a full subsidy is available. In addition to the household income criteria, the patients' qualified assets (e.g., 25% of household assets), and other catastrophic or economic circumstances are considered in determining eligibility for charity care.

During 2014 and 2013, Legacy provided charity care benefiting patients associated with 72,633 and 76,847 patient accounts, respectively, representing 7,471 and 7,944 inpatient accounts, respectively, and 65,192 and 68,903 outpatient accounts, respectively. In 2014 and 2013, 6% and 6%, respectively, of the patients receiving charity care received a full subsidy representing roughly 3% and 4%, respectively, of the total charity provided in those years.

In addition to charity care, Legacy provides services under various states' Medicaid programs for financially needy patients. The cost of providing services to Medicaid beneficiaries generally exceeds the reimbursement from these programs.

Legacy provides services to Medicare beneficiaries and beneficiaries under other government programs (such as TRICARE), for which the cost of treating these patients exceeds the government payments received.

The cost of services provided under these programs is determined based on the relationship of costs (excluding the provision for doubtful accounts and costs associated with medical education, research, community health services, and other contributions) to billed charges.

Legacy also employs financial counselors and social workers who assist patients in obtaining coverage for their healthcare needs. This includes assistance with workers' compensation, motor vehicle accident policies, COBRA, veterans' assistance, and public assistance programs, such as Medicaid. This program assisted many patients in obtaining coverage through a third party, reducing the patients' financial responsibility. The costs associated with this program were $1,173 and $672 in 2014 and 2013, respectively.

(b) Benefits to the Community

Medical education and research includes, among other initiatives, the unreimbursed cost of nursing, graduate medical education and research.

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

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

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

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

(Dollars in thousands)

(c) ***Other Benefits***

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

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

Legacy also pays taxes associated with various states' local business and occupation taxes, and property taxes that local and state governments use to fund healthcare services, civil and education services to the community. Legacy paid $6,190 and $5,511 in local and state taxes in 2014 and 2013, respectively.

(4) Property, Plant, and Equipment

Property, plant, and equipment balances as of March 31 were as follows:

		2014	2013
Buildings and improvements	$	1,082,209	1,055,639
Equipment and software		750,645	729,804
Land improvements		10,284	10,117
		1,843,138	1,795,560
Accumulated depreciation		(1,109,081)	(1,044,675)
		734,057	750,885
Construction in progress		19,593	34,821
Land		25,092	25,092
	$	778,742	810,798

There were capital expenditure purchase commitments outstanding as of March 31, 2014 for various construction and equipment projects. The estimated cost to complete such projects at March 31, 2014 was $73,580, of which $23,163 was contractually committed.

(Dollars in thousands)

(5) Long-Term Debt

A summary of long-term debt and capital lease obligations at March 31 is as follows:

		2014	2013
Hospital Revenue Bonds, Series 2008, payable in installments through 2038, subject to a seven-day put provision; interest at SIFMA index (0.6% at March 31, 2014) plus 10 basis points	$	150,000	150,000
Hospital Revenue Bonds, Series 2009A, payable in installments from $1,055 to $7,715 through 2035, at rates ranging from 3.0% to 5.5%, callable on or after July 2019		102,970	105,820
Hospital Revenue Bonds, Series 2009B, subject to mandatory tender of $25,000 in July of 2014 at 5.0%		25,000	25,000
Hospital Revenue Bonds, Series 2010A, payable in installments from $1,120 to $12,430 through 2030, at rates ranging from 3.0% to 5.0%, $24,300 of the bonds are callable on or after March 2020		75,190	87,035
Hospital Revenue Bonds, Series 2011A, payable in installments from $5,495 to $22,060 through 2021, at rates ranging from 3.0% to 5.25%.		100,165	105,975
Loan agreement with a bank at fixed rate of 1.4%, repayable July 2014.		25,000	25,000
Capital lease obligations, at imputed rates of 3.4% to 5.1%		5,363	8,196
Note payable, matures 2013, interest at 6.73%		220	535
		483,908	507,561
Less current portion		(23,228)	(23,749)
	$	460,680	483,812

Interest cost incurred related to funds borrowed was $16,971 and $17,842 in 2014 and 2013, respectively. These amounts were reduced by $154 and $381 in 2014 and 2013, respectively, in the consolidated statements of operations, for amounts capitalized for construction and other capital projects.

(Dollars in thousands)

Scheduled principal repayments of long-term debt, including mandatory tenders of bonds eligible for refinancing, and payments on capital lease obligations are according to their long-term amortization schedule as follows:

		Long-term debt	Capital lease obligations
2015	$	20,668	2,756
2016		21,336	1,638
2017		22,286	1,266
2018		23,245	—
2019		14,690	—
Thereafter		376,320	—
	$	478,545	5,660
Less amount representing interest under capital lease obligation			(297)
			$ 5,363

The master trust indenture and other loan agreements covering these obligations contain, among other things, provisions placing restrictions on additional borrowings and leases and requiring the maintenance of debt service coverage and other ratios.

In November 2008, Legacy issued $150,000 of Revenue Bonds Series 2008 (Series 2008 Bonds), which are unsecured, variable-rate debt in an initial short-term interest rate mode, through the Hospital Facility Authority of Clackamas County, Oregon. The proceeds from the Series 2008 Bonds were restricted for capital expenditures and to pay the expenses incurred with the issuance. The Series 2008 Bonds, while subject to a long-term amortization period, may be put to Legacy at the option of the bondholders in connection with certain remarketing dates. In conjunction with the issuance, in November 2013 Legacy entered into three year letter of credit and reimbursement agreement with a national bank, whereby the bank will purchase any bonds that are put by bondholders and not successfully remarketed. In the event of a draw under this agreement, there are no principal payments due within a year. If the bonds have not been remarketed or redeemed and amounts remain outstanding after a year, such amounts are converted to a term loan due in eight quarterly payments. As a result, the Series 2008 Bonds are classified as long-term, except for the portion that matures within 12 months after March 31, 2014.

In May 2009, Legacy issued $163,860 of Revenue Bonds Series 2009 (Series 2009 Bonds) in Series A, B, and C through the Hospital Facility Authority of Clackamas County, Oregon. The proceeds from the Series 2009 Bonds were restricted for capital expenditures, debt service during the construction period, and expenses incurred in connection with the issuance. The Series B ($25,000) of the Series 2009 Bonds was refinanced in 2012, and the Series C ($25,000) of the Series 2009 Bonds is subject to a mandatory bondholder tender in July 2014 (see below for further discussion). The remaining bonds are payable in annual installments beginning in 2010 through 2035 at interest rates from 3.00% to 5.50%. In connection with this issuance, certain modifications to the existing master trust indenture were made. In particular, a

CONFIDENTIAL

gross revenue pledge was provided to all bondholders. The Series 2009 Bonds, and all outstanding previously issued Revenue Bonds, are obligations of the revised master trust indenture (the 2009 Master Trust Indenture).

In January 2010, Legacy issued $123,745 of Revenue Bonds Series 2010A (Series 2010A Bonds) through the State of Oregon, Oregon Facilities Authority. The proceeds from the Series 2010A Bonds were used to refund the Series 1999 Bonds and the Series 2003 Bonds and to pay for the cost of issuance of the Series 2010A Bonds. The Series 2010A Bonds are payable in annual installments beginning in 2011 at interest rates ranging from 3% to 5%. The Series 2010A Bonds are obligations of the 2009 Master Trust Indenture.

In May 2011, Legacy issued $111,470 of Refunding Revenue Bonds Series 2011A (Series 2011 Bonds) through the State of Oregon, Oregon Facilities Authority. The proceeds from the Series 2011 Bonds were used to refund the Series 2001 Bonds and to pay for the cost of issuance of the Series 2011 Bonds. The Series 2011 Bonds are payable in annual installments beginning in May 2012 at interest rates ranging from 3.00% to 5.25%. The Series 2011 Bonds are obligations of the 2009 Master Trust Indenture.

In June 2012, Legacy entered into an agreement with a bank to borrow $25,000 at a fixed rate of 1.4%, repayable in July 2014. Proceeds from this borrowing were used to refinance the Series 2009B bonds in 2012. In March 2014, Legacy entered into a binding Bond Purchase Agreement (BPA) with the Oregon Facilities Authority and a commercial bank to refinance this debt, the Series 2009C bonds that have a mandatory tender in July 2014 and portions of the 2009A bonds that are callable in July 2014. The BPA anticipates issuance of bonds totaling $71.7 million that will mature in 2021 and carry a fixed rate of 2.42%. As a result of the BPA, the debt that is scheduled to be tendered or mature in July 2014 is reflected as long-term debt less current portion on the consolidated balance sheet at March 31, 2014. Bonds issued under the BPA will be obligations of the 2009 Master Trust Indenture.

(Dollars in thousands)

(6) Investments

Legacy invests in different classes of securities for a variety of financial assets, including short-term investments, assets limited as to use, and noncurrent investments. The composition of these assets is as follows:

	Year ended March 31	
	2014	2013
Cash and cash equivalents	$ 5,331	6,834
Short-term notes	6,644	6,797
State government obligations	3,939	3,822
Small/mid cap domestic equity securities	39,118	50,589
Large cap domestic equity securities	94,963	78,697
International equity securities	108,269	50,925
International common/collective trust	—	34,526
Fixed income mutual fund	159,958	155,485
Fixed income common/collective trust	99,234	94,100
Absolute return funds	101,458	84,175
U.S. Treasury securities	35,716	38,199
Real estate partnerships	82,134	76,303
Private equity funds – funds of funds	4,804	3,822
Interest rate swaps	3,892	4,703
Guaranteed interest investment contracts (GIICs)	—	1,060
	$ 745,460	690,037

As of March 31, 2014, Legacy has a remaining capital commitment of $854 to private equity funds in the form of limited partnership/trust investments. These commitments are due on demand from the general partners/advisors. These private equity funds invest in emerging companies, venture capital funds, and other alternative investments. The termination of these partnerships/trusts is based upon specific provisions in the agreement. In most cases the life of the trusts are for a minimum of 10 years. Legacy can only transfer its interest in the investments with the consent of the general partner/advisor. The fair values of these investments are determined either by the underlying security value on the open market or by the general partner/advisor utilizing fair value principles. Debt service reserve funds and unspent construction funds related to the Series 2009A, B and C Bonds are held in trust at a national bank and are invested in accordance with the respective bond indentures, primarily in government obligations with maturities of one year or less and in money market funds. Equity method investments total $132,107 and $121,641 as of March 31, 2014 and 2013, respectively. Because the underlying investments of these equity method investment funds are valued at fair value, equity method accounting produces a value similar to the net asset value practical expedient used for certain investments at fair value.

(Dollars in thousands)

Interest Rate Swaps

In February 2004, Legacy executed a 20-year basis swap with an investment-banking firm. The notional amount of the transaction was $82,000, and the cash flows settle semiannually. Under the transaction, Legacy pays at the SIFMA index, in exchange for receiving 62% of LIBOR plus 0.814%.

In April 2009, Legacy entered into a basis swap with an investment-banking firm. The notional amount of the transaction was $50,000, and the cash flows settle quarterly. Under the transaction, Legacy pays SIFMA and receives 67% of LIBOR plus 0.60% for three years, and thereafter receives 94.1% of LIBOR until April 2029.

In September 2010, Legacy entered into two basis swaps with two investment-banking firms. The notional amount of each transaction was $50,000, and the cash flows settle quarterly. Under both transactions, Legacy pays SIFMA and receives 67% of LIBOR plus 0.60% for three years, and thereafter receives 84.45% of LIBOR on one swap and 84.0% of LIBOR on the other swap until September 2030.

The objective of these transactions is to assume the tax-basis risk for a portion of the fixed-rate exposure on outstanding long-term indebtedness in exchange for positive cash flows. These transactions do not meet the criteria for hedge accounting; therefore, any changes in fair value under these agreements are recorded as part of investment income in the accompanying consolidated statements of operations.

The fair value of these swaps is determined by the spread in interest rates. The fair value as of March 31, 2014 and 2013 represents a receivable of $3,892 and $4,703, respectively, and is included in noncurrent investments in the consolidated balance sheets.

Investment income, gains, and losses for cash and cash equivalents, short-term investments, assets limited as to use, and noncurrent investments comprise the following:

		Year ended March 31	
		2014	**2013**
Interest and dividend income	$	608	928
Realized gains on investments		51,901	24,401
Equity earnings from investment companies		14,402	9,150
Change in fair value of trading securities and interest rate swaps, net		(7,131)	16,777
Total investment income	$	59,780	51,256

(7) Fair Value of Financial Instruments

Legacy applies Accounting Standards Codification (ASC) Topic 820, *Fair Value Measurement*, for fair value measurements of financial assets and financial liabilities and for fair value measurements of nonfinancial items that are recognized or disclosed at fair value in the consolidated financial statements on a recurring basis. Topic 820 establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to measurements involving significant unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets and liabilities. Level 1 securities include marketable equity securities and mutual funds.
- Level 2 inputs are other than quoted prices included within Level 1 that are observable in the market for the asset or liability, either directly or indirectly. Level 2 securities include fixed income securities, corporate equity funds, common/collective trust funds and absolute return funds that are priced based on the net asset values (NAVs) provided by fund administrators.

  ASC SubTopic 820-10 allows for the use of a practical expedient for the estimation of the fair value of investments in investment companies for which the investment does not have a readily determinable fair value. The practical expedient used by Legacy is the NAV per share, or its equivalent. In some instances, the NAV may not equal the fair value that would be calculated under fair value accounting standards. Valuations provided by fund administrators consider variables such as the financial performance of underlying investments, recent sales prices of underlying investments and other pertinent information. In addition, actual market exchanges at year-end provide additional observable market inputs of the exit prices. Legacy reviews valuations and assumptions provided by fund administrators for reasonableness and believes that the carrying amounts of these financial instruments are reasonable estimates of fair value.
- Level 3 inputs are unobservable inputs for an asset or liability. Level 3 securities primarily include private equity funds but also include illiquid fixed income securities that have no active trading. Private equity securities use a NAV equivalent as a practical expedient to estimate fair value. The transaction price is initially used as the best estimate of fair value. Accordingly, when a valuation is provided by a private equity fund administrator, the valuation is adjusted so that the value at inception equals the transaction price. The initial valuation is adjusted when changes to inputs and assumptions are corroborated by evidence, such as transactions in similar securities, completed or pending third-party transactions in the underlying security or comparable entities, offerings in the capital markets, and changes in financial results, data or cash flows. For positions that are not traded in active markets or are subject to notice provisions, valuations are adjusted to reflect such provisions, and such adjustments are generally based on available market evidence.

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

(Dollars in thousands)

The following tables present the financial instruments carried at fair value and financial instruments valued using the equity method of accounting as of March 31, 2014 and 2013, by caption on the consolidated balance sheets, by the valuation hierarchy defined above:

	Fair value of financial instruments March 31, 2014			
	Level 1	**Level 2**	**Level 3**	**Total fair value**
Assets:				
Cash and cash equivalents	$ 5,331	—	—	5,331
Small/mid cap domestic equity securities	39,118	—	—	39,118
Large cap domestic equity securities	94,963	—	—	94,963
International equity securities	108,269	—	—	108,269
International common/ collective trust funds	—	—	—	—
Fixed income mutual fund	159,958	—	—	159,958
Fixed income common/ collective trust funds	—	99,234	—	99,234
Absolute return funds	14,669	86,789	—	101,458
Real estate partnerships	—	82,134	—	82,134
Private equity fund of funds	—	—	4,804	4,804
U.S. Treasury securities	—	35,716	—	35,716
Short-term notes	—	6,644	—	6,644
State government obligations	—	3,939	—	3,939
Interest rate swaps	—	3,892	—	3,892
GIIC	—	—	—	—
Total assets at fair value	$ 422,308	318,348	4,804	745,460

(Dollars in thousands)

	March 31, 2013			
	Level 1	Level 2	Level 3	Total fair value
Assets:				
Cash and cash equivalents	$ 6,834	—	—	6,834
Small/mid cap domestic equity securities	50,590	—	—	50,590
Large cap domestic equity securities	78,697	—	—	78,697
International equity securities	50,925	—	—	50,925
International common/ collective trust funds	—	34,526	—	34,526
Fixed income mutual fund	155,485	—	—	155,485
Fixed income common/ collective trust funds	—	94,100	—	94,100
Absolute return funds	5,017	79,157	—	84,174
Real estate partnerships	—	76,303	—	76,303
Private equity fund of funds	—	—	3,822	3,822
U.S. Treasury securities	—	38,199	—	38,199
Short-term notes	—	6,797	—	6,797
State government obligations	—	3,822	—	3,822
Interest rate swaps	—	4,703	—	4,703
GIIC	—	1,060	—	1,060
Total assets at fair value	$ 347,548	338,667	3,822	690,037

The following table presents a reconciliation of the beginning and ending balances of Level 3 assets:

	Fair value measurements Level 3
Fair value March 31, 2012	$ 5,484
Realized and unrealized (losses) gains, net	(161)
Purchases and settlements, net	(1,501)
Fair value March 31, 2013	3,822
Realized and unrealized (losses) gains, net	1,443
Purchases and settlements, net	(461)
Fair value March 31, 2014	$ 4,804

(Dollars in thousands)

The following table presents information for investments where the NAV was used as a practical expedient to measure fair value at March 31, 2014:

		Fair value	Redemption frequency	Redemption notice period
Common/collective trust funds	$	99,234	Daily or monthly	1 – 5 days
Absolute return funds		86,789	Quarterly	60 – 95 days
Real estate partnerships		82,133	Quarterly	60 – 95 days

Common/collective trust funds are investments that are operated by a trust company that manages a pooled group of trust accounts. Collective investment trusts combine the assets of various institutional investors to create a larger, well-diversified portfolio. The objectives of a collective trust are to lower the costs to investors through economies of scale available by combining assets of multiple investors, to provide daily liquidity, and to provide better diversification. Each investor owns a participating interest that is calculated in shares and represents its portion of the holdings of the fund.

Absolute return funds primarily include investments in hedge funds that utilize strategies designed to generate consistent long-term capital appreciation with low volatility and little correlation with equity and bond markets. Absolute return funds calculate NAV monthly, which approximates fair value.

Other financial instruments of Legacy include other receivables, GIICs and accrued interest. The carrying amount of these instruments approximates fair value as these items mature in less than one year.

The carrying amounts reported in the consolidated balance sheets for accounts payable, accrued wages, salaries and benefits, settlements payable to third-party payors, and other current liabilities approximate fair value.

The fair value of long-term debt is estimated based on the discounted cash flows that would be paid using current market rates for debt with the same maturities, assuming the debt was repaid as of the first call date as stipulated in the bond indenture. The fair value of long-term debt was $22,736 and $35,245 greater than the carrying value as of March 31, 2014 and 2013, respectively. This valuation represents a Level 2 fair value measurement per ASC 820.

(Dollars in thousands)

(8) Temporarily and Permanently Restricted Net Assets

Restricted net assets are available for the following purposes:

		Year ended March 31	
		2014	2013
Temporarily restricted net assets:			
Education	$	6,784	5,608
Patient care		13,865	11,943
Research		1,309	4,723
Capital acquisition		6,448	5,961
Other		4,422	4,869
	$	32,828	33,104

		Year ended March 31	
		2014	2013
Permanently restricted net assets:			
Education	$	2,681	2,650
Patient care		10,109	8,837
Research		1,943	1,932
Other		383	382
	$	15,116	13,801

Income from permanently restricted net assets is accounted for in accordance with the donors' instructions.

Legacy follows the guidance in the Uniform Prudent Management of Institutional Funds Act (UPMIFA) in determining the net asset classification of all donor-restricted endowment funds, as described in note 1. In accordance with board policy, assets classified as permanent endowments in accordance with donor intent are only utilized for current period expenditures to the extent that earnings on the endowment exceed the original fair value of the donation. To the extent earnings on endowment funds exceed identified expenditures on which to apply those earnings, the earnings are classified as temporarily restricted net assets.

Legacy has adopted investment and spending policies for endowment assets to provide a predictable stream of funding to programs supported by its endowment and to maintain the value of the endowment assets. Asset allocation is reviewed quarterly with respect to i) Legacy's tolerance for risk based on its financial condition and need for cash from investments to support operations; ii) expected asset class return, risk and correlation characteristics; iii) changes in accounting guidance or tax law; and iv) changes in bond covenants or other restrictions.

Legacy's spending practices are intended to comply with donors' wishes and meet all applicable laws and regulations. Spending must be for a purpose that is consistent with the documented intent of the donor, and may not exceed the amounts annually determined by Legacy. Factors that are considered in addressing the annual spending allocation are i) market value of the fund relative to the principal of the gift and ii) the level of spending in prior years.

(Dollars in thousands)

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or UPMIFA requires Legacy to retain as a fund of perpetual duration. Deficiencies of this nature are reported as a reduction to unrestricted net assets and are excluded from the performance indicator. During the years ended March 31, 2014 and 2013, Legacy reimbursed unrestricted net assets for $1 and $4, respectively, for amounts transferred in previous years from unrestricted net assets to permanently restricted net assets. Changes in endowment net assets for the years ended March 31, 2014 and 2013 are as follows:

		Unrestricted	Temporarily restricted	Permanently restricted	Total
Balance as of March 31, 2012	$	9,990	16,815	13,275	40,080
Investment income		250	2,711	—	2,961
Contributions		—	—	526	526
Appropriated for expenditure		(307)	(1,626)	—	(1,933)
Balance as of March 31, 2013		9,933	17,900	13,801	41,634
Investment income		416	4,152	—	4,568
Contributions		(419)	—	1,315	896
Appropriated for expenditure		—	(1,107)	—	(1,107)
Balance as of March 31, 2014	$	9,930	20,945	15,116	45,991

Amounts in permanently restricted net assets represent the corpus of donor-restricted endowments while temporarily restricted net assets represent unspent earnings on the donor-restricted endowments. Unrestricted net assets represent board-designated endowments.

(9) Functional Expenses

Legacy provides healthcare services to residents within its geographic locations. Expenses related to providing these services are as follows:

		Year ended March 31	
		2014	2013
Healthcare services	$	1,164,177	1,062,738
General and administrative		270,833	253,328
	$	1,435,010	1,316,066

(10) Retirement Plans

(a) Defined Contribution Pension Plans

Substantially all employees who are 21 years of age, have worked 1,000 hours or more during the year and have been continuously employed by Legacy for one or more years are eligible to participate in a jointly contributory tax-sheltered annuity plan. Under this plan, Legacy matches up to 3.5% of participating employees' annual salaries.

Expenses incurred by Legacy related to this plan were approximately $13,300 and $12,200 for 2014 and 2013, respectively.

(b) Pension Benefit Plans

Legacy sponsors a pension plan, the Legacy Employees' Retirement Plan (the Plan), covering the majority of employees who meet eligibility requirements as specified in the Plan. Plan assets are available to pay the benefits of all eligible employees of the Plan. Effective January 1, 2010, the Plan was amended such that eligible employees are covered by a cash balance formula with contributions based on eligible compensation and accrued years of service. Prior to that date, the Plan provided retirement benefits using a formula that considered both years of service and the highest level of compensation for any consecutive five-year period during the last 10 years before retirement. Legacy uses a measurement date of March 31 for the Plan.

Legacy maintains other retirement plans for certain management employees, which include a pension restoration plan, deferred compensation plans, and supplemental executive retirement plans.

Legacy recognizes adjustments to the funded status of the Plan as increases or decreases to net assets in the corresponding accounting period. During the years ended March 31, 2014 and 2013, Legacy recognized an increase (decrease) in net assets of $62,808 and ($26,367), respectively, related to the change in funded status of the Plan.

(Dollars in thousands)

A summary of changes in benefit obligations, fair values of plan assets, and the pension liability at March 31, 2014 and 2013 and for the fiscal years then ended is as follows:

		2014	2013
Change in projected benefit obligation:			
Projected benefit obligation at beginning of year	$	728,902	641,731
Service cost		30,882	28,887
Interest cost		30,969	30,271
Actuarial (gain) loss		(34,386)	52,578
Benefits paid		(25,756)	(24,565)
Plan amendments		(1,646)	—
Projected benefit obligation at end of year	$	728,965	728,902
Change in plan assets:			
Fair value of assets at beginning of year	$	551,547	478,516
Actual return on plan assets		58,629	47,387
Employer contribution		44,935	50,209
Benefits paid		(25,756)	(24,565)
Fair value of assets at end of year	$	629,355	551,547
Reconciliation of funded status:			
Funded status	$	(99,610)	(177,355)
Net amount recognized	$	(99,610)	(177,355)

Included in unrestricted net assets at March 31, 2014 are unrecognized prior service credits of $43,606 and unrecognized actuarial losses of $186,213 that have not yet been recognized in net periodic pension cost. The prior service credit and actuarial losses included in unrestricted net assets and expected to be recognized in net periodic pension cost during the year ending March 31, 2015 are $8,989 and $11,816, respectively. The accumulated benefit obligation as of March 31, 2014 and 2013 was $714,178 and $715,533, respectively.

Net periodic benefit cost for the years ended March 31 included the following components:

		2014	2013
Service cost	$	30,882	28,887
Interest cost		30,969	30,271
Expected return on plan assets		(40,733)	(35,705)
Amortization of prior service costs		(8,839)	(8,839)
Recognized net actuarial loss		17,580	23,369
Special recognition curtailments and settlements		137	—
Net periodic pension cost	$	29,996	37,983

CONFIDENTIAL

(Dollars in thousands)

(c) *Assumptions*

Legacy used the following actuarial assumptions to determine its benefit obligations at March 31, 2014 and 2013, and its net periodic benefit cost for the years ended March 31, 2014 and 2013:

	2014	2013
Benefit obligation (measured as of March 31, 2014 and 2013):		
Discount rate	4.77%	4.34%
Rate of increase in future compensation levels	2.50% for 2014, 3.75% thereafter plus longevity scale	4% plus longevity scale
Net periodic benefit cost (measured as of March 31, 2014 and 2013):		
Discount rate	4.34%	4.83%
Expected long-term discount rate of return on plan assets	7.50%	7.50%
Rate of increase in future compensation levels	4% plus longevity scale	4% plus longevity scale

The expected long-term rate of return on plan assets was based on Legacy's asset allocation mix and the long-term historical return for each asset class, taking into account current and expected market conditions. Legacy utilizes a nationally recognized investment consultant to assist in the return assumptions used in determining the expected long-term rate of return. The actual return on pension plan assets was a net gain of approximately 10.5% and 9.6% for the years ended March 31, 2014 and 2013, respectively. In the calculation of pension plan expense, the expected long-term rate of return on plan assets is applied to a calculated value of plan assets that recognizes changes in fair value over a four-year period. This practice is intended to reduce year-to-year volatility in pension expense, but it can have the effect of delaying the recognition of differences between actual returns and expected returns based on the long-term rate-of-return assumptions. The source data for the discount rate used to determine the benefit obligation was a universe of AA or higher rated U.S. dollar denominated bonds with similar maturities to the projected benefit payments.

(Dollars in thousands)

(d) Pension Plan Assets

The asset allocation of Legacy's pension plans at March 31, 2014 and 2013, and the target allocation were as follows:

	Target allocation	**2014**	**2013**
Equity securities	28% – 46%	36%	37%
Fixed income	21% – 34%	33%	32%
Real estate	0% – 17%	10%	11%
Absolute return funds	0% – 18%	15%	13%
Alternative investments	0% – 11%	6%	7%

Pension plan assets are managed according to an investment policy adopted by the Legacy Health Employees Retirement Plan Trustees. Professional investment managers are retained to manage specific asset classes and professional consulting is utilized for investment performance reporting. The primary objectives for the plans are to preserve and grow the assets to provide for the long-term benefit payments of the fund. Diversification is intended to reduce the risk of large losses and to enhance opportunities for appropriate appreciation along with current income. It is also an objective of the plans to invest a significant portion of the assets in fixed-income assets that have a similar interest rate sensitivity as the projected liabilities for the plans. The investment policy includes an asset allocation that includes equities, fixed income instruments, real estate, market neutral hedge funds, and alternative investments (which include private equity and distressed debt). Assets are rebalanced quarterly when balances fall outside of the approved range for each asset class.

(Dollars in thousands)

In accordance with ASC SubTopic 820-10, financial assets and financial liabilities measured at fair value are grouped in three levels, based on the markets in which the assets and liabilities are traded and the reliability of the assumptions used to estimate fair value. These levels and associated valuation methodologies are described in note 7. The following tables set forth by level, within the fair value hierarchy, list the Plan's assets at fair value as of March 31, 2014 and 2013:

	Fair value of financial instruments March 31, 2014			
	Level 1	**Level 2**	**Level 3**	**Total fair value**
Assets:				
Cash and cash equivalents	$ 6,235	—	—	6,235
Small/mid cap domestic equity securities	39,180	—	—	39,180
Large cap domestic equity securities	73,666	—	—	73,666
International equity securities	66,479	—	—	66,479
International common/ collective trust	—	43,209	—	43,209
Fixed income mutual fund	104,545	—	—	104,545
Fixed income common/ collective trust	—	103,394	—	103,394
Absolute return funds	28,863	64,410	—	93,273
Private equity funds:				
Funds of funds	—	—	31,788	31,788
Distressed situations	—	—	4,065	4,065
Real estate partnerships	—	57,439	6,082	63,521
Total assets at fair value	$ 318,968	268,452	41,935	629,355

(Dollars in thousands)

		Fair value of financial instruments March 31, 2013		
	Level 1	Level 2	Level 3	Total fair value
Assets:				
Cash and cash equivalents	$ 10,075	—	—	10,075
Small/mid cap domestic equity securities	30,420	—	—	30,420
Large cap domestic equity securities	73,749	—	—	73,749
International equity securities	17,961	—	—	17,961
International common/ collective trust	—	70,427	—	70,427
Fixed income mutual fund	87,845	—	—	87,845
Fixed income common/ collective trust	—	86,872	—	86,872
Absolute return funds	12,521	58,765	—	71,286
Private equity funds:				
Funds of funds	—	—	32,174	32,174
Distressed situations	—	—	7,841	7,841
Real estate partnerships	—	53,570	6,327	59,897
Total assets at fair value	$ 232,571	269,634	46,342	548,547

The following table presents a reconciliation of the beginning and ending balances of Level 3 assets:

	Fair value measurements Level 3
Fair value March 31, 2012	$ 77,888
Realized and unrealized (losses) gains, net	2,384
Purchases and settlements, net	(10,035)
Transfers, net	(23,895)
Fair value March 31, 2013	46,342
Realized and unrealized (losses) gains, net	6,248
Purchases and settlements, net	(10,655)
Fair value March 31, 2014	$ 41,935

(Dollars in thousands)

The transfers noted above from Level 3 to Level 2 during the year ended March 31, 2013 were the result of lifting the termination restrictions previously established by the investment manager, which allowed increased use of observable inputs for the noted security.

(e) Cash Flows

Legacy's policy with respect to funding the qualified plans is to fund at least the minimum required by the Employee Retirement Income Security Act of 1974 (ERISA), as amended, plus such additional amounts as deemed appropriate. In fiscal year 2015, Legacy expects to contribute, from ongoing cash flows and current assets, approximately $34,000 to its defined-benefit pension plans.

Benefit payments, which reflect expected future service, as appropriate, are expected to be paid as follows for the years ending December 31:

2014	$	56,769
2015		37,399
2016		41,449
2017		45,246
2018		49,075
2019–2023		286,172

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

Management is not aware of any expected settlements or curtailments that would require additional recognition during 2014.

(11) Commitments and Contingencies

(a) Professional and General Liability

Legacy is self-insured for professional and general liability coverage. Coverage in excess of the self-insurance limits is provided on a claims-made basis through commercial insurance for claims made prior to June 1, 2004 and through its captive insurance company, LHSIC, effective June 1, 2004. LHSIC is a Cayman Islands domiciled insurance company created to access the reinsurance markets. General and professional liability costs have been accrued based upon an actuarial determination. Legacy recognizes adjustments to its professional and general liability reserves associated with actuarial estimates on prior year activity as an increase or decrease to utilities, insurance and other expenses in the financial statements. In 2014 Legacy recorded additional expense of $12,000 and in 2013 recorded a reduction to expense of $5,918 related to changes in estimate of professional liabilities. Legacy is involved in litigation arising in the ordinary course of business. Claims, including alleged malpractice, have been asserted against Legacy and are currently in various stages of litigation. Additional claims may be asserted against Legacy arising from services provided to patients through March 31, 2014. In management's opinion, however, the estimated liability accrued at March 31, 2014 is adequate to provide for potential losses resulting from pending or threatened litigation.

(Continued)

(Dollars in thousands)

(b) Operating Leases

Legacy leases various equipment and real property under operating leases expiring at various dates through March 2020. The following is a schedule by year of future minimum lease payments under operating leases as of March 31, 2014, with an initial or remaining lease term in excess of one year.

Year ending March 31:		
2015	$	4,092
2016		3,743
2017		3,176
2018		2,421
2019		2,029
Thereafter		816
	$	16,277

Rent expense for 2014 and 2013 totaled $6,671 and $6,460, respectively.

(c) Employee Benefits

Legacy is self-insured for workers' compensation, employee health, and long-term and short-term disability. Legacy provides two employee transition plans (severance) under its ERISA-governed health and welfare plan.

For workers' compensation, employee health, and long-term and short-term disability, Legacy accrues the unpaid portion of claims that have been reported and estimates of claims that have been incurred but not reported, based on an actuarial study.

Legacy recognizes a severance obligation when the amount can be reasonably estimated, typically at the date of a triggering event (e.g., a reduction in force). During 2014 and 2013, Legacy expensed $445 and $13, respectively, associated with these plans.

(d) Collective Bargaining Agreements

Approximately 10% of Legacy employees were covered under collective bargaining agreements at March 31, 2014, including certain service and maintenance employees. Approximately 586 employees are covered by collective bargaining agreements that expire within one year.

(12) Compliance with Laws and Regulations

The healthcare industry is governed by various laws and regulations of federal, state, and local governments. These laws and regulations are subject to ongoing government review and interpretation, and include matters such as licensure, accreditation, reimbursement for patient services and referrals for Medicare and Medicaid beneficiaries. Compliance with these laws and regulations is required for participation in government healthcare programs. Certain governmental agencies routinely investigate and pursue allegations concerning possible overpayments resulting from violation of fraud and abuse statutes by healthcare providers. These investigations may result in settlements involving fines and penalties as well as repayment of improper reimbursement. Legacy has implemented procedures for monitoring and enforcing compliance with laws and regulations and is not aware of instances of noncompliance.

(13) Subsequent Events

Legacy evaluated and disclosed all material subsequent events through June 27, 2014, the date the consolidated financial statements were issued.

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

Independent Auditors' Report on Supplementary Information

The Board of Directors
Legacy Health:

We have audited the consolidated financial statements of Legacy Health (an Oregon nonprofit corporation) and Affiliates as of and for the years ended March 31, 2014 and 2013, and have issued our report thereon dated June 27, 2014, which contained an unmodified opinion on those consolidated financial statements. Our audit was performed for the purpose of forming an opinion on the consolidated financial statements as a whole. The supplemental information included in the consolidating balance sheets, consolidating statements of operations, and consolidating statements of changes in net assets is presented for the purposes of additional analysis and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

The schedule of consolidated financial and statistical highlights and the schedule of consolidating financial and statistical highlights are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

KPMG LLP

Portland, Oregon
June 27, 2014

LEGACY HEALTH AND AFFILIATES

Consolidating Balance Sheet

March 31, 2014

(Dollars in thousands)

Assets	Legacy Health	Legacy Emanuel Hospital & Health Center	Legacy Good Samaritan Hospital and Medical Center	Legacy Meridian Park Hospital
Current assets:				
Cash and cash equivalents	$ 69,826	638	177	105
Short-term investments	46,434	—	—	—
Accounts receivable from patients	—	125,911	37,743	25,243
Allowance for uncollectible accounts	—	(25,791)	(4,429)	(4,347)
	—	100,120	33,314	20,896
Settlements receivable from third-party payors, net	—	959	1,048	350
Other receivables	3,514	11,614	3,669	2,263
Inventories, at cost	—	7,558	4,318	2,926
Prepaid expenses	12,411	548	209	100
Total current assets	132,185	121,437	42,735	26,640
Assets limited as to use:				
Held by trustee	—	12,318	—	—
Community health fund	9,930	—	—	—
Noncurrent investments restricted for capital acquisitions	1,072	—	—	—
	11,002	12,318	—	—
Other assets:				
Property, plant and equipment	413,125	570,194	288,052	157,913
Accumulated depreciation	(287,030)	(260,935)	(220,753)	(119,703)
	126,095	309,259	67,299	38,210
Noncurrent investments	674,418	14	—	—
Property held for development or sale	13,287	—	—	7,065
Goodwill and other intangibles	379	—	—	—
Other assets	16,518	7,763	153	—
	830,697	317,036	67,452	45,275
Intercompany affiliate receivable (payable)	(697,704)	91,215	155,846	227,907
	$ 276,180	542,006	266,033	299,822

(Continued)

Legacy Mount Hood Medical Center	Legacy Salmon Creek Hospital	Legacy Visiting Nurse Association	Foundations	Credit Reporting Group	Other affiliates and eliminations	March 31, 2014 consolidated
9	11	22	9	70,797	210	71,007
—	—	—	—	46,434	—	46,434
18,193	35,551	1,855	—	244,496	3,084	247,580
(5,072)	(6,712)	(207)	—	(46,558)	(398)	(46,956)
13,121	28,839	1,648	—	197,938	2,686	200,624
487	(1,279)	—	—	1,565	—	1,565
1,960	547	—	1,420	24,987	3,161	28,148
2,114	1,801	—	—	18,717	318	19,035
21	671	8	—	13,968	347	14,315
17,712	30,590	1,678	1,429	374,406	6,722	381,128
—	—	—	—	12,318	—	12,318
—	—	—	—	9,930	—	9,930
—	—	—	—	1,072	—	1,072
—	—	—	—	23,320	—	23,320
106,234	343,443	3,486	—	1,882,447	5,376	1,887,823
(63,454)	(152,786)	(1,320)	—	(1,105,981)	(3,100)	(1,109,081)
42,780	190,657	2,166	—	776,466	2,276	778,742
—	—	—	1,274	675,706	—	675,706
—	3,203	—	—	23,555	—	23,555
—	—	—	—	379	26,483	26,862
443	—	1,350	3,244	29,471	(12,163)	17,308
43,223	193,860	3,516	4,518	1,505,577	16,596	1,522,173
25,355	81,762	(1,448)	116,651	(416)	416	—
86,290	306,212	3,746	122,598	1,902,887	23,734	1,926,621

(Continued)

LEGACY HEALTH AND AFFILIATES

Consolidating Balance Sheet

March 31, 2014

(Dollars in thousands)

Liabilities and Net Assets		Legacy Health	Legacy Emanuel Hospital & Health Center	Legacy Good Samaritan Hospital and Medical Center	Legacy Meridian Park Hospital
Current liabilities:					
Accounts payable	$	8,304	10,660	6,189	3,530
Accrued wages, salaries, and benefits		18,245	31,986	10,220	6,440
Accrued interest		2,228	1,386	—	—
Other current liabilities		22,872	9,216	4,370	2,644
Current portion of long-term debt		6,568	8,314	2,989	3,569
Total current liabilities		58,217	61,562	23,768	16,183
Long-term debt, less current portion		58,200	259,255	63,149	38,766
Other liabilities:					
Estimated general and professional claims liability		35,120	—	—	—
Accrued pension liability		8,899	43,899	23,800	6,246
Other noncurrent liabilities		18,856	2,452	691	510
		62,875	46,351	24,491	6,756
Total liabilities		179,292	367,168	111,408	61,705
Net assets:					
Unrestricted		96,888	174,297	154,625	238,117
Unrestricted, noncontrolling interest		—	—	—	—
Temporarily restricted		—	541	—	—
Permanently restricted		—	—	—	—
		96,888	174,838	154,625	238,117
	$	276,180	542,006	266,033	299,822

See accompanying independent auditors' report on other financial information.

Legacy Mount Hood Medical Center	Legacy Salmon Creek Hospital	Legacy Visiting Nurse Association	Foundations	Credit Reporting Group	Other affiliates and eliminations	March 31, 2014 consolidated
1,623	3,453	357	—	34,116	368	34,484
4,392	13,848	733	—	85,864	385	86,249
—	—	—	—	3,614	—	3,614
2,145	21	1	804	42,073	1,977	44,050
1,609	—	—	—	23,049	179	23,228
9,769	17,322	1,091	804	188,716	2,909	191,625
41,269	—	—	—	460,639	41	460,680
—	—	—	—	35,120	236	35,356
5,589	10,780	397	—	99,610	—	99,610
229	344	38	—	23,120	223	23,343
5,818	11,124	435	—	157,850	459	158,309
56,856	28,446	1,526	804	807,205	3,409	810,614
29,434	277,766	2,220	74,391	1,047,738	119	1,047,857
—	—	—	—	—	20,206	20,206
—	—	—	32,287	32,828	—	32,828
—	—	—	15,116	15,116	—	15,116
29,434	277,766	2,220	121,794	1,095,682	20,325	1,116,007
86,290	306,212	3,746	122,598	1,902,887	23,734	1,926,621

LEGACY HEALTH AND AFFILIATES

Consolidating Balance Sheet

March 31, 2013

(Dollars in thousands)

Assets		Legacy Health	Legacy Emanuel Hospital & Health Center	Legacy Good Samaritan Hospital and Medical Center	Legacy Meridian Park Hospital
Current assets:					
Cash and cash equivalents	$	49,561	2,023	119	349
Short-term investments		46,241	—	—	—
Accounts receivable from patients		—	99,950	34,498	24,540
Allowance for uncollectible accounts		—	(21,168)	(5,031)	(4,541)
		—	78,782	29,467	19,999
Settlements receivable from third-party payors, net		—	133	1,180	991
Other receivables		706	9,496	3,053	1,748
Inventories, at cost		—	6,842	3,822	3,203
Prepaid expenses		8,607	526	235	142
Total current assets		105,115	97,802	37,876	26,432
Assets limited as to use:					
Held by trustee		—	12,265	—	—
Community health fund		9,933	—	—	—
Noncurrent investments restricted for capital acquisitions		784	—	—	—
		10,717	12,265	—	—
Other assets:					
Property, plant and equipment		396,874	566,155	286,741	157,053
Accumulated depreciation		(258,993)	(245,462)	(215,653)	(118,923)
		137,881	320,693	71,088	38,130
Noncurrent investments		619,481	14	—	—
Property held for development or sale		13,294	—	—	7,065
Goodwill and other intangibles		436	—	—	—
Other assets		16,727	7,181	313	—
		787,819	327,888	71,401	45,195
Intercompany affiliate receivable (payable)		(630,839)	107,465	137,177	200,513
	$	272,812	545,420	246,454	272,140

(Continued)

Legacy Mount Hood Medical Center	Legacy Salmon Creek Hospital	Legacy Visiting Nurse Association	Foundations	Credit Reporting Group	Other affiliates and eliminations	March 31, 2013 consolidated
(115)	(175)	(74)	18	51,706	1,907	53,613
—	—	—	—	46,241	—	46,241
17,643	32,045	2,097	—	210,773	4,514	215,287
(6,410)	(7,251)	—	—	(44,401)	(835)	(45,236)
11,233	24,794	2,097	—	166,372	3,679	170,051
796	258	—	—	3,358	—	3,358
1,631	385	—	4,559	21,578	1,587	23,165
1,573	1,654	—	—	17,094	288	17,382
26	573	(3)	—	10,106	392	10,498
15,144	27,489	2,020	4,577	316,455	7,853	324,308
—	—	—	—	12,265	—	12,265
—	—	—	—	9,933	—	9,933
—	—	—	—	784	—	784
—	—	—	—	22,982	—	22,982
103,063	336,826	3,595	—	1,850,307	5,166	1,855,473
(60,066)	(141,830)	(1,248)	—	(1,042,175)	(2,500)	(1,044,675)
42,997	194,996	2,347	—	808,132	2,666	810,798
—	—	—	1,319	620,814	—	620,814
—	3,203	—	—	23,562	—	23,562
—	—	—	—	436	26,482	26,918
1,092	—	1,404	3,819	30,536	(12,239)	18,297
44,089	198,199	3,751	5,138	1,483,480	16,909	1,500,389
18,627	63,196	(2,148)	105,122	(887)	887	—
77,860	288,884	3,623	114,837	1,822,030	25,649	1,847,679

(Continued)

LEGACY HEALTH AND AFFILIATES

Consolidating Balance Sheet

March 31, 2013

(Dollars in thousands)

Liabilities and Net Assets		Legacy Health	Legacy Emanuel Hospital & Health Center	Legacy Good Samaritan Hospital and Medical Center	Legacy Meridian Park Hospital
Current liabilities:					
Accounts payable	$	18,060	13,234	5,311	2,772
Accrued wages, salaries, and benefits		16,154	28,232	9,587	5,776
Accrued interest		2,332	1,418	—	—
Other current liabilities		21,121	6,170	3,356	2,191
Current portion of long-term debt		6,953	8,218	2,997	3,585
Total current liabilities		64,620	57,272	21,251	14,324
Long-term debt, less current portion		64,731	267,574	66,139	42,336
Other liabilities:					
Estimated general and professional claims liability		22,236	—	—	—
Accrued pension liability		17,932	74,107	36,718	14,420
Other noncurrent liabilities		15,946	2,599	747	538
		56,114	76,706	37,465	14,958
Total liabilities		185,465	401,552	124,855	71,618
Net assets:					
Unrestricted		87,347	143,401	121,599	200,522
Unrestricted, noncontrolling interest		—	—	—	—
Temporarily restricted		—	467	—	—
Permanently restricted		—	—	—	—
		87,347	143,868	121,599	200,522
	$	272,812	545,420	246,454	272,140

See accompanying independent auditors' report on other financial information.

Legacy Mount Hood Medical Center	Legacy Salmon Creek Hospital	Legacy Visiting Nurse Association	Foundations	Credit Reporting Group	Other affiliates and eliminations	March 31, 2013 consolidated
1,778	3,137	146	—	44,438	747	45,185
3,838	10,904	603	—	75,094	418	75,512
—	—	—	—	3,750	—	3,750
2,043	1,890	1	835	37,607	2,285	39,892
1,614	—	—	—	23,367	382	23,749
9,273	15,931	750	835	184,256	3,832	188,088
42,879	—	—	—	483,659	153	483,812
—	—	—	—	22,236	236	22,472
10,150	23,027	1,002	—	177,356	(1)	177,355
372	322	41	—	20,565	211	20,776
10,522	23,349	1,043	—	220,157	446	220,603
62,674	39,280	1,793	835	888,072	4,431	892,503
15,186	249,604	1,830	67,564	887,053	343	887,396
—	—	—	—	—	20,875	20,875
—	—	—	32,637	33,104	—	33,104
—	—	—	13,801	13,801	—	13,801
15,186	249,604	1,830	114,002	933,958	21,218	955,176
77,860	288,884	3,623	114,837	1,822,030	25,649	1,847,679

LEGACY HEALTH AND AFFILIATES

Consolidating Statement of Operations

Year ended March 31, 2014

(Dollars in thousands)

	Legacy Health	Legacy Emanuel Hospital & Health Center	Legacy Good Samaritan Hospital and Medical Center	Legacy Meridian Park Hospital	Legacy Mount Hood Medical Center
Gross patient charges	$ —	1,398,325	679,742	449,074	326,155
Adjustments to gross patient charges:					
Charity allowances	—	71,768	27,817	15,182	22,374
Third-party contractual adjustments	—	675,605	365,535	239,952	173,915
Patient service revenue	—	650,952	286,390	193,940	129,866
Less provision for bad debts	—	30,287	7,640	8,033	11,408
Net patient service revenues	—	620,665	278,750	185,907	118,458
Other revenues	183,057	29,135	6,604	2,185	3,814
Total operating revenues	183,057	649,800	285,354	188,092	122,272
Operating expenses:					
Wages, salaries, and benefits	87,754	358,903	131,543	78,582	53,933
Supplies	3,397	88,537	46,096	30,708	14,238
Professional fees	2,744	25,519	6,265	2,858	2,705
Purchased services	46,796	(8,003)	18,163	9,717	7,745
Utilities, insurance and other expenses	12,516	61,898	12,851	13,297	11,174
Depreciation	26,305	30,149	14,113	8,524	6,302
Interest and amortization	2,886	9,635	1,713	1,539	1,130
Management fees	—	90,710	43,655	28,228	16,280
	182,398	657,348	274,399	173,453	113,507
Income (loss) from operations	659	(7,548)	10,955	14,639	8,765
Other income (expenses):					
Investment income (loss), net	2,335	10,223	10,459	14,918	1,822
Loss on extinguishment of debt	—	—	—	—	—
Other, net	(668)	(1,596)	(49)	11	(5)
	1,667	8,627	10,410	14,929	1,817
Revenues in excess of (less than) expenses	$ 2,326	1,079	21,365	29,568	10,582

See accompanying independent auditors' report on other financial information.

Legacy Salmon Creek Hospital	Legacy Visiting Nurse Association	Foundations	Interentity eliminations	Credit Reporting Group	Other affiliates and eliminations	Year ended March 31, 2014 consolidated
615,763	13,506	—	(207)	3,482,358	50,601	3,532,959
23,834	112	—	—	161,087	—	161,087
354,427	967	—	32,107	1,842,508	33,412	1,875,920
237,502	12,427	—	(32,314)	1,478,763	17,189	1,495,952
12,912	266	—	—	70,546	10	70,556
224,590	12,161	—	(32,314)	1,408,217	17,179	1,425,396
9,204	696	6,599	(182,244)	59,050	674	59,724
233,794	12,857	6,599	(214,558)	1,467,267	17,853	1,485,120
147,430	9,297	—	(41,553)	825,889	5,515	831,404
30,249	732	—	8,672	222,629	4,368	226,997
4,933	35	—	(474)	44,585	586	45,171
8,554	1,034	—	(221)	83,785	2,296	86,081
13,473	677	8,517	(8,232)	126,171	1,633	127,804
14,452	180	—	—	100,025	609	100,634
—	—	—	—	16,903	16	16,919
1,008	1,000	—	(180,881)	—	—	—
220,099	12,955	8,517	(222,689)	1,419,987	15,023	1,435,010
13,695	(98)	(1,918)	8,131	47,280	2,830	50,110
5,683	—	10,067	—	55,507	—	55,507
—	—	—	—	—	—	—
(1,141)	—	(1,179)	(5,959)	(10,586)	(28)	(10,614)
4,542	—	8,888	(5,959)	44,921	(28)	44,893
18,237	(98)	6,970	2,172	92,201	2,802	95,003

LEGACY HEALTH AND AFFILIATES

Consolidating Statement of Operations

Year ended March 31, 2013

(Dollars in thousands)

	Legacy Health	Legacy Emanuel Hospital & Health Center	Legacy Good Samaritan Hospital and Medical Center	Legacy Meridian Park Hospital	Legacy Mount Hood Medical Center
Gross patient charges	$ —	1,293,948	657,672	417,427	289,256
Adjustments to gross patient charges:					
Charity allowances	—	69,585	32,773	15,945	25,106
Third-party contractual adjustments	—	631,905	343,600	218,438	151,872
Patient service revenue	—	592,458	281,299	183,044	112,278
Less provision for bad debts	—	26,366	9,446	8,583	10,801
Net patient service revenues	—	566,092	271,853	174,461	101,477
Other revenues	178,849	27,539	4,870	1,955	2,656
Total operating revenues	178,849	593,631	276,723	176,416	104,133
Operating expenses:					
Wages, salaries, and benefits	80,969	335,224	127,122	74,594	48,790
Supplies	2,514	81,810	46,403	28,041	12,152
Professional fees	3,487	25,134	7,341	2,533	2,641
Purchased services	46,762	(8,574)	15,925	9,619	7,989
Utilities, insurance and other expenses	13,321	37,975	7,380	6,908	7,794
Depreciation	26,181	28,795	14,343	8,973	5,507
Interest and amortization	3,036	9,793	1,843	1,630	1,205
Management fees	—	86,162	44,624	27,129	16,334
	176,270	596,319	264,981	159,427	102,412
Income (loss) from operations	2,579	(2,688)	11,742	16,989	1,721
Other income (expenses):					
Investment income (loss), net	1,922	10,232	9,547	13,542	1,620
Loss on extinguishment of debt	—	—	—	—	—
Other, net	(589)	(1,303)	(4)	(14)	(21)
	1,333	8,929	9,543	13,528	1,599
Revenues in excess of (less than) expenses	$ 3,912	6,241	21,285	30,517	3,320

See accompanying independent auditors' report on other financial information.

Legacy Salmon Creek Hospital	Legacy Visiting Nurse Association	Foundations	Interentity eliminations	Credit Reporting Group	Other affiliates and eliminations	Year ended March 31, 2013 consolidated
523,691	12,589	—	(346)	3,194,237	55,345	3,249,582
23,810	119	—	—	167,338	—	167,338
285,167	965	—	33,053	1,665,000	34,146	1,699,146
214,714	11,505	—	(33,399)	1,361,899	21,199	1,383,098
15,138	(9)	—	—	70,325	440	70,765
199,576	11,514	—	(33,399)	1,291,574	20,759	1,312,333
6,814	960	6,555	(177,449)	52,749	78	52,827
206,390	12,474	6,555	(210,848)	1,344,323	20,837	1,365,160
134,354	9,092	—	(42,145)	768,000	5,815	773,815
25,280	737	—	8,323	205,260	4,831	210,091
3,749	76	—	(549)	44,412	567	44,979
5,424	269	—	(232)	77,182	2,535	79,717
15,114	772	8,010	(8,093)	89,181	1,590	90,771
14,376	184	—	—	98,359	772	99,131
—	—	—	—	17,507	55	17,562
985	1,100	—	(176,334)	—	—	—
199,282	12,230	8,010	(219,030)	1,299,901	16,165	1,316,066
7,108	244	(1,455)	8,182	44,422	4,672	49,094
4,779	1	6,799	—	48,442	7	48,449
—	—	—	—	—	—	—
(1,187)	—	(305)	(5,575)	(8,998)	33	(8,965)
3,592	1	6,494	(5,575)	39,444	40	39,484
10,700	245	5,039	2,607	83,866	4,712	88,578

LEGACY HEALTH AND AFFILIATES

Consolidating Statement of Changes in Net Assets

Year ended March 31, 2014

(Dollars in thousands)

		Legacy Health	Legacy Emanuel Hospital & Health Center	Legacy Good Samaritan Hospital and Medical Center	Legacy Meridian Park Hospital	Legacy Mount Hood Medical Center
Unrestricted net assets, controlling interest:						
Revenues in excess of (less than) expenses	$	2,326	1,079	21,365	29,568	10,582
Net assets released from restriction used for property, plant and equipment		—	5,376	1,209	1,413	140
Pension and other postretirement adjustments		7,215	24,440	10,452	6,614	3,690
Distributions		—	—	—	—	—
Other transfers		—	—	—	—	(164)
Change in unrestricted net assets, controlling interest		9,541	30,895	33,026	37,595	14,248
Unrestricted net assets, noncontrolling interest:						
Revenues in excess of expenses		—	—	—	—	—
Distributions		—	—	—	—	—
Change in unrestricted net assets, noncontrolling interest		—	—	—	—	—
Temporarily restricted net assets:						
Donor-restricted contributions and grants		—	7,135	—	—	—
Investment income, net		—	—	—	—	—
Net assets released from restriction		—	(7,060)	—	—	—
Transfers		—	—	—	—	—
Change in temporarily restricted net assets		—	75	—	—	—
Permanently restricted net assets:						
Donor-restricted contributions and grants		—	—	—	—	—
Other transfers		—	—	—	—	—
Change in permanently restricted net assets		—	—	—	—	—
Change in net assets		9,541	30,970	33,026	37,595	14,248
Net assets, beginning of year		87,347	143,868	121,599	200,522	15,186
Net assets, end of year	$	96,888	174,838	154,625	238,117	29,434

See accompanying independent auditors' report on other financial information.

Legacy Salmon Creek Hospital	Legacy Visiting Nurse Association	Foundations	Interentity eliminations	Credit Reporting Group	Other affiliates and eliminations	Year ended March 31, 2014 consolidated
18,237	(98)	6,970	2,172	92,201	(388)	91,813
16	—	(142)	(2,172)	5,840	—	5,840
9,909	488	—	—	62,808	—	62,808
—	—	—	—	—	—	—
—	—	—	—	(164)	164	—
28,162	390	6,828	—	160,685	(224)	160,461
—	—	—	—	—	3,190	3,190
—	—	—	—	—	(3,859)	(3,859)
—	—	—	—	—	(669)	(669)
—	—	(569)	—	6,566	—	6,566
—	—	4,273	—	4,273	—	4,273
—	—	(4,055)	—	(11,115)	—	(11,115)
—	—	—	—	—	—	—
—	—	(351)	—	(276)	—	(276)
—	—	1,315	—	1,315	—	1,315
—	—	—	—	—	—	—
—	—	1,315	—	1,315	—	1,315
28,162	390	7,792	—	161,724	(893)	160,831
249,604	1,830	114,002	—	933,958	21,218	955,176
277,766	2,220	121,794	—	1,095,682	20,325	1,116,007

LEGACY HEALTH AND AFFILIATES

Consolidating Statement of Changes in Net Assets

Year ended March 31, 2013

(Dollars in thousands)

		Legacy Health	Legacy Emanuel Hospital & Health Center	Legacy Good Samaritan Hospital and Medical Center	Legacy Meridian Park Hospital	Legacy Mount Hood Medical Center
Unrestricted net assets, controlling interest:						
Revenues in excess of (less than) expenses	$	3,912	6,241	21,285	30,517	3,320
Net assets released from restriction used for property, plant and equipment		16	5,981	2,567	64	18
Pension and other postretirement adjustments		(3,057)	(10,557)	(4,534)	(2,400)	(1,522)
Distributions		—	—	—	—	—
Other transfers		—	(9)	—	—	—
Change in unrestricted net assets, controlling interest		871	1,656	19,318	28,181	1,816
Unrestricted net assets, noncontrolling interest:						
Revenues in excess of expenses		—	—	—	—	—
Distributions		—	—	—	—	—
Change in unrestricted net assets, noncontrolling interest		—	—	—	—	—
Temporarily restricted net assets:						
Donor-restricted contributions and grants		—	7,555	—	—	—
Investment income, net		—	—	—	—	—
Net assets released from restriction		—	(7,566)	—	—	—
Transfers		—	9	—	—	—
Change in temporarily restricted net assets		—	(2)	—	—	—
Permanently restricted net assets:						
Donor-restricted contributions and grants		—	—	—	—	—
Other transfers		—	—	—	—	—
Change in permanently restricted net assets		—	—	—	—	—
Change in net assets		871	1,654	19,318	28,181	1,816
Net assets, beginning of year		86,476	142,214	102,281	172,341	13,370
Net assets, end of year	$	87,347	143,868	121,599	200,522	15,186

See accompanying independent auditors' report on other financial information.

Legacy Salmon Creek Hospital	Legacy Visiting Nurse Association	Foundations	Interentity eliminations	Credit Reporting Group	Other affiliates and eliminations	Year ended March 31, 2013 consolidated
10,700	245	5,039	2,607	83,866	(95)	83,771
35	9	(157)	(2,607)	5,926	—	5,926
(4,098)	(199)	—	—	(26,367)	—	(26,367)
—	—	—	—	—	127	127
—	—	—	—	(9)	—	(9)
6,637	55	4,882	—	63,416	32	63,448
—	—	—	—	—	4,807	4,807
—	—	—	—	—	(5,314)	(5,314)
—	—	—	—	—	(507)	(507)
—	—	4,490	—	12,045	—	12,045
—	—	2,803	—	2,803	—	2,803
—	—	(9,651)	—	(17,217)	—	(17,217)
—	—	(83)	—	(74)	—	(74)
—	—	(2,441)	—	(2,443)	—	(2,443)
—	—	443	—	443	—	443
—	—	83	—	83	—	83
—	—	526	—	526	—	526
6,637	55	2,967	—	61,499	(475)	61,024
242,967	1,775	111,035	—	872,459	21,693	894,152
249,604	1,830	114,002	—	933,958	21,218	955,176

LEGACY HEALTH AND AFFILIATES

Consolidated Financial and Statistical Highlights

Years ended March 31

(Unaudited)

	2014	2013	2012	2011
Utilization:				
Average number of available beds	1,102	1,068	1,071	1,064
Percentage occupancy	61.7%	61.7%	60.0%	60.7%
Patient days	242,208	240,395	235,358	235,569
Medicare percent of discharge revenue	36.9%	37.1%	35.5%	33.6%
Average length of stay	4.5	4.4	4.3	4.5
Discharges:	54,348	54,533	54,896	52,915
Outpatient revenues as a percent of gross patient revenue	42.5%	42.9%	41.8%	42.4%
Average full-time equivalent (FTE) employees:				
Number of paid FTEs	8,368	7,941	8,020	7,997
Worked FTEs	7,109	6,854	6,926	6,894
FTEs per adjusted occupied bed:	7.3	6.9	7.3	7.1
Ratios:				
Deductions from revenues	59.7%	59.6%	58.3%	58.3%
Operating margin	3.8%	3.6%	4.2%	3.4%
Debt service coverage (A)	5.4	4.4	4.5	5.0
Net days in accounts receivable	47.6	46.4	48.2	46.4
Days cash on hand	215.8	214.9	201.1	198.1

Note: (A) Debt service coverage is calculated solely on the Master Trust Reporting Group.

See accompanying independent auditors' report on other financial information.

LEGACY HEALTH AND AFFILIATES

Consolidating Financial and Statistical Highlights

Years ended March 31, 2014 and 2013

(Unaudited)

	Consolidated	Legacy Emanuel Hospital & Health Center	Legacy Good Samaritan Hospital and Medical Center	Legacy Meridian Park Hospital	Legacy Mount Hood Medical Center	Legacy Salmon Creek Hospital
Utilization:						
Average available beds:						
2014	1,102	427	247	130	92	206
2013	1,068	419	233	130	91	195
Percentage occupancy:						
2014	61.4%	65.1%	57.9%	56.1%	62.2%	60.9%
2013	61.7	67.3	60.4	57.5	55.5	56.7
Patient days:						
2014	242,208	99,550	50,070	27,316	20,092	45,180
2013	240,395	102,910	51,366	27,300	18,440	40,379
Medicare percentage of discharge revenue:						
2014	36.9%	22.3%	49.6%	50.6%	41.7%	39.5%
2013	37.1	23.5	49.1	51.2	42.3	37.6
Average length of stay (days):						
2014	4.5	5.6	5.0	3.3	3.5	3.6
2013	4.4	5.5	4.7	3.4	3.4	3.7
Discharges:						
2014	54,348	17,852	10,087	8,169	5,785	12,455
2013	54,533	18,880	11,030	8,069	5,512	11,042
Outpatient revenues as a percentage of gross patient revenue:						
2014	42.5%	26.6%	43.3%	45.1%	50.1%	61.7%
2013	42.9	26.2	42.8	46.1	52.4	38.2
Average full-time equivalent (FTE) employees:						
Number of paid FTEs:						
2014	8,368	2,232	1,308	684	507	988
2013	7,941	2,163	1,284	659	482	860
FTEs per adjusted occupied bed:						
Paid FTEs:						
2014	7.3	6.0	5.4	5.0	4.6	4.9
2013	6.9	5.7	5.2	4.8	4.5	4.8
Worked FTEs:						
2014	6.2	5.2	4.6	4.3	3.9	4.2
2013	5.9	4.9	4.5	4.1	3.9	4.2
Ratios:						
Deductions from revenues:						
2014	59.7%	55.7%	59.0%	59.4%	63.9%	64.1%
2013	59.6	56.6	58.7	59.1	64.9	62.5
Operating margin:						
2014	0.0%	10.0%	0.0%	10.0%	10.0%	10.0%
2013	3.6	5.8	4.2	12.2	1.7	7.0

Note: Statistics for hospital entities listed above represent information related to hospital operations only. Professional clinics, laboratory services, system office and other operations are included in the consolidated total.

See accompanying independent auditors' report on other financial information.

LEGACY HEALTH AND AFFILIATES

Consolidated Financial Statements and Other Financial Information

March 31, 2015 and 2014

(With Independent Auditors' Reports Thereon)

LEGACY HEALTH AND AFFILIATES

Table of Contents

	Page
Independent Auditors' Report	1
Consolidated Financial Statements:	
Consolidated Balance Sheets	3
Consolidated Statements of Operations	5
Consolidated Statements of Changes in Net Assets	6
Consolidated Statements of Cash Flows	7
Notes to Consolidated Financial Statements	8
Other Financial Information	
Consolidating Financial Information:	
Consolidating Balance Sheets	37
Consolidating Statements of Operations	45
Consolidating Statements of Changes in Net Assets	49
Consolidated Financial and Statistical Highlights (Unaudited)	53
Consolidating Financial and Statistical Highlights (Unaudited)	54

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

Independent Auditors' Report

The Board of Directors
Legacy Health and Affiliates:

We have audited the accompanying consolidated financial statements of Legacy Health [an Oregon not-for-profit corporation] and Affiliates, which comprise the consolidated balance sheets as of March 31, 2015 and 2014, and the related consolidated statements of operations, changes in net assets, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Legacy Health and Affiliates as of March 31, 2015 and 2014, and the results of their operations and their cash flows for the years then ended, in accordance with U.S. generally accepted accounting principles.

Supplementary Information

The supplemental information included in the consolidating balance sheets, consolidating statements of operations, and consolidating statements of changes in net assets is presented for the purposes of additional analysis and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

The schedule of consolidated financial and statistical highlights and the schedule of consolidating financial and statistical highlights are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

KPMG LLP

Portland, Oregon
June 23, 2015

LEGACY HEALTH AND AFFILIATES

Consolidated Balance Sheets

March 31, 2015 and 2014

(Dollars in thousands)

Assets		2015	2014
Current assets:			
Cash and cash equivalents	$	99,994	71,007
Short-term investments		62,300	46,434
Accounts receivable from patients, less allowance for uncollectible accounts of $38,538 in 2015 and $46,750 in 2014		205,676	200,624
Settlements receivable from third-party payors, net		28,581	1,565
Other receivables		41,391	28,148
Inventories, at cost		20,564	19,035
Prepaid expenses		21,078	14,315
Total current assets		479,584	381,128
Assets limited as to use:			
Held by trustee		5,858	12,318
Community health fund		9,984	9,930
Noncurrent investments restricted for capital acquisitions		1,969	1,072
		17,811	23,320
Other assets:			
Property, plant and equipment, net		764,279	778,742
Noncurrent investments		742,430	675,706
Property held for development		23,574	23,555
Goodwill and other intangibles		30,190	26,862
Other assets		24,426	17,308
		1,584,899	1,522,173
	$	2,082,294	1,926,621

See accompanying notes to consolidated financial statements.

Liabilities and Net Assets		**2015**	**2014**
Current liabilities:			
Accounts payable	$	45,740	34,484
Accrued wages, salaries, and benefits		91,548	86,249
Accrued interest		3,154	3,614
Other current liabilities		64,127	44,050
Current portion of long-term debt		22,940	23,228
Total current liabilities		227,509	191,625
Long-term debt, less current portion		431,684	460,680
Other liabilities:			
Estimated general and professional claims liability		34,951	35,356
Accrued pension liability		185,216	99,610
Other noncurrent liabilities		26,489	23,343
		246,656	158,309
Total liabilities		905,849	810,614
Net assets:			
Unrestricted		1,105,494	1,047,857
Unrestricted, noncontrolling interest		19,010	20,206
Temporarily restricted		36,601	32,828
Permanently restricted		15,340	15,116
		1,176,445	1,116,007
	$	2,082,294	1,926,621

LEGACY HEALTH AND AFFILIATES

Consolidated Statements of Operations

Years ended March 31, 2015 and 2014

(Dollars in thousands)

		2015	2014
Patient service revenues	$	1,594,388	1,495,952
Less provision for bad debts		26,155	70,556
Net patient service revenues		1,568,233	1,425,396
Other revenues		90,532	59,724
Total operating revenues		1,658,765	1,485,120
Operating expenses:			
Wages, salaries, and benefits		904,996	831,404
Supplies		240,967	226,997
Professional fees		46,065	45,171
Purchased services		95,220	86,081
Utilities, insurance, and other expenses		134,036	127,804
Depreciation		100,921	100,634
Interest and amortization		15,136	16,919
Total operating expenses		1,537,341	1,435,010
Income from operations		121,424	50,110
Other income (expenses):			
Investment income, net		46,084	55,507
Loss on extinguishment of debt		(573)	—
Other, net		(10,442)	(10,614)
Total other income		35,069	44,893
Revenues in excess of expenses		156,493	95,003
Net assets released from restriction used for property, plant and equipment		931	5,840
Pension and other postretirement adjustments		(97,655)	62,808
Distributions to joint venture partners		(3,328)	(3,859)
Change in unrestricted net assets	$	56,441	159,792

See accompanying notes to consolidated financial statements.

LEGACY HEALTH AND AFFILIATES

Consolidated Statements of Changes in Net Assets

Years ended March 31, 2015 and 2014

(Dollars in thousands)

		2015	2014
Unrestricted net assets, controlling interest:			
Revenues in excess of expenses	$	154,199	91,813
Net assets released from restriction used for property, plant and equipment		931	5,840
Pension and other postretirement adjustments		(97,655)	62,808
Distributions		162	—
Change in unrestricted net assets, controlling interest		57,637	160,461
Unrestricted net assets, noncontrolling interest:			
Revenues in excess of expenses		2,294	3,190
Distributions		(3,490)	(3,859)
Change in unrestricted net assets, noncontrolling interest		(1,196)	(669)
Temporarily restricted net assets:			
Donor-restricted contributions and grants		8,136	6,566
Investment gain, net		1,931	4,273
Net assets released from restriction		(6,294)	(11,115)
Change in temporarily restricted net assets		3,773	(276)
Permanently restricted net assets:			
Donor-restricted contributions and grants		224	1,315
Change in permanently restricted net assets		224	1,315
Change in net assets		60,438	160,831
Net assets, beginning of year		1,116,007	955,176
Net assets, end of year	$	1,176,445	1,116,007

See accompanying notes to consolidated financial statements.

LEGACY HEALTH AND AFFILIATES

Consolidated Statements of Cash Flows

Years ended March 31, 2015 and 2014

(Dollars in thousands)

		2015	2014
Cash flows from operating activities:			
Change in net assets	$	60,438	160,831
Adjustments to reconcile change in net assets to net cash provided by operating activities:			
Net distributions to noncontrolling partners		3,491	3,859
Depreciation and amortization		106,025	105,973
Loss on disposal of assets		6,502	374
Change in net realized and unrealized gains on investments		(32,425)	(44,678)
Restricted contributions		(4,322)	(3,029)
Equity earnings from joint ventures and investment companies, net		(17,379)	(15,711)
Pension and other postretirement adjustments		97,655	(62,808)
Change in certain current assets and current liabilities		(10,410)	(37,518)
Change in long-term operating assets and liabilities		(11,588)	1,785
Net cash provided by operating activities		197,987	109,078
Cash flows from investing activities:			
Purchase of property, plant and equipment, net		(105,142)	(72,003)
Proceeds from sale of assets		82	331
Change in funds held by trustee		6,460	(53)
Change in other long-term assets		(1,722)	(221)
Investment in joint ventures and investment companies		(9,917)	(100)
Distributions from joint ventures and investment companies		50,643	3,726
Purchases of trading securities		(254,776)	(265,187)
Sales of trading securities		173,824	266,306
Net cash used in investing activities		(140,548)	(67,201)
Cash flows from financing activities:			
Proceeds from issuance of long-term debt		71,743	66
Repayment of long-term debt		(101,026)	(23,719)
Distributions to noncontrolling partners		(3,491)	(3,859)
Proceeds from restricted contributions		4,322	3,029
Net cash used in financing activities		(28,452)	(24,483)
Increase in cash and cash equivalents		28,987	17,394
Cash and cash equivalents, beginning of year		71,007	53,613
Cash and cash equivalents, end of year	$	99,994	71,007
Supplemental disclosures of cash flow information:			
Cash paid for interest (net of amount capitalized)	$	16,060	17,390
Amounts accrued for property, plant and equipment, net		8,891	2,392

See accompanying notes to consolidated financial statements.

(1) Organization and Summary of Significant Accounting Policies

(a) Organization and Basis of Consolidation

Legacy Health and Affiliates (Legacy) provides healthcare and various healthcare-related services. They are organized primarily as nonprofit corporations under the laws of the State of Oregon or Washington.

The consolidated financial statements include the accounts of Legacy and its direct affiliates, including the following:

Legacy Emanuel Hospital & Health Center

Legacy Good Samaritan Hospital and Medical Center

Legacy Meridian Park Hospital

Legacy Mount Hood Medical Center

Legacy Salmon Creek Hospital

Legacy Visiting Nurse Association and Affiliates

Managed HealthCare Northwest, Inc. (MHN)

Legacy Health System Insurance Company (LHSIC)

Legacy USP Surgery Centers, LLC (LUSC)

All significant interentity accounts and transactions have been eliminated.

The consolidated financial statements also include the accounts of affiliated foundations (Emanuel Medical Center Foundation and Randall Children's Hospital Foundation, Good Samaritan Foundation, Meridian Park Medical Foundation, Mt. Hood Medical Center Foundation and Salmon Creek Hospital Foundation) whose activities benefit and are controlled by the corresponding facilities of Legacy Emanuel Hospital & Health Center, Legacy Good Samaritan Hospital and Medical Center, Legacy Meridian Park Hospital, Legacy Mount Hood Medical Center, and Legacy Salmon Creek Hospital, respectively.

Investments in joint ventures that are not controlled by Legacy but, which represent 20% or more ownership or control, are accounted for by the equity method and are included in the consolidated balance sheets as other assets.

(b) Use of Estimates

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Key estimates include uncollectible and contractual allowances on patient accounts receivable, third-party payor settlements, self-insured liabilities, fair value of investments, and pension obligations.

(c) Income Taxes

Legacy, except for MHN, LHSIC, and LUSC, is exempt from federal income taxes under Section 501(a) of the Internal Revenue Code (IRC) as an organization described in Section 501(c)(3) of the IRC, except on unrelated business income.

Legacy's wholly owned insurance captive, LHSIC, operates in the Cayman Islands and is currently not subject to income taxes.

For the taxable affiliates, income taxes are accounted for on the liability method. Accordingly, deferred income taxes are provided to reflect temporary differences between financial and tax reporting. Deferred tax assets and liabilities are measured based on enacted tax laws and rates without anticipation of future changes.

Accounting principles generally accepted in the United States of America require Legacy management to evaluate tax positions taken by the organization and recognize a tax liability (or asset) if the organization has taken an uncertain position that more likely than not would not be sustained upon examination by the IRS. Management has analyzed tax positions taken by the organization and has concluded that as of March 31, 2015, there are no uncertain positions taken or expected to be taken that would require recognition of a liability (or asset) or disclosure in the consolidated financial statements. Legacy is subject to routine audits by taxing jurisdictions and currently the State of Washington is auditing excise taxes from January 2009 through March 2013 for Legacy Salmon Creek Hospital. Legacy management believes it is no longer subject to income tax examinations for years prior to 2011.

(d) Net Patient Service Revenues

Legacy has agreements with third-party payors that provide for payments to Legacy at amounts different from its established rates. Payment arrangements include prospectively determined rates per discharge, reimbursed costs, discounted charges and per diem payments. Net patient service revenues are reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered.

Contractual adjustments arising under reimbursement arrangements with third-party payors are accrued on an estimated basis in the period the related services are rendered and are adjusted in future periods as final settlements are determined.

(e) Other Revenues

The Health Information Technology for Economic and Clinical Health Act, part of the American Recovery and Reinvestment Act of 2009, created an incentive program to promote the "meaningful use" of Electronic Health Records (EHR). To qualify, Medicare providers must attest to the Centers for Medicare and Medicaid Services (CMS) that they are using certified EHR in a "meaningful" way by meeting objectives at established thresholds, as defined by CMS. The states of Oregon and Washington have also established EHR incentive programs for Medicaid providers with similar requirements. Meaningful use revenues are recognized as grant revenue. Grant revenue is recognized when there is reasonable assurance that the grant will be received and that the organization will comply with the conditions attached to the grant. In fiscal 2015 and 2014, respectively, Legacy recorded meaningful use revenues of $8,483 and $6,498, which were recognized in other revenues in the consolidated statements of operations. The amounts recognized are based on management's best estimate and are subject to audit and potential retrospective adjustment.

The state of Oregon established a Healthcare Transformation Performance Program (HTPP) in 2013 to advance health system transformation, reduce hospital costs and improve patient safety. In 2015, the first year of the program all DRG hospitals in Oregon are eligible to earn HTPP payments based on reporting of key quality measures. Payments are based on relative hospital size as determined by Medicaid days and discharges. Payments in subsequent years will be determined by improvements in performance against quality measures.

Legacy earned and recorded $22,824 in HTPP revenue in fiscal 2015 which is recognized as other revenues in the consolidated statement of operations and as settlement receivable from third party payors on the consolidated balance sheet. Payment was received in April 2015.

(f) ***Income from Operations***

Income from operations excludes certain items that Legacy deems to be outside the scope of its primary business. Investment income includes interest income, dividends, realized and unrealized gains and losses on short-term and noncurrent investments and equity earnings from investment companies. Other income includes rental income and research activities, net of any corresponding expenses to operate these programs.

(g) ***Performance Indicator***

The performance indicator is revenues in excess of expenses. Changes in unrestricted net assets, which are excluded from revenues in excess of expenses, consistent with industry practice, include permanent transfers of assets to and from affiliates for other than goods and services, pension and other postretirement adjustments, the cumulative effect of changes in accounting principles, and contributions of long-lived assets (including assets acquired using contributions, which, by donor restriction, were to be used for the purpose of acquiring such assets).

(h) ***Charity Care***

Legacy provides care without charge or at amounts less than its established rates to patients who meet certain criteria under its financial assistance policy. Since Legacy does not pursue collection of amounts determined to qualify as charity care, they are excluded from patient revenues.

(i) ***Cash and Cash Equivalents***

Cash equivalents include investments in money market funds and highly liquid debt instruments with original maturities of three months or less.

(Continued)

Legacy maintains cash and cash equivalents on deposit at financial institutions, which at times exceed the limits insured by the Federal Deposit Insurance Corporation. This exposes Legacy to potential risk of loss in the event the financial institution becomes insolvent.

(j) Short-Term Investments

Short-term investments include corporate and government obligation securities, which are included in managed, low-duration portfolios. The maturities of these related securities can exceed one year. Management anticipates the securities will be liquidated within the next year. These investments are considered trading securities.

(k) Inventories

Inventories are stated at the lower of average cost, as determined by the first-in, first-out method, or market.

(l) Assets Limited as to Use

Assets limited as to use primarily include assets held by trustees under indenture agreements. Community health fund represents designated assets set aside by the Board of Directors to provide funding for certain community health projects. The Board of Directors retains control over these assets and may, at its discretion, use these assets for other purposes.

(m) Property, Plant and Equipment

Property, plant and equipment is reported at cost. Donated items are reported on the basis of fair market value at the date of donation.

Interest cost incurred on borrowed funds during the period of construction of capital assets is capitalized as a component of acquiring those assets. In 2015 and 2014, Legacy capitalized $147 and $154, respectively, of interest expense. Legacy assesses potential impairment to its long-lived assets when there is evidence that events or changes in circumstances have made recovery of an asset's carrying value unlikely. An impairment loss is indicated when the sum of expected undiscounted future net cash flows is less than the carrying amount. The loss recognized is the difference between the fair value and the carrying amount. No impairment losses were recorded in 2015 or 2014.

Depreciation is computed under the straight-line method over estimated useful lives with average useful lives as follows: building and improvements, 26 years; equipment and software, 6 years; and land improvements, 12 years. Leased assets that have been capitalized are amortized over the term of the leases or the useful lives of the assets, whichever is shorter. Leased asset amortization is reported as part of depreciation expense.

(n) Noncurrent Investments

Noncurrent investments include investments in equity securities of publicly traded U.S. and international companies, investments in foreign government and commercial bank obligations, real estate, market neutral hedge funds, alternative investments (which include private equity and distressed debt) and interest rate swaps. Investments in equity securities with readily determinable fair values and all investments in debt securities are recorded at fair value in the consolidated balance sheets. Investments in limited liability partnerships or companies, which are investment companies, are recorded at the fair value of the underlying assets using the equity method of accounting. As of March 31, 2015, approximately 7% of noncurrent investments require advance written notice of 90 days or longer to redeem the securities. For certain of these investments, it may take up to 90 days to receive the funds after the requested redemption date and certain redemptions may be subject to other restrictions in accordance with subscription agreements.

Investment income or loss (including realized gains and losses on investments, equity earnings from investment companies, interest and dividends) is included in revenues in excess of expenses unless the income or loss is restricted by donor or law. Unrealized gains and losses on investments are included in investment income.

(o) Temporarily and Permanently Restricted Net Assets

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

(p) Donor-Restricted Gifts

Unconditional promises to give cash and other assets to Legacy are reported at fair value at the date the promise is received. Conditional promises to give and indications of intentions to give are reported at fair value at the date the condition is satisfied or the gift is received. The gifts or grants are reported as either temporarily or permanently restricted contributions if they are received with donor or grantor stipulations that limit the use of the donated assets. When the terms of a donor or grantor restriction are met, temporarily restricted net assets are reclassified as unrestricted net assets and reported in the consolidated statements of operations or consolidated statements of changes in net assets as net assets released from restriction. Donor-restricted contributions whose restrictions are met within the same year as received are reported as unrestricted contributions.

(q) Charitable Gift Annuities

Legacy has a certificate of authority from the State of Oregon and from the State of Washington to receive transfers of money or property upon agreement to pay an annuity. A charitable gift annuity is an arrangement between a donor and Legacy in which the donor contributes assets to Legacy in exchange for Legacy's agreement to pay a fixed amount for a specified period of time to the donor or other individuals and organizations as designated by the donor (annuitant). Upon execution of such an arrangement, Legacy recognizes the assets received at fair value and an annuity payment liability at the present value of future cash flows expected to be paid. Unrestricted or restricted contribution revenue is recognized based upon the difference between these two amounts based on donor intent for the proceeds. In subsequent periods, payments to the annuitant reduce the annuity liability. Adjustments to the annuity liability to reflect amortization of the discount, changes in life expectancy, and death of the annuitant are recognized as other operating expenses. The annuity liability included in other current liabilities as of March 31, 2015 and 2014 was $64 and $67, respectively. The annuities are not issued by an insurance company and are not subject to regulation by the State of Oregon or protected by an insurance guaranty association.

Although Legacy is exempt under Oregon Revised Statute (ORS) 731.039 from the requirement to maintain a separate and distinct trust fund adequate to meet the actuarially determined future payments of the charitable gift annuities. Legacy does maintain trust accounts with a bank for all gift annuities. The amounts under trust were $67 and $69 as of March 31, 2015 and 2014, respectively. These marketable securities are comprised of cash, cash equivalents and other fixed income instruments. No annuity contracts have been issued in the State of Washington as of March 31, 2015.

(r) Recently Adopted Accounting Standards

In April 2015, the Financial Accounting Standards Board (FASB) ratified a consensus reached by the Emerging Issues Task Force (EITF) related to investments. ASU 2015-07 *Disclosures for Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent)* removes the requirement to categorize within the fair value hierarchy investments in certain funds whose fair values are measured at net asset value (NAV). Legacy adopted this guidance effective April 1, 2014 and adjusted the disclosures for the year ended March 31, 2014. The adoption of this guidance did not have a material impact on Legacy's consolidated financial statements.

In May 2014, the FASB issued ASU No 2014-09 *Revenue from Contracts with Customers*. The ASU will replace most existing revenue recognition guidance in U.S. GAAP when it becomes effective. The new standard is effective for Legacy on April 1, 2017. A one year deferral has been proposed which would change the effective date to April 1, 2018. Early application is not permitted. The standard permits the use of either the retrospective or cumulative effect transition method. Management is evaluating the effect that ASU 2014-09 will have on its financial statements and related disclosures. Management has not yet selected a transition method nor has it determined the effect of the standard on its ongoing financial reporting.

(2) Net Patient Service Revenues

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

The Medicare program reimburses Legacy at prospectively determined rates for the majority of inpatient and outpatient services rendered to patients, primarily on the basis of diagnosis-related groups (DRGs) and ambulatory payment classification groups (APCs), respectively. Nonacute inpatient services, defined capital, certain outpatient services, and defined medical education costs are paid based on a cost reimbursement methodology. The Medicaid program reimburses Legacy primarily at prospectively determined rates for inpatient services, similar to DRGs, and outpatient services under a cost reimbursement methodology. When paid under cost reimbursement, Legacy is reimbursed at an interim rate with final settlement determined after submission of annual cost reports and audits thereof by the fiscal intermediaries. PPOs and HMOs generally reimburse Legacy on prospectively negotiated rates or on a percentage of charges.

(Dollars in thousands)

Revenue from the Medicare and Medicaid programs accounted for approximately 36.5% and 26.7%, respectively, of Legacy's gross patient charges for the year ended March 31, 2015, and 36.9% and 20.1%, respectively, of Legacy's gross patient charges for the year ended March 31, 2014. Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation. As a result, there is at least a possibility that recorded estimates will change by a material amount in the near term. In 2015 and 2014, respectively, Legacy recorded an increase to net patient service revenue of approximately $2,919 and $1,446 relating to favorable settlements of prior years' reimbursement from Medicare and Medicaid programs.

Legacy grants credit without collateral to its patients, most of whom are local residents and are insured under third-party payor agreements. The proportion of net accounts receivable from significant third-party payors for 2015 and 2014 was as follows:

	2015	2014
Medicare	25.8%	24.2%
Medicaid	15.1	11.7
Blue cross	14.0	17.2
Private pay	4.7	8.0
Other	40.4	38.9
	100.0%	100.0%

Legacy provides an allowance against accounts receivable for amounts that could become uncollectible in the future. Collection risks relate primarily to uninsured patient accounts and patient accounts under third-party payor agreements for which deductibles and coinsurance are due from the patient. Legacy estimates the allowance for each category of patient accounts based on the respective aging of accounts receivable, historical collections, business and economic conditions, trends in federal and state governmental and private employer healthcare coverage and other collection indicators.

(3) Benefits to the Community

The Board of Directors allocated $10,000 to establish a Community Health Fund (the Fund) in 1999. An amount equal to five percent of the principal of this Fund ($500 annually) may be dedicated to community-sponsored initiatives geared toward improving the health of the community. The Fund is intended to be a permanent source of funding for health initiatives and programs capable of impacting the health of the community either by prevention or health improvement. Contributions made to community-sponsored initiatives were $393 and $419 in 2015 and 2014, respectively.

(Continued)

(Dollars in thousands)

In addition to funding selected community health initiatives, Legacy provides services to the community both for people in need and to enhance the health status of the broader community as part of its charitable mission. The following represents the estimated cost of providing certain services to the community, along with a description of selected activities sponsored by Legacy during 2015 and 2014:

	Year ended March 31, 2015			
	In-kind costs	**Other costs**	**Offsetting revenue**	**Net cost**
Services for people in need:				
Charity care	$ —	24,938	—	24,938
Medicaid	—	408,684	264,738	143,946
Medicare	—	539,634	481,854	57,780
Other government programs	—	14,493	12,264	2,229
	—	987,749	758,856	228,893
Benefits to the community:				
Medical education and support of research	—	23,505	6,941	16,564
Community health services	—	6,897	5,756	1,141
Community benefit activities	592	615	—	1,207
Donations to charitable organizations	157	899	—	1,056
Community Health Fund contributions	—	393	—	393
	749	32,309	12,697	20,361
	$ 749	1,020,058	771,553	249,254
Percentage of total operating expenses				16.2%

(Dollars in thousands)

		Year ended March 31, 2014			
		In-kind costs	Other costs	Offsetting revenue	Net cost
Services for people in need:					
Charity care	$	—	63,197	—	63,197
Medicaid		—	285,489	173,050	112,439
Medicare		—	499,424	409,682	89,742
Other government programs		—	15,695	14,466	1,229
		—	863,805	597,198	266,607
Benefits to the community:					
Medical education and support of research		—	23,133	6,011	17,122
Community health services		—	7,828	5,629	2,199
Community benefit activities		483	39	—	522
Donations to charitable organizations		353	1,071	—	1,424
Community Health Fund contributions		—	419	—	419
		836	32,490	11,640	21,686
	$	836	896,295	608,838	288,293
Percentage of total operating expenses					20.1%

(a) *Services for People in Need*

In support of its mission, Legacy voluntarily provides medically necessary patient care services that are discounted or free of charge to persons who have insufficient resources and/or who are uninsured. The criteria for charity care is determined based on eligibility for insurance coverage, household income, qualified assets, catastrophic medical events, or other information supporting a patient's inability to pay for services provided. Specifically, Legacy provides an uninsured discount of 35% to patients who have resided within Legacy's primary service area for a period of six months, are uninsured for hospital care, and have a household income of less than $100,000 annually. Further discounts are available for patients, on a sliding scale, whose household income is less than 400% of the federal poverty level or roughly $97,000 for a family of four in Portland, Oregon. For patients whose household income is at or below 200% of the federal poverty level, a full subsidy is available. In addition to the household income criteria, the patients' qualified assets (e.g., 25% of household assets), and other catastrophic or economic circumstances are considered in determining eligibility for charity care.

During 2015 and 2014, Legacy provided charity care benefiting patients associated with 47,596 and 72,633 patient accounts, respectively, representing 5,072 and 7,471 inpatient accounts, respectively, and 42,524 and 65,192 outpatient accounts, respectively. In 2015 and 2014, 5% and 6%, respectively, of the patients receiving charity care received a full subsidy representing roughly 3% in each of those years, of the total charity provided in those years.

In addition to charity care, Legacy provides services under various states' Medicaid programs for financially needy patients. The cost of providing services to Medicaid beneficiaries generally exceeds the reimbursement from these programs.

Legacy provides services to Medicare beneficiaries and beneficiaries under other government programs (such as TRICARE), for which the cost of treating these patients exceeds the government payments received.

The cost of services provided under these programs is determined based on the relationship of costs (excluding the provision for doubtful accounts and costs associated with medical education, research, community health services, and other contributions) to billed charges.

Legacy also employs financial counselors and social workers who assist patients in obtaining coverage for their healthcare needs. This includes assistance with workers' compensation, motor vehicle accident policies, COBRA, veterans' assistance, and public assistance programs, such as Medicaid. This program assisted many patients in obtaining coverage through a third party, reducing the patients' financial responsibility. The costs associated with this program were $1,558 and $1,173 in 2015 and 2014, respectively.

(b) Benefits to the Community

Medical education and research includes, among other initiatives, the unreimbursed cost of nursing, graduate medical education and research.

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

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

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

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

(Dollars in thousands)

(c) *Other Benefits*

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

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

Legacy also pays taxes associated with various states' local business and occupation taxes, and property taxes that local and state governments use to fund healthcare services, civil and education services to the community. Legacy paid $6,567 and $6,190 in local and state taxes in 2015 and 2014, respectively.

(4) Property, Plant, and Equipment

Property, plant, and equipment balances as of March 31 are as follows:

		2015	2014
Buildings and improvements	$	1,064,175	1,082,209
Equipment and software		761,269	750,645
Land improvements		11,076	10,284
		1,836,520	1,843,138
Accumulated depreciation		(1,144,163)	(1,109,081)
		692,357	734,057
Construction in progress		46,830	19,593
Land		25,092	25,092
	$	764,279	778,742

There were capital expenditure purchase commitments outstanding as of March 31, 2015 for various construction and equipment projects. The estimated cost to complete such projects at March 31, 2015 was $98,796, of which $44,175 was contractually committed.

(Dollars in thousands)

(5) Long-Term Debt

A summary of long-term debt and capital lease obligations at March 31 is as follows:

		2015	2014
Hospital Revenue Bonds, Series 2008, payable in installments through 2038, subject to a seven-day put provision; interest at SIFMA index (0.02% at March 31, 2015) plus 10 basis points	$	150,000	150,000
Hospital Revenue Bonds, Series 2009A, payable in installments from $1,055 to $7,715 through 2035, at rates ranging from 4.0% to 5.5%, callable on or after July 2019		72,200	102,970
Hospital Revenue Bonds, Series 2009C, subject to mandatory tender of $25,000 in July of 2014, at 5%		—	25,000
Hospital Revenue Bonds, Series 2010A, payable in installments from $1,120 to $12,430 through 2030, at rates ranging from 3.0% to 5.0%, $24,300 of the bonds are callable on or after March 2020		63,435	75,190
Hospital Revenue Bonds, Series 2011A, payable in installments from $5,495 to $22,060 through 2021, at rates ranging from 3.0% to 5.25%.		94,390	100,165
Loan agreement with a bank at fixed rate of 1.4%, repayable July 2014.		—	25,000
Hospital Revenue Bonds, Series 2014A, payable in installments from $2,985 to $10,540 through 2040, at fixed rate of 2.425%		71,720	—
Capital lease obligations, at imputed rates of 3.4% to 5.1%		2,790	5,363
Note payable, matures 2015, interest at 6.73%		89	220
		454,624	483,908
Less current portion		(22,940)	(23,228)
	$	431,684	460,680

Interest cost incurred related to funds borrowed was $15,182 and $16,971 in 2015 and 2014, respectively. These amounts were reduced by $147 and $154 in 2015 and 2014, respectively, in the consolidated statements of operations, for amounts capitalized for construction and other capital projects.

(Dollars in thousands)

Scheduled principal repayments of long-term debt, including mandatory tenders of bonds eligible for refinancing, and payments on capital lease obligations are according to their long-term amortization schedule as follows:

		Long-term debt		Capital lease obligations
2016	$	21,384		1,645
2017		22,285		646
2018		23,245		—
2019		14,690		—
2020		25,765		—
Thereafter		344,465		—
	$	451,834		2,291
Less amount representing interest under capital lease obligation				499
			$	2,790

The master trust indenture and other loan agreements covering these obligations contain, among other things, provisions placing restrictions on additional borrowings and leases and requiring the maintenance of debt service coverage and other ratios.

In November 2008, Legacy issued $150,000 of Revenue Bonds Series 2008 (Series 2008 Bonds), which are unsecured, variable-rate debt in an initial short-term interest rate mode, through the Hospital Facility Authority of Clackamas County, Oregon. The proceeds from the Series 2008 Bonds were restricted for capital expenditures and to pay the expenses incurred with the issuance. The Series 2008 Bonds, while subject to a long-term amortization period, may be put to Legacy at the option of the bondholders in connection with certain remarketing dates. In conjunction with the issuance, in November 2013 Legacy entered into three year letter of credit and reimbursement agreement with a national bank, whereby the bank will purchase any bonds that are put by bondholders and not successfully remarketed. In the event of a draw under this agreement, there are no principal payments due within a year. If the bonds have not been remarketed or redeemed and amounts remain outstanding after a year, such amounts are converted to a term loan due in eight quarterly payments. As a result, the Series 2008 Bonds are classified as long-term, except for the portion that matures within 12 months after March 31, 2015.

In May 2009, Legacy issued $163,860 of Revenue Bonds Series 2009 (Series 2009 Bonds) in Series A, B, and C through the Hospital Facility Authority of Clackamas County, Oregon. The proceeds from the Series 2009 Bonds were restricted for capital expenditures, debt service during the construction period, and expenses incurred in connection with the issuance. A portion of the Series A ($27,810) of the Series 2009 Bonds that were callable in July 2014 was refinanced as part of the Revenue Bonds Series 2014, Series A. The Series B ($25,000) of the Series 2009 Bonds was refinanced in 2012. The Series C ($25,000) of the Series 2009 Bonds was subject to a mandatory bondholder tender in July 2014 and refinanced as part of the Revenue Bonds Series 2014 (see below for further discussion). The remaining bonds are payable in annual installments 2015 through 2035 at interest rates from 4.00% to 5.50%. In connection with this issuance, certain modifications to the existing master trust indenture were made. In particular, a gross revenue pledge was provided to all bondholders. The Series 2009 Bonds, and all outstanding previously issued Revenue Bonds, are obligations of the revised master trust indenture (the 2009 Master Trust Indenture).

In January 2010, Legacy issued $123,745 of Revenue Bonds Series 2010A (Series 2010A Bonds) through the State of Oregon, Oregon Facilities Authority. The proceeds from the Series 2010A Bonds were used to refund the Series 1999 Bonds and the Series 2003 Bonds and to pay for the cost of issuance of the Series 2010A Bonds. The Series 2010A Bonds are payable in annual installments beginning in 2011 at interest rates ranging from 3% to 5%. The Series 2010A Bonds are obligations of the 2009 Master Trust Indenture.

In May 2011, Legacy issued $111,470 of Refunding Revenue Bonds Series 2011A (Series 2011 Bonds) through the State of Oregon, Oregon Facilities Authority. The proceeds from the Series 2011 Bonds were used to refund the Series 2001 Bonds and to pay for the cost of issuance of the Series 2011 Bonds. The Series 2011 Bonds are payable in annual installments beginning in May 2012 at interest rates ranging from 3.00% to 5.25%. The Series 2011 Bonds are obligations of the 2009 Master Trust Indenture.

In June 2012, Legacy entered into an agreement with a bank to borrow $25,000 at a fixed rate of 1.4%, repayable in July 2014. Proceeds from this borrowing were used to refinance the Series 2009B bonds in 2012. In March 2014, Legacy entered into a binding Bond Purchase Agreement (BPA) with the State of Oregon Facilities Authority and a commercial bank to refinance this debt, the Series 2009C bonds that had a mandatory tender in July 2014 and portions of the 2009A bonds that were callable in July 2014. In June 2014, Legacy issued $71.7 Hospital Revenue Bonds Series 2014A (Series 2014 Bonds) through the State of Oregon Hospital Facilities Authority that will mature in 2021 and carry a fixed rate of 2.4%. The Series 2014 Bonds are obligations of the 2009 Master Trust Indenture.

(Dollars in thousands)

(6) Investments

Legacy invests in different classes of securities for a variety of financial assets, including short-term investments, assets limited as to use, and noncurrent investments. The composition of these assets is as follows:

	Year ended March 31 2015	2014
Cash and cash equivalents	$ 4,630	5,331
Short-term notes	3,178	6,644
State government obligations	1,809	3,939
Small/mid cap domestic equity securities	38,107	39,118
Large cap domestic equity securities	110,639	94,963
International equity securities	108,267	108,269
Fixed income securities	14,923	—
Fixed income mutual fund	189,260	159,958
Fixed income common/collective trust	102,718	99,234
Absolute return funds	112,213	101,458
U.S. Treasury common/collective trust	36,830	35,716
Real estate partnerships	89,773	82,134
Private equity funds – funds of funds	2,629	4,804
Interest rate swaps	7,565	3,892
	$ 822,541	745,460

As of March 31, 2015, Legacy has a remaining capital commitment of $854 to private equity funds in the form of limited partnership/trust investments. These commitments are due on demand from the general partners/advisors. These private equity funds invest in emerging companies, venture capital funds, and other alternative investments. The termination of these partnerships/trusts is based upon specific provisions in the agreement. In most cases the life of the trusts are for a minimum of 10 years. Legacy can only transfer its interest in the investments with the consent of the general partner/advisor. The fair values of these investments are determined either by the underlying security value on the open market or by the general partner/advisor utilizing fair value principles. Debt service reserve funds and related to the Series 2009A, B and C Bonds are held in trust at a national bank and are invested in accordance with the respective bond indentures, primarily in government obligations with maturities of one year or less and in money market funds. Because the underlying investments of these equity method investment funds are valued at fair value, equity method accounting produces a value similar to the net asset value practical expedient used for certain investments at fair value.

Interest Rate Swaps

Legacy has executed a 20-year basis swap with an investment-banking firm. The notional amount of the transaction is $82,000, and the cash flows settle semiannually. Under the transaction, Legacy pays at the SIFMA index, in exchange for receiving 62% of LIBOR plus 0.814%. In April 2014 Legacy modified this swap so that Legacy receives 62% of LIBOR plus 1.011% in exchange for extending the maturity to December 2033. All other terms were unchanged.

(Dollars in thousands)

Legacy has entered into a basis swap with an investment-banking firm. The notional amount of the transaction is $50,000, and the cash flows settle quarterly. Under the transaction, Legacy pays SIFMA and receives 67% of LIBOR plus 0.60% for three years, and thereafter receives 94.1% of LIBOR until April 2029.

Legacy has entered into two basis swaps with two investment-banking firms. The notional amount of each transaction is $50,000, and the cash flows settle quarterly. Under both transactions, Legacy pays SIFMA and receives 67% of LIBOR plus 0.60% for three years, and thereafter receives 84.45% of LIBOR on one swap and 84.0% of LIBOR on the other swap until September 2030.

The objective of these transactions is to assume the tax-basis risk for a portion of the fixed-rate exposure on outstanding long-term indebtedness in exchange for positive cash flows. These transactions do not meet the criteria for hedge accounting; therefore, any changes in fair value under these agreements are recorded as part of investment income in the accompanying consolidated statements of operations.

The fair value of these swaps is determined by the spread in interest rates. The fair value as of March 31, 2015 and 2014 represents a receivable of $7,565 and $3,892, respectively, and is included in noncurrent investments in the consolidated balance sheets.

Investment income, gains, and losses for cash and cash equivalents, short-term investments, assets limited as to use, and noncurrent investments comprise the following:

	Year ended March 31	
	2015	**2014**
Interest and dividend income	$ 703	608
Realized gains on investments	35,151	51,901
Equity earnings from investment companies	14,281	14,402
Change in fair value of trading securities and interest rate swaps, net	(2,120)	(7,131)
Total investment income	$ 48,015	59,780

(7) Fair Value of Financial Instruments

Legacy applies Accounting Standards Codification (ASC) Topic 820, *Fair Value Measurement*, for fair value measurements of financial assets and financial liabilities and for fair value measurements of nonfinancial items that are recognized or disclosed at fair value in the consolidated financial statements on a recurring basis. Topic 820 establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to measurements involving significant unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are as follows:

(Dollars in thousands)

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets and liabilities. Level 1 securities include marketable equity securities and mutual funds.
- Level 2 inputs are other than quoted prices included within Level 1 that are observable in the market for the asset or liability, either directly or indirectly. Level 2 securities include fixed income securities, and interest rate swaps.

  In accordance with ASU 2015-07, investments valued utilizing net asset value as a practical expedient are excluded from the hierarchy.
- Level 3 inputs are unobservable inputs for an asset or liability.

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

The following tables present the financial instruments carried at fair value and financial instruments valued using the equity method of accounting as of March 31, 2015 and 2014, by caption on the consolidated balance sheets, by the valuation hierarchy defined above:

	Fair value of financial instruments March 31, 2015			
	Level 1	**Level 2**	**Level 3**	**Total fair value**
Assets:				
Cash and cash equivalents	$ 4,630	—	—	4,630
Small/mid cap domestic equity securities	38,107	—	—	38,107
Large cap domestic equity securities	110,639	—	—	110,639
International equity securities	108,267	—	—	108,267
Fixed income securities	—	14,923	—	14,923
Fixed income mutual fund	189,260	—	—	189,260
Absolute return funds	60,401	—	—	60,401
Short-term notes	—	3,178	—	3,178
State government obligations	—	1,809	—	1,809
Interest rate swaps	—	7,565	—	7,565
	$ 511,304	27,475	—	538,779
Equity method investments				139,185
Investments where NAV was used as a practical expedient to measure fair value				144,577
Total investments at fair value				$ 822,541

(Dollars in thousands)

	Fair value of financial instruments March 31, 2014			
	Level 1	Level 2	Level 3	Total fair value
Assets:				
Cash and cash equivalents	$ 5,331	—	—	5,331
Small/mid cap domestic equity securities	39,118	—	—	39,118
Large cap domestic equity securities	94,963	—	—	94,963
International equity securities	108,269	—	—	108,269
Fixed income mutual fund	159,958	—	—	159,958
Absolute return funds	14,669	—	—	14,669
U.S. Treasury securities	—	35,716	—	35,716
Short-term notes	—	6,644	—	6,644
State government obligations	—	3,939	—	3,939
Interest rate swaps	—	3,892	—	3,892
	$ 422,308	50,191	—	472,499
Equity method investments				132,107
Investments where NAV was used as a practical expedient to measure fair value				140,854
Total investments at fair value				$ 745,460

The following table presents information for investments where the NAV was used as a practical expedient to measure fair value at March 31, 2015:

	Fair value	Redemption frequency	Redemption notice period
Common/collective trust funds	$ 139,548	Daily or monthly	1–5 days
Absolute return funds	5,029	Quarterly	60–95 days

Common/collective trust funds are investments that are operated by a trust company that manages a pooled group of trust accounts. Collective investment trusts combine the assets of various institutional investors to create a larger, well-diversified portfolio. The objectives of a collective trust are to lower the costs to investors through economies of scale available by combining assets of multiple investors, to provide daily liquidity, and to provide better diversification. Each investor owns a participating interest that is calculated in shares and represents its portion of the holdings of the fund.

Absolute return funds primarily include investments in hedge funds that utilize strategies designed to generate consistent long-term capital appreciation with low volatility and little correlation with equity and bond markets. Absolute return funds calculate NAV monthly, which approximates fair value.

(Dollars in thousands)

The carrying amounts reported in the consolidated balance sheets for accounts payable, accrued wages, salaries and benefits, settlements payable to third-party payors, and other current liabilities approximate fair value.

The fair value of long-term debt is estimated based on the discounted cash flows that would be paid using current market rates for debt with the same maturities, assuming the debt was repaid as of the first call date as stipulated in the bond indenture. The fair value of long-term debt was $31,503 and $22,736 greater than the carrying value as of March 31, 2015 and 2014, respectively. This valuation represents a Level 2 fair value measurement per ASC 820.

(8) Temporarily and Permanently Restricted Net Assets

Restricted net assets are available for the following purposes:

		Year ended March 31	
		2015	2014
Temporarily restricted net assets:			
Education	$	6,997	6,784
Patient care		14,646	13,865
Research		4,442	1,309
Capital acquisition		6,053	6,448
Other		4,463	4,422
	$	36,601	32,828

		Year ended March 31	
		2015	2014
Permanently restricted net assets:			
Education	$	2,736	2,681
Patient care		10,274	10,109
Research		1,947	1,943
Other		383	383
	$	15,340	15,116

Income from permanently restricted net assets is accounted for in accordance with the donors' instructions.

Legacy follows the guidance in the Uniform Prudent Management of Institutional Funds Act (UPMIFA) in determining the net asset classification of all donor-restricted endowment funds, as described in note 1. In accordance with board policy, assets classified as permanent endowments in accordance with donor intent are only utilized for current period expenditures to the extent that earnings on the endowment exceed the original fair value of the donation. To the extent earnings on endowment funds exceed identified expenditures on which to apply those earnings, the earnings are classified as temporarily restricted net assets.

(Dollars in thousands)

Legacy has adopted investment and spending policies for endowment assets to provide a predictable stream of funding to programs supported by its endowment and to maintain the value of the endowment assets. Asset allocation is reviewed quarterly with respect to i) Legacy's tolerance for risk based on its financial condition and need for cash from investments to support operations; ii) expected asset class return, risk and correlation characteristics; iii) changes in accounting guidance or tax law; and iv) changes in bond covenants or other restrictions.

Legacy's spending practices are intended to comply with donors' wishes and meet all applicable laws and regulations. Spending must be for a purpose that is consistent with the documented intent of the donor, and may not exceed the amounts annually determined by Legacy. Factors that are considered in addressing the annual spending allocation are i) market value of the fund relative to the principal of the gift and ii) the level of spending in prior years.

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or UPMIFA requires Legacy to retain as a fund of perpetual duration. Deficiencies of this nature are reported as a reduction to unrestricted net assets and are excluded from the performance indicator. Changes in endowment net assets for the years ended March 31, 2015 and 2014 are as follows:

	Unrestricted	Temporarily restricted	Permanently restricted	Total
Balance as of March 31, 2013	$ 9,933	17,900	13,801	41,634
Investment income	416	4,152	—	4,568
Contributions	(419)	—	1,315	896
Appropriated for expenditure	—	(1,107)	—	(1,107)
Balance as of March 31, 2014	9,930	20,945	15,116	45,991
Investment income	469	1,860	—	2,329
Contributions	—	—	224	224
Appropriated for expenditure	(415)	(1,397)	—	(1,812)
Balance as of March 31, 2015	$ 9,984	21,408	15,340	46,732

Amounts in permanently restricted net assets represent the corpus of donor-restricted endowments while temporarily restricted net assets represent unspent earnings on the donor-restricted endowments. Unrestricted net assets represent board-designated endowments.

(Dollars in thousands)

(9) Functional Expenses

Legacy provides healthcare services to residents within its geographic locations. Expenses related to providing these services are as follows:

		Year ended March 31	
		2015	**2014**
Healthcare services	$	1,244,274	1,164,177
General and administrative		293,067	270,833
	$	1,537,341	1,435,010

(10) Retirement Plans

(a) Defined Contribution Pension Plans

Substantially all employees who are 21 years of age, have worked 1,000 hours or more during the year and have been continuously employed by Legacy for one or more years are eligible to participate in a jointly contributory tax-sheltered annuity plan. Under this plan, Legacy matches up to 3.5% of participating employees' annual salaries.

Expenses incurred by Legacy related to this plan were approximately $14,500 and $13,300 for 2015 and 2014, respectively.

(b) Pension Benefit Plans

Legacy sponsors a pension plan, the Legacy Employees' Retirement Plan (the Plan), covering the majority of employees who meet eligibility requirements as specified in the Plan. Plan assets are available to pay the benefits of all eligible employees of the Plan. Effective January 1, 2010, the Plan was amended such that eligible employees are covered by a cash balance formula with contributions based on eligible compensation and accrued years of service. Prior to that date, the Plan provided retirement benefits using a formula that considered both years of service and the highest level of compensation for any consecutive five-year period during the last 10 years before retirement. Legacy uses a measurement date of March 31 for the Plan.

Legacy maintains other retirement plans for certain management employees, which include a pension restoration plan, deferred compensation plans, and supplemental executive retirement plans.

Legacy recognizes adjustments to the funded status of the Plan as increases or decreases to net assets in the corresponding accounting period. During the years ended March 31, 2015 and 2014, Legacy recognized a (decrease) increase in net assets of ($97,655) and $62,808, respectively, related to the change in funded status of the Plan.

(Dollars in thousands)

A summary of changes in benefit obligations, fair values of plan assets, and the pension liability at March 31, 2015 and 2014 and for the fiscal years then ended is as follows:

		2015	2014
Change in projected benefit obligation:			
Projected benefit obligation at beginning of year	$	728,965	728,902
Service cost		29,838	30,882
Interest cost		33,416	30,969
Actuarial loss (gain)		117,934	(34,386)
Benefits paid		(42,088)	(25,756)
Plan amendments		—	(1,646)
Projected benefit obligation at end of year	$	868,065	728,965
Change in plan assets:			
Fair value of assets at beginning of year	$	629,355	551,547
Actual return on plan assets		59,107	58,629
Employer contribution		36,475	44,935
Benefits paid		(42,088)	(25,756)
Fair value of assets at end of year	$	682,849	629,355
Reconciliation of funded status:			
Funded status	$	(185,216)	(99,610)
Net amount recognized	$	(185,216)	(99,610)

Included in unrestricted net assets at March 31, 2015 are unrecognized prior service credits of $34,606 and unrecognized actuarial losses of $274,881 that have not yet been recognized in net periodic pension cost. The prior service credit and actuarial losses included in unrestricted net assets and expected to be recognized in net periodic pension cost during the year ending March 31, 2016 are ($8,989) and $18,719, respectively. The accumulated benefit obligation as of March 31, 2015 and 2014 was $854,841 and $714,178, respectively.

Net periodic benefit cost for the years ended March 31 included the following components:

		2015	2014
Service cost	$	29,838	30,882
Interest cost		33,416	30,969
Expected return on plan assets		(41,821)	(40,733)
Amortization of prior service costs		(8,989)	(8,839)
Recognized net actuarial loss		11,815	17,580
Special recognition curtailments and settlements		166	137
Net periodic pension cost	$	24,425	29,996

(Dollars in thousands)

(c) Assumptions

Legacy used the following actuarial assumptions to determine its benefit obligations at March 31, 2015 and 2014, and its net periodic benefit cost for the years ended March 31, 2015 and 2014:

	2015	2014
Benefit obligation (measured as of March 31, 2015 and 2014):		
Discount rate	4.11%	4.77%
Rate of increase in future compensation levels	3.0% for 2015 3.75% thereafter plus longevity scale	2.50% for 2014, 3.75% thereafter plus longevity scale
Net periodic benefit cost (measured as of March 31, 2015 and 2014):		
Discount rate	4.77%	4.34%
Expected long-term discount rate of return on plan assets	7.00%	7.50%
Rate of increase in future compensation levels	2.5% for 2014, 3.75% thereafter plus longevity scale	4% plus longevity scale

The expected long-term rate of return on plan assets was based on Legacy's asset allocation mix and the long-term historical return for each asset class, taking into account current and expected market conditions. Legacy utilizes a nationally recognized investment consultant to assist in the return assumptions used in determining the expected long-term rate of return. The actual return on pension plan assets was a net gain of approximately 9.4% and 10.5% for the years ended March 31, 2015 and 2014, respectively. In the calculation of pension plan expense, the expected long-term rate of return on plan assets is applied to a calculated value of plan assets that recognizes changes in fair value over a four-year period. This practice is intended to reduce year-to-year volatility in pension expense, but it can have the effect of delaying the recognition of differences between actual returns and expected returns based on the long-term rate-of-return assumptions. The source data for the discount rate used to determine the benefit obligation was a universe of AA or higher rated U.S. dollar denominated bonds with similar maturities to the projected benefit payments. The mortality tables used in the assumptions have been updated for 2015 from the RP-2000 Combined Mortality Table project to 2020 with Scale AA to updated RP-2014 Blue Collar Employee mortality table projected to 2027 using RPEC 2014 Projections scale for current employees and for annuitants ages 75 and older, the PR-2014 Blue Collar Annuitant mortality table at ages 75 and up, projected to 2027 using RPEC 2014 Projection Scale was used.

(Dollars in thousands)

(d) Pension Plan Assets

The asset allocation of Legacy's pension plans at March 31, 2015 and 2014, and the target allocation are as follows:

	Target allocation	2015	2014
Equity securities	28%–46%	34%	36%
Fixed income	21%–34%	37	33
Real estate	0%–17%	10	10
Absolute return funds	0%–18%	14	15
Alternative investments	0%–11%	5	6

Pension plan assets are managed according to an investment policy adopted by the Legacy Health Employees Retirement Plan Trustees. Professional investment managers are retained to manage specific asset classes and professional consulting is utilized for investment performance reporting. The primary objectives for the plans are to preserve and grow the assets to provide for the long-term benefit payments of the fund. Diversification is intended to reduce the risk of large losses and to enhance opportunities for appropriate appreciation along with current income. It is also an objective of the plans to invest a significant portion of the assets in fixed-income assets that have a similar interest rate sensitivity as the projected liabilities for the plans. The investment policy includes an asset allocation that includes equities, fixed income instruments, real estate, market neutral hedge funds, and alternative investments (which include private equity and distressed debt). Assets are rebalanced quarterly when balances fall outside of the approved range for each asset class.

(Continued)

(Dollars in thousands)

In accordance with ASC SubTopic 820-10, financial assets and financial liabilities measured at fair value are grouped in three levels, based on the markets in which the assets and liabilities are traded and the reliability of the assumptions used to estimate fair value. These levels and associated valuation methodologies are described in note 7. The following tables set forth by level, within the fair value hierarchy, list the Plan's assets at fair value as of March 31, 2015 and 2014:

	Fair value of financial instruments March 31, 2015			
	Level 1	**Level 2**	**Level 3**	**Total fair value**
Assets:				
Cash and cash equivalents	$ 9,122	—	—	9,122
Small/mid cap domestic equity securities	36,820	—	—	36,820
Large cap domestic equity securities	53,450	—	—	53,450
International equity securities	64,574	—	—	64,574
Fixed income mutual fund	127,451	—	—	127,451
Absolute return funds	58,629	—	—	58,629
	$ 350,046	—	—	350,046
Investments where the NAV was used as a practical expedient to measure fair value				332,803
Total assets at fair value				$ 682,849

(Dollars in thousands)

	Fair value of financial instruments March 31, 2014			
	Level 1	Level 2	Level 3	Total fair value
Assets:				
Cash and cash equivalents	$ 6,235	—	—	6,235
Small/mid cap domestic equity securities	39,180	—	—	39,180
Large cap domestic equity securities	73,666	—	—	73,666
International equity securities	66,479	—	—	66,479
Fixed income mutual fund	104,545	—	—	104,545
Absolute return funds	28,863	—	—	28,863
	$ 318,968	—	—	318,968
Investments where the NAV was used as a practical expedient to measure fair value				310,387
Total assets at fair value				$ 629,355

The following table presents information for plan assets where the NAV was used as a practical expedient to measure fair value at March 31, 2015:

	Fair value	Redemption frequency	Redemption notice period
Common/collective trust funds	$ 201,425	Daily or monthly	1–5 days
Absolute return funds	32,552	Quarterly	60–95 days
Core real estate partnerships	57,315	Quarterly	60–95 days
Value-added real estate partnerships	10,526	*	*
Private equity funds	30,985	*	*

* Redemptions are not permitted during the life of the investment. The remaining life is greater than one year.

(e) *Cash Flows*

Legacy's policy with respect to funding the qualified plans is to fund at least the minimum required by the Employee Retirement Income Security Act of 1974 (ERISA), as amended, plus such additional amounts as deemed appropriate. In fiscal year 2016, Legacy expects to contribute, from ongoing cash flows and current assets, approximately $118,000 to its defined-benefit pension plans.

(Dollars in thousands)

Benefit payments, which reflect expected future service, as appropriate, are expected to be paid as follows for the years ending December 31:

2015	$	40,561
2016		42,801
2017		46,568
2018		50,486
2019		54,125
2020–2024		310,306

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

Management is not aware of any expected settlements or curtailments that would require additional recognition during 2015.

(11) Commitments and Contingencies

(a) Professional and General Liability

Legacy is self-insured for professional and general liability coverage. Coverage in excess of the self-insurance limits is provided on a claims-made basis through commercial insurance for claims made prior to June 1, 2004 and through its captive insurance company, LHSIC, effective June 1, 2004. LHSIC is a Cayman Islands domiciled insurance company created to access the reinsurance markets. General and professional liability costs have been accrued based upon an actuarial determination. Legacy recognizes adjustments to its professional and general liability reserves associated with actuarial estimates on prior year activity as an increase or decrease to utilities, insurance and other expenses in the financial statements. In 2015, Legacy recorded additional expense of $1,652 and in 2014 recorded a increase to expense of $12,000 related to changes in estimate of professional liabilities.

Legacy is involved in litigation arising in the ordinary course of business. Claims, including alleged malpractice, have been asserted against Legacy and are currently in various stages of litigation. Additional claims may be asserted against Legacy arising from services provided to patients through March 31, 2015. In management's opinion, however, the estimated liability accrued at March 31, 2015 is adequate to provide for potential losses resulting from pending or threatened litigation.

(Dollars in thousands)

(b) *Operating Leases*

Legacy leases various equipment and real property under operating leases expiring at various dates through March 2020. The following is a schedule by year of future minimum lease payments under operating leases as of March 31, 2015, with an initial or remaining lease term in excess of one year.

Year ending March 31:		
2016	$	4,420
2017		3,609
2018		2,815
2019		2,401
2020		818
Thereafter		152
	$	14,215

Rent expense for 2015 and 2014 totaled $7,336 and $6,671, respectively.

(c) *Employee Benefits*

Legacy is self-insured for workers' compensation, employee health, and long-term and short-term disability. Legacy provides two employee transition plans (severance) under its ERISA-governed health and welfare plan.

For workers' compensation, employee health, and long-term and short-term disability, Legacy accrues the unpaid portion of claims that have been reported and estimates of claims that have been incurred but not reported, based on an actuarial study.

(d) *Collective Bargaining Agreements*

Approximately 9% of Legacy employees were covered under collective bargaining agreements at March 31, 2015, including certain service and maintenance employees. Approximately 400 employees are covered by collective bargaining agreements that expire within one year.

(12) Compliance with Laws and Regulations

The healthcare industry is governed by various laws and regulations of federal, state, and local governments. These laws and regulations are subject to ongoing government review and interpretation, and include matters such as licensure, accreditation, reimbursement for patient services and referrals for Medicare and Medicaid beneficiaries. Compliance with these laws and regulations is required for participation in government healthcare programs. Certain governmental agencies routinely investigate and pursue allegations concerning possible overpayments resulting from violation of fraud and abuse statutes by healthcare providers. These investigations may result in settlements involving fines and penalties as well as repayment of improper reimbursement. Legacy has implemented procedures for monitoring and enforcing compliance with laws and regulations and is not aware of instances of noncompliance.

(13) Subsequent Events

Legacy evaluated and disclosed all material subsequent events through June 23, 2015, the date the consolidated financial statements were issued.

LEGACY HEALTH AND AFFILIATES

Consolidating Balance Sheet

March 31, 2015

(Dollars in thousands)

Assets	Legacy Health	Legacy Emanuel Hospital & Health Center	Legacy Good Samaritan Hospital and Medical Center	Legacy Meridian Park Hospital
Current assets:				
Cash and cash equivalents	$ 102,531	(2,517)	(332)	5
Short-term investments	62,300	—	—	—
Accounts receivable from patients	—	119,597	37,243	27,942
Allowance for uncollectible accounts	—	(20,572)	(3,686)	(3,833)
Accounts receivable, net	—	99,025	33,557	24,109
Settlements receivable from third-party payors, net	—	18,208	4,778	3,073
Other receivables	7,126	10,599	4,420	2,743
Inventories, at cost	—	7,835	5,003	3,042
Prepaid expenses	12,376	472	186	101
Total current assets	184,333	133,622	47,612	33,073
Assets limited as to use:				
Held by trustee	—	5,858	—	—
Community health fund	9,984	—	—	—
Noncurrent investments restricted for capital acquisitions	1,969	—	—	—
	11,953	5,858	—	—
Other assets:				
Property, plant and equipment	410,555	590,774	295,399	157,016
Accumulated depreciation	(290,360)	(275,357)	(226,310)	(123,592)
	120,195	315,417	69,089	33,424
Noncurrent investments	741,323	13	—	—
Property held for development or sale	13,287	—	—	7,084
Goodwill and other intangibles	3,708	—	—	—
Other assets	18,027	10,020	258	108
	896,540	325,450	69,347	40,616
Intercompany affiliate receivable (payable)	(825,344)	96,370	183,543	262,333
	$ 267,482	561,300	300,502	336,022

See accompanying independent auditors' report on other financial information.

(Continued)

Legacy Mount Hood Medical Center	Legacy Salmon Creek Hospital	Legacy Visiting Nurse Association	Foundations	Credit Reporting Group	Other affiliates and eliminations	March 31, 2015 consolidated
(164)	229	39	7	99,798	196	99,994
—	—	—	—	62,300	—	62,300
18,148	37,399	1,431	—	241,760	2,454	244,214
(3,958)	(6,188)	—	—	(38,237)	(301)	(38,538)
14,190	31,211	1,431	—	203,523	2,153	205,676
3,631	(1,109)	—	—	28,581	—	28,581
1,768	3,006	—	1,101	30,763	10,628	41,391
2,456	1,969	—	—	20,305	259	20,564
21	7,425	14	—	20,595	483	21,078
21,902	42,731	1,484	1,108	465,865	13,719	479,584
—	—	—	—	5,858	—	5,858
—	—	—	—	9,984	—	9,984
—	—	—	—	1,969	—	1,969
—	—	—	—	17,811	—	17,811
105,612	340,135	3,502	—	1,902,993	5,449	1,908,442
(63,511)	(159,901)	(1,482)	—	(1,140,513)	(3,650)	(1,144,163)
42,101	180,234	2,020	—	762,480	1,799	764,279
—	—	—	1,094	742,430	—	742,430
—	3,203	—	—	23,574	—	23,574
—	—	—	—	3,708	26,482	30,190
219	—	1,752	5,895	36,279	(11,853)	24,426
42,320	183,437	3,772	6,989	1,568,471	16,428	1,584,899
38,594	126,406	(1,468)	119,311	(255)	255	—
102,816	352,574	3,788	127,408	2,051,892	30,402	2,082,294

LEGACY HEALTH AND AFFILIATES

Consolidating Balance Sheet

March 31, 2015

(Dollars in thousands)

Liabilities and Net Assets		Legacy Health	Legacy Emanuel Hospital & Health Center	Legacy Good Samaritan Hospital and Medical Center	Legacy Meridian Park Hospital
Current liabilities:					
Accounts payable	$	12,544	16,126	6,574	3,078
Accrued wages, salaries, and benefits		18,016	35,472	10,698	7,084
Accrued interest		2,107	1,047	—	—
Other current liabilities		25,184	8,334	5,334	3,056
Current portion of long-term debt		5,741	8,632	3,136	3,648
Total current liabilities		63,592	69,611	25,742	16,866
Long-term debt, less current portion		52,453	244,708	60,012	35,117
Other liabilities:					
Estimated general and professional claims liability		34,636	—	—	—
Accrued pension liability		18,865	78,683	37,299	14,133
Other noncurrent liabilities		21,708	2,466	978	514
		75,209	81,149	38,277	14,647
Total liabilities		191,254	395,468	124,031	66,630
Net assets:					
Unrestricted		76,228	165,429	176,471	269,392
Unrestricted, noncontrolling interest		—	—	—	—
Temporarily restricted		—	403	—	—
Permanently restricted		—	—	—	—
		76,228	165,832	176,471	269,392
	$	267,482	561,300	300,502	336,022

See accompanying independent auditors' report on other financial information.

(Continued)

Legacy Mount Hood Medical Center	Legacy Salmon Creek Hospital	Legacy Visiting Nurse Association	Foundations	Credit Reporting Group	Other affiliates and eliminations	March 31, 2015 consolidated
2,941	3,800	378	—	45,441	299	45,740
4,850	14,292	694	—	91,106	442	91,548
—	—	—	—	3,154	—	3,154
2,050	9,616	2	650	54,226	9,901	64,127
1,694	—	—	—	22,851	89	22,940
11,535	27,708	1,074	650	216,778	10,731	227,509
39,394				431,684		431,684
—	—	—	—	34,636	315	34,951
10,713	24,493	1,030	—	185,216	—	185,216
232	329	39	—	26,266	223	26,489
10,945	24,822	1,069	—	246,118	538	246,656
61,874	52,530	2,143	650	894,580	11,269	905,849
40,942	300,044	1,645	75,220	1,105,371	123	1,105,494
—	—	—	—	—	19,010	19,010
—	—	—	36,198	36,601	—	36,601
—	—	—	15,340	15,340	—	15,340
40,942	300,044	1,645	126,758	1,157,312	19,133	1,176,445
102,816	352,574	3,788	127,408	2,051,892	30,402	2,082,294

LEGACY HEALTH AND AFFILIATES

Consolidating Balance Sheet

March 31, 2014

(Dollars in thousands)

Assets		Legacy Health	Legacy Emanuel Hospital & Health Center	Legacy Good Samaritan Hospital and Medical Center	Legacy Meridian Park Hospital
Current assets:					
Cash and cash equivalents	$	69,826	638	177	105
Short-term investments		46,434	—	—	—
Accounts receivable from patients		—	125,911	37,743	25,243
Allowance for uncollectible accounts		—	(25,791)	(4,429)	(4,347)
Accounts receivable, net		—	100,120	33,314	20,896
Settlements receivable from third-party payors, net		—	959	1,048	350
Other receivables		3,514	11,614	3,669	2,263
Inventories, at cost		—	7,558	4,318	2,926
Prepaid expenses		12,411	548	209	100
Total current assets		132,185	121,437	42,735	26,640
Assets limited as to use:					
Held by trustee		—	12,318	—	—
Community health fund		9,930	—	—	—
Noncurrent investments restricted for capital acquisitions		1,072	—	—	—
		11,002	12,318	—	—
Other assets:					
Property, plant and equipment		413,125	570,194	288,052	157,913
Accumulated depreciation		(287,030)	(260,935)	(220,753)	(119,703)
		126,095	309,259	67,299	38,210
Noncurrent investments		674,418	14	—	—
Property held for development or sale		13,287	—	—	7,065
Goodwill and other intangibles		379	—	—	—
Other assets		16,518	7,763	153	—
		830,697	317,036	67,452	45,275
Intercompany affiliate receivable (payable)		(697,704)	91,215	155,846	227,907
	$	276,180	542,006	266,033	299,822

See accompanying independent auditors' report on other financial information.

(Continued)

Legacy Mount Hood Medical Center	Legacy Salmon Creek Hospital	Legacy Visiting Nurse Association	Foundations	Credit Reporting Group	Other affiliates and eliminations	March 31, 2014 consolidated
9	11	22	9	70,797	210	71,007
—	—	—	—	46,434	—	46,434
18,193	35,551	1,855	—	244,496	3,084	247,580
(5,072)	(6,712)	(207)	—	(46,558)	(398)	(46,956)
13,121	28,839	1,648	—	197,938	2,686	200,624
487	(1,279)	—	—	1,565	—	1,565
1,960	547	—	1,420	24,987	3,161	28,148
2,114	1,801	—	—	18,717	318	19,035
21	671	8	—	13,968	347	14,315
17,712	30,590	1,678	1,429	374,406	6,722	381,128
—	—	—	—	12,318	—	12,318
—	—	—	—	9,930	—	9,930
—	—	—	—	1,072	—	1,072
—	—	—	—	23,320	—	23,320
106,234	343,443	3,486	—	1,882,447	5,376	1,887,823
(63,454)	(152,786)	(1,320)	—	(1,105,981)	(3,100)	(1,109,081)
42,780	190,657	2,166	—	776,466	2,276	778,742
—	—	—	1,274	675,706	—	675,706
—	3,203	—	—	23,555	—	23,555
—	—	—	—	379	26,483	26,862
443	—	1,350	3,244	29,471	(12,163)	17,308
43,223	193,860	3,516	4,518	1,505,577	16,596	1,522,173
25,355	81,762	(1,448)	116,651	(416)	416	—
86,290	306,212	3,746	122,598	1,902,887	23,734	1,926,621

LEGACY HEALTH AND AFFILIATES

Consolidating Balance Sheet

March 31, 2014

(Dollars in thousands)

Liabilities and Net Assets	Legacy Health	Legacy Emanuel Hospital & Health Center	Legacy Good Samaritan Hospital and Medical Center	Legacy Meridian Park Hospital
Current liabilities:				
Accounts payable	$ 8,304	10,660	6,189	3,530
Accrued wages, salaries, and benefits	18,245	31,986	10,220	6,440
Accrued interest	2,228	1,386	—	—
Other current liabilities	22,872	9,216	4,370	2,644
Current portion of long-term debt	6,568	8,314	2,989	3,569
Total current liabilities	58,217	61,562	23,768	16,183
Long-term debt, less current portion	58,200	259,255	63,149	38,766
Other liabilities:				
Estimated general and professional claims liability	35,120	—	—	—
Accrued pension liability	8,899	43,899	23,800	6,246
Other noncurrent liabilities	18,856	2,452	691	510
	62,875	46,351	24,491	6,756
Total liabilities	179,292	367,168	111,408	61,705
Net assets:				
Unrestricted	96,888	174,297	154,625	238,117
Unrestricted, noncontrolling interest	—	—	—	—
Temporarily restricted	—	541	—	—
Permanently restricted	—	—	—	—
	96,888	174,838	154,625	238,117
	$ 276,180	542,006	266,033	299,822

See accompanying independent auditors' report on other financial information.

(Continued)

Legacy Mount Hood Medical Center	Legacy Salmon Creek Hospital	Legacy Visiting Nurse Association	Foundations	Credit Reporting Group	Other affiliates and eliminations	March 31, 2014 consolidated
1,623	3,453	357	—	34,116	368	34,484
4,392	13,848	733	—	85,864	385	86,249
—	—	—	—	3,614	—	3,614
2,145	21	1	804	42,073	1,977	44,050
1,609	—	—	—	23,049	179	23,228
9,769	17,322	1,091	804	188,716	2,909	191,625
41,269	—	—	—	460,639	41	460,680
—	—	—	—	35,120	236	35,356
5,589	10,780	397	—	99,610	—	99,610
229	344	38	—	23,120	223	23,343
5,818	11,124	435	—	157,850	459	158,309
56,856	28,446	1,526	804	807,205	3,409	810,614
29,434	277,766	2,220	74,391	1,047,738	119	1,047,857
—	—	—	—	—	20,206	20,206
—	—	—	32,287	32,828	—	32,828
—	—	—	15,116	15,116	—	15,116
29,434	277,766	2,220	121,794	1,095,682	20,325	1,116,007
86,290	306,212	3,746	122,598	1,902,887	23,734	1,926,621

LEGACY HEALTH AND AFFILIATES

Consolidating Statement of Operations

Year ended March 31, 2015

(Dollars in thousands)

	Legacy Health	Legacy Emanuel Hospital & Health Center	Legacy Good Samaritan Hospital and Medical Center	Legacy Meridian Park Hospital	Legacy Mount Hood Medical Center
Gross patient charges	$ —	1,505,876	742,753	495,737	365,801
Adjustments to gross patient charges:					
Charity allowances	—	26,030	10,966	6,128	10,829
Third-party contractual adjustments	—	810,688	423,734	281,536	221,365
Patient service revenue	—	669,158	308,053	208,073	133,607
Less provision for bad debts	—	9,970	2,049	3,450	3,764
Net patient service revenues	—	659,188	306,004	204,623	129,843
Other revenues	184,584	45,842	12,748	5,255	6,644
Total operating revenues	184,584	705,030	318,752	209,878	136,487
Operating expenses:					
Wages, salaries, and benefits	93,773	395,235	138,664	83,729	59,496
Supplies	(599)	95,511	50,486	31,321	15,063
Professional fees	5,060	25,221	6,079	2,529	2,533
Purchased services	49,354	(10,942)	18,944	9,767	8,539
Utilities, insurance and other expenses	17,756	49,307	20,044	17,337	10,176
Depreciation	27,496	31,088	13,110	7,539	6,381
Interest and amortization	2,483	8,735	1,579	1,308	1,030
Management fees	—	89,160	44,221	29,211	17,774
	195,323	683,315	293,127	182,741	120,992
Income (loss) from operations	(10,739)	21,715	25,625	27,137	15,495
Other income (expenses):					
Investment income (loss), net	1,779	9,806	9,385	13,048	1,861
Loss on extinguishment of debt	(573)	—	—	—	—
Other, net	223	(2,069)	(296)	16	(4)
	1,429	7,737	9,089	13,064	1,857
Revenues in excess of (less than) expenses	$ (9,310)	29,452	34,714	40,201	17,352

See accompanying independent auditors' report on other financial information.

(Continued)

Legacy Salmon Creek Hospital	Legacy Visiting Nurse Association	Foundations	Interentity eliminations	Credit Reporting Group	Other affiliates and eliminations	Year ended March 31, 2015 consolidated
745,888	14,309	—	(348)	3,870,016	47,510	3,917,526
12,967	183	—	—	67,103	—	67,103
449,284	920	—	36,552	2,224,079	31,956	2,256,035
283,637	13,206	—	(36,900)	1,578,834	15,554	1,594,388
6,510	44	—	—	25,787	368	26,155
277,127	13,162	—	(36,900)	1,553,047	15,186	1,568,233
9,843	902	6,484	(183,158)	89,144	1,388	90,532
286,970	14,064	6,484	(220,058)	1,642,191	16,574	1,658,765
166,329	9,757	—	(47,601)	899,382	5,614	904,996
34,254	845	—	10,144	237,025	3,942	240,967
4,754	54	—	(791)	45,439	626	46,065
16,126	1,408	—	(122)	93,074	2,146	95,220
17,148	679	8,731	(8,671)	132,507	1,529	134,036
14,548	174	—	—	100,336	585	100,921
—	—	—	—	15,135	1	15,136
909	1,000	—	(182,275)	—	—	—
254,068	13,917	8,731	(229,316)	1,522,898	14,443	1,537,341
32,902	147	(2,247)	9,258	119,293	2,131	121,424
6,114	—	4,089	—	46,082	2	46,084
—	—	—	—	(573)	—	(573)
(1,107)	—	(965)	(6,243)	(10,445)	3	(10,442)
5,007	—	3,124	(6,243)	35,064	5	35,069
37909	147	877	3015	154,357	2,136	156,493

LEGACY HEALTH AND AFFILIATES

Consolidating Statement of Operations

Year ended March 31, 2014

(Dollars in thousands)

	Legacy Health	Legacy Emanuel Hospital & Health Center	Legacy Good Samaritan Hospital and Medical Center	Legacy Meridian Park Hospital	Legacy Mount Hood Medical Center
Gross patient charges	$ —	1,398,325	679,742	449,074	326,155
Adjustments to gross patient charges:					
Charity allowances	—	71,768	27,817	15,182	22,374
Third-party contractual adjustments	—	675,605	365,535	239,952	173,915
Patient service revenue	—	650,952	286,390	193,940	129,866
Less provision for bad debts	—	30,287	7,640	8,033	11,408
Net patient service revenues	—	620,665	278,750	185,907	118,458
Other revenues	183,057	29,135	6,604	2,185	3,814
Total operating revenues	183,057	649,800	285,354	188,092	122,272
Operating expenses:					
Wages, salaries, and benefits	87,754	358,903	131,543	78,582	53,933
Supplies	3,397	88,537	46,096	30,708	14,238
Professional fees	2,744	25,519	6,265	2,858	2,705
Purchased services	46,796	(8,003)	18,163	9,717	7,745
Utilities, insurance and other expenses	12,516	61,898	12,851	13,297	11,174
Depreciation	26,305	30,149	14,113	8,524	6,302
Interest and amortization	2,886	9,635	1,713	1,539	1,130
Management fees	—	90,710	43,655	28,228	16,280
	182,398	657,348	274,399	173,453	113,507
Income (loss) from operations	659	(7,548)	10,955	14,639	8,765
Other income (expenses):					
Investment income (loss), net	2,335	10,223	10,459	14,918	1,822
Loss on extinguishment of debt	—	—	—	—	—
Other, net	(668)	(1,596)	(49)	11	(5)
	1,667	8,627	10,410	14,929	1,817
Revenues in excess of (less than) expenses	$ 2,326	1,079	21,365	29,568	10,582

See accompanying independent auditors' report on other financial information.

(Continued)

	Legacy Salmon Creek Hospital	Legacy Visiting Nurse Association	Foundations	Interentity eliminations	Credit Reporting Group	Other affiliates and eliminations	Year ended March 31, 2014 consolidated
	615,763	13,506	—	(207)	3,482,358	50,601	3,532,959
	23,834	112	—	—	161,087	—	161,087
	354,427	967	—	32,107	1,842,508	33,412	1,875,920
	237,502	12,427	—	(32,314)	1,478,763	17,189	1,495,952
	12,912	266	—	—	70,546	10	70,556
	224,590	12,161	—	(32,314)	1,408,217	17,179	1,425,396
	9,204	696	6,599	(182,244)	59,050	674	59,724
	233,794	12,857	6,599	(214,558)	1,467,267	17,853	1,485,120
	147,430	9,297	—	(41,553)	825,889	5,515	831,404
	30,249	732	—	8,672	222,629	4,368	226,997
	4,933	35	—	(474)	44,585	586	45,171
	8,554	1,034	—	(221)	83,785	2,296	86,081
	13,473	677	8,517	(8,232)	126,171	1,633	127,804
	14,452	180	—	—	100,025	609	100,634
	—	—	—	—	16,903	16	16,919
	1,008	1,000	—	(180,881)	—	—	—
	220,099	12,955	8,517	(222,689)	1,419,987	15,023	1,435,010
	13,695	(98)	(1,918)	8,131	47,280	2,830	50,110
	5,683	—	10,067	—	55,507	—	55,507
	—	—	—	—	—	—	—
	(1,141)	—	(1,179)	(5,959)	(10,586)	(28)	(10,614)
	4,542	—	8,888	(5,959)	44,921	(28)	44,893
	18,237	(98)	6,970	2,172	92,201	2,802	95,003

LEGACY HEALTH AND AFFILIATES

Consolidating Statement of Changes in Net Assets

Year ended March 31, 2015

(Dollars in thousands)

		Legacy Health	Legacy Emanuel Hospital & Health Center	Legacy Good Samaritan Hospital and Medical Center	Legacy Meridian Park Hospital	Legacy Mount Hood Medical Center
Unrestricted net assets, controlling interest:						
Revenues in excess of (less than) expenses	$	(9,310)	29,452	34,714	40,201	17,352
Net assets released from restriction used for property, plant and equipment		41	1,346	2,528	70	—
Pension and other postretirement adjustments		(11,391)	(39,667)	(15,396)	(8,996)	(5,844)
Distributions		—	—	—	—	—
Change in unrestricted net assets, controlling interest		(20,660)	(8,869)	21,846	31,275	11,508
Unrestricted net assets, noncontrolling interest:						
Revenues in excess of expenses		—	—	—	—	—
Distributions		—	—	—	—	—
Change in unrestricted net assets, noncontrolling interest		—	—	—	—	—
Temporarily restricted net assets:						
Donor-restricted contributions and grants		—	2,436	—	—	—
Investment income, net		—	—	—	—	—
Net assets released from restriction		—	(2,573)	—	—	—
Transfers		—	—	—	—	—
Change in temporarily restricted net assets		—	(137)	—	—	—
Permanently restricted net assets:						
Donor-restricted contributions and grants		—	—	—	—	—
Change in permanently restricted net assets		—	—	—	—	—
Change in net assets		(20,660)	(9,006)	21,846	31,275	11,508
Net assets, beginning of year		96,888	174,838	154,625	238,117	29,434
Net assets, end of year	$	76,228	165,832	176,471	269,392	40,942

See accompanying independent auditors' report on other financial information.

(Continued)

Legacy Salmon Creek Hospital	Legacy Visiting Nurse Association	Foundations	Interentity eliminations	Credit Reporting Group	Other affiliates and eliminations	Year ended March 31, 2015 consolidated
37,909	147	877	3,015	154,357	(158)	154,199
8	—	(47)	(3,015)	931	—	931
(15,639)	(722)	—	—	(97,655)	—	(97,655)
—	—	—	—	—	162	162
22,278	(575)	830	—	57,633	4	57,637
—	—	—	—	—	2,294	2,294
—	—	—	—	—	(3,490)	(3,490)
—	—	—	—	—	(1,196)	(1,196)
—	—	5,700	—	8,136	—	8,136
—	—	1,931	—	1,931	—	1,931
—	—	(3,721)	—	(6,294)	—	(6,294)
—	—	—	—	—	—	—
—	—	3,910	—	3,773	—	3,773
—	—	224	—	224	—	224
—	—	224	—	224	—	224
22,278	(575)	4,964	—	61,630	(1,192)	60,438
277,766	2,220	121,794	—	1,095,682	20,325	1,116,007
300,044	1,645	126,758	—	1,157,312	19,133	1,176,445

LEGACY HEALTH AND AFFILIATES

Consolidating Statement of Changes in Net Assets

Year ended March 31, 2014

(Dollars in thousands)

	Legacy Health	Legacy Emanuel Hospital & Health Center	Legacy Good Samaritan Hospital and Medical Center	Legacy Meridian Park Hospital	Legacy Mount Hood Medical Center
Unrestricted net assets, controlling interest:					
Revenues in excess of (less than) expenses	$ 2,326	1,079	21,365	29,568	10,582
Net assets released from restriction used for property, plant and equipment	—	5,376	1,209	1,413	140
Pension and other postretirement adjustments	7,215	24,440	10,452	6,614	3,690
Distributions	—	—	—	—	—
Other transfers	—	—	—	—	(164)
Change in unrestricted net assets, controlling interest	9,541	30,895	33,026	37,595	14,248
Unrestricted net assets, noncontrolling interest:					
Revenues in excess of expenses	—	—	—	—	—
Distributions	—	—	—	—	—
Change in unrestricted net assets, noncontrolling interest	—	—	—	—	—
Temporarily restricted net assets:					
Donor-restricted contributions and grants	—	7,135	—	—	—
Investment income, net	—	—	—	—	—
Net assets released from restriction	—	(7,060)	—	—	—
Transfers	—	—	—	—	—
Change in temporarily restricted net assets	—	75	—	—	—
Permanently restricted net assets:					
Donor-restricted contributions and grants	—	—	—	—	—
Other transfers	—	—	—	—	—
Change in permanently restricted net assets	—	—	—	—	—
Change in net assets	9,541	30,970	33,026	37,595	14,248
Net assets, beginning of year	87,347	143,868	121,599	200,522	15,186
Net assets, end of year	$ 96,888	174,838	154,625	238,117	29,434

See accompanying independent auditors' report on other financial information.

(Continued)

Legacy Salmon Creek Hospital	Legacy Visiting Nurse Association	Foundations	Interentity eliminations	Credit Reporting Group	Other affiliates and eliminations	Year ended March 31, 2014 consolidated
18,237	(98)	6,970	2,172	92,201	(388)	91,813
16	—	(142)	(2,172)	5,840	—	5,840
9,909	488	—	—	62,808	—	62,808
—	—	—	—	—	—	—
—	—	—	—	(164)	164	—
28,162	390	6,828	—	160,685	(224)	160,461
—	—	—	—	—	3,190	3,190
—	—	—	—	—	(3,859)	(3,859)
—	—	—	—	—	(669)	(669)
—	—	(569)	—	6,566	—	6,566
—	—	4,273	—	4,273	—	4,273
—	—	(4,055)	—	(11,115)	—	(11,115)
—	—	—	—	—	—	—
—	—	(351)	—	(276)	—	(276)
—	—	1,315	—	1,315	—	1,315
—	—	—	—	—	—	—
—	—	1,315	—	1,315	—	1,315
28,162	390	7,792	—	161,724	(893)	160,831
249,604	1,830	114,002	—	933,958	21,218	955,176
277,766	2,220	121,794	—	1,095,682	20,325	1,116,007

LEGACY HEALTH AND AFFILIATES

Consolidated Financial and Statistical Highlights

Years ended March 31

(Unaudited)

	2015	2014	2013	2012
Utilization:				
Average number of available beds	1,111	1,102	1,068	1,071
Percentage occupancy	64.7%	61.7%	61.7%	60.0%
Patient days	262,512	242,208	240,395	235,358
Medicare percent of discharge revenue	36.5%	36.9%	37.1%	35.5%
Average length of stay	4.5	4.5	4.4	4.3
Discharges:	58,535	54,348	54,533	54,896
Outpatient revenues as a percent of gross patient revenue	43.2%	42.5%	42.9%	41.8%
Average full-time equivalent (FTE) employees:				
Number of paid FTEs	8,874	8,368	7,941	8,020
Worked FTEs	7,624	7,109	6,854	6,926
FTEs per adjusted occupied bed:	7.0	7.3	6.9	7.3
Ratios:				
Deductions from revenues	60.0%	59.7%	59.6%	58.3%
Operating margin	7.3%	3.8%	3.6%	4.2%
Debt service coverage (A)	6.9	5.4	4.4	4.5
Net days in accounts receivable	47.5	47.6	46.4	48.2
Days cash on hand	228.5	215.8	214.9	201.1

Note: (A) Debt service coverage is calculated solely on the Master Trust Reporting Group.

See accompanying independent auditors' report on other financial information.

LEGACY HEALTH AND AFFILIATES

Consolidating Financial and Statistical Highlights

Years ended March 31, 2015 and 2014

(Unaudited)

	Consolidated	Legacy Emanuel Hospital & Health Center	Legacy Good Samaritan Hospital and Medical Center	Legacy Meridian Park Hospital	Legacy Mount Hood Medical Center	Legacy Salmon Creek Hospital
Utilization:						
Average available beds:						
2015	1,111	427	247	130	93	215
2014	1,102	427	247	130	92	206
Percentage occupancy:						
2015	64.7%	66.8%	58.3%	62.7%	64.2%	69.4%
2014	61.4%	65.1%	57.9%	56.1%	62.2%	60.9%
Patient days:						
2015	262,512	104,038	52,517	29,735	21,792	54,430
2014	242,208	99,550	50,070	27,316	20,092	45,180
Medicare percentage of discharge revenue:						
2015	36.5%	21.1%	47.4%	50.9%	41.3%	41.9%
2014	36.9%	22.3%	49.6%	50.6%	41.7%	39.5%
Average length of stay (days):						
2015	4.5	5.9	4.9	3.3	3.7	3.6
2014	4.5	5.6	5.0	3.3	3.5	3.6
Discharges:						
2015	58,535	17,779	10,634	8,931	5,952	15,239
2014	54,348	17,852	10,087	8,169	5,785	12,455
Outpatient revenues as a percentage of gross patient revenue:						
2015	43.2%	28.6%	43.2%	44.9%	51.5%	37.0%
2014	42.5%	26.6%	43.3%	45.1%	50.1%	38.2%
Average full-time equivalent (FTE) employees:						
Number of paid FTEs:						
2015	8,874	2,326	1,315	722	548	1,129
2014	8,368	2,232	1,308	684	507	988
FTEs per adjusted occupied bed:						
Paid FTEs:						
2015	7.0	5.8	5.2	4.9	4.4	4.8
2014	7.3	6.0	5.4	5.0	4.6	4.9
Worked FTEs:						
2015	6.0	5.0	4.5	4.2	3.8	4.1
2014	6.2	5.2	4.6	4.3	3.9	4.2
Ratios:						
Deductions from revenues:						
2015	60.0%	56.6%	58.9%	59.5%	64.8%	63.3%
2014	59.7%	55.7%	59.0%	59.4%	63.9%	64.1%
Operating margin:						
2015	7.3%	10.9%	9.0%	15.9%	12.7%	16.0%
2014	3.8%	5.6%	4.3%	10.6%	8.1%	9.6%

Note: Statistics for hospital entities listed above represent information related to hospital operations only. Professional clinics, laboratory services, system office and other operations are included in the consolidated total.

See accompanying independent auditors' report on other financial information.