KPMG

LEGACY HEALTH AND AFFILIATES

Consolidated Financial Statements and Other Financial Information

March 31, 2015 and 2014

(With Independent Auditors’ Reports Thereon)

LEGACY HEALTH AND AFFILIATES

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

Independent Auditors' Report

The Board of Directors
Legacy Health and Affiliates:

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

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

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

Supplementary Information

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

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

KPMG LLP

Portland, Oregon
June 23, 2015

LEGACY HEALTH AND AFFILIATES

Consolidated Balance Sheets

March 31, 2015 and 2014

(Dollars in thousands)

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

See accompanying notes to consolidated financial statements.

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

LEGACY HEALTH AND AFFILIATES

Consolidated Statements of Operations

Years ended March 31, 2015 and 2014

(Dollars in thousands)

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

See accompanying notes to consolidated financial statements.

LEGACY HEALTH AND AFFILIATES

Consolidated Statements of Changes in Net Assets

Years ended March 31, 2015 and 2014

(Dollars in thousands)

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

See accompanying notes to consolidated financial statements.

LEGACY HEALTH AND AFFILIATES

Consolidated Statements of Cash Flows

Years ended March 31, 2015 and 2014

(Dollars in thousands)

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

See accompanying notes to consolidated financial statements.

(1) Organization and Summary of Significant Accounting Policies

(a) Organization and Basis of Consolidation

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

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

Legacy Emanuel Hospital & Health Center

Legacy Good Samaritan Hospital and Medical Center

Legacy Meridian Park Hospital

Legacy Mount Hood Medical Center

Legacy Salmon Creek Hospital

Legacy Visiting Nurse Association and Affiliates

Managed HealthCare Northwest, Inc. (MHN)

Legacy Health System Insurance Company (LHSIC)

Legacy USP Surgery Centers, LLC (LUSC)

All significant interentity accounts and transactions have been eliminated.

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

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

(b) Use of Estimates

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

(c) Income Taxes

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

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

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

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

(d) Net Patient Service Revenues

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

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

(e) Other Revenues

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

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

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

(f) Income from Operations

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

(g) Performance Indicator

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

(h) Charity Care

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

(i) Cash and Cash Equivalents

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

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

(j) Short-Term Investments

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

(k) Inventories

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

(l) Assets Limited as to Use

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

(m) Property, Plant and Equipment

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

Interest cost incurred on borrowed funds during the period of construction of capital assets is capitalized as a component of acquiring those assets. In 2015 and 2014, Legacy capitalized $147 and $154, respectively, of interest expense. Legacy assesses potential impairment to its long-lived assets when there is evidence that events or changes in circumstances have made recovery of an asset’s carrying value unlikely. An impairment loss is indicated when the sum of expected undiscounted future net cash flows is less than the carrying amount. The loss recognized is the difference between the fair value and the carrying amount. No impairment losses were recorded in 2015 or 2014.

Depreciation is computed under the straight-line method over estimated useful lives with average useful lives as follows: building and improvements, 26 years; equipment and software, 6 years; and land improvements, 12 years. Leased assets that have been capitalized are amortized over the term of the leases or the useful lives of the assets, whichever is shorter. Leased asset amortization is reported as part of depreciation expense.

(n) Noncurrent Investments

Noncurrent investments include investments in equity securities of publicly traded U.S. and international companies, investments in foreign government and commercial bank obligations, real estate, market neutral hedge funds, alternative investments (which include private equity and distressed debt) and interest rate swaps. Investments in equity securities with readily determinable fair values and all investments in debt securities are recorded at fair value in the consolidated balance sheets. Investments in limited liability partnerships or companies, which are investment companies, are recorded at the fair value of the underlying assets using the equity method of accounting. As of March 31, 2015, approximately 7% of noncurrent investments require advance written notice of 90 days or longer to redeem the securities. For certain of these investments, it may take up to 90 days to receive the funds after the requested redemption date and certain redemptions may be subject to other restrictions in accordance with subscription agreements.

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

(o) Temporarily and Permanently Restricted Net Assets

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

(p) Donor-Restricted Gifts

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

(q) Charitable Gift Annuities

Legacy has a certificate of authority from the State of Oregon and from the State of Washington to receive transfers of money or property upon agreement to pay an annuity. A charitable gift annuity is an arrangement between a donor and Legacy in which the donor contributes assets to Legacy in exchange for Legacy’s agreement to pay a fixed amount for a specified period of time to the donor or other individuals and organizations as designated by the donor (annuitant). Upon execution of such an arrangement, Legacy recognizes the assets received at fair value and an annuity payment liability at the present value of future cash flows expected to be paid. Unrestricted or restricted contribution revenue is recognized based upon the difference between these two amounts based on donor intent for the proceeds. In subsequent periods, payments to the annuitant reduce the annuity liability. Adjustments to the annuity liability to reflect amortization of the discount, changes in life expectancy, and death of the annuitant are recognized as other operating expenses. The annuity liability included in other current liabilities as of March 31, 2015 and 2014 was $64 and $67, respectively. The annuities are not issued by an insurance company and are not subject to regulation by the State of Oregon or protected by an insurance guaranty association.

Although Legacy is exempt under Oregon Revised Statute (ORS) 731.039 from the requirement to maintain a separate and distinct trust fund adequate to meet the actuarially determined future payments of the charitable gift annuities. Legacy does maintain trust accounts with a bank for all gift annuities. The amounts under trust were $67 and $69 as of March 31, 2015 and 2014, respectively. These marketable securities are comprised of cash, cash equivalents and other fixed income instruments. No annuity contracts have been issued in the State of Washington as of March 31, 2015.

(r) Recently Adopted Accounting Standards

In April 2015, the Financial Accounting Standards Board (FASB) ratified a consensus reached by the Emerging Issues Task Force (EITF) related to investments. ASU 2015-07 *Disclosures for Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent)* removes the requirement to categorize within the fair value hierarchy investments in certain funds whose fair values are measured at net asset value (NAV). Legacy adopted this guidance effective April 1, 2014 and adjusted the disclosures for the year ended March 31, 2014. The adoption of this guidance did not have a material impact on Legacy's consolidated financial statements.

In May 2014, the FASB issued ASU No 2014-09 *Revenue from Contracts with Customers*. The ASU will replace most existing revenue recognition guidance in U.S. GAAP when it becomes effective. The new standard is effective for Legacy on April 1, 2017. A one year deferral has been proposed which would change the effective date to April 1, 2018. Early application is not permitted. The standard permits the use of either the retrospective or cumulative effect transition method. Management is evaluating the effect that ASU 2014-09 will have on its financial statements and related disclosures. Management has not yet selected a transition method nor has it determined the effect of the standard on its ongoing financial reporting.

(2) Net Patient Service Revenues

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

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

(Dollars in thousands)

Revenue from the Medicare and Medicaid programs accounted for approximately 36.5% and 26.7%, respectively, of Legacy's gross patient charges for the year ended March 31, 2015, and 36.9% and 20.1%, respectively, of Legacy's gross patient charges for the year ended March 31, 2014. Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation. As a result, there is at least a possibility that recorded estimates will change by a material amount in the near term. In 2015 and 2014, respectively, Legacy recorded an increase to net patient service revenue of approximately $2,919 and $1,446 relating to favorable settlements of prior years' reimbursement from Medicare and Medicaid programs.

Legacy grants credit without collateral to its patients, most of whom are local residents and are insured under third-party payor agreements. The proportion of net accounts receivable from significant third-party payors for 2015 and 2014 was as follows:

	2015	2014
Medicare	25.8%	24.2%
Medicaid	15.1	11.7
Blue cross	14.0	17.2
Private pay	4.7	8.0
Other	40.4	38.9
	100.0%	100.0%

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

(3) Benefits to the Community

The Board of Directors allocated $10,000 to establish a Community Health Fund (the Fund) in 1999. An amount equal to five percent of the principal of this Fund ($500 annually) may be dedicated to community-sponsored initiatives geared toward improving the health of the community. The Fund is intended to be a permanent source of funding for health initiatives and programs capable of impacting the health of the community either by prevention or health improvement. Contributions made to community-sponsored initiatives were $393 and $419 in 2015 and 2014, respectively.

(Dollars in thousands)

In addition to funding selected community health initiatives, Legacy provides services to the community both for people in need and to enhance the health status of the broader community as part of its charitable mission. The following represents the estimated cost of providing certain services to the community, along with a description of selected activities sponsored by Legacy during 2015 and 2014:

	Year ended March 31, 2015			
	In-kind costs	**Other costs**	**Offsetting revenue**	**Net cost**
Services for people in need:				
Charity care	$ —	24,938	—	24,938
Medicaid	—	408,684	264,738	143,946
Medicare	—	539,634	481,854	57,780
Other government programs	—	14,493	12,264	2,229
	—	987,749	758,856	228,893
Benefits to the community:				
Medical education and support of research	—	23,505	6,941	16,564
Community health services	—	6,897	5,756	1,141
Community benefit activities	592	615	—	1,207
Donations to charitable organizations	157	899	—	1,056
Community Health Fund contributions	—	393	—	393
	749	32,309	12,697	20,361
	$ 749	1,020,058	771,553	249,254
Percentage of total operating expenses				16.2%

(Dollars in thousands)

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

(a) Services for People in Need

In support of its mission, Legacy voluntarily provides medically necessary patient care services that are discounted or free of charge to persons who have insufficient resources and/or who are uninsured. The criteria for charity care is determined based on eligibility for insurance coverage, household income, qualified assets, catastrophic medical events, or other information supporting a patient's inability to pay for services provided. Specifically, Legacy provides an uninsured discount of 35% to patients who have resided within Legacy's primary service area for a period of six months, are uninsured for hospital care, and have a household income of less than $100,000 annually. Further discounts are available for patients, on a sliding scale, whose household income is less than 400% of the federal poverty level or roughly $97,000 for a family of four in Portland, Oregon. For patients whose household income is at or below 200% of the federal poverty level, a full subsidy is available. In addition to the household income criteria, the patients' qualified assets (e.g., 25% of household assets), and other catastrophic or economic circumstances are considered in determining eligibility for charity care.

During 2015 and 2014, Legacy provided charity care benefiting patients associated with 47,596 and 72,633 patient accounts, respectively, representing 5,072 and 7,471 inpatient accounts, respectively, and 42,524 and 65,192 outpatient accounts, respectively. In 2015 and 2014, 5% and 6%, respectively, of the patients receiving charity care received a full subsidy representing roughly 3% in each of those years, of the total charity provided in those years.

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

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

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

Legacy also employs financial counselors and social workers who assist patients in obtaining coverage for their healthcare needs. This includes assistance with workers' compensation, motor vehicle accident policies, COBRA, veterans' assistance, and public assistance programs, such as Medicaid. This program assisted many patients in obtaining coverage through a third party, reducing the patients' financial responsibility. The costs associated with this program were $1,558 and $1,173 in 2015 and 2014, respectively.

(b) Benefits to the Community

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

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

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

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

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

(Dollars in thousands)

(c) Other Benefits

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

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

Legacy also pays taxes associated with various states' local business and occupation taxes, and property taxes that local and state governments use to fund healthcare services, civil and education services to the community. Legacy paid $6,567 and $6,190 in local and state taxes in 2015 and 2014, respectively.

(4) Property, Plant, and Equipment

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

		2015	2014
Buildings and improvements	$	1,064,175	1,082,209
Equipment and software		761,269	750,645
Land improvements		11,076	10,284
		1,836,520	1,843,138
Accumulated depreciation		(1,144,163)	(1,109,081)
		692,357	734,057
Construction in progress		46,830	19,593
Land		25,092	25,092
	$	764,279	778,742

There were capital expenditure purchase commitments outstanding as of March 31, 2015 for various construction and equipment projects. The estimated cost to complete such projects at March 31, 2015 was $98,796, of which $44,175 was contractually committed.

(Dollars in thousands)

(5) Long-Term Debt

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

	2015	2014
Hospital Revenue Bonds, Series 2008, payable in installments through 2038, subject to a seven-day put provision; interest at SIFMA index (0.02% at March 31, 2015) plus 10 basis points	$ 150,000	150,000
Hospital Revenue Bonds, Series 2009A, payable in installments from $1,055 to $7,715 through 2035, at rates ranging from 4.0% to 5.5%, callable on or after July 2019	72,200	102,970
Hospital Revenue Bonds, Series 2009C, subject to mandatory tender of $25,000 in July of 2014, at 5%	—	25,000
Hospital Revenue Bonds, Series 2010A, payable in installments from $1,120 to $12,430 through 2030, at rates ranging from 3.0% to 5.0%, $24,300 of the bonds are callable on or after March 2020	63,435	75,190
Hospital Revenue Bonds, Series 2011A, payable in installments from $5,495 to $22,060 through 2021, at rates ranging from 3.0% to 5.25%.	94,390	100,165
Loan agreement with a bank at fixed rate of 1.4%, repayable July 2014.	—	25,000
Hospital Revenue Bonds, Series 2014A, payable in installments from $2,985 to $10,540 through 2040, at fixed rate of 2.425%	71,720	—
Capital lease obligations, at imputed rates of 3.4% to 5.1%	2,790	5,363
Note payable, matures 2015, interest at 6.73%	89	220
	454,624	483,908
Less current portion	(22,940)	(23,228)
	$ 431,684	460,680

Interest cost incurred related to funds borrowed was $15,182 and $16,971 in 2015 and 2014, respectively. These amounts were reduced by $147 and $154 in 2015 and 2014, respectively, in the consolidated statements of operations, for amounts capitalized for construction and other capital projects.

(Dollars in thousands)

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

	Long-term debt	Capital lease obligations
2016	$ 21,384	1,645
2017	22,285	646
2018	23,245	—
2019	14,690	—
2020	25,765	—
Thereafter	344,465	—
	$ 451,834	2,291
Less amount representing interest under capital lease obligation		499
		$ 2,790

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

In November 2008, Legacy issued $150,000 of Revenue Bonds Series 2008 (Series 2008 Bonds), which are unsecured, variable-rate debt in an initial short-term interest rate mode, through the Hospital Facility Authority of Clackamas County, Oregon. The proceeds from the Series 2008 Bonds were restricted for capital expenditures and to pay the expenses incurred with the issuance. The Series 2008 Bonds, while subject to a long-term amortization period, may be put to Legacy at the option of the bondholders in connection with certain remarketing dates. In conjunction with the issuance, in November 2013 Legacy entered into three year letter of credit and reimbursement agreement with a national bank, whereby the bank will purchase any bonds that are put by bondholders and not successfully remarketed. In the event of a draw under this agreement, there are no principal payments due within a year. If the bonds have not been remarketed or redeemed and amounts remain outstanding after a year, such amounts are converted to a term loan due in eight quarterly payments. As a result, the Series 2008 Bonds are classified as long-term, except for the portion that matures within 12 months after March 31, 2015.

In May 2009, Legacy issued $163,860 of Revenue Bonds Series 2009 (Series 2009 Bonds) in Series A, B, and C through the Hospital Facility Authority of Clackamas County, Oregon. The proceeds from the Series 2009 Bonds were restricted for capital expenditures, debt service during the construction period, and expenses incurred in connection with the issuance. A portion of the Series A ($27,810) of the Series 2009 Bonds that were callable in July 2014 was refinanced as part of the Revenue Bonds Series 2014, Series A. The Series B ($25,000) of the Series 2009 Bonds was refinanced in 2012. The Series C ($25,000) of the Series 2009 Bonds was subject to a mandatory bondholder tender in July 2014 and refinanced as part of the Revenue Bonds Series 2014 (see below for further discussion). The remaining bonds are payable in annual installments 2015 through 2035 at interest rates from 4.00% to 5.50%. In connection with this issuance, certain modifications to the existing master trust indenture were made. In particular, a gross revenue pledge was provided to all bondholders. The Series 2009 Bonds, and all outstanding previously issued Revenue Bonds, are obligations of the revised master trust indenture (the 2009 Master Trust Indenture).

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

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

In June 2012, Legacy entered into an agreement with a bank to borrow $25,000 at a fixed rate of 1.4%, repayable in July 2014. Proceeds from this borrowing were used to refinance the Series 2009B bonds in 2012. In March 2014, Legacy entered into a binding Bond Purchase Agreement (BPA) with the State of Oregon Facilities Authority and a commercial bank to refinance this debt, the Series 2009C bonds that had a mandatory tender in July 2014 and portions of the 2009A bonds that were callable in July 2014. In June 2014, Legacy issued $71.7 Hospital Revenue Bonds Series 2014A (Series 2014 Bonds) through the State of Oregon Hospital Facilities Authority that will mature in 2021 and carry a fixed rate of 2.4%. The Series 2014 Bonds are obligations of the 2009 Master Trust Indenture.

(Dollars in thousands)

(6) Investments

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

		Year ended March 31	
		2015	**2014**
Cash and cash equivalents	$	4,630	5,331
Short-term notes		3,178	6,644
State government obligations		1,809	3,939
Small/mid cap domestic equity securities		38,107	39,118
Large cap domestic equity securities		110,639	94,963
International equity securities		108,267	108,269
Fixed income securities		14,923	—
Fixed income mutual fund		189,260	159,958
Fixed income common/collective trust		102,718	99,234
Absolute return funds		112,213	101,458
U.S. Treasury common/collective trust		36,830	35,716
Real estate partnerships		89,773	82,134
Private equity funds – funds of funds		2,629	4,804
Interest rate swaps		7,565	3,892
	$	822,541	745,460

As of March 31, 2015, Legacy has a remaining capital commitment of $854 to private equity funds in the form of limited partnership/trust investments. These commitments are due on demand from the general partners/advisors. These private equity funds invest in emerging companies, venture capital funds, and other alternative investments. The termination of these partnerships/trusts is based upon specific provisions in the agreement. In most cases the life of the trusts are for a minimum of 10 years. Legacy can only transfer its interest in the investments with the consent of the general partner/advisor. The fair values of these investments are determined either by the underlying security value on the open market or by the general partner/advisor utilizing fair value principles. Debt service reserve funds and related to the Series 2009A, B and C Bonds are held in trust at a national bank and are invested in accordance with the respective bond indentures, primarily in government obligations with maturities of one year or less and in money market funds. Because the underlying investments of these equity method investment funds are valued at fair value, equity method accounting produces a value similar to the net asset value practical expedient used for certain investments at fair value.

Interest Rate Swaps

Legacy has executed a 20-year basis swap with an investment-banking firm. The notional amount of the transaction is $82,000, and the cash flows settle semiannually. Under the transaction, Legacy pays at the SIFMA index, in exchange for receiving 62% of LIBOR plus 0.814%. In April 2014 Legacy modified this swap so that Legacy receives 62% of LIBOR plus 1.011% in exchange for extending the maturity to December 2033. All other terms were unchanged.

(Dollars in thousands)

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

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

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

The fair value of these swaps is determined by the spread in interest rates. The fair value as of March 31, 2015 and 2014 represents a receivable of $7,565 and $3,892, respectively, and is included in noncurrent investments in the consolidated balance sheets.

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

		Year ended March 31	
		2015	**2014**
Interest and dividend income	$	703	608
Realized gains on investments		35,151	51,901
Equity earnings from investment companies		14,281	14,402
Change in fair value of trading securities and interest rate swaps, net		(2,120)	(7,131)
Total investment income	$	48,015	59,780

(7) Fair Value of Financial Instruments

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

(Dollars in thousands)

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets and liabilities. Level 1 securities include marketable equity securities and mutual funds.
- Level 2 inputs are other than quoted prices included within Level 1 that are observable in the market for the asset or liability, either directly or indirectly. Level 2 securities include fixed income securities, and interest rate swaps.

  In accordance with ASU 2015-07, investments valued utilizing net asset value as a practical expedient are excluded from the hierarchy.
- Level 3 inputs are unobservable inputs for an asset or liability.

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

The following tables present the financial instruments carried at fair value and financial instruments valued using the equity method of accounting as of March 31, 2015 and 2014, by caption on the consolidated balance sheets, by the valuation hierarchy defined above:

	Fair value of financial instruments March 31, 2015			
	Level 1	**Level 2**	**Level 3**	**Total fair value**
Assets:				
Cash and cash equivalents	$ 4,630	—	—	4,630
Small/mid cap domestic equity securities	38,107	—	—	38,107
Large cap domestic equity securities	110,639	—	—	110,639
International equity securities	108,267	—	—	108,267
Fixed income securities	—	14,923	—	14,923
Fixed income mutual fund	189,260	—	—	189,260
Absolute return funds	60,401	—	—	60,401
Short-term notes	—	3,178	—	3,178
State government obligations	—	1,809	—	1,809
Interest rate swaps	—	7,565	—	7,565
	$ 511,304	27,475	—	538,779
Equity method investments				139,185
Investments where NAV was used as a practical expedient to measure fair value				144,577
Total investments at fair value				$ 822,541

(Dollars in thousands)

	Fair value of financial instruments March 31, 2014			
	Level 1	Level 2	Level 3	Total fair value
Assets:				
Cash and cash equivalents	$ 5,331	—	—	5,331
Small/mid cap domestic equity securities	39,118	—	—	39,118
Large cap domestic equity securities	94,963	—	—	94,963
International equity securities	108,269	—	—	108,269
Fixed income mutual fund	159,958	—	—	159,958
Absolute return funds	14,669	—	—	14,669
U.S. Treasury securities	—	35,716	—	35,716
Short-term notes	—	6,644	—	6,644
State government obligations	—	3,939	—	3,939
Interest rate swaps	—	3,892	—	3,892
	$ 422,308	50,191	—	472,499
Equity method investments				132,107
Investments where NAV was used as a practical expedient to measure fair value				140,854
Total investments at fair value				$ 745,460

The following table presents information for investments where the NAV was used as a practical expedient to measure fair value at March 31, 2015:

	Fair value	Redemption frequency	Redemption notice period
Common/collective trust funds	$ 139,548	Daily or monthly	1–5 days
Absolute return funds	5,029	Quarterly	60–95 days

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

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

(Dollars in thousands)

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

The fair value of long-term debt is estimated based on the discounted cash flows that would be paid using current market rates for debt with the same maturities, assuming the debt was repaid as of the first call date as stipulated in the bond indenture. The fair value of long-term debt was $31,503 and $22,736 greater than the carrying value as of March 31, 2015 and 2014, respectively. This valuation represents a Level 2 fair value measurement per ASC 820.

(8) Temporarily and Permanently Restricted Net Assets

Restricted net assets are available for the following purposes:

		Year ended March 31	
		2015	2014
Temporarily restricted net assets:			
Education	$	6,997	6,784
Patient care		14,646	13,865
Research		4,442	1,309
Capital acquisition		6,053	6,448
Other		4,463	4,422
	$	36,601	32,828

		Year ended March 31	
		2015	2014
Permanently restricted net assets:			
Education	$	2,736	2,681
Patient care		10,274	10,109
Research		1,947	1,943
Other		383	383
	$	15,340	15,116

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

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

(Dollars in thousands)

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

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

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or UPMIFA requires Legacy to retain as a fund of perpetual duration. Deficiencies of this nature are reported as a reduction to unrestricted net assets and are excluded from the performance indicator. Changes in endowment net assets for the years ended March 31, 2015 and 2014 are as follows:

	Unrestricted	Temporarily restricted	Permanently restricted	Total
Balance as of March 31, 2013	$ 9,933	17,900	13,801	41,634
Investment income	416	4,152	—	4,568
Contributions	(419)	—	1,315	896
Appropriated for expenditure	—	(1,107)	—	(1,107)
Balance as of March 31, 2014	9,930	20,945	15,116	45,991
Investment income	469	1,860	—	2,329
Contributions	—	—	224	224
Appropriated for expenditure	(415)	(1,397)	—	(1,812)
Balance as of March 31, 2015	$ 9,984	21,408	15,340	46,732

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

(Dollars in thousands)

(9) Functional Expenses

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

		Year ended March 31	
		2015	**2014**
Healthcare services	$	1,244,274	1,164,177
General and administrative		293,067	270,833
	$	1,537,341	1,435,010

(10) Retirement Plans

(a) Defined Contribution Pension Plans

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

Expenses incurred by Legacy related to this plan were approximately $14,500 and $13,300 for 2015 and 2014, respectively.

(b) Pension Benefit Plans

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

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

Legacy recognizes adjustments to the funded status of the Plan as increases or decreases to net assets in the corresponding accounting period. During the years ended March 31, 2015 and 2014, Legacy recognized a (decrease) increase in net assets of ($97,655) and $62,808, respectively, related to the change in funded status of the Plan.

(Dollars in thousands)

A summary of changes in benefit obligations, fair values of plan assets, and the pension liability at March 31, 2015 and 2014 and for the fiscal years then ended is as follows:

		2015	**2014**
Change in projected benefit obligation:			
Projected benefit obligation at beginning of year	$	728,965	728,902
Service cost		29,838	30,882
Interest cost		33,416	30,969
Actuarial loss (gain)		117,934	(34,386)
Benefits paid		(42,088)	(25,756)
Plan amendments		—	(1,646)
Projected benefit obligation at end of year	$	868,065	728,965
Change in plan assets:			
Fair value of assets at beginning of year	$	629,355	551,547
Actual return on plan assets		59,107	58,629
Employer contribution		36,475	44,935
Benefits paid		(42,088)	(25,756)
Fair value of assets at end of year	$	682,849	629,355
Reconciliation of funded status:			
Funded status	$	(185,216)	(99,610)
Net amount recognized	$	(185,216)	(99,610)

Included in unrestricted net assets at March 31, 2015 are unrecognized prior service credits of $34,606 and unrecognized actuarial losses of $274,881 that have not yet been recognized in net periodic pension cost. The prior service credit and actuarial losses included in unrestricted net assets and expected to be recognized in net periodic pension cost during the year ending March 31, 2016 are ($8,989) and $18,719, respectively. The accumulated benefit obligation as of March 31, 2015 and 2014 was $854,841 and $714,178, respectively.

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

		2015	**2014**
Service cost	$	29,838	30,882
Interest cost		33,416	30,969
Expected return on plan assets		(41,821)	(40,733)
Amortization of prior service costs		(8,989)	(8,839)
Recognized net actuarial loss		11,815	17,580
Special recognition curtailments and settlements		166	137
Net periodic pension cost	$	24,425	29,996

(Continued)

(Dollars in thousands)

(c) Assumptions

Legacy used the following actuarial assumptions to determine its benefit obligations at March 31, 2015 and 2014, and its net periodic benefit cost for the years ended March 31, 2015 and 2014:

	2015	2014
Benefit obligation (measured as of March 31, 2015 and 2014):		
Discount rate	4.11%	4.77%
Rate of increase in future compensation levels	3.0% for 2015 3.75% thereafter plus longevity scale	2.50% for 2014, 3.75% thereafter plus longevity scale
Net periodic benefit cost (measured as of March 31, 2015 and 2014):		
Discount rate	4.77%	4.34%
Expected long-term discount rate of return on plan assets	7.00%	7.50%
Rate of increase in future compensation levels	2.5% for 2014, 3.75% thereafter plus longevity scale	4% plus longevity scale

The expected long-term rate of return on plan assets was based on Legacy’s asset allocation mix and the long-term historical return for each asset class, taking into account current and expected market conditions. Legacy utilizes a nationally recognized investment consultant to assist in the return assumptions used in determining the expected long-term rate of return. The actual return on pension plan assets was a net gain of approximately 9.4% and 10.5% for the years ended March 31, 2015 and 2014, respectively. In the calculation of pension plan expense, the expected long-term rate of return on plan assets is applied to a calculated value of plan assets that recognizes changes in fair value over a four-year period. This practice is intended to reduce year-to-year volatility in pension expense, but it can have the effect of delaying the recognition of differences between actual returns and expected returns based on the long-term rate-of-return assumptions. The source data for the discount rate used to determine the benefit obligation was a universe of AA or higher rated U.S. dollar denominated bonds with similar maturities to the projected benefit payments. The mortality tables used in the assumptions have been updated for 2015 from the RP-2000 Combined Mortality Table project to 2020 with Scale AA to updated RP-2014 Blue Collar Employee mortality table projected to 2027 using RPEC 2014 Projections scale for current employees and for annuitants ages 75 and older, the PR-2014 Blue Collar Annuitant mortality table at ages 75 and up, projected to 2027 using RPEC 2014 Projection Scale was used.

(Dollars in thousands)

(d) Pension Plan Assets

The asset allocation of Legacy's pension plans at March 31, 2015 and 2014, and the target allocation are as follows:

	Target allocation	2015	2014
Equity securities	28%–46%	34%	36%
Fixed income	21%–34%	37	33
Real estate	0%–17%	10	10
Absolute return funds	0%–18%	14	15
Alternative investments	0%–11%	5	6

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

(Dollars in thousands)

In accordance with ASC SubTopic 820-10, financial assets and financial liabilities measured at fair value are grouped in three levels, based on the markets in which the assets and liabilities are traded and the reliability of the assumptions used to estimate fair value. These levels and associated valuation methodologies are described in note 7. The following tables set forth by level, within the fair value hierarchy, list the Plan's assets at fair value as of March 31, 2015 and 2014:

	Fair value of financial instruments March 31, 2015			
	Level 1	**Level 2**	**Level 3**	**Total fair value**
Assets:				
Cash and cash equivalents	$ 9,122	—	—	9,122
Small/mid cap domestic equity securities	36,820	—	—	36,820
Large cap domestic equity securities	53,450	—	—	53,450
International equity securities	64,574	—	—	64,574
Fixed income mutual fund	127,451	—	—	127,451
Absolute return funds	58,629	—	—	58,629
	$ 350,046	—	—	350,046
Investments where the NAV was used as a practical expedient to measure fair value				332,803
Total assets at fair value				$ 682,849

(Dollars in thousands)

	Fair value of financial instruments March 31, 2014			
	Level 1	Level 2	Level 3	Total fair value
Assets:				
Cash and cash equivalents	$ 6,235	—	—	6,235
Small/mid cap domestic equity securities	39,180	—	—	39,180
Large cap domestic equity securities	73,666	—	—	73,666
International equity securities	66,479	—	—	66,479
Fixed income mutual fund	104,545	—	—	104,545
Absolute return funds	28,863	—	—	28,863
	$ 318,968	—	—	318,968
Investments where the NAV was used as a practical expedient to measure fair value				310,387
Total assets at fair value				$ 629,355

The following table presents information for plan assets where the NAV was used as a practical expedient to measure fair value at March 31, 2015:

	Fair value	Redemption frequency	Redemption notice period
Common/collective trust funds	$ 201,425	Daily or monthly	1–5 days
Absolute return funds	32,552	Quarterly	60–95 days
Core real estate partnerships	57,315	Quarterly	60–95 days
Value-added real estate partnerships	10,526	*	*
Private equity funds	30,985	*	*

* Redemptions are not permitted during the life of the investment. The remaining life is greater than one year.

(e) Cash Flows

Legacy's policy with respect to funding the qualified plans is to fund at least the minimum required by the Employee Retirement Income Security Act of 1974 (ERISA), as amended, plus such additional amounts as deemed appropriate. In fiscal year 2016, Legacy expects to contribute, from ongoing cash flows and current assets, approximately $118,000 to its defined-benefit pension plans.

(Dollars in thousands)

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

2015	$	40,561
2016		42,801
2017		46,568
2018		50,486
2019		54,125
2020–2024		310,306

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

Management is not aware of any expected settlements or curtailments that would require additional recognition during 2015.

(11) Commitments and Contingencies

(a) Professional and General Liability

Legacy is self-insured for professional and general liability coverage. Coverage in excess of the self-insurance limits is provided on a claims-made basis through commercial insurance for claims made prior to June 1, 2004 and through its captive insurance company, LHSIC, effective June 1, 2004. LHSIC is a Cayman Islands domiciled insurance company created to access the reinsurance markets. General and professional liability costs have been accrued based upon an actuarial determination. Legacy recognizes adjustments to its professional and general liability reserves associated with actuarial estimates on prior year activity as an increase or decrease to utilities, insurance and other expenses in the financial statements. In 2015, Legacy recorded additional expense of $1,652 and in 2014 recorded a increase to expense of $12,000 related to changes in estimate of professional liabilities.

Legacy is involved in litigation arising in the ordinary course of business. Claims, including alleged malpractice, have been asserted against Legacy and are currently in various stages of litigation. Additional claims may be asserted against Legacy arising from services provided to patients through March 31, 2015. In management's opinion, however, the estimated liability accrued at March 31, 2015 is adequate to provide for potential losses resulting from pending or threatened litigation.

(Dollars in thousands)

(b) Operating Leases

Legacy leases various equipment and real property under operating leases expiring at various dates through March 2020. The following is a schedule by year of future minimum lease payments under operating leases as of March 31, 2015, with an initial or remaining lease term in excess of one year.

Year ending March 31:		
2016	$	4,420
2017		3,609
2018		2,815
2019		2,401
2020		818
Thereafter		152
	$	14,215

Rent expense for 2015 and 2014 totaled $7,336 and $6,671, respectively.

(c) Employee Benefits

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

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

(d) Collective Bargaining Agreements

Approximately 9% of Legacy employees were covered under collective bargaining agreements at March 31, 2015, including certain service and maintenance employees. Approximately 400 employees are covered by collective bargaining agreements that expire within one year.

(12) Compliance with Laws and Regulations

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

(13) Subsequent Events

Legacy evaluated and disclosed all material subsequent events through June 23, 2015, the date the consolidated financial statements were issued.

LEGACY HEALTH AND AFFILIATES

Consolidating Balance Sheet

March 31, 2015

(Dollars in thousands)

Assets		Legacy Health	Legacy Emanuel Hospital & Health Center	Legacy Good Samaritan Hospital and Medical Center	Legacy Meridian Park Hospital
Current assets:					
Cash and cash equivalents	$	102,531	(2,517)	(332)	5
Short-term investments		62,300	—	—	—
Accounts receivable from patients		—	119,597	37,243	27,942
Allowance for uncollectible accounts		—	(20,572)	(3,686)	(3,833)
Accounts receivable, net		—	99,025	33,557	24,109
Settlements receivable from third-party payors, net		—	18,208	4,778	3,073
Other receivables		7,126	10,599	4,420	2,743
Inventories, at cost		—	7,835	5,003	3,042
Prepaid expenses		12,376	472	186	101
Total current assets		184,333	133,622	47,612	33,073
Assets limited as to use:					
Held by trustee		—	5,858	—	—
Community health fund		9,984	—	—	—
Noncurrent investments restricted for capital acquisitions		1,969	—	—	—
		11,953	5,858	—	—
Other assets:					
Property, plant and equipment		410,555	590,774	295,399	157,016
Accumulated depreciation		(290,360)	(275,357)	(226,310)	(123,592)
		120,195	315,417	69,089	33,424
Noncurrent investments		741,323	13	—	—
Property held for development or sale		13,287	—	—	7,084
Goodwill and other intangibles		3,708	—	—	—
Other assets		18,027	10,020	258	108
		896,540	325,450	69,347	40,616
Intercompany affiliate receivable (payable)		(825,344)	96,370	183,543	262,333
	$	267,482	561,300	300,502	336,022

See accompanying independent auditors’ report on other financial information.

(Continued)

Legacy Mount Hood Medical Center	Legacy Salmon Creek Hospital	Legacy Visiting Nurse Association	Foundations	Credit Reporting Group	Other affiliates and eliminations	March 31, 2015 consolidated
(164)	229	39	7	99,798	196	99,994
—	—	—	—	62,300	—	62,300
18,148	37,399	1,431	—	241,760	2,454	244,214
(3,958)	(6,188)	—	—	(38,237)	(301)	(38,538)
14,190	31,211	1,431	—	203,523	2,153	205,676
3,631	(1,109)	—	—	28,581	—	28,581
1,768	3,006	—	1,101	30,763	10,628	41,391
2,456	1,969	—	—	20,305	259	20,564
21	7,425	14	—	20,595	483	21,078
21,902	42,731	1,484	1,108	465,865	13,719	479,584
—	—	—	—	5,858	—	5,858
—	—	—	—	9,984	—	9,984
—	—	—	—	1,969	—	1,969
—	—	—	—	17,811	—	17,811
105,612	340,135	3,502	—	1,902,993	5,449	1,908,442
(63,511)	(159,901)	(1,482)	—	(1,140,513)	(3,650)	(1,144,163)
42,101	180,234	2,020	—	762,480	1,799	764,279
—	—	—	1,094	742,430	—	742,430
—	3,203	—	—	23,574	—	23,574
—	—	—	—	3,708	26,482	30,190
219	—	1,752	5,895	36,279	(11,853)	24,426
42,320	183,437	3,772	6,989	1,568,471	16,428	1,584,899
38,594	126,406	(1,468)	119,311	(255)	255	—
102,816	352,574	3,788	127,408	2,051,892	30,402	2,082,294

LEGACY HEALTH AND AFFILIATES

Consolidating Balance Sheet

March 31, 2015

(Dollars in thousands)

Liabilities and Net Assets		Legacy Health	Legacy Emanuel Hospital & Health Center	Legacy Good Samaritan Hospital and Medical Center	Legacy Meridian Park Hospital
Current liabilities:					
Accounts payable	$	12,544	16,126	6,574	3,078
Accrued wages, salaries, and benefits		18,016	35,472	10,698	7,084
Accrued interest		2,107	1,047	—	—
Other current liabilities		25,184	8,334	5,334	3,056
Current portion of long-term debt		5,741	8,632	3,136	3,648
Total current liabilities		63,592	69,611	25,742	16,866
Long-term debt, less current portion		52,453	244,708	60,012	35,117
Other liabilities:					
Estimated general and professional claims liability		34,636	—	—	—
Accrued pension liability		18,865	78,683	37,299	14,133
Other noncurrent liabilities		21,708	2,466	978	514
		75,209	81,149	38,277	14,647
Total liabilities		191,254	395,468	124,031	66,630
Net assets:					
Unrestricted		76,228	165,429	176,471	269,392
Unrestricted, noncontrolling interest		—	—	—	—
Temporarily restricted		—	403	—	—
Permanently restricted		—	—	—	—
		76,228	165,832	176,471	269,392
	$	267,482	561,300	300,502	336,022

See accompanying independent auditors’ report on other financial information.

(Continued)

Legacy Mount Hood Medical Center	Legacy Salmon Creek Hospital	Legacy Visiting Nurse Association	Foundations	Credit Reporting Group	Other affiliates and eliminations	March 31, 2015 consolidated
2,941	3,800	378	—	45,441	299	45,740
4,850	14,292	694	—	91,106	442	91,548
—	—	—	—	3,154	—	3,154
2,050	9,616	2	650	54,226	9,901	64,127
1,694	—	—	—	22,851	89	22,940
11,535	27,708	1,074	650	216,778	10,731	227,509
39,394				431,684		431,684
—	—	—	—	34,636	315	34,951
10,713	24,493	1,030	—	185,216	—	185,216
232	329	39	—	26,266	223	26,489
10,945	24,822	1,069	—	246,118	538	246,656
61,874	52,530	2,143	650	894,580	11,269	905,849
40,942	300,044	1,645	75,220	1,105,371	123	1,105,494
—	—	—	—	—	19,010	19,010
—	—	—	36,198	36,601	—	36,601
—	—	—	15,340	15,340	—	15,340
40,942	300,044	1,645	126,758	1,157,312	19,133	1,176,445
102,816	352,574	3,788	127,408	2,051,892	30,402	2,082,294

LEGACY HEALTH AND AFFILIATES

Consolidating Balance Sheet

March 31, 2014

(Dollars in thousands)

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

See accompanying independent auditors’ report on other financial information.

(Continued)

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

LEGACY HEALTH AND AFFILIATES

Consolidating Balance Sheet

March 31, 2014

(Dollars in thousands)

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

See accompanying independent auditors’ report on other financial information.

(Continued)

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

LEGACY HEALTH AND AFFILIATES

Consolidating Statement of Operations

Year ended March 31, 2015

(Dollars in thousands)

		Legacy Health	Legacy Emanuel Hospital & Health Center	Legacy Good Samaritan Hospital and Medical Center	Legacy Meridian Park Hospital	Legacy Mount Hood Medical Center
Gross patient charges	$	—	1,505,876	742,753	495,737	365,801
Adjustments to gross patient charges:						
Charity allowances		—	26,030	10,966	6,128	10,829
Third-party contractual adjustments		—	810,688	423,734	281,536	221,365
Patient service revenue		—	669,158	308,053	208,073	133,607
Less provision for bad debts		—	9,970	2,049	3,450	3,764
Net patient service revenues		—	659,188	306,004	204,623	129,843
Other revenues		184,584	45,842	12,748	5,255	6,644
Total operating revenues		184,584	705,030	318,752	209,878	136,487
Operating expenses:						
Wages, salaries, and benefits		93,773	395,235	138,664	83,729	59,496
Supplies		(599)	95,511	50,486	31,321	15,063
Professional fees		5,060	25,221	6,079	2,529	2,533
Purchased services		49,354	(10,942)	18,944	9,767	8,539
Utilities, insurance and other expenses		17,756	49,307	20,044	17,337	10,176
Depreciation		27,496	31,088	13,110	7,539	6,381
Interest and amortization		2,483	8,735	1,579	1,308	1,030
Management fees		—	89,160	44,221	29,211	17,774
		195,323	683,315	293,127	182,741	120,992
Income (loss) from operations		(10,739)	21,715	25,625	27,137	15,495
Other income (expenses):						
Investment income (loss), net		1,779	9,806	9,385	13,048	1,861
Loss on extinguishment of debt		(573)	—	—	—	—
Other, net		223	(2,069)	(296)	16	(4)
		1,429	7,737	9,089	13,064	1,857
Revenues in excess of (less than) expenses	$	(9,310)	29,452	34,714	40,201	17,352

See accompanying independent auditors' report on other financial information.

(Continued)

Legacy Salmon Creek Hospital	Legacy Visiting Nurse Association	Foundations	Interentity eliminations	Credit Reporting Group	Other affiliates and eliminations	Year ended March 31, 2015 consolidated
745,888	14,309	—	(348)	3,870,016	47,510	3,917,526
12,967	183	—	—	67,103	—	67,103
449,284	920	—	36,552	2,224,079	31,956	2,256,035
283,637	13,206	—	(36,900)	1,578,834	15,554	1,594,388
6,510	44	—	—	25,787	368	26,155
277,127	13,162	—	(36,900)	1,553,047	15,186	1,568,233
9,843	902	6,484	(183,158)	89,144	1,388	90,532
286,970	14,064	6,484	(220,058)	1,642,191	16,574	1,658,765
166,329	9,757	—	(47,601)	899,382	5,614	904,996
34,254	845	—	10,144	237,025	3,942	240,967
4,754	54	—	(791)	45,439	626	46,065
16,126	1,408	—	(122)	93,074	2,146	95,220
17,148	679	8,731	(8,671)	132,507	1,529	134,036
14,548	174	—	—	100,336	585	100,921
—	—	—	—	15,135	1	15,136
909	1,000	—	(182,275)	—	—	—
254,068	13,917	8,731	(229,316)	1,522,898	14,443	1,537,341
32,902	147	(2,247)	9,258	119,293	2,131	121,424
6,114	—	4,089	—	46,082	2	46,084
—	—	—	—	(573)	—	(573)
(1,107)	—	(965)	(6,243)	(10,445)	3	(10,442)
5,007	—	3,124	(6,243)	35,064	5	35,069
37909	147	877	3015	154,357	2,136	156,493

LEGACY HEALTH AND AFFILIATES

Consolidating Statement of Operations

Year ended March 31, 2014

(Dollars in thousands)

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

See accompanying independent auditors' report on other financial information.

(Continued)

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

LEGACY HEALTH AND AFFILIATES

Consolidating Statement of Changes in Net Assets

Year ended March 31, 2015

(Dollars in thousands)

	Legacy Health	Legacy Emanuel Hospital & Health Center	Legacy Good Samaritan Hospital and Medical Center	Legacy Meridian Park Hospital	Legacy Mount Hood Medical Center
Unrestricted net assets, controlling interest:					
Revenues in excess of (less than) expenses	$ (9,310)	29,452	34,714	40,201	17,352
Net assets released from restriction used for property, plant and equipment	41	1,346	2,528	70	—
Pension and other postretirement adjustments	(11,391)	(39,667)	(15,396)	(8,996)	(5,844)
Distributions	—	—	—	—	—
Change in unrestricted net assets, controlling interest	(20,660)	(8,869)	21,846	31,275	11,508
Unrestricted net assets, noncontrolling interest:					
Revenues in excess of expenses	—	—	—	—	—
Distributions	—	—	—	—	—
Change in unrestricted net assets, noncontrolling interest	—	—	—	—	—
Temporarily restricted net assets:					
Donor-restricted contributions and grants	—	2,436	—	—	—
Investment income, net	—	—	—	—	—
Net assets released from restriction	—	(2,573)	—	—	—
Transfers	—	—	—	—	—
Change in temporarily restricted net assets	—	(137)	—	—	—
Permanently restricted net assets:					
Donor-restricted contributions and grants	—	—	—	—	—
Change in permanently restricted net assets	—	—	—	—	—
Change in net assets	(20,660)	(9,006)	21,846	31,275	11,508
Net assets, beginning of year	96,888	174,838	154,625	238,117	29,434
Net assets, end of year	$ 76,228	165,832	176,471	269,392	40,942

See accompanying independent auditors’ report on other financial information.

(Continued)

Legacy Salmon Creek Hospital	Legacy Visiting Nurse Association	Foundations	Interentity eliminations	Credit Reporting Group	Other affiliates and eliminations	Year ended March 31, 2015 consolidated
37,909	147	877	3,015	154,357	(158)	154,199
8	—	(47)	(3,015)	931	—	931
(15,639)	(722)	—	—	(97,655)	—	(97,655)
—	—	—	—	—	162	162
22,278	(575)	830	—	57,633	4	57,637
—	—	—	—	—	2,294	2,294
—	—	—	—	—	(3,490)	(3,490)
—	—	—	—	—	(1,196)	(1,196)
—	—	5,700	—	8,136	—	8,136
—	—	1,931	—	1,931	—	1,931
—	—	(3,721)	—	(6,294)	—	(6,294)
—	—	—	—	—	—	—
—	—	3,910	—	3,773	—	3,773
—	—	224	—	224	—	224
—	—	224	—	224	—	224
22,278	(575)	4,964	—	61,630	(1,192)	60,438
277,766	2,220	121,794	—	1,095,682	20,325	1,116,007
300,044	1,645	126,758	—	1,157,312	19,133	1,176,445

LEGACY HEALTH AND AFFILIATES

Consolidating Statement of Changes in Net Assets

Year ended March 31, 2014

(Dollars in thousands)

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

See accompanying independent auditors' report on other financial information.

(Continued)

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

LEGACY HEALTH AND AFFILIATES

Consolidated Financial and Statistical Highlights

Years ended March 31

(Unaudited)

	2015	2014	2013	2012
Utilization:				
Average number of available beds	1,111	1,102	1,068	1,071
Percentage occupancy	64.7%	61.7%	61.7%	60.0%
Patient days	262,512	242,208	240,395	235,358
Medicare percent of discharge revenue	36.5%	36.9%	37.1%	35.5%
Average length of stay	4.5	4.5	4.4	4.3
Discharges:	58,535	54,348	54,533	54,896
Outpatient revenues as a percent of gross patient revenue	43.2%	42.5%	42.9%	41.8%
Average full-time equivalent (FTE) employees:				
Number of paid FTEs	8,874	8,368	7,941	8,020
Worked FTEs	7,624	7,109	6,854	6,926
FTEs per adjusted occupied bed:	7.0	7.3	6.9	7.3
Ratios:				
Deductions from revenues	60.0%	59.7%	59.6%	58.3%
Operating margin	7.3%	3.8%	3.6%	4.2%
Debt service coverage (A)	6.9	5.4	4.4	4.5
Net days in accounts receivable	47.5	47.6	46.4	48.2
Days cash on hand	228.5	215.8	214.9	201.1

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

See accompanying independent auditors' report on other financial information.

LEGACY HEALTH AND AFFILIATES

Consolidating Financial and Statistical Highlights

Years ended March 31, 2015 and 2014

(Unaudited)

	Consolidated	Legacy Emanuel Hospital & Health Center	Legacy Good Samaritan Hospital and Medical Center	Legacy Meridian Park Hospital	Legacy Mount Hood Medical Center	Legacy Salmon Creek Hospital
Utilization:						
Average available beds:						
2015	1,111	427	247	130	93	215
2014	1,102	427	247	130	92	206
Percentage occupancy:						
2015	64.7%	66.8%	58.3%	62.7%	64.2%	69.4%
2014	61.4%	65.1%	57.9%	56.1%	62.2%	60.9%
Patient days:						
2015	262,512	104,038	52,517	29,735	21,792	54,430
2014	242,208	99,550	50,070	27,316	20,092	45,180
Medicare percentage of discharge revenue:						
2015	36.5%	21.1%	47.4%	50.9%	41.3%	41.9%
2014	36.9%	22.3%	49.6%	50.6%	41.7%	39.5%
Average length of stay (days):						
2015	4.5	5.9	4.9	3.3	3.7	3.6
2014	4.5	5.6	5.0	3.3	3.5	3.6
Discharges:						
2015	58,535	17,779	10,634	8,931	5,952	15,239
2014	54,348	17,852	10,087	8,169	5,785	12,455
Outpatient revenues as a percentage of gross patient revenue:						
2015	43.2%	28.6%	43.2%	44.9%	51.5%	37.0%
2014	42.5%	26.6%	43.3%	45.1%	50.1%	38.2%
Average full-time equivalent (FTE) employees:						
Number of paid FTEs:						
2015	8,874	2,326	1,315	722	548	1,129
2014	8,368	2,232	1,308	684	507	988
FTEs per adjusted occupied bed:						
Paid FTEs:						
2015	7.0	5.8	5.2	4.9	4.4	4.8
2014	7.3	6.0	5.4	5.0	4.6	4.9
Worked FTEs:						
2015	6.0	5.0	4.5	4.2	3.8	4.1
2014	6.2	5.2	4.6	4.3	3.9	4.2
Ratios:						
Deductions from revenues:						
2015	60.0%	56.6%	58.9%	59.5%	64.8%	63.3%
2014	59.7%	55.7%	59.0%	59.4%	63.9%	64.1%
Operating margin:						
2015	7.3%	10.9%	9.0%	15.9%	12.7%	16.0%
2014	3.8%	5.6%	4.3%	10.6%	8.1%	9.6%

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

See accompanying independent auditors' report on other financial information.