



## **LEGACY HEALTH**

Consolidated Financial Statements and Other Financial Information

March 31, 2018 and 2017

(With Independent Auditors' Report Thereon)

## LEGACY HEALTH

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KPMG LLP  
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## **Independent Auditors' Report**

The Board of Directors  
Legacy Health:

We have audited the accompanying consolidated financial statements of Legacy Health, which comprise the consolidated balance sheets as of March 31, 2018 and 2017, 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 as of March 31, 2018 and 2017, and the results of their operations and their cash flows for the years then ended, in accordance with U.S. generally accepted accounting principles.



### **Other Matters**

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The supplemental information included in the consolidating schedule of balance sheet information and consolidating schedule of operations information on pages 34 through 45 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 on page 46 is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the consolidated financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

*KPMG LLP*

Portland, Oregon  
June 22, 2018

## LEGACY HEALTH

### Consolidated Balance Sheets

March 31, 2018 and 2017

(Dollars in thousands)

<b>Assets</b>	<b>2018</b>	<b>2017</b>
Current assets:		
Cash and cash equivalents	\$ 67,256	43,518
Short-term investments	31,158	31,009
Accounts receivable from patients, less allowance for uncollectible accounts of \$39,661 in 2018 and \$36,297 in 2017	254,574	263,685
Settlements receivable from third-party payors, net	12,438	12,003
Other receivables	52,770	52,000
Inventories	23,390	23,552
Prepaid expenses	14,064	15,260
Total current assets	455,650	441,027
Assets limited as to use:		
Held by trustee	144,135	162,988
Community health fund	9,754	9,771
Investments restricted for capital acquisition	3,439	2,610
Total assets limited as to use	157,328	175,369
Other assets:		
Property, plant, and equipment, net	840,329	860,023
Noncurrent investments	867,443	800,773
Investments in unconsolidated affiliates	172,188	135,320
Other assets	36,250	38,393
Total other assets	1,916,210	1,834,509
Total assets	\$ 2,529,188	2,450,905

## LEGACY HEALTH

### Consolidated Balance Sheets

March 31, 2018 and 2017

(Dollars in thousands)

<b>Liabilities and Net Assets</b>	<b>2018</b>	<b>2017</b>
Current liabilities:		
Accounts payable	\$ 53,745	56,768
Accrued wages, salaries, and benefits	131,319	134,550
Accrued interest	6,244	7,224
Other current liabilities	61,688	62,014
Current portion of long-term debt	11,532	20,277
Total current liabilities	<u>264,528</u>	<u>280,833</u>
Long-term debt, less current portion	577,067	589,164
General and professional claims liability	41,482	40,656
Pension liability	103,660	116,579
Other noncurrent liabilities	43,486	34,589
Total long-term liabilities	<u>765,695</u>	<u>780,988</u>
Total liabilities	<u>1,030,223</u>	<u>1,061,821</u>
Net assets:		
Unrestricted	1,414,039	1,305,306
Unrestricted, noncontrolling interest	20,918	18,844
Temporarily restricted	47,948	49,098
Permanently restricted	16,060	15,836
Total net assets	<u>1,498,965</u>	<u>1,389,084</u>
Total liabilities and net assets	<u>\$ 2,529,188</u>	<u>2,450,905</u>

See accompanying notes to consolidated financial statements.

## LEGACY HEALTH

### Consolidated Statements of Operations

Years ended March 31, 2018 and 2017

(Dollars in thousands)

	<b>2018</b>	<b>2017</b>
Operating revenue:		
Patient service revenue	\$ 2,016,037	1,851,702
Provision for uncollectible accounts	36,434	8,251
Net patient service revenue	1,979,603	1,843,451
Capitation revenue	39,435	30,464
Other revenue	98,832	91,677
Total operating revenue	2,117,870	1,965,592
Operating expenses:		
Wages, salaries, and benefits	1,248,477	1,138,295
Supplies	328,045	305,178
Professional fees	54,482	48,687
Purchased services	131,102	123,562
Purchased medical services	27,406	23,419
Utilities, insurance, and other expenses	161,957	149,313
Depreciation	102,867	104,616
Interest and amortization	18,536	16,084
Total operating expenses	2,072,872	1,909,154
Income from operations	44,998	56,438
Nonoperating income (loss):		
Investment income, net	67,996	54,842
Loss on extinguishment of debt	—	(8,463)
Contribution from Silverton Health	—	40,081
Other, net	(12,817)	(16,926)
Total nonoperating income	55,179	69,534
Revenue in excess of expenses	100,177	125,972
Change in pension liability	4,579	20,153
Net assets released from restriction	8,598	29,459
Distributions to joint venture partners	(2,528)	(3,049)
Other	(19)	(30)
Change in unrestricted net assets	\$ 110,807	172,505

See accompanying notes to consolidated financial statements.

## LEGACY HEALTH

### Consolidated Statements of Changes in Net Assets

Years ended March 31, 2018 and 2017

(Dollars in thousands)

	<u>Unrestricted</u>	<u>Unrestricted noncontrolling interest</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total net assets</u>
Balance, March 31, 2016	\$ 1,132,561	19,084	63,573	15,637	1,230,855
Revenue in excess of expenses	123,116	2,856	—	—	125,972
Change in pension liability	20,153	—	—	—	20,153
Donor-restricted contributions and grants	—	—	15,395	174	15,569
Net assets released from restriction	29,459	—	(36,153)	—	(6,694)
Investment gain, net	—	—	3,786	—	3,786
Distributions	47	(3,096)	—	—	(3,049)
Other	(30)	—	30	—	—
Contribution from Silverton Health	—	—	2,467	25	2,492
Change in net assets	<u>172,745</u>	<u>(240)</u>	<u>(14,475)</u>	<u>199</u>	<u>158,229</u>
Balance, March 31, 2017	<u>1,305,306</u>	<u>18,844</u>	<u>49,098</u>	<u>15,836</u>	<u>1,389,084</u>
Revenue in excess of expenses	97,374	2,803	—	—	100,177
Change in pension liability	4,579	—	—	—	4,579
Donor-restricted contributions and grants	—	—	9,757	224	9,981
Net assets released from restriction	8,598	—	(15,380)	—	(6,782)
Investment gain, net	—	—	4,454	—	4,454
Distributions	(1,799)	(729)	—	—	(2,528)
Other	(19)	—	19	—	—
Change in net assets	<u>108,733</u>	<u>2,074</u>	<u>(1,150)</u>	<u>224</u>	<u>109,881</u>
Balance, March 31, 2018	<u>\$ 1,414,039</u>	<u>20,918</u>	<u>47,948</u>	<u>16,060</u>	<u>1,498,965</u>

See accompanying notes to consolidated financial statements.



## LEGACY HEALTH

### Consolidated Statements of Cash Flows

Years ended March 31, 2018 and 2017

(Dollars in thousands)

	2018	2017
Cash flows from operating activities:		
Change in net assets	\$ 109,881	158,229
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Net distributions to noncontrolling partners	729	3,096
Depreciation and amortization	109,075	111,018
Loss on disposal of assets	215	604
Change in net realized and unrealized gains on investments	(61,862)	(47,071)
Restricted contributions	(1,115)	(2,407)
Equity earnings from joint ventures and investment companies, net	(16,404)	(20,152)
Pension and other post retirement adjustments	(4,579)	(20,153)
Loss on extinguishment of debt	—	8,463
Contribution from Silverton Health	—	(31,600)
Change in certain current assets and current liabilities	1,791	25,267
Change in certain long-term operating assets and liabilities	4,181	5,260
Net cash from operating activities	141,912	190,554
Cash flows from investing activities:		
Purchase of property, plant, and equipment	(91,147)	(133,619)
Proceeds from sale of assets	45	193
Change in funds held by trustee	18,853	(157,088)
Change in other long-term assets	(806)	(56)
Investment in joint ventures and investment companies	(30,650)	(105,900)
Distributions from joint ventures and investment companies	3,479	4,886
Purchases of trading securities	(45,037)	(54,802)
Sales of trading securities	46,094	51,604
Net cash from investing activities	(99,169)	(394,782)
Cash flows from financing activities:		
Proceeds from issuance of long-term debt	544	288,635
Proceeds from bond premium	—	32,140
Refunds (payments) of deferred financing costs	9	(1,302)
Repayment of long-term debt	(19,944)	(146,975)
Distributions to noncontrolling partners	(729)	(3,096)
Proceeds from restricted contributions	1,115	2,407
Net cash from financing activities	(19,005)	171,809
Increase (decrease) in cash and cash equivalents	23,738	(32,419)
Cash and cash equivalents, beginning of year	43,518	75,937
Cash and cash equivalents, end of year	\$ 67,256	43,518
Supplemental disclosures of cash flow information:		
Cash paid for interest (net of amount capitalized)	\$ 20,958	12,508
Change in amounts accrued for property, plant, and equipment, net	88	4,801

See accompanying notes to consolidated financial statements.

## LEGACY HEALTH

Notes to Consolidated Financial Statements

March 31, 2018 and 2017

(Dollars in thousands)

### (1) Organization and Summary of Significant Accounting Policies

#### (a) Organization and Basis of Consolidation

Legacy Health (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 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
- Silverton Health
- 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)

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, Silverton Health 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, Silverton Health, and Legacy Salmon Creek Hospital, respectively.

All significant interaffiliate accounts and transactions have been eliminated.

#### (b) Silverton Health Affiliation

On June 1, 2016, Legacy became the sole corporate member of Silverton Health (SH) and affiliates, assuming their operations and assets, in exchange for the assumption of their liabilities and outstanding debt obligations. Among the requirements of the affiliation agreement are for Legacy to operate SH's hospital and additional health facilities for ten years, invest \$57,600 within eight years to grow and improve patient care services at SH, and provide the Silverton Health Foundation with a contribution of \$3,000.

The financial position and results of operations of SH have been included in the consolidated financial statements of Legacy since June 1, 2016. SH continues to offer substantially the same healthcare services to the community of Silverton and the surrounding area.

## LEGACY HEALTH

### Notes to Consolidated Financial Statements

March 31, 2018 and 2017

(Dollars in thousands)

The Silverton affiliation transaction was accounted for as an acquisition under Accounting Standards Codification (ASC) Subtopic 958-805, *Not-for-Profit Entities – Business Combinations*. The affiliation did not involve payment of consideration and resulted in an excess of assets acquired over liabilities assumed, reported as a contribution of net assets from SH to Legacy of \$42,573. The unrestricted portion of the contribution of \$40,081 is included in nonoperating income in the consolidated statement of operations for the year ended March 31, 2017. The remaining \$2,492 of the contribution was restricted and is recorded in restricted net assets in the consolidated statement of changes in net assets for the year ended March 31, 2017.

The following table summarizes the fair value estimates of the SH assets acquired and liabilities assumed as of June 1, 2016:

Cash and cash equivalents	\$	10,973
Accounts receivable from patients, net		18,541
Property, plant, and equipment		33,186
Investments		6,623
All other assets		13,177
Accounts payable		(5,318)
Accrued wages, salaries, and benefits		(6,091)
General and professional claims liability		(6,218)
Long-term debt		(544)
Funds transferred from Legacy		(8,177)
All other liabilities		(13,579)
	\$	<u>42,573</u>

The following represents the financial results of SH included in Legacy's consolidated statement of operations from the date of the affiliation on June 1, 2016 through March 31, 2018:

	<b>Year ended</b>	<b>Ten months</b>
	<b>March 31, 2018</b>	<b>ended</b>
		<b>March 31, 2017</b>
Operating revenue	\$ 130,392	114,743
Operating expense	<u>143,493</u>	<u>119,335</u>
Loss from operations	(13,101)	(4,592)
Nonoperating gain to due affiliation	—	40,081
Other nonoperating income	<u>605</u>	<u>1,040</u>
Revenue in excess of expenses	<u>\$ (12,496)</u>	<u>36,529</u>

## LEGACY HEALTH

### Notes to Consolidated Financial Statements

March 31, 2018 and 2017

(Dollars in thousands)

#### **(c) Use of Estimates**

The preparation of consolidated financial statements in conformity with U.S. generally accepted accounting principles 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 revenue and expenses during the reporting period. Actual results could differ from those estimates. Significant estimates include uncollectible and contractual allowances on patient accounts receivable, self-insured liabilities, fair value of investments, and pension obligations.

#### **(d) 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 not currently subject to income taxes.

For 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.

U.S. generally accepted accounting principles 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 Internal Revenue Service. Management has analyzed tax positions taken by the organization and concluded that as of March 31, 2018, 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 there are currently no audits in progress. Legacy management believes it is no longer subject to income tax examinations for years prior to 2015.

In December 2017, the Tax Cuts and Jobs Act was passed, including significant changes to the Internal Revenue Code. Management has reviewed these changes and determined that there is no significant effect on revenues or expenses for Legacy Health.

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

Income from operations excludes certain items that Legacy deems to be outside the scope of its primary business. Investment income includes interest income, dividends, realized and unrealized gains and losses on short-term and noncurrent investments, and equity earnings from investment companies. Other nonoperating income includes rental income and research activities, net of any corresponding expenses to operate these programs. The unrestricted portion of the contribution received due to the affiliation with SH was also included in total nonoperating income in fiscal 2017.

## LEGACY HEALTH

### Notes to Consolidated Financial Statements

March 31, 2018 and 2017

(Dollars in thousands)

**(f) Performance Indicator**

The performance indicator is revenue in excess of expenses. Changes in unrestricted net assets that are excluded from revenue in excess of expenses include permanent transfers of assets to and from affiliates for other than goods and services, pension adjustments, net assets released from restriction for the purchase of property, plant, and equipment, and the restricted portion of the contribution received due to the affiliation with SH.

**(g) Net Patient Service Revenue, Provision for Uncollectible Accounts, and Charity Care**

Legacy has agreements with governmental and other third-party payors that provide for payments to Legacy at amounts different from established rates. Payment arrangements with major third-party payors may be based on prospectively determined rates, reimbursed cost, discounted charges, per diem payments, and other methods.

Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as appropriate.

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 revenue.

Legacy provides for an allowance against patients accounts receivable for amounts that could become uncollectible. Legacy estimates this allowance based on the aging of accounts receivable, historical collection experience by payor, and other relevant factors. There are various factors that can impact the collection trends, such as changes in the economy (which in turn have an impact on unemployment rates and the number of uninsured and underinsured patients), the increased burden of copayments being made by patients with insurance coverage, and business practices related to collection efforts. These factors continuously change and can have an impact on collection trends and the estimation process used by Legacy.

**(h) Capitation Revenue**

Capitation revenue is received on a prepaid basis and is recognized as revenue during the month for which the enrolled member is entitled to healthcare services within other revenue in the consolidated statement of operations. Capitation revenue received for future months is recorded as unearned revenue.

**(i) Other Revenue**

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. Payment is determined by improvements in performance against quality measures and on relative hospital size as determined by Medicaid days and discharges. Legacy recorded \$15,517 and \$10,492 in HTPP revenue in 2018 and 2017, respectively, which is included in other revenue in the consolidated statements of operations.

## LEGACY HEALTH

### Notes to Consolidated Financial Statements

March 31, 2018 and 2017

(Dollars in thousands)

#### **(j) Cash and Cash Equivalents**

Cash equivalents include investments in highly liquid investments 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.

#### **(k) Inventories**

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

#### **(l) Property, Plant, and Equipment**

Property, plant, and equipment are stated 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 2018 and 2017, Legacy capitalized \$526 and \$177, respectively, of interest expense.

Impairment of property, plant, and equipment is assessed when there is evidence that events or changes in circumstances have made recovery of the net carrying value of assets unlikely.

Depreciation is determined by the straight-line method, which allocates the cost of tangible property equally over the estimated useful life. Average useful lives are as follows: buildings and improvements, 27 years; equipment and software, 7 years; and land improvements, 13 years. Leased assets that have been capitalized are amortized over the term of the lease or the useful life of the asset, whichever is shorter. Leased asset amortization is reported as part of depreciation expense.

#### **(m) Investments and Investment Income**

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.

Assets limited as to use include assets held by trustees under indenture agreements and designated assets. 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.

Noncurrent investments, which are accounted for as a trading portfolio include investments in equity securities with readily determinable fair values, funds accounted for at net asset value without a readily determinable fair value, and all investments in debt securities and are recorded at fair value in the consolidated balance sheets.

## LEGACY HEALTH

### Notes to Consolidated Financial Statements

March 31, 2018 and 2017

(Dollars in thousands)

Investments in unconsolidated affiliates include investments in joint ventures over which Legacy does not exercise control and are accounted for using the equity method of accounting.

Investment income or loss (including realized gains and losses on investments, equity earnings from investment companies, interest, and dividends) is included in revenue 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. Investments in unconsolidated affiliates accounted for under the equity method are recorded at cost and subsequently adjusted for Legacy's share of the net income or loss and cash contributions and distributions to or from those entities.

#### **(n) 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. Income from permanently restricted net assets is accounted for in accordance with donor instructions.

#### **(o) 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. 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.

#### **(p) Charitable Gift Annuities**

Legacy has a certificate of authority from the State of Oregon and 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 in the consolidated balance sheets as of March 31, 2018 and 2017 was \$47 and \$65, respectively. The annuities are not issued by an insurance company and are not subject to regulation by the State of Oregon or protected by an insurance guaranty association.

## LEGACY HEALTH

### Notes to Consolidated Financial Statements

March 31, 2018 and 2017

(Dollars in thousands)

Although Legacy is exempt under Oregon Revised Statute 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 \$103 and \$67 as of March 31, 2018 and 2017, 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, 2018 or 2017.

#### **(g) New Accounting Pronouncements**

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2014-09, *Revenue from Contracts with Customers*, to clarify the principles for recognizing revenue and to improve financial reporting by creating common revenue recognition guidance for U.S. generally accepted accounting principles and International Financial Reporting Standards. The amendments in the ASU can be applied either retrospectively to each prior reporting period presented or retrospectively with the cumulative effect of initially applying the update recognized at the date of the initial application along with additional disclosures. The new standard is effective for Legacy on April 1, 2018. Adoption of the ASU will not have a significant impact on Legacy's results of operations and management will include new disclosures in 2019 in accordance with the ASU.

In February 2016, the FASB issued ASU No. 2016-02, *Leases*, which requires lessees to recognize a lease liability and a right of use asset for all lease obligations with exception for short-term leases. The lease liability will represent the lessee's obligation to make lease payments arising from the lease measured on a discounted basis and the right of use asset will represent the lessee's right to use or control the use of a specified asset for a lease term. The new standard is effective for Legacy on April 1, 2019. Legacy is currently evaluating the extent of the anticipated impact of the adoption of ASU 2016-02.

In August 2016, the FASB issued ASU No. 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities*, with the intent to reduce diversity in reporting practice, reduce complexity, and enhance understandability of not-for-profit (NFP) financial statements. This ASU contains the following key aspects: (A) reduces the number of net asset classes presented from three to two: with donor restrictions and without donor restrictions; (B) requires all NFPs to present expenses by their functional and their natural classifications in one location in the financial statements; (C) requires NFPs to provide quantitative and qualitative information about management of liquid resources and availability of financial assets to meet cash needs within one year of the balance sheet date; and (D) retains the option to present the statement of cash flows using either the direct or indirect method. The new standard is effective for Legacy on April 1, 2018. The impact of adoption will result in enhanced disclosures about the classification of expenses and management of liquid resources.

#### **(r) Reclassifications**

Certain reclassifications have been made to prior year amounts to conform to the current year presentation.

#### **(2) Net Patient Service Revenue**

Revenue from the Medicare and Medicaid programs accounted for approximately 38.1% and 27.8%, respectively, of Legacy's gross patient charges in 2018, and 38.0% and 27.8%, respectively, in 2017. Laws



## LEGACY HEALTH

### Notes to Consolidated Financial Statements

March 31, 2018 and 2017

(Dollars in thousands)

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 2018 and 2017, Legacy recorded a (decrease) increase to net patient service revenue of approximately \$(292) and \$3,300, respectively, relating to settlement of prior years' reimbursement from Medicare and Medicaid programs.

The composition of net accounts receivable from patients as of March 31 was as follows:

	2018	2017
Medicare	24.3%	23.5%
Medicaid	13.8	13.9
Blue Cross	15.7	14.7
Private pay	4.8	5.3
Other	41.4	42.6
	100.0%	100.0%

### (3) Benefits to the Community

The board of directors allocated \$10,000 to establish a Community Health Fund (the Fund) in 1999. 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 from the Fund made to community-sponsored initiatives were \$567 and \$655 in 2018 and 2017, respectively.

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

March 31, 2018				
	In-kind costs	Costs of service	Offsetting revenue	Net cost
Services for people in need:				
Charity care	\$ —	49,236	—	49,236
Medicaid	—	550,892	327,580	223,312
Medicare	—	739,213	596,284	142,929
Other government programs	—	21,644	18,719	2,925
	—	1,360,985	942,583	418,402

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<b>March 31, 2018</b>					
		<b>In-kind costs</b>	<b>Costs of service</b>	<b>Offsetting revenue</b>	<b>Net cost</b>
Benefits to the community:					
Medical education and research	\$	—	24,574	7,795	16,779
Community health services		—	4,072	296	3,776
Community benefit activities		361	65	—	426
Donations to charitable organizations		290	2,945	—	3,235
Community health fund contributions		—	567	—	567
		651	32,223	8,091	24,783
	\$	651	1,393,208	950,674	443,185
Percentage of total operating expenses					21.4%

<b>March 31, 2017</b>					
		<b>In-kind costs</b>	<b>Costs of service</b>	<b>Offsetting revenue</b>	<b>Net cost</b>
Services for people in need:					
Charity care	\$	—	47,041	1,025	46,016
Medicaid		—	489,996	290,787	199,209
Medicare		—	657,636	544,693	112,943
Other government programs		—	18,118	15,980	2,138
		—	1,212,791	852,485	360,306
Benefits to the community:					
Medical education and research		—	25,336	7,357	17,979
Community health services		144	1,718	376	1,486
Community benefit activities		365	36	—	401
Donations to charitable organizations		333	2,006	—	2,339
Community health fund contributions		—	655	—	655
		842	29,751	7,733	22,860
	\$	842	1,242,542	860,218	383,166
Percentage of total operating expenses					20.1%

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#### **(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. Additional discounts, on a sliding scale, are available to patients whose household income is less than 400% of the federal poverty level. For patients whose household income is at or below 300% 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 2018 and 2017, Legacy provided charity care benefiting patients associated with 73,556 and 56,336 patient accounts, respectively.

In addition to charity care, Legacy provides services under various states' Medicaid programs for low-income patients. The cost of providing services to Medicaid beneficiaries 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 uncollectible 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 assists many patients in obtaining coverage through a third party, reducing the patients' financial responsibility. The costs associated with this program were \$1,407 and \$1,120 in 2018 and 2017, respectively.

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

Medical education and research includes, among other initiatives, the unreimbursed cost of nursing education, 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, caregiver respite, and support for parish nursing programs.

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

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

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

#### **(c) Other Benefits**

In furtherance of its mission, Legacy also commits significant time and resources to endeavors and critical services that meet unfilled community needs. Many of these activities are sponsored with the knowledge that they will not be self-supporting or financially viable. Such programs include 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 pays taxes associated with various states' local business and occupation taxes, and property taxes that local and state governments use to fund healthcare, civil, and education services to the community. Legacy paid \$7,446 and \$6,776 in local and state taxes in 2018 and 2017, respectively.

#### **(4) Fair Value of Financial Instruments**

ASC Topic 820, *Fair Value Measurement*, establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to measurements involving significant unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are as follows:

- Level 1 inputs include quoted prices (unadjusted) in active markets for identical assets and liabilities.
- Level 2 inputs include inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.
- Level 3 inputs are unobservable inputs for the 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. Investments valued utilizing net asset value (NAV) as a practical expedient are excluded from the hierarchy.

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

## LEGACY HEALTH

### Notes to Consolidated Financial Statements

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#### (5) 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 investments is as follows:

	March 31, 2018			
	Level 1	Level 2	Level 3	Total fair value
Cash and cash equivalents	\$ 59,852	—	—	59,852
Mutual funds - equity	231,493	—	—	231,493
Equity securities:				
Domestic	91,737	—	—	91,737
Foreign	11,104	—	—	11,104
Mutual funds - fixed income	192,432	—	—	192,432
Domestic debt securities:				
State and federal governments	—	4,113	—	4,113
Corporate and securitized	—	101,662	—	101,662
Other	—	1,446	—	1,446
Commingled funds	118,809	—	—	118,809
Absolute return funds	67,423	—	—	67,423
Interest rate swaps	—	8,008	—	8,008
	\$ 772,850	115,229	—	888,079
Investment in Oregon Community Foundation				130
Investments measured using NAV				167,720
Total investments				\$ 1,055,929

## LEGACY HEALTH

### Notes to Consolidated Financial Statements

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March 31, 2017				
	Level 1	Level 2	Level 3	Total fair value
Cash and cash equivalents	\$ 40,287	—	—	40,287
Mutual funds - equity	194,626	—	—	194,626
Equity securities:				
Domestic	82,287	—	—	82,287
Foreign	8,870	—	—	8,870
Mutual funds - fixed income	188,569	—	—	188,569
Domestic debt securities:				
State and federal governments	—	3,395	—	3,395
Corporate and securitized	—	139,514	—	139,514
Other	—	2,640	—	2,640
Commingled funds	116,894	—	—	116,894
Absolute return funds	63,011	—	—	63,011
Interest rate swaps	—	6,051	—	6,051
	\$ 694,544	151,600	—	846,144
Investment in Oregon Community Foundation				119
Investments measured using NAV				160,888
Total investments				\$ 1,007,151

Legacy participates in various funds that are not actively marketed on an open exchange. These investments consist of shares or units in investment funds as opposed to direct interests in the funds' underlying holdings, which may be marketable. Due to the nature of these funds the NAV per share, or its equivalent, reported by each fund manager is used as a practical expedient to estimate the fair value of Legacy's interest therein. Legacy believes that the carrying amounts of these financial instruments, provided by the fund managers, are reasonable estimates of fair value. The following table presents information for investments where the NAV was used as a practical expedient to measure fair value at March 31:

	Fair value		Redemption frequency	Redemption notice period
	2018	2017		
Hedge funds	\$ 56,368	53,264	Quarterly	60–95 days
Private real estate	110,652	106,598	Quarterly	60–95 days
Private equity	700	1,026	N/A	N/A
Total	\$ 167,720	160,888		

## LEGACY HEALTH

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Hedge fund investments utilize strategies designed to generate consistent long-term capital appreciation with low volatility and little correlation with equity and bond markets. Legacy invests in a fund of hedge funds, which is an investment vehicle whose portfolio consists of shares in a number of hedge funds and engages in a variety of investment strategies, including convertible bond arbitrage, equity long/short, and statistical arbitrage.

Private real estate investments include the acquisition, financing, and ownership of property via a pooled, commingled fund. Legacy's private real estate funds are classified as core funds, which aim to generate a target return mainly from rental returns by income producing properties.

As of March 31, 2018, Legacy had a remaining capital commitment of \$294 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 agreements. In most cases, the life of the trusts is 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 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.

As of March 31, 2018, approximately 6% 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.

Legacy has executed the following basis swaps with investment-banking firms:

<u>Notional amount</u>	<u>Cash flow settlement</u>	<u>Legacy pays</u>	<u>Legacy receives</u>	<u>Termination date</u>
\$ 82,000	Semiannually	SIFMA index	62% of LIBOR, plus 1.011%	December 2033
50,000	Quarterly	SIFMA index	67% of LIBOR, plus 0.6% for three years; 94.1% of LIBOR thereafter	April 2029
50,000	Quarterly	SIFMA index	67% of LIBOR, plus 0.6% for three years; 84.45% of LIBOR thereafter	September 2030
50,000	Quarterly	SIFMA index	67% of LIBOR, plus 0.6% for three years; 84% of LIBOR thereafter	September 2030

## LEGACY HEALTH

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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 consolidated statements of operations. The fair value of these swaps is determined by the spread in interest rates.

Investment income, gains, and losses comprise the following for the years ended March 31:

	<u>2018</u>	<u>2017</u>
Interest and dividend income	\$ 402	620
Realized gains on investments	32,616	22,736
Equity earnings from investment companies	10,186	10,354
Change in fair value of trading securities and interest rate swaps, net	<u>29,246</u>	<u>24,918</u>
Total investment income	<u>\$ 72,450</u>	<u>58,628</u>

#### (6) Investments in Unconsolidated Affiliates

Investments in unconsolidated affiliates as of March 31 are as follows:

	<u>2018</u>	<u>2017</u>
PacificSource	\$ 133,489	99,784
Lifeflight Network	26,655	21,840
Other	<u>12,044</u>	<u>13,696</u>
Total investments in unconsolidated affiliates	<u>\$ 172,188</u>	<u>135,320</u>

In September 2016, Legacy completed a transaction to acquire up to a 50% ownership interest in PacificSource (PS), to be completed in increments over a five-year period. PS is the sole corporate member of PacificSource Health Plans, a not-for-profit community health plan offering commercial medical and dental plans in Oregon, Idaho, Montana, and Washington. PS is also the sole corporate member of PacificSource Community Health Plans, a health insurance company licensed in the states of Oregon, Idaho, and Montana, which offers Medicare Advantage and, through a subsidiary, Medicaid plans. PS owns 60% of the outstanding shares of Idaho Physicians Network, Inc., a physician contracting network.



## LEGACY HEALTH

### Notes to Consolidated Financial Statements

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An initial investment of \$100,000 was funded with unrestricted cash and investments in September 2016 to acquire a 28.8% interest in PS. Legacy's agreement with PS includes plans for additional investments over five years to attain 50% ownership before September 2021. In September 2017, an additional investment of \$29,500 was made, increasing the equity interest to 34.4%. The following table represents assets, liabilities, and net assets of PS per audited financial statements as of December 31, 2017 with related operating results for the periods in which Legacy held an ownership interest:

	<b>December 31, 2017</b>	<b>December 31, 2016</b>
Assets	\$ 541,311	433,925
Liabilities	\$ 277,642	232,144
Net assets:		
Unrestricted	264,114	206,023
Accumulated other comprehensive loss	(1,094)	(4,816)
Noncontrolling interests	649	574
Total net assets	263,669	201,781
Total liabilities and net assets	\$ 541,311	433,925
	<b>Year ended December 31, 2017</b>	<b>September 1 – December 31, 2016</b>
Underwriting income (loss)	\$ 36,559	(2,966)
Other income (expense)	4,370	(199)
Income tax (expense) benefit	(12,407)	21
Net income (loss)	\$ 28,522	(3,144)

Legacy recorded net income (loss) on the investment in PS of \$8,588 and \$(216) in 2018 and 2017, respectively. Legacy recorded \$4,383 of amortization expense in 2018 related to intangible assets acquired as part of the PS investment. Both net income (loss) and amortization expense related to PS are included in nonoperating income (loss), other in the consolidated statements of operations.

Beginning January 1, 2017, PS provided third-party health claims administration services for Legacy's self-insured health benefit plan. For the year ended March 31, 2018 and for the three months ended March 31, 2017, Legacy paid PS \$3,284 and \$805, respectively, relating to such services. Fees paid to PS are included in wages, salaries, and benefits in the consolidated statements of operations.

## LEGACY HEALTH

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#### (7) Property, Plant, and Equipment

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

	2018	2017
Land	\$ 51,421	51,421
Land improvements	19,880	15,542
Buildings and improvements	1,193,350	1,154,716
Equipment and software	914,276	869,584
Construction in progress	29,588	38,159
	2,208,515	2,129,422
Accumulated depreciation	(1,368,186)	(1,269,399)
	\$ 840,329	860,023

There were capital expenditure purchase commitments outstanding as of March 31, 2018 for various construction and equipment projects. The estimated cost to complete such projects at March 31, 2018 was \$310,997, of which \$24,218 was contractually committed.

#### (8) Long-Term Debt

A summary of long-term debt at March 31 is as follows:

	2018	2017
Hospital Revenue Bonds, Series 2008, payable in installments through 2038, subject to a seven-day put provision; variable interest rate	\$ 100,000	100,000
Hospital Revenue Bonds, Series 2010A, payable in installments from \$2,040 to \$2,735 through 2030, at rates ranging from 4.25% to 5.0%, callable on or after March 2020	28,465	40,125
Hospital Revenue Bonds, Series 2011A, payable in installments from \$9,160 to \$22,060 through 2021, at rates ranging from 4.0% to 5.25%	72,170	80,410
Hospital Revenue Bonds, Series 2014A, payable in installments from \$2,985 to \$10,540 through 2040, at fixed rate of 2.425% subject to a mandatory tender on June 30, 2021, at which time Legacy can remarket the bonds, convert the bonds to a different mode, or pay off the bonds	71,720	71,720

**LEGACY HEALTH**

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	<b>2018</b>	<b>2017</b>
Hospital Revenue Bonds, Series 2016A, payable in installments from \$1,950 to \$28,330 through 2047, at rates ranging from 3.0% to 5.0%, callable on or after June 2027	\$ 288,635	288,635
Other debt	932	433
	561,922	581,323
Bond premiums and deferred financing costs	26,677	28,118
Less current portion	(11,532)	(20,277)
	\$ 577,067	589,164

Interest cost incurred related to funds borrowed was \$18,495 and \$16,050 in 2018 and 2017, respectively. These amounts were reduced by \$526 and \$177 in 2018 and 2017, respectively, in the consolidated statements of operations, for amounts capitalized for construction and other capital projects.

Scheduled principal repayments of long-term debt, including mandatory tenders of bonds eligible for refinancing, according to long-term amortization schedules are as follows:

2019	\$ 11,532
2020	22,274
2021	23,249
2022	24,394
2023	12,908
Thereafter	467,565
	\$ 561,922

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

In November 2008, Legacy issued \$150,000 of Revenue Bonds Series 2008 (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 2008 Bonds were restricted for capital expenditures and to pay the expenses incurred with the issuance. The 2008 Bonds, while subject to a long-term amortization period, may be put to Legacy at the option of the bondholders at certain remarketing dates. Series C (\$50,000) of the 2008 Bonds were refinanced in November 2016. In conjunction with the issuance, Legacy has entered into four year letter of credit and reimbursement agreements 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

## LEGACY HEALTH

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converted to a term loan due in eight quarterly payments. As a result, the 2008 Bonds are classified as long-term.

In January 2010, Legacy issued \$123,745 of Revenue Bonds Series 2010A (2010 Bonds) through the Oregon Facilities Authority. The proceeds from the 2010 Bonds were used to refund previously issued debt and pay expenses for the issuance.

In May 2011, Legacy issued \$111,470 of Refunding Revenue Bonds Series 2011A (2011 Bonds) through the Oregon Facilities Authority. The proceeds from the 2011 Bonds were used to refund previously issued debt and pay expenses for the issuance.

In June 2014, Legacy issued \$71,700 of Hospital Revenue Bonds Series 2014A (2014 Bonds) under a Bond Purchase Agreement with the Oregon Facilities Authority and a commercial bank. The proceeds from the 2014 Bonds were used to refinance previously issued debt.

In November 2016, Legacy issued \$288,635 of Revenue Bonds Series 2016A (2016 Bonds) through the Oregon Facilities Authority. The proceeds from the 2016 Bonds will be used for capital expenditures, debt service during the construction period, and expenses incurred for the issuance. A portion of the proceeds was used to refinance Series C of the 2008 Bonds and previously issued debt. In connection with the 2017 Bonds, Legacy recorded a loss due to extinguishment of debt of \$8,463 in 2017, which was recorded in nonoperating income in the consolidated statements of operations.

#### (9) Temporarily and Permanently Restricted Net Assets

Restricted net assets are available for the following purposes as of March 31:

	<b>Temporarily restricted net assets</b>		<b>Permanently restricted net assets</b>	
	<b>2018</b>	<b>2017</b>	<b>2018</b>	<b>2017</b>
Education	\$ 7,916	7,118	2,831	2,799
Patient care	21,801	25,696	10,897	10,705
Research	7,074	6,273	1,949	1,949
Capital acquisition	6,674	5,603	—	—
Other	4,483	4,408	383	383
	<b>\$ 47,948</b>	<b>49,098</b>	<b>16,060</b>	<b>15,836</b>

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#### (10) Functional Expenses

Legacy provides healthcare services to residents within its geographic locations. Expenses related to providing these services for the years ended March 31 are as follows:

	<u>2018</u>	<u>2017</u>
Healthcare services	\$ 1,593,008	1,470,558
General and administrative	<u>479,864</u>	<u>438,596</u>
	<u>\$ 2,072,872</u>	<u>1,909,154</u>

#### (11) Retirement Plans

##### (a) *Defined Contribution Plans*

Legacy sponsors defined contribution retirement plans that cover substantially all employees. The plans provide for employer matching contributions in an amount equal to a percentage of employee pretax contributions, up to a maximum. In addition, effective January 1, 2017, Legacy makes contributions to eligible employees based on years of service. Expense related to these plans was \$55,353 and \$31,090 for 2018 and 2017, respectively.

##### (b) *Pension Benefit Plans*

Legacy sponsors a pension plan, the Legacy Employees' Retirement Plan (the Plan). The retirement benefits of all participants in the Plan were frozen effective December 31, 2016 (Freeze Date). No benefit service after the Freeze Date will be taken into account in determining a participant's retirement benefits. After the Freeze Date, future retirement benefits are provided by the defined contribution plans.

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.

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

	<b>2018</b>	<b>2017</b>
Change in projected benefit obligation:		
Projected benefit obligation at beginning of year	\$ 897,087	901,115
Service cost	—	26,929
Interest cost	37,338	31,767
Actuarial loss	24,528	3,825
Benefits paid	(44,001)	(38,452)
Plan amendments	—	(28,097)
	914,952	897,087
Change in plan assets:		
Fair value of assets at beginning of year	780,508	758,547
Actual return on plan assets	74,785	60,269
Employer contribution	—	144
Benefits paid	(44,001)	(38,452)
	811,292	780,508
Funded status	\$ (103,660)	(116,579)
Unrecognized net actuarial loss	\$ 258,996	263,575
Accumulated benefit obligation	914,952	897,087

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, 2019 are \$0 and \$4,909, respectively.

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

	<b>2018</b>	<b>2017</b>
Service cost	\$ —	26,929
Interest cost	37,338	31,767
Expected return on plan assets	(49,972)	(49,810)
Amortization of prior service costs	—	(6,927)
Recognized net actuarial loss	4,294	13,801
Special recognition curtailments and settlements	—	(21,452)
	\$ (8,340)	(5,692)

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(i) *Assumptions*

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

	<b>2018</b>	<b>2017</b>
Benefit obligation (measured as of March 31):		
Discount rate	4.09%	4.29%
	<b>2017</b>	<b>2016</b>
Net periodic benefit cost (measured as of March 31):		
Discount rate	4.29%	4.16%
Rate of increase in future compensation levels	N/A	3.75% plus longevity scale
Net periodic benefit cost (measured as of December 31):		
Discount rate	N/A	4.39%
Expected long-term discount rate of return on plan assets	N/A	6.50
Rate of increase in future compensation levels	N/A	N/A

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 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.

(ii) *Pension Plan Assets*

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

	<b>Target allocation</b>	<b>2018</b>	<b>2017</b>
Equity securities	22%–40%	33%	32%
Fixed income	35%–48%	42	41
Real estate	0%–15%	8	9
Absolute return funds	0%–18%	15	15
Alternative investments	0%–5%	2	3

## LEGACY HEALTH

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(Dollars in thousands)

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 are to preserve and grow the assets to provide for long-term benefit payments. Diversification is intended to reduce the risk of large losses and enhance opportunities for appropriate appreciation along with current income. It is also an objective 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 Plan. Assets are rebalanced quarterly when balances fall outside of the approved range for each asset class.

The following tables set forth by level, within the fair value hierarchy, the Plan's assets at fair value:

	<b>March 31, 2018</b>			
	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total fair value</b>
Cash and cash equivalents	\$ 17,526	—	—	17,526
Mutual funds - equity	191,747	—	—	191,747
Equity securities:				
Domestic	63,278	—	—	63,278
Foreign	7,433	—	—	7,433
Mutual funds - fixed income	113,927	—	—	113,927
Domestic debt securities:				
State and federal government	—	35,126	—	35,126
Corporate and securitized	—	17,319	—	17,319
Foreign debt securities	—	3,674	—	3,674
Commingled funds	164,090	—	—	164,090
Absolute return funds	78,579	—	—	78,579
Derivative assets, net	—	1,228	—	1,228
	\$ 636,580	57,347	—	693,927
Investments measured using NAV				123,771
Unsettled trades				(6,406)
Total assets at fair value				\$ 811,292



## LEGACY HEALTH

### Notes to Consolidated Financial Statements

March 31, 2018 and 2017

(Dollars in thousands)

	March 31, 2017			
	Level 1	Level 2	Level 3	Total fair value
Cash and cash equivalents	\$ 24,412	—	—	24,412
Mutual funds - equity	180,335	—	—	180,335
Equity securities:				
Domestic	56,696	—	—	56,696
Foreign	6,201	—	—	6,201
Mutual funds - fixed income	109,597	—	—	109,597
Domestic debt securities:				
State and federal government	—	32,289	—	32,289
Corporate and securitized	—	12,826	—	12,826
Foreign debt securities	—	2,567	—	2,567
Commingled funds	160,578	—	—	160,578
Absolute return funds	76,502	—	—	76,502
Derivative assets, net	—	(100)	—	(100)
	\$ 614,321	47,582	—	661,903
Investments measured using NAV				128,790
Unsettled trades				(10,185)
Total assets at fair value				\$ 780,508

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

	2018	2017	Redemption frequency	Redemption notice period
Hedge funds	\$ 38,485	36,231	Quarterly	60–95 days
Private real estate	71,256	72,304	Quarterly	60–95 days
Private equity	14,030	20,255	N/A	N/A
Total	\$ 123,771	128,790		

The Plan allows certain fixed-income investment managers to use derivative financial instruments to manage interest rate risk. The investment managers have executed master netting arrangements with the counterparties of the derivative contracts whereby the financial instruments held by the same counterparty are legally offset as the instruments are settled.

## LEGACY HEALTH

### Notes to Consolidated Financial Statements

March 31, 2018 and 2017

(Dollars in thousands)

The following table presents gross investment derivative assets and liabilities reported on a net basis in plan investments:

	<b>2018</b>	<b>2017</b>
Derivative assets:		
Future contracts	\$ 19,181	5,580
Other derivatives and forward setting contracts	1,661	26
	20,842	5,606
Derivative liabilities:		
Future contracts	(19,181)	(5,580)
Other derivatives and forward setting contracts	(433)	(126)
	(19,614)	(5,706)
Net investment derivative assets	\$ 1,228	(100)

*(iii) 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, as amended, plus such additional amounts as deemed appropriate.

Benefit payments are expected to be paid as follows for the years ending December 31:

2019	\$	49,549
2020		48,891
2021		49,818
2022		51,767
2023		54,031
2024–2028		281,483

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

## **(12) Commitments and Contingencies**

### **(a) Professional and General Liability**

Legacy is self-insured for professional and general liability coverage. Legacy accrues estimated general and professional liability claims based upon management's estimate of the ultimate costs for both reported claims and actuarially determined estimates of claims incurred but not reported. Coverage in excess of self-insurance limits is provided on a claims-made basis through Legacy's captive insurance company, LHSIC.

## LEGACY HEALTH

Notes to Consolidated Financial Statements

March 31, 2018 and 2017

(Dollars in thousands)

### **(b) Employee Benefits**

Legacy is self-insured 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.

### **(c) Operating Leases**

Legacy leases various equipment and real property under operating leases. Future minimum lease commitments under noncancelable operating leases for the years ending March 31 are as follows:

2019	\$	8,436
2020		6,243
2021		4,595
2022		4,072
2023		3,553
Thereafter		<u>13,651</u>
	\$	<u>40,550</u>

Rent expense for 2018 and 2017 totaled \$15,118 and \$12,222, respectively.

### **(d) Collective Bargaining Agreements**

Approximately 10% of Legacy employees were covered under collective bargaining agreements at March 31, 2018, including certain service and maintenance employees. Approximately 935 employees are covered by collective bargaining agreements that expire within one year.

## **(13) Compliance with Laws and Regulations**

The healthcare industry is subject to numerous laws and regulations from federal, state, and local governments. Compliance with these laws and regulations can be subject to future government review and interpretation, as well as regulatory actions unknown or unasserted at this time. Government monitoring and enforcement activity continues with respect to investigations and allegations concerning possible violations by healthcare providers, which could result in the imposition of significant fines and penalties, as well as significant repayments of patient services previously billed. Legacy is subject to similar regulatory reviews.

Management is aware of certain asserted and unasserted claims and regulatory matters arising in the ordinary course of business. After consultation with legal counsel, management estimates these matters will be resolved without material adverse effect on Legacy's consolidated financial statements.

## **(14) Subsequent Events**

Legacy evaluated and disclosed all material subsequent events through June 22, 2018, the date the consolidated financial statements were issued.

## LEGACY HEALTH

Consolidating Schedule of Balance Sheet Information

March 31, 2018

(Dollars in thousands)

Assets	Legacy Health	Legacy Emanuel Hospital & Health Center	Legacy Good Samaritan Hospital and Medical Center	Legacy Meridian Park Hospital	Legacy Mount Hood Medical Center	Legacy Salmon Creek Hospital
Current assets:						
Cash and cash equivalents	\$ 68,034	(1,261)	217	148	(13)	140
Short-term investments	31,158	—	—	—	—	—
Accounts receivable, net	—	123,275	33,827	25,380	15,720	40,857
Settlements receivable from third-party payors, net	—	2,831	3,271	1,254	1,125	918
Other receivables	7,018	17,065	4,415	2,901	2,212	5,256
Inventories	—	9,494	3,809	3,117	2,581	2,807
Prepaid expenses	12,251	324	(6)	138	43	651
Total current assets	<u>118,461</u>	<u>151,728</u>	<u>45,533</u>	<u>32,938</u>	<u>21,668</u>	<u>50,629</u>
Assets limited as to use:						
Held by trustee	144,135	—	—	—	—	—
Community health fund	9,754	—	—	—	—	—
Investments restricted for capital acquisition	3,439	—	—	—	—	—
Total assets limited as to use	<u>157,328</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>
Other assets:						
Property, plant, and equipment, net	136,778	339,979	76,925	45,158	41,655	168,770
Noncurrent investments	858,379	—	—	—	—	—
Investments in unconsolidated affiliates	149,844	26,655	207	—	—	—
Other assets	2,385	579	—	—	398	—
Total other assets	<u>1,147,386</u>	<u>367,213</u>	<u>77,132</u>	<u>45,158</u>	<u>42,053</u>	<u>168,770</u>
Interaffiliate receivable (payable)	<u>(1,111,824)</u>	<u>88,279</u>	<u>238,509</u>	<u>351,461</u>	<u>57,215</u>	<u>238,973</u>
Total assets	<u>\$ 311,351</u>	<u>607,220</u>	<u>361,174</u>	<u>429,557</u>	<u>120,936</u>	<u>458,372</u>

**LEGACY HEALTH**

Consolidating Schedule of Balance Sheet Information

March 31, 2018

(Dollars in thousands)

Assets	Legacy Visiting Nurse Association	Foundations	Credit Reporting Group	Silverton Health	Other affiliates and eliminations	March 31, 2018 consolidated
Current assets:						
Cash and cash equivalents	\$ 21	10	67,296	(80)	40	67,256
Short-term investments	—	—	31,158	—	—	31,158
Accounts receivable, net	2,141	—	241,200	11,352	2,022	254,574
Settlements receivable from third-party payors, net	—	—	9,399	3,039	—	12,438
Other receivables	—	2,865	41,732	8,256	2,782	52,770
Inventories	—	—	21,808	1,100	482	23,390
Prepaid expenses	14	—	13,415	169	480	14,064
Total current assets	<u>2,176</u>	<u>2,875</u>	<u>426,008</u>	<u>23,836</u>	<u>5,806</u>	<u>455,650</u>
Assets limited as to use:						
Held by trustee	—	—	144,135	—	—	144,135
Community health fund	—	—	9,754	—	—	9,754
Investments restricted for capital acquisition	—	—	3,439	—	—	3,439
Total assets limited as to use	<u>—</u>	<u>—</u>	<u>157,328</u>	<u>—</u>	<u>—</u>	<u>157,328</u>
Other assets:						
Property, plant, and equipment, net	1,539	—	810,804	27,508	2,017	840,329
Noncurrent investments	—	968	859,347	8,096	—	867,443
Investments in unconsolidated affiliates	4,573	—	181,279	278	(9,369)	172,188
Other assets	—	6,810	10,172	114	25,964	36,250
Total other assets	<u>6,112</u>	<u>7,778</u>	<u>1,861,602</u>	<u>35,996</u>	<u>18,612</u>	<u>1,916,210</u>
Interaffiliate receivable (payable)	40	138,563	1,216	(1,835)	619	—
Total assets	<u>\$ 8,328</u>	<u>149,216</u>	<u>2,446,154</u>	<u>57,997</u>	<u>25,037</u>	<u>2,529,188</u>

See accompanying independent auditors' report on other financial information.

## LEGACY HEALTH

## Consolidating Schedule of Balance Sheet Information

March 31, 2018

(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	Legacy Mount Hood Medical Center	Legacy Salmon Creek Hospital
Current liabilities:						
Accounts payable	\$ 16,533	12,315	8,181	5,768	2,216	5,736
Accrued wages, salaries, and benefits	16,143	58,555	14,044	9,141	6,500	19,805
Accrued interest	5,961	283	—	—	—	—
Other current liabilities	25,219	12,548	4,613	3,139	2,131	1
Current portion of long-term debt	3,519	2,975	2,018	1,550	1,138	—
Total current liabilities	<u>67,375</u>	<u>86,676</u>	<u>28,856</u>	<u>19,598</u>	<u>11,985</u>	<u>25,542</u>
Long-term debt, less current portion	71,785	379,470	64,676	25,993	34,543	—
General and professional claims liability	37,599	—	—	—	—	—
Pension liability	8,045	46,265	27,230	6,383	5,573	9,845
Other noncurrent liabilities	38,978	2,514	584	346	328	520
Total long-term liabilities	<u>156,407</u>	<u>428,249</u>	<u>92,490</u>	<u>32,722</u>	<u>40,444</u>	<u>10,365</u>
Total liabilities	<u>223,782</u>	<u>514,925</u>	<u>121,346</u>	<u>52,320</u>	<u>52,429</u>	<u>35,907</u>
Net assets:						
Unrestricted	87,569	91,767	239,828	377,237	68,507	422,465
Unrestricted, noncontrolling interest	—	—	—	—	—	—
Temporarily restricted	—	528	—	—	—	—
Permanently restricted	—	—	—	—	—	—
Total net assets	<u>87,569</u>	<u>92,295</u>	<u>239,828</u>	<u>377,237</u>	<u>68,507</u>	<u>422,465</u>
Total liabilities and net assets	<u>\$ 311,351</u>	<u>607,220</u>	<u>361,174</u>	<u>429,557</u>	<u>120,936</u>	<u>458,372</u>

**LEGACY HEALTH**

Consolidating Schedule of Balance Sheet Information

March 31, 2018

(Dollars in thousands)

<b>Liabilities and Net Assets</b>	<b>Legacy Visiting Nurse Association</b>	<b>Foundations</b>	<b>Credit Reporting Group</b>	<b>Silverton Health</b>	<b>Other affiliates and eliminations</b>	<b>March 31, 2018 consolidated</b>
Current liabilities:						
Accounts payable	\$ 861	—	51,610	1,834	301	53,745
Accrued wages, salaries, and benefits	1,004	—	125,192	5,780	347	131,319
Accrued interest	—	—	6,244	—	—	6,244
Other current liabilities	5	425	48,081	11,696	1,911	61,688
Current portion of long-term debt	—	—	11,200	106	226	11,532
<b>Total current liabilities</b>	<b>1,870</b>	<b>425</b>	<b>242,327</b>	<b>19,416</b>	<b>2,785</b>	<b>264,528</b>
Long-term debt, less current portion			576,467	—	600	577,067
General and professional claims liability	—	—	37,599	3,501	382	41,482
Pension liability	319	—	103,660	—	—	103,660
Other noncurrent liabilities	7	—	43,277	46	163	43,486
<b>Total long-term liabilities</b>	<b>326</b>	<b>—</b>	<b>761,003</b>	<b>3,547</b>	<b>1,145</b>	<b>765,695</b>
<b>Total liabilities</b>	<b>2,196</b>	<b>425</b>	<b>1,003,330</b>	<b>22,963</b>	<b>3,930</b>	<b>1,030,223</b>
Net assets:						
Unrestricted	6,132	85,832	1,379,337	34,513	189	1,414,039
Unrestricted, noncontrolling interest	—	—	—	—	20,918	20,918
Temporarily restricted	—	46,924	47,452	496	—	47,948
Permanently restricted	—	16,035	16,035	25	—	16,060
<b>Total net assets</b>	<b>6,132</b>	<b>148,791</b>	<b>1,442,824</b>	<b>35,034</b>	<b>21,107</b>	<b>1,498,965</b>
<b>Total liabilities and net assets</b>	<b>\$ 8,328</b>	<b>149,216</b>	<b>2,446,154</b>	<b>57,997</b>	<b>25,037</b>	<b>2,529,188</b>

See accompanying independent auditors' report on other financial information.

**LEGACY HEALTH**

Consolidating Schedule of Balance Sheet Information

March 31, 2017

(Dollars in thousands)

<b>Assets</b>	<b>Legacy Health</b>	<b>Legacy Emanuel Hospital &amp; Health Center</b>	<b>Legacy Good Samaritan Hospital and Medical Center</b>	<b>Legacy Meridian Park Hospital</b>	<b>Legacy Mount Hood Medical Center</b>	<b>Legacy Salmon Creek Hospital</b>
<b>Current assets:</b>						
Cash and cash equivalents	\$ 36,213	(1,721)	(74)	33	(67)	147
Short-term investments	31,009	—	—	—	—	—
Accounts receivable, net	—	124,965	37,315	25,451	16,141	38,329
Settlements receivable from third-party payors, net	—	3,864	2,364	761	2,551	(45)
Other receivables	4,881	17,454	3,797	2,523	1,837	3,576
Inventories	—	9,907	4,328	3,272	2,494	1,955
Prepaid expenses	11,957	289	295	111	69	928
Total current assets	<u>84,060</u>	<u>154,758</u>	<u>48,025</u>	<u>32,151</u>	<u>23,025</u>	<u>44,890</u>
<b>Assets limited as to use:</b>						
Held by trustee	162,988	—	—	—	—	—
Community health fund	9,771	—	—	—	—	—
Investments restricted for capital acquisition	2,610	—	—	—	—	—
Total assets limited as to use	<u>175,369</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>
<b>Other assets:</b>						
Property, plant, and equipment, net	140,511	351,065	75,587	39,824	42,126	175,673
Noncurrent investments	790,603	3	—	—	—	—
Investments in unconsolidated affiliates	121,010	21,840	207	—	—	—
Other assets	2,960	549	—	—	443	—
Total other assets	<u>1,055,084</u>	<u>373,457</u>	<u>75,794</u>	<u>39,824</u>	<u>42,569</u>	<u>175,673</u>
Interaffiliate receivable (payable)	<u>(1,013,726)</u>	<u>127,131</u>	<u>211,740</u>	<u>318,680</u>	<u>46,268</u>	<u>190,680</u>
Total assets	<u>\$ 300,787</u>	<u>655,346</u>	<u>335,559</u>	<u>390,655</u>	<u>111,862</u>	<u>411,243</u>



**LEGACY HEALTH**

Consolidating Schedule of Balance Sheet Information

March 31, 2017

(Dollars in thousands)

Assets	Legacy Visiting Nurse Association	Foundations	Credit Reporting Group	Silverton Health	Other affiliates and eliminations	March 31, 2017 consolidated
Current assets:						
Cash and cash equivalents	\$ (55)	8	34,484	9,131	(97)	43,518
Short-term investments	—	—	31,009	—	—	31,009
Accounts receivable, net	2,625	—	244,826	16,550	2,309	263,685
Settlements receivable from third-party payors, net	—	—	9,495	2,508	—	12,003
Other receivables	—	7,569	41,637	6,772	3,591	52,000
Inventories	—	—	21,956	1,096	500	23,552
Prepaid expenses	10	—	13,659	1,084	517	15,260
Total current assets	<u>2,580</u>	<u>7,577</u>	<u>397,066</u>	<u>37,141</u>	<u>6,820</u>	<u>441,027</u>
Assets limited as to use:						
Held by trustee	—	—	162,988	—	—	162,988
Community health fund	—	—	9,771	—	—	9,771
Investments restricted for capital acquisition	—	—	2,610	—	—	2,610
Total assets limited as to use	<u>—</u>	<u>—</u>	<u>175,369</u>	<u>—</u>	<u>—</u>	<u>175,369</u>
Other assets:						
Property, plant, and equipment, net	1,702	—	826,488	32,152	1,383	860,023
Noncurrent investments	—	1,048	791,654	9,119	—	800,773
Investments in unconsolidated affiliates	3,292	—	146,349	278	(11,307)	135,320
Other assets	—	8,373	12,325	149	25,919	38,393
Total other assets	<u>4,994</u>	<u>9,421</u>	<u>1,776,816</u>	<u>41,698</u>	<u>15,995</u>	<u>1,834,509</u>
Interaffiliate receivable (payable)	(150)	125,406	6,029	(6,665)	636	—
Total assets	<u>\$ 7,424</u>	<u>142,404</u>	<u>2,355,280</u>	<u>72,174</u>	<u>23,451</u>	<u>2,450,905</u>

See accompanying independent auditors' report on other financial information.

**LEGACY HEALTH**

Consolidating Schedule of Balance Sheet Information

March 31, 2017

(Dollars in thousands)

<b>Liabilities and Net Assets</b>	<b>Legacy Health</b>	<b>Legacy Emanuel Hospital &amp; Health Center</b>	<b>Legacy Good Samaritan Hospital and Medical Center</b>	<b>Legacy Meridian Park Hospital</b>	<b>Legacy Mount Hood Medical Center</b>	<b>Legacy Salmon Creek Hospital</b>
Current liabilities:						
Accounts payable	\$ 17,382	17,503	7,328	3,809	2,032	5,515
Accrued wages, salaries, and benefits	24,679	54,259	13,428	8,884	6,412	19,366
Accrued interest	6,941	283	—	—	—	—
Other current liabilities	27,008	10,886	4,806	2,605	1,795	9
Current portion of long-term debt	5,915	5,464	3,135	3,637	1,749	—
Total current liabilities	<u>81,925</u>	<u>88,395</u>	<u>28,697</u>	<u>18,935</u>	<u>11,988</u>	<u>24,890</u>
Long-term debt, less current portion	76,745	382,446	66,694	27,542	35,681	—
General and professional claims liability	35,050	—	—	—	—	—
Pension liability	9,620	51,459	29,277	7,534	6,400	11,866
Other noncurrent liabilities	30,041	2,366	510	427	331	669
Total long-term liabilities	<u>151,456</u>	<u>436,271</u>	<u>96,481</u>	<u>35,503</u>	<u>42,412</u>	<u>12,535</u>
Total liabilities	<u>233,381</u>	<u>524,666</u>	<u>125,178</u>	<u>54,438</u>	<u>54,400</u>	<u>37,425</u>
Net assets:						
Unrestricted	67,406	130,194	210,381	336,217	57,462	373,818
Unrestricted, noncontrolling interest	—	—	—	—	—	—
Temporarily restricted	—	486	—	—	—	—
Permanently restricted	—	—	—	—	—	—
Total net assets	<u>67,406</u>	<u>130,680</u>	<u>210,381</u>	<u>336,217</u>	<u>57,462</u>	<u>373,818</u>
Total liabilities and net assets	<u>\$ 300,787</u>	<u>655,346</u>	<u>335,559</u>	<u>390,655</u>	<u>111,862</u>	<u>411,243</u>

**LEGACY HEALTH**

Consolidating Schedule of Balance Sheet Information

March 31, 2017

(Dollars in thousands)

Liabilities and Net Assets	Legacy Visiting Nurse Association	Foundations	Credit Reporting Group	Silverton Health	Other affiliates and eliminations	March 31, 2017 consolidated
	Current liabilities:					
Accounts payable	\$ 837	—	54,406	1,821	541	56,768
Accrued wages, salaries, and benefits	1,111	—	128,139	6,004	407	134,550
Accrued interest	—	—	7,224	—	—	7,224
Other current liabilities	3	560	47,672	11,511	2,831	62,014
Current portion of long-term debt	—	—	19,900	302	75	20,277
Total current liabilities	<u>1,951</u>	<u>560</u>	<u>257,341</u>	<u>19,638</u>	<u>3,854</u>	<u>280,833</u>
Long-term debt, less current portion	—	—	589,108	—	56	589,164
General and professional claims liability	—	—	35,050	5,231	375	40,656
Pension liability	423	—	116,579	—	—	116,579
Other noncurrent liabilities	49	—	34,393	28	168	34,589
Total long-term liabilities	<u>472</u>	<u>—</u>	<u>775,130</u>	<u>5,259</u>	<u>599</u>	<u>780,988</u>
Total liabilities	<u>2,423</u>	<u>560</u>	<u>1,032,471</u>	<u>24,897</u>	<u>4,453</u>	<u>1,061,821</u>
Net assets:						
Unrestricted	5,001	77,728	1,258,207	46,945	154	1,305,306
Unrestricted, noncontrolling interest	—	—	—	—	18,844	18,844
Temporarily restricted	—	48,305	48,791	307	—	49,098
Permanently restricted	—	15,811	15,811	25	—	15,836
Total net assets	<u>5,001</u>	<u>141,844</u>	<u>1,322,809</u>	<u>47,277</u>	<u>18,998</u>	<u>1,389,084</u>
Total liabilities and net assets	\$ <u>7,424</u>	<u>142,404</u>	<u>2,355,280</u>	<u>72,174</u>	<u>23,451</u>	<u>2,450,905</u>

See accompanying independent auditors' report on other financial information.

## LEGACY HEALTH

Consolidating Schedule of Operations Information

Year ended March 31, 2018

(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	Legacy Salmon Creek Hospital
Operating revenue:						
Patient service revenue	\$ —	852,459	335,337	238,892	152,459	372,449
Provision for uncollectible accounts	—	17,942	4,066	3,635	2,743	6,286
Net patient service revenue	—	834,517	331,271	235,257	149,716	366,163
Capitation revenue	—	179	—	—	—	—
Other revenue	242,326	55,976	12,555	4,830	4,250	6,670
Total operating revenue	242,326	890,672	343,826	240,087	153,966	372,833
Operating expenses:						
Wages, salaries, and benefits	135,502	567,603	156,965	98,219	70,752	207,348
Supplies	2,447	124,779	55,038	35,923	19,719	63,082
Professional fees	6,046	28,474	6,014	3,051	2,853	6,207
Purchased services	67,673	(8,204)	20,304	11,152	9,602	17,371
Purchased medical services	—	—	—	—	—	—
Utilities, insurance, and other expenses	15,586	63,431	20,698	19,071	12,074	20,653
Depreciation	24,816	35,210	12,777	5,961	7,012	13,751
Interest and amortization	2,239	11,606	2,339	1,156	1,166	—
Management fees	105	116,295	47,663	34,057	21,506	1,324
Total operating expenses	254,414	939,194	321,798	208,590	144,684	329,736
Income (loss) from operations	(12,088)	(48,522)	22,028	31,497	9,282	43,097
Nonoperating income (loss):						
Investment income (loss), net	25,969	9,232	6,234	9,065	1,485	5,839
Other, net	(1,924)	(1,731)	(640)	70	3	(1,224)
Total nonoperating income (loss)	24,045	7,501	5,594	9,135	1,488	4,615
Revenue in excess of (less than) expenses	11,957	(41,021)	27,622	40,632	10,770	47,712
Change in pension liability	549	1,845	727	409	293	718
Net assets released from restriction	7,687	754	1,184	12	12	312
Distributions to joint venture partners	—	—	—	—	—	—
Other	(30)	(5)	(86)	(33)	(30)	(95)
Change in unrestricted net assets	\$ 20,163	(38,427)	29,447	41,020	11,045	48,647

**LEGACY HEALTH**

Consolidating Schedule of Operations Information

Year ended March 31, 2018

(Dollars in thousands)

	<b>Legacy Visiting Nurse Association</b>	<b>Foundations</b>	<b>Eliminations</b>	<b>Credit Reporting Group</b>	<b>Silverton Health</b>	<b>Other affiliates and eliminations</b>	<b>Year ended March 31, 2018 consolidated</b>
<b>Operating revenue:</b>							
Patient service revenue	\$ 17,617	—	(57,672)	1,911,541	88,240	16,256	2,016,037
Provision for uncollectible accounts	15	—	—	34,687	1,552	195	36,434
Net patient service revenue	17,602	—	(57,672)	1,876,854	86,688	16,061	1,979,603
Capitation revenue	—	—	—	179	39,256	—	39,435
Other revenue	1,279	15,819	(232,807)	110,898	4,448	(16,514)	98,832
Total operating revenue	18,881	15,819	(290,479)	1,987,931	130,392	(453)	2,117,870
<b>Operating expenses:</b>							
Wages, salaries, and benefits	12,348	—	(67,759)	1,180,978	61,943	5,556	1,248,477
Supplies	1,275	—	10,564	312,827	11,157	4,061	328,045
Professional fees	19	—	(2,250)	50,414	3,506	562	54,482
Purchased services	1,783	—	(146)	119,535	9,422	2,145	131,102
Purchased medical services	—	—	—	—	27,406	—	27,406
Utilities, insurance, and other expenses	1,100	16,094	(16,221)	152,486	7,797	1,674	161,957
Depreciation	163	—	(1)	99,689	2,812	366	102,867
Interest and amortization	—	—	(1)	18,505	15	16	18,536
Management fees	1,100	—	(222,050)	—	19,435	(19,435)	—
Total operating expenses	17,788	16,094	(297,864)	1,934,434	143,493	(5,055)	2,072,872
Income (loss) from operations	1,093	(275)	7,385	53,497	(13,101)	4,602	44,998
<b>Nonoperating income (loss):</b>							
Investment income (loss), net	—	9,668	—	67,492	504	—	67,996
Other, net	—	(1,549)	(5,958)	(12,953)	101	35	(12,817)
Total nonoperating income (loss)	—	8,119	(5,958)	54,539	605	35	55,179
Revenue in excess of (less than) expenses	1,093	7,844	1,427	108,036	(12,496)	4,637	100,177
Change in pension liability	38	—	—	4,579	—	—	4,579
Net assets released from restriction	—	—	(1,427)	8,534	64	—	8,598
Distributions to joint venture partners	—	—	—	—	—	(2,528)	(2,528)
Other transfers	—	260	—	(19)	—	—	(19)
Change in unrestricted net assets	\$ 1,131	8,104	—	121,130	(12,432)	2,109	110,807

See accompanying independent auditors' report on other financial information.

## LEGACY HEALTH

Consolidating Schedule of Operations Information

Year ended March 31, 2017

(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	Legacy Salmon Creek Hospital
Operating revenue:						
Patient service revenue	\$ —	783,730	316,273	227,280	144,651	309,306
Provision for uncollectible accounts	—	5,546	1,107	492	(661)	(30)
Net patient service revenue	—	778,184	315,166	226,788	145,312	309,336
Capitation revenue	—	—	—	—	—	—
Other revenue	231,169	53,520	10,144	3,110	4,011	6,516
Total operating revenue	231,169	831,704	325,310	229,898	149,323	315,852
Operating expenses:						
Wages, salaries, and benefits	121,400	492,122	150,518	93,426	69,853	189,261
Supplies	4,349	123,762	52,400	35,453	19,486	41,587
Professional fees	8,333	25,240	6,171	2,958	2,632	4,782
Purchased services	61,536	(8,524)	20,074	10,744	9,268	15,418
Purchased medical services	—	—	—	—	—	—
Utilities, insurance, and other expenses	15,737	56,768	19,572	18,426	11,801	18,698
Depreciation	28,029	33,508	12,553	6,644	7,127	12,938
Interest and amortization	2,279	9,685	1,842	1,197	1,060	—
Management fees	—	114,220	51,519	34,763	23,182	1,815
Total operating expenses	241,663	846,781	314,649	203,611	144,409	284,499
Income (loss) from operations	(10,494)	(15,077)	10,661	26,287	4,914	31,353
Nonoperating income (loss):						
Investment income (loss), net	(445)	12,696	9,564	13,954	2,156	8,331
Loss on extinguishment of debt	(25)	(8,090)	(95)	(34)	(219)	—
Contribution from Silverton Health	—	—	—	—	—	—
Other, net	(5,071)	(2,130)	(350)	60	11	(1,251)
Total nonoperating income (loss)	(5,541)	2,476	9,119	13,980	1,948	7,080
Revenue in excess of (less than) expenses	(16,035)	(12,601)	19,780	40,267	6,862	38,433
Change in pension liability	2,343	8,251	2,901	1,784	1,240	3,496
Net assets released from restriction	24,257	2,782	829	77	(16)	26
Distributions to joint venture partners	—	—	—	—	—	—
Other	(8,207)	—	—	—	—	—
Change in unrestricted net assets	\$ 2,358	(1,568)	23,510	42,128	8,086	41,955

**LEGACY HEALTH**

Consolidating Schedule of Operations Information

Year ended March 31, 2017

(Dollars in thousands)

	<b>Legacy Visiting Nurse Association</b>	<b>Foundations</b>	<b>Eliminations</b>	<b>Credit Reporting Group</b>	<b>Silverton Health</b>	<b>Other affiliates and eliminations</b>	<b>Year ended March 31, 2017 consolidated</b>
Operating revenue:							
Patient service revenue	\$ 17,732	—	(45,208)	1,753,764	81,500	16,438	1,851,702
Provision for uncollectible accounts	14	—	—	6,468	1,466	317	8,251
Net patient service revenue	17,718	—	(45,208)	1,747,296	80,034	16,121	1,843,451
Capitation revenue	—	—	—	—	30,464	—	30,464
Other revenue	1,697	35,987	(259,731)	86,423	4,245	1,009	91,677
Total operating revenue	19,415	35,987	(304,939)	1,833,719	114,743	17,130	1,965,592
Operating expenses:							
Wages, salaries, and benefits	11,620	—	(55,139)	1,073,061	59,674	5,560	1,138,295
Supplies	1,281	—	10,156	288,474	12,592	4,112	305,178
Professional fees	36	—	(2,151)	48,001	143	543	48,687
Purchased services	1,606	—	(2,010)	108,112	13,314	2,136	123,562
Purchased medical services	—	—	—	—	23,419	—	23,419
Utilities, insurance, and other expenses	879	36,292	(37,364)	140,809	6,850	1,654	149,313
Depreciation	179	—	—	100,978	3,322	316	104,616
Interest and amortization	—	—	—	16,063	21	—	16,084
Management fees	1,000	—	(226,499)	—	—	—	—
Total operating expenses	16,601	36,292	(313,007)	1,775,498	119,335	14,321	1,909,154
Income (loss) from operations	2,814	(305)	8,068	58,221	(4,592)	2,809	56,438
Nonoperating income (loss):							
Investment income (loss), net	—	8,281	—	54,537	305	—	54,842
Loss on extinguishment of debt	—	—	—	(8,463)	—	—	(8,463)
Contribution from Silverton Health	—	—	—	—	40,081	—	40,081
Other, net	—	(1,850)	(7,114)	(17,695)	735	34	(16,926)
Total nonoperating income (loss)	—	6,431	(7,114)	28,379	41,121	34	69,534
Revenue in excess of (less than) expenses	2,814	6,126	954	86,600	36,529	2,843	125,972
Change in pension liability	138	—	—	20,153	—	—	20,153
Net assets released from restriction	—	220	(954)	27,221	2,238	—	29,459
Distributions to joint venture partners	—	—	—	—	—	(3,049)	(3,049)
Other	—	—	—	(8,207)	8,177	—	(30)
Change in unrestricted net assets	\$ 2,952	6,346	—	125,767	46,944	(206)	172,505

See accompanying independent auditors' report on other financial information.

## LEGACY HEALTH

### Consolidated Financial and Statistical Highlights

Years ended March 31

(Unaudited)

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Utilization:				
Average number of available beds	1,236	1,177	1,093	1,111
Discharges	64,280	62,798	59,308	58,535
Adjusted discharges	122,602	115,117	106,274	103,013
Patient days	315,073	297,537	274,338	262,512
Average length of stay	4.9	4.7	4.6	4.5
Percentage occupancy	69.8%	69.3%	68.8%	64.7%
Emergency room visits	294,135	233,215	216,518	211,623
Clinic visits	1,163,784	1,040,401	879,296	766,661
Surgical cases – inpatient	17,059	17,666	16,967	16,058
Surgical cases – outpatient	28,076	26,631	24,841	23,951
Average full-time equivalent (FTE) employees:				
Number of paid FTEs	11,249	10,675	9,473	8,874
FTEs per adjusted occupied bed	6.8	7.1	7.1	7.0
Ratios:				
Operating margin	2.1%	2.9%	5.0%	7.3%
Net days in accounts receivable	45.7	51.7	47.4	47.5
Days cash on hand	177.7	175.8	192.6	228.5
Capitalization	28.1%	30.5%	27.2%	28.7%

See accompanying independent auditors' report on other financial information.