LEGACY HEALTH AND AFFILIATES

Consolidated Financial Statements and Other Financial Information

March 31, 2011 and 2010

(With Independent Auditors' Reports Thereon)

LEGACY HEALTH AND AFFILIATES

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Legacy Health
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LEGACY
HEALTH

Report of Management

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

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

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

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

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

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

Scott H. Johnson
Interim Chief Financial Officer

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

Independent Auditors' Report

The Board of Directors
Legacy Health:

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

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

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

KPMG LLP

June 23, 2011

LEGACY HEALTH AND AFFILIATES

Consolidated Balance Sheets

March 31, 2011 and 2010

(Dollars in thousands)

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

See accompanying notes to consolidated financial statements.

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

See accompanying notes to consolidated financial statements.

LEGACY HEALTH AND AFFILIATES

Consolidated Statements of Operations

Years ended March 31, 2011 and 2010

(Dollars in thousands)

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

See accompanying notes to consolidated financial statements.

LEGACY HEALTH AND AFFILIATES

Consolidated Statements of Changes in Net Assets

Years ended March 31, 2011 and 2010

(Dollars in thousands)

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

See accompanying notes to consolidated financial statements.

LEGACY HEALTH AND AFFILIATES

Consolidated Statements of Cash Flows

Years ended March 31, 2011 and 2010

(Dollars in thousands)

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

See accompanying notes to consolidated financial statements.

(1) Organization and Summary of Significant Accounting Policies

(a) Organization and Basis of Consolidation

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

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

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

All significant interentity accounts and transactions have been eliminated.

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

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

(b) Use of Estimates

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

(c) Income Taxes

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

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

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

(d) Net Patient Service Revenues

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

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

(e) Income from Operations

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

(f) Performance Indicator

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

(g) Charity Care

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

(h) Cash and Cash Equivalents

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

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

(i) Short-Term Investments

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

(j) Securities Lending Program

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

(k) Inventories

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

(l) Assets Limited as to Use

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

(m) Property, Plant and Equipment

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

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

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

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

(n) Noncurrent Investments

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

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

(o) Temporarily and Permanently Restricted Net Assets

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

(p) Donor-Restricted Gifts

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

(q) Charitable Gift Annuities

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

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

(r) Recently Adopted Accounting Standards

In June 2009, the Financial Accounting Standards Board (FASB) established the FASB Accounting Standards Codification (ASC or Codification) to become the source of authoritative U.S. generally accepted accounting principles (GAAP) to be applied by nongovernmental entities. The Codification does not change GAAP, except in limited circumstances. The GAAP hierarchy has been modified to

include only two levels of GAAP: authoritative and nonauthoritative. Legacy adopted the Codification in March 2010, and references to GAAP accounting pronouncements in the notes to the consolidated financial statements have been modified accordingly.

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

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

(s) New Accounting Pronouncements

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

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

(t) Reclassifications

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

(2) Net Patient Service Revenues

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

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

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

A summary of patient revenues is as follows:

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

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

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

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

(3) Benefits to the Community

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

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

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

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

(a) Services for People in Need

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

During 2011 and 2010, Legacy provided charity care on 101,751 and 81,683 patient accounts, respectively, representing 9,091 and 8,735 inpatient accounts, respectively, and 92,660 and 72,948 outpatient accounts, respectively. In 2011 and 2010, 22% and 21%, respectively, of the patients receiving charity care received a full subsidy representing roughly 50% and 54%, respectively, of the

total charity provided in those years. The top five services provided to patients qualifying for charity care were emergency/trauma, surgery, cardiovascular, pediatrics, and general acute care.

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

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

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

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

(b) Benefits to the Community

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

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

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

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

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

(c) Other Benefits

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

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

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

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

(4) Property, Plant, and Equipment

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

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

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

(5) Long-Term Debt

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

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

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

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

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

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

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

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

previously issued Revenue Bonds, are obligations of the revised master trust indenture (the 2009 Master Trust Indenture).

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

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

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

(6) Investments

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

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

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

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

Interest Rate Swaps

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

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

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

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

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

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

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

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

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

(7) Fair Value of Financial Instruments

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

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

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

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

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

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

Fair value of financial instruments

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

Fair value of financial instruments

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

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

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

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

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

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

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

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

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

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

(8) Temporarily and Permanently Restricted Net Assets

Temporarily restricted net assets are available for the following purposes:

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

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

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

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

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

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

unrestricted net assets for $7 and $513, respectively, for amounts transferred in previous years from unrestricted net assets to permanently restricted net assets.

(9) Functional Expenses

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

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

(10) Retirement Plans

(a) Defined Contribution Pension Plans

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

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

(b) Pension Benefit Plans

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

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

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

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

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

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

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

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

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

(c) Assumptions

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

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

The expected long-term rate of return on plan assets was based on Legacy's asset allocation mix and the long-term historical return for each asset class, taking into account current and expected market conditions. Legacy utilizes a nationally recognized investment consultant to assist in the return assumptions used in determining the expected long-term rate of return. The actual return on pension plan assets was a net gain of approximately 12.4% and 28.7% for the years ended March 31, 2011 and 2010, respectively. In the calculation of pension plan expense, the expected long-term rate of return on plan assets is applied to a calculated value of plan assets that recognizes changes in fair

value over a four-year period. This practice is intended to reduce year-to-year volatility in pension expense, but it can have the effect of delaying the recognition of differences between actual returns and expected returns based on the long-term rate-of-return assumptions. The source data for the discount rate used to determine the benefit obligation was a universe of AA or higher rated U.S. dollar denominated bonds with similar maturities to the projected benefit payments.

(d) Pension Plan Assets

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

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

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

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

Fair value of financial instruments

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

Fair value of financial instruments

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

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

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

(e) Cash Flows

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

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

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

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

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

(11) Commitments and Contingencies

(a) Professional and General Liability

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

(b) Operating Leases

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

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

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

(c) Employee Benefits

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

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

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

(d) Healthcare Reform

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

(12) Compliance with Laws and Regulations

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

(13) Subsequent Events

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

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

Independent Auditors' Report on Other Financial Information

The Board of Directors
Legacy Health:

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

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

KPMG LLP

June 23, 2011

LEGACY HEALTH AND AFFILIATES

Consolidating Balance Sheet

March 31, 2011

(Dollars in thousands)

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

(Continued)

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

(Continued)

LEGACY HEALTH AND AFFILIATES

Consolidating Balance Sheet

March 31, 2011

(Dollars in thousands)

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

See accompanying independent auditors' report on other financial information.

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

LEGACY HEALTH AND AFFILIATES

Consolidating Balance Sheet

March 31, 2010

(Dollars in thousands)

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

(Continued)

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

(Continued)

LEGACY HEALTH AND AFFILIATES

Consolidating Balance Sheet

March 31, 2010

(Dollars in thousands)

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

See accompanying independent auditors' report on other financial information.

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

LEGACY HEALTH AND AFFILIATES

Consolidating Statement of Operations

Year ended March 31, 2011

(Dollars in thousands)

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

See accompanying independent auditors' report on other financial information.

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

LEGACY HEALTH AND AFFILIATES

Consolidating Statement of Operations

Year ended March 31, 2010

(Dollars in thousands)

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

See accompanying independent auditors' report on other financial information.

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

LEGACY HEALTH AND AFFILIATES

Consolidating Statement of Changes in Net Assets

Year ended March 31, 2011

(Dollars in thousands)

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

See accompanying independent auditors' report on other financial information.

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

LEGACY HEALTH AND AFFILIATES

Consolidating Statement of Changes in Net Assets

Year ended March 31, 2010

(Dollars in thousands)

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

See accompanying independent auditors' report on other financial information.

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

LEGACY HEALTH AND AFFILIATES

Consolidated Financial and Statistical Highlights
(Unaudited)

Years ended March 31

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

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

See accompanying independent auditors' report on other financial information.

LEGACY HEALTH AND AFFILIATES

Consolidating Financial and Statistical Highlights
(Unaudited)

Years ended March 31, 2011 and 2010

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

(Continued)

LEGACY HEALTH AND AFFILIATES

Consolidating Financial and Statistical Highlights
(Unaudited)

Years ended March 31, 2011 and 2010

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

(Continued)

LEGACY HEALTH AND AFFILIATES

Consolidating Financial and Statistical Highlights
(Unaudited)

Years ended March 31, 2011 and 2010

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

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

See accompanying independent auditors' report on other financial information.