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

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LEGACY
HEALTH

Legacy Health
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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.

(Continued)

(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.

(Continued)

(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%, 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 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.

(Dollars in thousands)

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.

(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.

(Continued)

(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

(Continued)

(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.

(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 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

(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 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 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.