



LEGACY HEALTH AND AFFILIATES

Consolidated Financial Statements and Other Financial Information

March 31, 2017 and 2016

(With Independent Auditors' Report Thereon)

LEGACY HEALTH AND AFFILIATES

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KPMG LLP
Suite 3800
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Portland, OR 97201

Independent Auditors' Report

The Board of Directors
Legacy Health and Affiliates:

We have audited the accompanying consolidated financial statements of Legacy Health and Affiliates, which comprise the consolidated balance sheets as of March 31, 2017 and 2016, and the related consolidated statements of operations, changes in net assets, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Legacy Health and Affiliates as of March 31, 2017 and 2016, and the results of their operations and their cash flows for the years then ended, in accordance with U.S. generally accepted accounting principles.



Supplementary Information

The supplemental information included in the consolidating schedule of balance sheet information and consolidating schedule of operations information on pages 37 through 48 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 49 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 23, 2017

LEGACY HEALTH AND AFFILIATES

Consolidated Balance Sheets

March 31, 2017 and 2016

(Dollars in thousands)

Assets	2017	2016
Current assets:		
Cash and cash equivalents	\$ 43,518	75,937
Short-term investments	31,009	30,714
Accounts receivable from patients, less allowance for uncollectible accounts of \$36,297 in 2017 and \$41,351 in 2016	263,685	228,227
Settlements receivable from third-party payors, net	12,003	19,251
Other receivables	52,000	45,158
Inventories	23,552	21,563
Prepaid expenses	15,260	12,307
Total current assets	441,027	433,157
Assets limited as to use:		
Held by trustee	162,988	5,900
Community health fund	9,771	9,993
Investments restricted for capital acquisition	2,610	1,956
Total assets limited as to use	175,369	17,849
Other assets:		
Property, plant, and equipment, net	836,433	781,840
Noncurrent investments	800,773	737,334
Investments in unconsolidated affiliates	135,320	20,718
Property held for development	23,590	23,590
Other assets	38,393	49,781
Total other assets	1,834,509	1,613,263
Total assets	\$ 2,450,905	2,064,269

Liabilities and Net Assets	2017	2016
Current liabilities:		
Accounts payable	\$ 56,768	45,614
Accrued wages, salaries, and benefits	134,550	110,658
Accrued interest	7,224	2,974
Other current liabilities	62,014	40,569
Current portion of long-term debt	20,277	22,361
Total current liabilities	<u>280,833</u>	<u>222,176</u>
Long-term debt, less current portion	589,164	406,097
General and professional claims liability	40,656	34,618
Pension liability	116,579	142,568
Other noncurrent liabilities	34,589	27,955
Total long-term liabilities	<u>780,988</u>	<u>611,238</u>
Total liabilities	<u>1,061,821</u>	<u>833,414</u>
Net assets:		
Unrestricted	1,305,306	1,132,561
Unrestricted, noncontrolling interest	18,844	19,084
Temporarily restricted	49,098	63,573
Permanently restricted	15,836	15,637
Total net assets	<u>1,389,084</u>	<u>1,230,855</u>
Total liabilities and net assets	<u>\$ 2,450,905</u>	<u>2,064,269</u>

See accompanying notes to consolidated financial statements.

LEGACY HEALTH AND AFFILIATES

Consolidated Statements of Operations

Years ended March 31, 2017 and 2016

(Dollars in thousands)

	2017	2016
Operating revenue:		
Patient service revenue	\$ 1,851,702	1,718,091
Provision for uncollectible accounts	8,251	21,550
Net patient service revenue	1,843,451	1,696,541
Capitation revenue	30,464	—
Other revenue	91,677	84,196
Total operating revenue	1,965,592	1,780,737
Operating expenses:		
Wages, salaries, and benefits	1,138,295	1,014,361
Supplies	305,178	275,405
Professional fees	48,687	48,665
Purchased services	123,562	96,088
Purchased medical services	23,419	—
Utilities, insurance, and other expenses	149,313	144,984
Depreciation	104,616	98,826
Interest and amortization	16,084	13,381
Total operating expenses	1,909,154	1,691,710
Income from operations	56,438	89,027
Nonoperating income (loss):		
Investment income (loss), net	54,842	(4,046)
Loss on extinguishment of debt	(8,463)	—
Contribution from Silverton Health	40,081	—
Other, net	(16,926)	(13,853)
Total nonoperating income (loss)	69,534	(17,899)
Revenue in excess of expenses	125,972	71,128
Change in pension liability	20,153	(43,454)
Net assets released from restriction	29,459	2,123
Distributions to joint venture partners	(3,049)	(2,656)
Other	(30)	—
Change in unrestricted net assets	\$ 172,505	27,141

See accompanying notes to consolidated financial statements.

LEGACY HEALTH AND AFFILIATES
Consolidated Statements of Changes in Net Assets
Years ended March 31, 2017 and 2016
(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, 2015	\$ 1,105,494	19,010	36,601	15,340	1,176,445
Revenue in excess of expenses	68,498	2,630	—	—	71,128
Change in pension liability	(43,454)	—	—	—	(43,454)
Donor-restricted contributions and grants	—	—	35,970	297	36,267
Net assets released from restriction	2,160	—	(7,739)	—	(5,579)
Investment (loss) gain, net	—	—	(1,259)	—	(1,259)
Distributions	(100)	(2,556)	—	—	(2,656)
Other	(37)	—	—	—	(37)
Change in net assets	<u>27,067</u>	<u>74</u>	<u>26,972</u>	<u>297</u>	<u>54,410</u>
Balance, March 31, 2016	<u>1,132,561</u>	<u>19,084</u>	<u>63,573</u>	<u>15,637</u>	<u>1,230,855</u>
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 (loss) 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>

See accompanying notes to consolidated financial statements.

LEGACY HEALTH AND AFFILIATES

Consolidated Statements of Cash Flows

Years ended March 31, 2017 and 2016

(Dollars in thousands)

	2017	2016
Cash flows from operating activities:		
Change in net assets	\$ 158,229	54,410
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Net distributions to noncontrolling partners	3,096	2,556
Depreciation and amortization	111,018	104,829
Loss on disposal of assets	604	614
Change in net realized and unrealized (gains) losses on investments	(47,071)	14,755
Restricted contributions	(2,407)	(2,004)
Equity earnings from joint ventures and investment companies, net	(20,152)	(12,576)
Pension and other post retirement adjustments	(20,153)	43,454
Loss on extinguishment of debt	8,463	—
Contribution from Silverton Health	(31,600)	—
Change in certain current assets and current liabilities	25,267	(17,067)
Change in certain long-term operating assets and liabilities	5,260	(97,418)
Net cash from operating activities	190,554	91,553
Cash flows from investing activities:		
Purchase of property, plant, and equipment	(133,619)	(118,754)
Proceeds from sale of assets	193	86
Change in funds held by trustee	(157,088)	(42)
Change in other long-term assets	(56)	227
Investment in joint ventures and investment companies	(105,900)	(2,407)
Distributions from joint ventures and investment companies	4,886	3,484
Purchases of trading securities	(54,802)	(103,352)
Sales of trading securities	51,604	129,665
Net cash from investing activities	(394,782)	(91,093)
Cash flows from financing activities:		
Proceeds from issuance of long-term debt	288,635	395
Proceeds from deferred financing costs	30,838	—
Repayment of long-term debt	(146,975)	(24,360)
Distributions to noncontrolling partners	(3,096)	(2,556)
Proceeds from restricted contributions	2,407	2,004
Net cash from financing activities	171,809	(24,517)
Decrease in cash and cash equivalents	(32,419)	(24,057)
Cash and cash equivalents, beginning of year	75,937	99,994
Cash and cash equivalents, end of year	\$ 43,518	75,937
Supplemental disclosures of cash flow information:		
Cash paid for interest (net of amount capitalized)	\$ 12,508	13,829
Change in amounts accrued for property, plant, and equipment, net	4,801	4,825

See accompanying notes to consolidated financial statements.

LEGACY HEALTH AND AFFILIATES

Notes to Consolidated Financial Statements

March 31, 2017 and 2016

(Dollars in thousands)

(1) Organization and Summary of Significant Accounting Policies

(a) Organization and Basis of Consolidation

Legacy Health and Affiliates (Legacy) provides healthcare and various healthcare-related services. They are organized primarily as nonprofit corporations under the laws of the State of Oregon or Washington. The consolidated financial statements include 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 Health since June 1, 2016. SH continues to offer substantially the same healthcare services to the community of Silverton and the surrounding area.

This 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

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Notes to Consolidated Financial Statements

March 31, 2017 and 2016

(Dollars in thousands)

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 (loss) 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 are the financial results of SH included in Legacy's 2017 consolidated statement of operations during the ten-month period from the date of the affiliation through March 31, 2017:

Operating revenue	\$	114,743
Operating expense		<u>119,335</u>
Loss from operations		(4,592)
Nonoperating gain to due affiliation		40,081
Other nonoperating income		<u>1,040</u>
Revenue in excess of expenses	\$	<u>36,529</u>

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Notes to Consolidated Financial Statements

March 31, 2017 and 2016

(Dollars in thousands)

The following unaudited pro forma consolidated financial information presents Legacy's results as if the affiliation had been reported as of the beginning of Legacy's fiscal year 2017:

	<u>Actual</u>	<u>Pro forma (unaudited)</u>
Total operating revenue	\$ 1,965,592	1,984,449
Income from operations	56,438	56,306
Revenue in excess of expenses	125,972	125,896

(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, third-party payor settlements, 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, 2017, 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 2014.

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Notes to Consolidated Financial Statements

March 31, 2017 and 2016

(Dollars in thousands)

(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 Silverton Health is also included in total nonoperating income.

(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 Silverton Health.

(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. Capitation revenue received for future months is recorded as unearned revenue.

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Notes to Consolidated Financial Statements

March 31, 2017 and 2016

(Dollars in thousands)

(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 \$10,492 and \$14,399 in HTPP revenue in 2017 and 2016, respectively, which is included in other revenue in the consolidated statements of operations.

(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 2017 and 2016, Legacy capitalized \$177 and \$381, 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, 28 years; equipment and software, 7 years; and land improvements, 12 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.

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Notes to Consolidated Financial Statements

March 31, 2017 and 2016

(Dollars in thousands)

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 include investments in equity securities with readily determinable fair values and all investments in debt securities and are recorded at fair value in the consolidated balance sheets. Investments in limited liability partnerships or companies, which are investment companies, are recorded at the fair value of the underlying assets using the equity method of accounting.

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 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. Legacy's proportionate share of net income or loss is included in other operating revenue if the investment provides significant healthcare services in Legacy's primary service area and otherwise in investment income.

(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. The gifts or grants are reported as either temporarily or permanently restricted contributions if they are received with donor or grantor stipulations that limit the use of the donated assets. When the terms of a donor or grantor restriction are met, temporarily restricted net assets are reclassified as unrestricted net assets and reported in the consolidated statements of operations or consolidated statements of changes in net assets as net assets released from restriction. Donor-restricted contributions whose restrictions are met within the same year as received are reported as unrestricted contributions.

(p) Charitable Gift Annuities

Legacy has a certificate of authority from the State of Oregon and from the State of Washington to receive transfers of money or property upon agreement to pay an annuity. A charitable gift annuity is an arrangement between a donor and Legacy in which the donor contributes assets to Legacy in exchange for Legacy's agreement to pay a fixed amount for a specified period of time to the donor or other

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Notes to Consolidated Financial Statements

March 31, 2017 and 2016

(Dollars in thousands)

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, 2017 and 2016 was \$65 and \$71, respectively. The annuities are not issued by an insurance company and are not subject to regulation by the State of Oregon or protected by an insurance guaranty association.

Although Legacy is exempt under Oregon Revised Statute 731.039 from the requirement to maintain a separate and distinct trust fund adequate to meet the actuarially determined future payments of the charitable gift annuities, Legacy does maintain trust accounts with a bank for all gift annuities. The amounts under trust were \$67 and \$74 as of March 31, 2017 and 2016, 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, 2017 or 2016.

(q) New Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update 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. Management expects the impact of the new pronouncement to be primarily related to disclosures.

In January 2016, the FASB issued ASU No. 2016-01, *Recognition and Measurement of Financial Assets and Financial Liabilities*. The ASU will require that changes in the value of equity investments with readily determinable market values be recognized through revenue in excess of expenses. The new standard is effective for Legacy on April 1, 2018. Management expects the impact of the new pronouncement to be primarily related to disclosures.

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.

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Notes to Consolidated Financial Statements

March 31, 2017 and 2016

(Dollars in thousands)

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. Management expects the impact of the new pronouncement to be primarily related to disclosures.

(2) Net Patient Service Revenue

Revenue from the Medicare and Medicaid programs accounted for approximately 38.0% and 27.8%, respectively, of Legacy's gross patient charges in 2017, and 37.3% and 27.8%, respectively, in 2016. Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation. As a result, there is at least a possibility that recorded estimates will change by a material amount in the near term. In 2017 and 2016, Legacy recorded an increase (decrease) to net patient service revenue of approximately \$3,300 and \$(617), 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:

	<u>2017</u>	<u>2016</u>
Medicare	23.5 %	24.6 %
Medicaid	13.9	14.8
Blue Cross	14.7	15.0
Private pay	5.3	3.8
Other	42.6	41.8
	<u>100.0 %</u>	<u>100.0 %</u>

(3) Benefits to the Community

The Board of Directors allocated \$10,000 to establish a Community Health Fund (the Fund) in 1999. An amount up to 5% of the principal of this Fund may be dedicated to community-sponsored initiatives for improving the health of the community. The Fund is intended to be a permanent source of funding for health initiatives and programs capable of impacting the health of the community either by prevention or health improvement. Contributions made to community-sponsored initiatives were \$655 and \$411 in 2017 and 2016, respectively.

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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, 2017			
	In-kind costs	Other costs	Offsetting revenue	Net cost
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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	March 31, 2016			
	In-kind costs	Other costs	Offsetting revenue	Net cost
Services for people in need:				
Charity care	\$ —	29,460	—	29,460
Medicaid	—	457,977	291,216	166,761
Medicare	—	588,609	486,562	102,047
Other government programs	—	17,485	15,101	2,384
	—	1,093,531	792,879	300,652
Benefits to the community:				
Medical education and research	—	24,009	7,572	16,437
Community health services	161	1,215	412	964
Community benefit activities	389	62	—	451
Donations to charitable organizations	519	685	—	1,204
Community health fund contributions	—	411	—	411
	1,069	26,382	7,984	19,467
	\$ 1,069	1,119,913	800,863	320,119
Percentage of total operating expenses				18.9 %

(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 2017 and 2016, Legacy provided charity care benefiting patients associated with 56,336 and 40,938 patient accounts, respectively, representing 6,448 and 3,949 inpatient accounts, respectively, and 49,888 and 36,989 outpatient accounts, respectively. In 2017 and 2016, 17% and 8%, respectively, of the patients receiving charity care received a full subsidy representing roughly 29% of the total charity provided in each of those years.

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

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

(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.

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.

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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 \$6,776 and \$6,876 in local and state taxes in 2017 and 2016, 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.

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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, 2017			
	Level 1	Level 2	Level 3	Total fair value
Cash and cash equivalents	\$ 40,287	—	—	40,287
Small/mid cap domestic equities	45,596	—	—	45,596
Large cap domestic equities	137,285	—	—	137,285
International equities	102,546	—	—	102,546
Fixed income securities	—	142,909	—	142,909
Fixed income mutual fund	188,925	—	—	188,925
Fixed income common/collective trust	78,978	—	—	78,978
Certificates of deposit	—	2,640	—	2,640
Absolute return funds	63,011	—	—	63,011
U.S. Treasury common/collective trust	37,916	—	—	37,916
Interest rate swaps	—	6,051	—	6,051
	\$ 694,544	151,600	—	846,144
Equity method investments:				
Absolute return funds				47,876
Real estate partnerships				106,598
Private equity funds – funds of funds				1,026
Beneficial interest in endowment fund				119
Investments measured using NAV				5,388
Total investments				\$ 1,007,151

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March 31, 2016				
	Level 1	Level 2	Level 3	Total fair value
Cash and cash equivalents	\$ 3,796	—	—	3,796
Small/mid cap domestic equities	36,833	—	—	36,833
Large cap domestic equities	109,282	—	—	109,282
International equities	95,712	—	—	95,712
Fixed income securities	—	15,121	—	15,121
Fixed income mutual fund	184,650	—	—	184,650
Fixed income common/collective trust	78,184	—	—	78,184
Absolute return funds	58,096	—	—	58,096
Short-term notes	—	3,147	—	3,147
State government obligations	—	1,331	—	1,331
U.S. Treasury common/collective trust	37,377	—	—	37,377
Interest rate swaps	—	8,504	—	8,504
	\$ 603,930	28,103	—	632,033
Equity method investments:				
Absolute return funds				44,094
Real estate partnerships				103,373
Private equity funds – funds of funds				1,148
Investments measured using NAV				5,249
Total investments				\$ 785,897

Common/collective funds included as Level 1 investments in the tables above were excluded from the fair value hierarchy in the March 31, 2016 consolidated financial statements. These funds were instead disclosed as using the NAV per share as a practical expedient. Management has determined that these funds meet the criteria for a readily determinable fair value measurement as the investments trade daily, have a published price that investors can obtain at any time, and have no restrictions on redemption. Therefore, these investments are appropriately presented as Level 1 investments within the fair value hierarchy and this change in classification has been made retrospectively to 2016.

The following table presents information for investments where the NAV was used as a practical expedient to measure fair value at March 31, 2017:

	Fair value		Redemption frequency	Redemption notice period
	2017	2016		
Absolute return funds	5,388	5,249	Quarterly	60–95 days

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

As of March 31, 2017, Legacy has 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 are for a minimum of 10 years. Legacy can only transfer its interest in the investments with the consent of the general partner/advisor. The fair values of these investments are determined either by the underlying security value on the open market or by the general partner/advisor utilizing fair value principles. Because the underlying investments of these equity method investment funds are valued at fair value, equity method accounting produces a value similar to the NAV practical expedient used for certain investments at fair value.

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, 2017, approximately 7% of noncurrent investments require advance written notice of 90 days or longer to redeem the securities. For certain of these investments, it may take up to 90 days to receive the funds after the requested redemption date and certain redemptions may be subject to other restrictions in accordance with subscription agreements.

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

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

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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:

	2017	2016
Interest and dividend income	\$ 620	783
Realized gains on investments	22,736	17,387
Equity earnings from investment companies	10,354	7,794
Change in fair value of trading securities and interest rate swaps, net	24,918	(31,269)
Total investment income	\$ 58,628	(5,305)

(6) Investments in Unconsolidated Affiliates

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

	2017	2016
PacificSource	\$ 99,784	—
Lifeflight Network	21,840	11,199
NW Urgent Care Phase II	5,444	1,786
Optioncare Home Infusion	3,292	2,844
Portland Hospital Services Corp	3,230	3,475
NW Urgent Care Phase I	1,245	1,269
Willamette Valley Community Health Partners	278	—
NW Hospital Partnership	207	145
Total investments in unconsolidated affiliates	\$ 135,320	20,718

In September 2016, Legacy completed a transaction to acquire up to a 50% ownership interest in PacificSource (PS). 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.

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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. The following table represents assets, liabilities, and net assets of PS per audited financial statements as of December 31, 2016 with related four months of operating results for the period in which Legacy held an ownership interest:

	December 31, 2016
Assets	\$ <u>433,925</u>
Liabilities	232,144
Net assets:	
Unrestricted	206,023
Accumulated other comprehensive loss	(4,816)
Noncontrolling interests	<u>574</u>
Total net assets	<u>201,781</u>
Total liabilities and net assets	\$ <u>433,925</u>
	September 1 – December 31, 2016
Underwriting income (loss)	\$ (2,966)
Other income (expense)	(199)
Income tax benefit (expense)	<u>21</u>
Net loss	\$ <u>(3,144)</u>

Legacy recorded a net loss on the investment in PS of \$216 in 2017, which is included in investment income 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 three months ended March 31, 2017, Legacy paid PS \$805 relating to such services, which is included in wages, salaries, and benefits in the consolidated statements of operations.

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(7) Property, Plant, and Equipment

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

	<u>2017</u>	<u>2016</u>
Land	\$ 27,831	25,092
Land improvements	15,542	14,383
Buildings and improvements	1,154,716	1,091,409
Equipment and software	869,584	807,872
Construction in progress	<u>38,159</u>	<u>22,110</u>
	2,105,832	1,960,866
Accumulated depreciation	<u>(1,269,399)</u>	<u>(1,179,026)</u>
	<u>\$ 836,433</u>	<u>781,840</u>

There were capital expenditure purchase commitments outstanding as of March 31, 2017 for various construction and equipment projects. The estimated cost to complete such projects at March 31, 2017 was \$341,745, of which \$33,265 was contractually committed.

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(8) Long-Term Debt

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

	2017	2016
Hospital Revenue Bonds, Series 2008, payable in installments through 2038, subject to a seven-day put provision; interest at SIFMA index (0.91% at March 31, 2017) plus 10 basis points	\$ 100,000	150,000
Hospital Revenue Bonds, Series 2009A, payable in installments from \$1,055 to \$7,715 through 2035, at rates ranging from 4.0% to 5.5%, callable on or after July 2019	—	69,120
Hospital Revenue Bonds, Series 2010A, payable in installments from \$2,040 to \$12,430 through 2030, at rates ranging from 3.0% to 5.0%, \$24,300 of the bonds are callable on or after March 2020	40,125	51,795
Hospital Revenue Bonds, Series 2011A, payable in installments from \$5,495 to \$22,060 through 2021, at rates ranging from 3.0% to 5.25%	80,410	87,815
Hospital Revenue Bonds, Series 2014A, payable in installments from \$2,985 to \$10,540 through 2040, at fixed rate of 2.425%	71,720	71,720
Hospital Revenue Bonds, Series 2016A, payable in installments from \$1,950 to \$28,330 through 2047, at rates ranging from 3.5% to 5.0%	288,635	—
Other debt	433	208
	581,323	430,658
Deferred financing costs	28,118	(2,200)
Less current portion	(20,277)	(22,361)
	\$ 589,164	406,097

Interest cost incurred related to funds borrowed was \$16,050 and \$13,318 in 2017 and 2016, respectively. These amounts were reduced by \$177 and \$381 in 2017 and 2016, respectively, in the consolidated statements of operations, for amounts capitalized for construction and other capital projects.

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

2018	\$	20,277
2019		11,257
2020		22,105
2021		23,075
2022		24,260
Thereafter		<u>480,349</u>
	\$	<u>581,323</u>

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 in connection with certain remarketing dates. In conjunction with the issuance, Legacy has entered into three 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 converted to a term loan due in eight quarterly payments. As a result, the 2008 Bonds are classified as long-term, except for the portion that matures within 12 months after March 31, 2017. Series C (\$50,000) of the 2008 Bonds were refinanced in November 2016.

In May 2009, Legacy issued \$163,860 of Revenue Bonds Series 2009 (2009 Bonds) through the Hospital Facility Authority of Clackamas County, Oregon. The proceeds from the 2009 Bonds were restricted for capital expenditures, debt service during the construction period, and expenses incurred in connection with the issuance. A portion of Series A (\$27,810) and all Series C (\$25,000) of the 2009 Bonds were refinanced in June 2014. Series B (\$25,000) of the 2009 Bonds was refinanced in June 2012. All remaining outstanding Series A of the 2009 Bonds were refinanced in November 2016.

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 the 1999 Bonds and the 2003 Bonds and pay expenses in connection with 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 the 2001 Bonds and pay expenses in connection with the issuance.

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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 portions of Series A of the 2009 Bonds, a bank loan (which previously refinanced Series B of the 2009 Bonds in 2012), and Series C of the 2009 Bonds.

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 were restricted for capital expenditures, debt service during the construction period, and expenses incurred in connection with the issuance. A portion of the proceeds was used to refinance Series C of the 2008 Bonds and the remaining outstanding Series A of the 2009 Bonds. In connection with the 2016 Bonds, Legacy recorded a loss due to extinguishment of debt of \$8,463 in 2017, which was recorded in nonoperating income (loss) in the consolidated statements of operations.

(9) Temporarily and Permanently Restricted Net Assets

Restricted net assets are available for the following purposes:

	March 31	
	2017	2016
Temporarily restricted net assets:		
Education	\$ 7,118	6,428
Patient care	25,696	42,945
Research	6,273	4,499
Capital acquisition	5,603	5,385
Other	4,408	4,316
	\$ 49,098	63,573

	March 31	
	2017	2016
Permanently restricted net assets:		
Education	\$ 2,799	2,768
Patient care	10,705	10,538
Research	1,949	1,948
Other	383	383
	\$ 15,836	15,637

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(10) Functional Expenses

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

	March 31	
	2017	2016
Healthcare services	\$ 1,470,558	1,350,811
General and administrative	438,596	340,899
	<u>\$ 1,909,154</u>	<u>1,691,710</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. Expenses related to these plans was \$31,090 and \$16,400 for 2017 and 2016, 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. Management is not aware of any other expected settlements or curtailments that would require additional recognition during fiscal 2017.

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, 2017 and 2016 and for the years then ended is as follows:

	2017	2016
Change in projected benefit obligation:		
Projected benefit obligation at beginning of year	\$ 901,115	868,065
Service cost	26,929	34,788
Interest cost	31,767	34,844
Actuarial loss	3,825	951
Benefits paid	(38,452)	(34,772)
Plan amendments	(28,097)	(2,761)
Projected benefit obligation at end of year	897,087	901,115
Change in plan assets:		
Fair value of assets at beginning of year	758,547	682,849
Actual return on plan assets	60,269	(5,300)
Employer contribution	144	115,770
Benefits paid	(38,452)	(34,772)
Fair value of assets at end of year	780,508	758,547
Funded status	\$ (116,579)	(142,568)
Unrecognized net actuarial loss	\$ 263,575	311,837
Unrecognized prior service cost	—	28,379
Accumulated benefit obligation	897,087	875,000

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, 2018 are \$0 and \$4,294, respectively.

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

	2017	2016
Service cost	\$ 26,929	34,788
Interest cost	31,767	34,844
Expected return on plan assets	(49,810)	(49,773)
Amortization of prior service costs	(6,927)	(8,989)
Recognized net actuarial loss	13,801	18,799
Special recognition curtailments and settlements	(21,452)	—
Net periodic pension (benefit) cost	\$ (5,692)	29,669

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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:

	<u>2017</u>	<u>2016</u>
Benefit obligation (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
	<u>2016</u>	<u>2015</u>
Net periodic benefit cost (measured as of March 31):		
Discount rate	4.16 %	4.11 %
Expected long-term discount rate of return on plan assets	6.50 %	7.00 %
Rate of increase in future compensation levels	3.75% plus longevity scale	3.0% for 2015, 3.75% thereafter plus longevity scale
Net periodic benefit cost (measured as of December 31):		
Discount rate	4.39 %	N/A
Expected long-term discount rate of return on plan assets	6.50 %	N/A
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.

LEGACY HEALTH AND AFFILIATES

Notes to Consolidated Financial Statements

March 31, 2017 and 2016

(Dollars in thousands)

(ii) *Pension Plan Assets*

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

	Target allocation	2017	2016
Equity securities	22%–40%	32 %	30 %
Fixed income	35%–48%	41	42
Real estate	0%–15%	9	10
Absolute return funds	0%–18%	15	14
Alternative investments	0%–5%	3	4

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.

LEGACY HEALTH AND AFFILIATES

Notes to Consolidated Financial Statements

March 31, 2017 and 2016

(Dollars in thousands)

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

March 31, 2017				
	Level 1	Level 2	Level 3	Total fair value
Cash and cash equivalents	\$ 24,412	—	—	24,412
Small/mid cap domestic equities	29,792	—	—	29,792
Large cap domestic equities	58,621	—	—	58,621
Large cap domestic common/collective trust	32,172	—	—	32,172
International equities	66,885	—	—	66,885
International common/collective trust	55,762	—	—	55,762
Fixed income securities	—	47,582	—	47,582
Fixed income mutual fund	109,597	—	—	109,597
Fixed income common/collective trust	160,578	—	—	160,578
Absolute return funds	76,502	—	—	76,502
	\$ 614,321	47,582	—	661,903
Investments measured using NAV				128,790
Unsettled trades				(10,185)
Total assets at fair value				\$ 780,508

March 31, 2016				
	Level 1	Level 2	Level 3	Total fair value
Cash and cash equivalents	\$ 28,128	—	—	28,128
Small/mid cap domestic equities	25,289	—	—	25,289
Large cap domestic equities	53,716	—	—	53,716
Large cap domestic common/collective trust	29,252	—	—	29,252
International equities	59,654	—	—	59,654
International common/collective trust	54,322	—	—	54,322
Fixed income mutual fund	152,626	—	—	152,626
Fixed income common/collective trust	153,671	—	—	153,671
Absolute return funds	70,484	—	—	70,484
	\$ 627,142	—	—	627,142
Investments measured using NAV				131,405
Total assets at fair value				\$ 758,547

LEGACY HEALTH AND AFFILIATES

Notes to Consolidated Financial Statements

March 31, 2017 and 2016

(Dollars in thousands)

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

	<u>Fair value</u>		<u>Redemption frequency</u>	<u>Redemption notice period</u>
	<u>2017</u>	<u>2016</u>		
Absolute return funds	36,231	33,369	Quarterly	60–95 days
Real estate partnerships:				
Core value	64,708	62,726	Quarterly	60–95 days
Value-added	7,596	9,741	*	*
Private equity funds	20,255	25,569	*	*

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

(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:

2018	\$	53,496
2019		51,330
2020		53,191
2021		53,551
2022		55,028
2023–2027		277,066

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

The following table presents gross investment derivative assets and liabilities as of March 31, 2017:

Derivative assets:		
Futures contracts	\$	5,580
Derivative liabilities:		
Futures contracts		<u>(5,580)</u>
Net investment derivative assets	\$	<u><u>—</u></u>

LEGACY HEALTH AND AFFILIATES

Notes to Consolidated Financial Statements

March 31, 2017 and 2016

(Dollars in thousands)

(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. LHSIC is a Cayman Islands domiciled insurance company created to access reinsurance markets.

(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:

2018	\$	9,026
2019		7,978
2020		5,402
2021		3,950
2022		3,507
Thereafter		<u>16,435</u>
	\$	<u>46,298</u>

Rent expense for 2017 and 2016 totaled \$12,222 and \$7,735, respectively.

(d) Collective Bargaining Agreements

Approximately 10% of Legacy employees were covered under collective bargaining agreements at March 31, 2017, including certain service and maintenance employees. Approximately 1,054 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.

LEGACY HEALTH AND AFFILIATES

Notes to Consolidated Financial Statements

March 31, 2017 and 2016

(Dollars in thousands)

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 23, 2017, the date the consolidated financial statements were issued.

LEGACY HEALTH AND AFFILIATES

Consolidating Schedule of Balance Sheet Information

March 31, 2017

(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	\$ 36,213	(1,721)	(74)	33	(67)	147
Short-term investments	31,009	—	—	—	—	—
Accounts receivable from patients	—	146,623	40,594	28,334	18,665	42,863
Allowance for uncollectible accounts	—	(21,658)	(3,279)	(2,883)	(2,524)	(4,534)
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>
Assets limited as to use:						
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>
Other assets:						
Property, plant, and equipment, net	127,224	351,065	75,587	32,724	42,126	172,470
Noncurrent investments	790,603	3	—	—	—	—
Investments in unconsolidated affiliates	121,010	21,840	207	—	—	—
Property held for development or sale	13,287	—	—	7,100	—	3,203
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 AND AFFILIATES

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 from patients	2,625	—	279,704	17,735	2,543	299,982
Allowance for uncollectible accounts	—	—	(34,878)	(1,185)	(234)	(36,297)
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	2,580	7,577	397,066	37,141	6,820	441,027
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	—	—	175,369	—	—	175,369
Other assets:						
Property, plant, and equipment, net	1,702	—	802,898	32,152	1,383	836,433
Noncurrent investments	—	1,048	791,654	9,119	—	800,773
Investments in unconsolidated affiliates	3,292	—	146,349	278	(11,307)	135,320
Property held for development or sale	—	—	23,590	—	—	23,590
Other assets	—	8,373	12,325	149	25,919	38,393
Total other assets	4,994	9,421	1,776,816	41,698	15,995	1,834,509
Interaffiliate receivable (payable)	(150)	125,406	6,029	(6,665)	636	—
Total assets	\$ 7,424	142,404	2,355,280	72,174	23,451	2,450,905

See accompanying independent auditors' report on other financial information.

LEGACY HEALTH AND AFFILIATES

Consolidating Schedule of Balance Sheet Information

March 31, 2017

(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	\$ 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	81,925	88,395	28,697	18,935	11,988	24,890
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	151,456	436,271	96,481	35,503	42,412	12,535
Total liabilities	233,381	524,666	125,178	54,438	54,400	37,425
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	67,406	130,680	210,381	336,217	57,462	373,818
Total liabilities and net assets	\$ 300,787	655,346	335,559	390,655	111,862	411,243

LEGACY HEALTH AND AFFILIATES

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 AND AFFILIATES

Consolidating Schedule of Balance Sheet Information

March 31, 2016

(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	\$ 76,335	(353)	22	(64)	(70)	58
Short-term investments	30,714	—	—	—	—	—
Accounts receivable from patients	—	130,574	38,537	29,584	21,947	45,116
Allowance for uncollectible accounts	—	(22,327)	(3,506)	(4,030)	(4,646)	(6,538)
Accounts receivable, net	—	108,247	35,031	25,554	17,301	38,578
Settlements receivable from third-party payors, net	—	13,271	2,700	1,837	2,541	(1,098)
Other receivables	5,925	12,558	4,351	2,902	1,988	4,028
Inventories	—	8,585	4,793	3,134	2,615	1,924
Prepaid expenses	10,748	163	198	116	30	534
Total current assets	123,722	142,471	47,095	33,479	24,405	44,024
Assets limited as to use:						
Held by trustee	—	5,900	—	—	—	—
Community health fund	9,993	—	—	—	—	—
Investments restricted for capital acquisition	1,956	—	—	—	—	—
Total assets limited as to use	11,949	5,900	—	—	—	—
Other assets:						
Property, plant, and equipment, net	131,243	316,333	76,714	33,800	44,007	176,288
Noncurrent investments	736,327	—	—	—	—	—
Investments in unconsolidated affiliates	17,729	11,199	145	—	342	—
Property held for development or sale	13,287	—	—	7,100	—	3,203
Other assets	8,654	885	—	—	—	—
Total other assets	907,240	328,417	76,859	40,900	44,349	179,491
Interaffiliate receivable (payable)	(801,585)	32,974	180,664	279,099	37,735	146,638
Total assets	\$ 241,326	509,762	304,618	353,478	106,489	370,153

LEGACY HEALTH AND AFFILIATES

Consolidating Schedule of Balance Sheet Information

March 31, 2016

(Dollars in thousands)

Assets	Legacy Visiting Nurse Association	Foundations	Credit Reporting Group	Other affiliates and eliminations	March 31, 2016 consolidated
Current assets:					
Cash and cash equivalents	\$ 54	32	76,014	(77)	75,937
Short-term investments	—	—	30,714	—	30,714
Accounts receivable from patients	1,604	—	267,362	2,216	269,578
Allowance for uncollectible accounts	—	—	(41,047)	(304)	(41,351)
Accounts receivable, net	1,604	—	226,315	1,912	228,227
Settlements receivable from third-party payors, net	—	—	19,251	—	19,251
Other receivables	—	9,586	41,338	3,820	45,158
Inventories	—	—	21,051	512	21,563
Prepaid expenses	10	—	11,799	508	12,307
Total current assets	1,668	9,618	426,482	6,675	433,157
Assets limited as to use:					
Held by trustee	—	—	5,900	—	5,900
Community health fund	—	—	9,993	—	9,993
Investments restricted for capital acquisition	—	—	1,956	—	1,956
Total assets limited as to use	—	—	17,849	—	17,849
Other assets:					
Property, plant, and equipment, net	1,875	—	780,260	1,580	781,840
Noncurrent investments	—	1,007	737,334	—	737,334
Investments in unconsolidated affiliates	2,844	—	32,259	(11,541)	20,718
Property held for development or sale	—	—	23,590	—	23,590
Other assets	—	13,880	23,419	26,362	49,781
Total other assets	4,719	14,887	1,596,862	16,401	1,613,263
Interaffiliate receivable (payable)	(2,359)	126,389	(445)	445	—
Total assets	\$ 4,028	150,894	2,040,748	23,521	2,064,269

See accompanying independent auditors' report on other financial information.

LEGACY HEALTH AND AFFILIATES

Consolidating Schedule of Balance Sheet Information

March 31, 2016

(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	\$ 13,546	13,758	7,233	3,408	2,164	4,560
Accrued wages, salaries, and benefits	21,960	45,367	12,073	7,760	5,500	16,890
Accrued interest	1,952	1,022	—	—	—	—
Other current liabilities	18,515	8,540	4,957	2,929	1,980	28
Current portion of long-term debt	5,649	8,458	2,977	3,540	1,661	—
Total current liabilities	61,622	77,145	27,240	17,637	11,305	21,478
Long-term debt, less current portion	44,604	235,704	56,728	31,373	37,556	—
General and professional claims liability	34,268	—	—	—	—	—
Pension liability	12,538	62,147	33,035	9,845	8,006	16,395
Other noncurrent liabilities	23,246	2,527	744	534	246	417
Total long-term liabilities	114,656	300,378	90,507	41,752	45,808	16,812
Total liabilities	176,278	377,523	117,747	59,389	57,113	38,290
Net assets:						
Unrestricted	65,048	131,762	186,871	294,089	49,376	331,863
Unrestricted, noncontrolling interest	—	—	—	—	—	—
Temporarily restricted	—	477	—	—	—	—
Permanently restricted	—	—	—	—	—	—
Total net assets	65,048	132,239	186,871	294,089	49,376	331,863
Total liabilities and net assets	\$ 241,326	509,762	304,618	353,478	106,489	370,153

LEGACY HEALTH AND AFFILIATES

Consolidating Schedule of Balance Sheet Information

March 31, 2016

(Dollars in thousands)

Liabilities and Net Assets	Legacy Visiting Nurse Association	Foundations	Credit Reporting Group	Other affiliates and eliminations	March 31, 2016 consolidated
Current liabilities:					
Accounts payable	539	—	45,208	406	45,614
Accrued wages, salaries, and benefits	796	—	110,346	312	110,658
Accrued interest	—	—	2,974	—	2,974
Other current liabilities	1	779	37,729	2,840	40,569
Current portion of long-term debt	—	—	22,285	76	22,361
Total current liabilities	1,336	779	218,542	3,634	222,176
Long-term debt, less current portion	—	—	405,965	132	406,097
General and professional claims liability	—	—	34,268	350	34,618
Pension liability	602	—	142,568	—	142,568
Other noncurrent liabilities	41	—	27,755	200	27,955
Total long-term liabilities	643	—	610,556	682	611,238
Total liabilities	1,979	779	829,098	4,316	833,414
Net assets:					
Unrestricted	2,049	71,382	1,132,440	121	1,132,561
Unrestricted, noncontrolling interest	—	—	—	19,084	19,084
Temporarily restricted	—	63,096	63,573	—	63,573
Permanently restricted	—	15,637	15,637	—	15,637
Total net assets	2,049	150,115	1,211,650	19,205	1,230,855
Total liabilities and net assets	4,028	150,894	2,040,748	23,521	2,064,269

See accompanying independent auditors' report on other financial information.

LEGACY HEALTH AND AFFILIATES

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
Net assets released from restriction	24,257	2,782	829	77	(16)	26
Change in pension liability	2,343	8,251	2,901	1,784	1,240	3,496
Distributions to joint venture partners	—	—	—	—	—	—
Other transfers	(8,207)	—	—	—	—	—
Change in unrestricted net assets	\$ 2,358	(1,568)	23,510	42,128	8,086	41,955

LEGACY HEALTH AND AFFILIATES

Consolidating Schedule of Operations Information

Year ended March 31, 2017

(Dollars in thousands)

	Legacy Visiting Nurse Association	Foundations	Eliminations	Credit Reporting Group	Silverton Health	Other affiliates and eliminations	Year ended March 31, 2017 consolidated
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
Net assets released from restriction	—	220	(954)	27,221	2,238	—	29,459
Change in pension liability	138	—	—	20,153	—	—	20,153
Distributions to joint venture partners	—	—	—	—	—	(3,049)	(3,049)
Other transfers	—	—	—	(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 AND AFFILIATES

Consolidating Schedule of Operations Information

Year ended March 31, 2016

(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	\$ —	724,949	322,302	227,498	147,297	307,449
Provision for uncollectible accounts	—	8,299	1,527	3,712	3,421	4,375
Net patient service revenue	—	716,650	320,775	223,786	143,876	303,074
Capitation revenue	—	—	—	—	—	—
Other revenue	215,905	46,292	11,251	3,632	4,344	8,245
Total operating revenue	<u>215,905</u>	<u>762,942</u>	<u>332,026</u>	<u>227,418</u>	<u>148,220</u>	<u>311,319</u>
Operating expenses:						
Wages, salaries, and benefits	109,384	452,744	149,101	90,958	66,105	179,935
Supplies	3,730	110,655	54,839	35,148	18,881	37,805
Professional fees	9,649	24,585	6,107	2,644	2,483	4,644
Purchased services	53,597	(10,736)	19,179	10,117	8,895	11,697
Purchased medical services	—	—	—	—	—	—
Utilities, insurance, and other expenses	14,220	53,919	21,081	18,849	11,349	24,359
Depreciation	26,697	32,025	12,339	7,213	6,936	12,994
Interest and amortization	2,282	7,583	1,386	1,189	941	—
Management fees	—	105,858	50,142	33,291	21,582	1,112
Total operating expenses	<u>219,559</u>	<u>776,633</u>	<u>314,174</u>	<u>199,409</u>	<u>137,172</u>	<u>272,546</u>
Income (loss) from operations	<u>(3,654)</u>	<u>(13,691)</u>	<u>17,852</u>	<u>28,009</u>	<u>11,048</u>	<u>38,773</u>
Nonoperating income (loss):						
Investment income (loss), net	(641)	(325)	(3)	26	(67)	(163)
Other, net	(3,690)	(1,537)	(362)	60	4	(839)
Total nonoperating income (loss)	<u>(4,331)</u>	<u>(1,862)</u>	<u>(365)</u>	<u>86</u>	<u>(63)</u>	<u>(1,002)</u>
Revenue in excess of (less than) expenses	<u>(7,985)</u>	<u>(15,553)</u>	<u>17,487</u>	<u>28,095</u>	<u>10,985</u>	<u>37,771</u>
Net assets released from restriction	898	531	1,839	37	—	—
Change in pension liability	(4,093)	(18,617)	(8,825)	(3,344)	(2,535)	(5,796)
Distributions to joint venture partners	—	—	—	—	—	—
Other transfers	—	(28)	(101)	(91)	(16)	(156)
Change in unrestricted net assets	<u>\$ (11,180)</u>	<u>(33,667)</u>	<u>10,400</u>	<u>24,697</u>	<u>8,434</u>	<u>31,819</u>

LEGACY HEALTH AND AFFILIATES

Consolidating Schedule of Operations Information

Year ended March 31, 2016

(Dollars in thousands)

	Legacy Visiting Nurse Association	Foundations	Eliminations	Credit Reporting Group	Other affiliates and eliminations	Year ended March 31, 2016 consolidated
Operating revenue:						
Patient service revenue	\$ 14,000	—	(40,808)	1,702,687	15,404	1,718,091
Provision for uncollectible accounts	6	—	—	21,340	210	21,550
Net patient service revenue	<u>13,994</u>	<u>—</u>	<u>(40,808)</u>	<u>1,681,347</u>	<u>15,194</u>	<u>1,696,541</u>
Capitation revenue	—	—	—	—	—	—
Other revenue	1,093	8,019	(215,963)	82,818	1,378	84,196
Total operating revenue	<u>15,087</u>	<u>8,019</u>	<u>(256,771)</u>	<u>1,764,165</u>	<u>16,572</u>	<u>1,780,737</u>
Operating expenses:						
Wages, salaries, and benefits	10,327	—	(49,575)	1,008,979	5,382	1,014,361
Supplies	882	—	9,734	271,674	3,731	275,405
Professional fees	71	—	(2,074)	48,109	556	48,665
Purchased services	1,326	—	(112)	93,963	2,125	96,088
Purchased medical services	—	—	—	—	—	—
Utilities, insurance, and other expenses	690	8,284	(9,370)	143,381	1,603	144,984
Depreciation	175	—	—	98,379	447	98,826
Interest and amortization	—	—	—	13,381	—	13,381
Management fees	1,000	—	(212,985)	—	—	—
Total operating expenses	<u>14,471</u>	<u>8,284</u>	<u>(264,382)</u>	<u>1,677,866</u>	<u>13,844</u>	<u>1,691,710</u>
Income (loss) from operations	<u>616</u>	<u>(265)</u>	<u>7,611</u>	<u>86,299</u>	<u>2,728</u>	<u>89,027</u>
Nonoperating income (loss):						
Investment income (loss), net	—	(2,874)	—	(4,047)	1	(4,046)
Other, net	—	(1,050)	(6,438)	(13,852)	(1)	(13,853)
Total nonoperating income (loss)	<u>—</u>	<u>(3,924)</u>	<u>(6,438)</u>	<u>(17,899)</u>	<u>—</u>	<u>(17,899)</u>
Revenue in excess of (less than) expenses	616	(4,189)	1,173	68,400	2,728	71,128
Net assets released from restriction	32	(4)	(1,173)	2,160	—	2,160
Change in pension liability	(244)	—	—	(43,454)	—	(43,454)
Distributions to joint venture partners	—	—	—	—	(2,656)	(2,656)
Other transfers	—	355	—	(37)	—	(37)
Change in unrestricted net assets	<u>\$ 404</u>	<u>(3,838)</u>	<u>—</u>	<u>27,069</u>	<u>72</u>	<u>27,141</u>

See accompanying independent auditors' report on other financial information.

LEGACY HEALTH AND AFFILIATES
Consolidated Financial and Statistical Highlights
Years ended March 31
(Unaudited)

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Utilization:				
Average number of available beds	1,254	1,093	1,111	1,102
Discharges	62,798	59,308	58,535	54,348
Adjusted discharges	115,117	106,274	103,013	94,533
Patient days	297,537	274,338	262,512	242,208
Average length of stay	4.7	4.6	4.5	4.5
Percentage occupancy	70.7%	69.9%	64.7%	61.7%
Emergency room visits	233,215	216,518	211,623	188,452
Clinic visits	1,040,401	879,296	766,661	620,904
Surgical cases – inpatient	17,666	16,967	16,058	16,266
Surgical cases – outpatient	26,631	24,841	23,951	22,405
Average full-time equivalent (FTE) employees:				
Number of paid FTEs	10,675	9,473	8,874	8,368
FTEs per adjusted occupied bed	7.1	7.1	7.0	7.3
Ratios:				
Operating margin	2.9%	5.0%	7.3%	3.8%
Net days in accounts receivable	51.7	47.4	47.5	47.6
Days cash on hand	175.8	192.6	228.5	215.8
Capitalization	30.5%	27.1%	28.7%	31.2%
Total capitalization	29.5%	25.8%	27.8%	30.2%

See accompanying independent auditors' report on other financial information.