LEGACY HEALTH

Consolidated Financial Statements and Other Financial Information

March 31, 2020 and 2019

(With Independent Auditors' Report Thereon)

LEGACY HEALTH

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

Independent Auditors' Report

The Board of Directors
Legacy Health:

We have audited the accompanying consolidated financial statements of Legacy Health, which comprise the consolidated balance sheets as of March 31, 2020 and 2019, 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 consolidated financial position of Legacy Health as of March 31, 2020 and 2019, and the results of their operations and their cash flows for the years then ended, in accordance with U.S. generally accepted accounting principles.

Emphasis of Matter

As discussed in Note 1 to the consolidated financial statements, on April 1, 2019, Legacy adopted new accounting guidance in Accounting Standards Update ASU 2016-02, *Leases (Topic 842)*. Our opinion was not modified with respect to this matter.

KPMG

Other Matters

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The supplemental information included in the consolidating schedule of balance sheet information and consolidating schedule of operations information 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 consolidated financial and statistical highlights 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 30, 2020

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Consolidated Balance Sheets

March 31, 2020 and 2019

(Dollars in thousands)

Assets		**2020**	**2019**
Current assets:			
Cash and cash equivalents	$	144,041	89,267
Accounts receivable from patients, net		261,266	279,663
Settlements receivable from third-party payors, net		39,486	26,423
Other receivables		63,644	70,623
Inventories		25,767	23,710
Prepaid expenses		17,420	14,843
Total current assets		551,624	504,529
Assets limited as to use		93,884	140,854
Property, plant, and equipment, net		815,660	810,959
Noncurrent investments		910,477	938,425
Investments in unconsolidated affiliates		263,823	211,255
Other assets		99,321	35,863
Total assets	$	2,734,789	2,641,885
Liabilities and Net Assets			
Current liabilities:			
Accounts payable	$	66,575	54,845
Accrued wages, salaries, and benefits		171,749	151,092
Accrued interest		5,633	6,060
Other current liabilities		72,427	67,253
Current portion of long-term debt		23,736	22,390
Total current liabilities		340,120	301,640
Long-term debt, less current portion		529,135	553,531
General and professional claims liability		41,884	43,245
Pension liability		185,007	113,876
Other liabilities		104,542	47,771
Total liabilities		1,200,688	1,060,063
Net assets:			
Without donor restrictions, controlling		1,456,573	1,498,395
Without donor restrictions, noncontrolling		20,362	20,614
With donor restrictions		57,166	62,813
Total net assets		1,534,101	1,581,822
Total liabilities and net assets	$	2,734,789	2,641,885

See accompanying notes to consolidated financial statements.

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Consolidated Statements of Operations

Years ended March 31, 2020 and 2019

(Dollars in thousands)

		2020	2019
Operating revenues:			
Net patient service revenue	$	2,192,248	2,066,673
Capitation revenue		35,920	47,638
Other revenue		108,375	105,057
Total operating revenues		2,336,543	2,219,368
Operating expenses:			
Wages, salaries, and benefits		1,370,974	1,315,479
Supplies		367,241	334,103
Professional fees		57,896	52,940
Purchased services		137,512	129,186
Purchased medical services		29,659	43,183
Utilities, insurance, and other expenses		186,803	169,625
Depreciation		92,646	98,945
Interest and amortization		14,448	16,535
Total operating expenses		2,257,179	2,159,996
Income from operations		79,364	59,372
Nonoperating (loss) income:			
Investment (loss) income, net		(37,947)	54,381
Other, net		(5,219)	(10,248)
Total nonoperating (loss) income		(43,166)	44,133
Excess of revenues over expenses		36,198	103,505
Change in pension liability		(76,374)	(19,365)
Net assets released from restriction		869	2,832
Distributions to joint venture partners		(2,750)	(2,920)
Other		(17)	—
Change in net assets without donor restrictions	$	(42,074)	84,052

See accompanying notes to consolidated financial statements.

LEGACY HEALTH

Consolidated Statements of Changes in Net Assets

Years ended March 31, 2020 and 2019

(Dollars in thousands)

		Without donor restrictions, controlling	Without donor restrictions, noncontrolling	With donor restrictions	Total net assets
Balance, March 31, 2018	$	1,414,039	20,918	64,008	1,498,965
Excess of revenues over expenses		101,135	2,370	—	103,505
Change in pension liability		(19,365)	—	—	(19,365)
Restricted contributions and grants		—	—	7,348	7,348
Net assets released from restriction		2,832	—	(7,369)	(4,537)
Investment gain, net		—	—	(1,174)	(1,174)
Distributions to joint venture partners		(246)	(2,674)	—	(2,920)
Other		—	—	—	—
Change in net assets		84,356	(304)	(1,195)	82,857
Balance, March 31, 2019		1,498,395	20,614	62,813	1,581,822
Excess of revenues over expenses		33,732	2,466	—	36,198
Change in pension liability		(76,374)	—	—	(76,374)
Restricted contributions and grants		—	—	5,618	5,618
Net assets released from restriction		869	—	(4,363)	(3,494)
Investment gain, net		—	—	(6,919)	(6,919)
Distributions to joint venture partners		(32)	(2,718)	—	(2,750)
Other		(17)	—	17	—
Change in net assets		(41,822)	(252)	(5,647)	(47,721)
Balance, March 31, 2020	$	1,456,573	20,362	57,166	1,534,101

See accompanying notes to consolidated financial statements.

LEGACY HEALTH

Consolidated Statements of Cash Flows

Years ended March 31, 2020 and 2019

(Dollars in thousands)

		2020	2019
Cash flows from operating activities:			
Change in net assets	$	(47,721)	82,857
Adjustments to reconcile change in net assets to net cash provided by operating activities:			
Net distributions to noncontrolling partners		2,718	2,674
Depreciation and amortization		100,051	106,043
Loss on disposal of assets		6,553	186
Change in net realized and unrealized losses (gains) on investments		41,450	(46,372)
Restricted contributions		2,352	8
Equity earnings from joint ventures and investment companies, net		(21,819)	(14,251)
Pension and other post retirement adjustments		76,374	19,365
Change in certain current assets and current liabilities		43,950	(33,086)
Change in certain long-term operating assets and liabilities		(11,472)	(2,817)
Net cash from operating activities		192,436	114,607
Cash flows from investing activities:			
Purchase of property, plant, and equipment		(113,153)	(77,115)
Proceeds from sale of assets		1,191	38
Change in funds held by trustee		46,970	15,211
Change in other long-term assets		(999)	1,366
Investment in joint ventures		(30,450)	(32,400)
Distributions from joint ventures and investment companies		12,890	6,925
Purchases of investments		(476,546)	(966,733)
Sales of investments		449,865	973,931
Net cash from investing activities		(110,232)	(78,777)
Cash flows from financing activities:			
Proceeds from issuance of long-term debt		24,390	297
Refund of deferred financing costs		(335)	—
Repayment of long-term debt		(46,405)	(11,444)
Distributions to noncontrolling partners		(2,718)	(2,674)
Proceeds from restricted contributions		(2,352)	(8)
Net cash from financing activities		(27,420)	(13,829)
Increase in cash and cash equivalents		54,784	22,001
Cash and cash equivalents, beginning of year		89,267	67,266
Cash and cash equivalents, end of year	$	144,051	89,267
Supplemental disclosures of cash flow information:			
Cash paid for interest (net of amount capitalized)	$	16,394	18,284
Change in amounts accrued for property, plant, and equipment, net		863	(1,313)

See accompanying notes to consolidated financial statements.

(1) Organization and Summary of Significant Accounting Policies

(a) Organization and Basis of Consolidation

Legacy Health (Legacy), an Oregon nonprofit corporation, is an integrated healthcare delivery system providing various healthcare-related services. The consolidated financial statements include Legacy and its direct affiliates, which are organized primarily as nonprofit corporations under the laws of the State of Oregon or Washington, and include the following:

Legacy Emanuel Hospital & Health Center (LEH)
Legacy Good Samaritan Hospital and Medical Center (LGS)
Legacy Meridian Park Hospital (LMP)
Legacy Mount Hood Medical Center (LMH)
Silverton Health (SH)
Legacy Salmon Creek Hospital (LSC)
Legacy Visiting Nurse Association and Affiliates (LVNA)
Managed HealthCare Northwest, Inc. (MHN)
Legacy Health System Insurance Company (LHSIC)

The consolidated financial statements also include the accounts of affiliated foundations (Emanuel Medical Center Foundation, Randall Children's Hospital Foundation, Good Samaritan Foundation, Meridian Park Medical Foundation, Mt. Hood Medical Center Foundation, and Salmon Creek Hospital Foundation, collectively the Foundations, and Silverton Health Foundation). All significant inter-affiliate accounts and transactions have been eliminated.

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 10 years, invest $57,600 within 8 years to grow and improve patient care services at SH (of which $16,848 has been invested as of March 31, 2020) and provide the Silverton Health Foundation with a contribution of $3,000.

(b) 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 implicit and explicit price concessions on patient accounts receivable, self-insured liabilities, and pension obligations.

(c) Income Taxes

Legacy has been recognized as exempt from federal income taxes, except on unrelated business income, under Section 501(a) of the Internal Revenue Code (IRC) as an organization described in Section 501(c)(3) and further described as a public charitable organization under Section 509(a)(3).

Substantially all of Legacy's direct affiliates have been granted exemptions from federal income tax under Section 501(a) of the IRC as charitable organizations described in Section 501(c)(3), except MHN, LHSIC, and LUSC. During 2020 and 2019, Legacy did not record any liability for uncertain tax benefits.

(d) Income from Operations

Income from operations excludes certain items that Legacy deems to be outside the scope of its primary business. These nonoperating activities include investment income, rental activities, and research activities.

(e) Excess of Revenues Over Expenses

The performance indicator is excess of revenues over expenses. Changes in net assets without donor restrictions that are excluded include certain changes in funded status of pension plans and net assets released from restriction for the purchase of property, plant, and equipment.

(f) Fair Value Measurements

Accounting Standards Codification 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.

(g) Net Patient Service Revenue

Net patient service revenue is reported at the amount that reflects the consideration to which Legacy expects to be entitled in exchange for providing patient care. These amounts are due from patients, third-party payors (including health insurers and government programs), and others and includes variable consideration for retroactive revenue adjustments due to settlement of audits, reviews, and investigations. Generally, Legacy bills patients and third-party payors several days after the services are performed and/or the patient is discharged from the facility. Revenue is recognized as performance obligations are satisfied.

Revenue for performance obligations satisfied over time, generally relating to patients in Legacy's hospitals receiving inpatient acute care services, is recognized based on actual goods or services provided. Revenue for performance obligations satisfied at a point in time is recognized when goods or services are provided and Legacy does not believe it is required to provide additional goods or services to the patient. The timing of revenue and recognition of substantially all services is at the time services are rendered.

Legacy determines the transaction price based on standard charges for goods and services provided, reduced by contractual adjustments provided to third-party payors, discounts provided to uninsured patients in accordance with Legacy's policy, and/or implicit price concessions provided to uninsured patients. Legacy determines its estimates of contractual adjustments and discounts based on contractual agreements, its discount policy, and historical experience. Legacy determines its estimate of implicit price concessions based on its historical collection experience with this class of patients.

Agreements with third-party payors typically provide for payments at amounts less than standard charges. Payment arrangements with major third-party payors may be based on prospectively determined rates, reimbursed cost, discounted charges, per diem payments, and other methods.

Settlements with third-party payors for retroactive adjustments due to audits, reviews, or investigations are considered variable consideration and are included in the determination of the estimated transaction price for providing patient care. These settlements are estimated based on the terms of the payment agreement with the payor, correspondence from the payor, and Legacy's historical settlement activity and are adjusted in future periods as adjustments become known or as years are settled or are no longer subject to such audits, reviews, and investigations. In 2020 and 2019, Legacy recorded an increase to net patient service revenue of approximately $29,820 and $20,659, respectively, relating to settlement of prior years' reimbursement from Medicare and Medicaid programs.

Generally, patients who are covered by third-party payors are responsible for related deductibles and coinsurance. Legacy also provides services to uninsured patients and offers those uninsured patients a discount from standard charges. Legacy estimates the transaction price for patients with deductibles and coinsurance and from those who are uninsured based on historical experience and current market conditions. Subsequent changes to the estimate of the transaction price are generally recorded as adjustments to patient service revenue in the period of the change. Subsequent changes that are determined to be the result of an adverse change in the patient's ability to pay are recorded as bad debt expense. Bad debt expense for the years ended March 31, 2020 and 2019 was not significant.

Consistent with Legacy's mission, Legacy provides care without charge or at amounts less than its standard rates to patients who meet certain criteria under its financial assistance policy. Therefore, Legacy has determined it has provided price concessions to uninsured patients and patients with uninsured balances. The implicit price concessions included in estimating the transaction price represent the difference between amounts billed to patients and the amounts Legacy expects to collect based on its collection history with those patients who have been determined to qualify for financial assistance.

(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.

(i) Cash and Cash Equivalents

Cash equivalents include investments in highly liquid investments with original maturities of three months or less. Cash equivalents excludes amounts held for donor or trustee restrictions, or amounts held within the investment portfolio.

(j) Inventories

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

(k) Property, Plant, and Equipment

Property, plant, and equipment are stated at cost. Donated items are reported at fair market value on 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.

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 cost equally over the estimated useful life. Average useful lives are as follows: buildings and improvements, 27 years; equipment and software, 6 years; and land improvements, 14 years.

(l) Leases

Legacy is a lessee in several noncancellable operating leases, for medical space, office space and office equipment. Legacy determines if an arrangement is a lease, or contains a lease, at inception of a contract and when the terms of an existing contract are changed. Subsequent to adoption of ASC 842, Legacy recognizes a lease liability and a right of use (ROU) asset at the commencement date of the lease. The lease liability is initially and subsequently recognized based on the present value of its future lease payments. On the balance sheet, ROU assets are included in other assets and the current portion of lease liabilities are included in other current liabilities, whereas long-term leases are included in other liabilities. Variable payments are included in the future lease payments when those variable payments depend on an index or a rate. The discount rate is the implicit rate if it is readily determinable or otherwise Legacy uses its incremental borrowing rate. The implicit rates are not readily determinable and accordingly, Legacy uses its incremental borrowing rate based on the information available at the commencement date for all leases. Legacy's incremental borrowing rate for a lease is the rate of interest it would have to pay on a collateralized basis to borrow an amount equal to the lease payments under similar terms and in a similar economic environment. The ROU asset is subsequently measured throughout the lease term at the amount of the remeasured lease liability (i.e., present value of the remaining lease payments), plus unamortized initial direct costs, plus (minus) any prepaid (accrued) lease payments, less the unamortized balance of lease incentives received, and any impairment recognized. Lease cost for lease payments is recognized on a straight-line basis over the lease term.

(m) Assets Limited as to Use, Investments, and Investment Income

Assets limited as to use include assets held by trustees under indenture agreements of $81,790 and $128,924 as of March 31, 2020 and 2019, respectively, as well as designated assets set aside by the board of directors to provide funding for certain community health projects and assets restricted for capital acquisition.

Noncurrent investments, which are accounted for as a trading portfolio, include investments in equity securities with readily determinable fair values, funds accounted for at NAV as a practical expedient, and investments in debt securities and are recorded at fair value in the consolidated balance sheets.

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 is included in revenues in excess of expenses unless the income or loss is restricted by donor or law. Unrealized gains and losses on investments are included in investment income.

(n) Net Assets with Donor Restrictions and Donor-Restricted Gifts

Net assets with donor restrictions include those whose use has been limited by donors to a specific time period or purpose or has been restricted by donors to be maintained in perpetuity. Income from net assets with donor restrictions is accounted for in accordance with donor instructions.

Unconditional promises to give cash and other assets to Legacy are reported at fair value at the date the promise is received. Conditional promises to give and indications of intentions to give are reported at fair value at the date the condition is satisfied or the gift is received. Gifts or grants are reported as 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, net assets with donor restrictions may be reclassified as net assets without donor restrictions 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.

(o) Charitable Gift Annuities

Legacy has certificates of authority from the State of Oregon and the State of Washington to receive transfers of money or property upon agreement to pay an annuity. A charitable gift annuity is an arrangement between a donor and Legacy in which the donor contributes assets to Legacy in exchange for Legacy’s agreement to pay a fixed amount for a specified period of time to the donor or other individuals and organizations as designated by the donor (annuitant). Upon execution of such an arrangement, Legacy recognizes the assets received at fair value and an annuity payment liability at the present value of future cash flows expected to be paid. 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, 2020 and 2019 was $66 and $80, 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 $128 and $169 as of March 31, 2020 and 2019, respectively. These marketable securities are comprised of cash equivalents and other fixed income instruments.

(p) New Accounting Pronouncements

In February 2016, the Financial Accounting Standards Board (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 represents the lessee’s obligation to make lease payments arising from the lease measured on a discounted basis and the right of use asset represents the lessee’s right to use or control the use of a specified asset for a lease term. Legacy implemented the new standard effective April 1, 2019 on a prospective basis. Lease liabilities and related right of use assets were $65,536 and $65,136 respectively as of March 31, 2020.

In November, 2016, the FASB issued ASU 2016-18, *Statement of Cash Flows - Restricted Cash*. This ASU requires that a statement of cash flows explains the change during the period in total of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. Legacy adopted the new standard on a retrospective basis as of April 1, 2019 and determined there were no material changes to the statement of cash flows

In August 2018, the FASB issued ASU No. 2018-15, *Customer’s Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement that is a Service Contract*. The ASU provides guidance for determining when fees paid in a cloud computing arrangement (hosting arrangement) includes a software license such that an intangible asset is recognized for the license and amortized. The new standard is effective for Legacy on April 1, 2021. Legacy is currently evaluating the extent of the impact of the adoption of ASU No. 2018-15.

(q) Reclassifications

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

Dollars in thousands

(2) Net Patient Service Revenue

The composition of accounts receivable from patients and net patient service revenue as of and for the years ended March 31 were as follows:

	Accounts receivable from patients, net		Net patient service revenue	
	2020	2019	2020	2019
Medicare	22.8 %	27.5 %	29.3 %	29.7 %
Medicaid	17.7	13.7	20.7	20.3
Blue Cross	18.4	17.3	15.5	16.8
Private pay	7.8	4.3	0.4	0.3
Other	33.3	37.2	34.1	32.9
	100.0 %	100.0 %	100.0 %	100.0 %

The composition of net patient revenue based on service lines for the years ended as of March 31 was as follows:

	2020	2019
Hospital	88.4 %	88.1 %
Physician services	8.8	8.8
Hospice	0.6	0.7
Referral lab	1.5	1.7
Other	0.7	0.7
	100.0 %	100.0 %

(Continued)

Dollars in thousands

(3) Benefits to the Community

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:

	March 31, 2020			
	In-kind costs	**Costs of service**	**Offsetting revenue**	**Net cost**
Services for people in need:				
Charity care	$ —	51,426	—	51,426
Medicaid	—	533,028	326,392	206,636
Medicare	—	808,207	615,086	193,121
Other government programs	—	26,889	22,335	4,554
	—	1,419,550	963,813	455,737
Benefits to the community:				
Medical education and research	—	27,472	7,668	19,804
Community health services	—	5,134	420	4,714
Community benefit activities	308	87	—	395
Donations to charitable organizations	209	1,663	—	1,872
Community health fund contributions	—	464	—	464
	517	34,820	8,088	27,249
	$ 517	1,454,370	971,901	482,986
Percentage of total operating expenses				21.4 %

Dollars in thousands

	March 31, 2019			
	In-kind costs	Costs of service	Offsetting revenue	Net cost
Services for people in need:				
Charity care	$ —	48,189	—	48,189
Medicaid	—	529,325	319,621	209,704
Medicare	—	783,113	605,238	177,875
Other government programs	—	22,011	17,176	4,835
	—	1,382,638	942,035	440,603
Benefits to the community:				
Medical education and research	—	25,739	7,649	18,090
Community health services	—	4,099	342	3,757
Community benefit activities	234	60	—	294
Donations to charitable organizations	396	2,325	—	2,721
Community health fund contributions	—	620	—	620
	630	32,843	7,991	25,482
	$ 630	1,415,481	950,026	466,085
Percentage of total operating expenses				21.6 %

(a) Services for People in Need

In support of its mission, Legacy 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, patients' qualified assets (e.g., 25% of household assets) and other catastrophic or economic circumstances are considered in determining eligibility for charity care. During 2020 and 2019, Legacy provided charity care benefiting patients associated with 65,784 and 65,210 patient accounts, respectively.

In addition to charity care, Legacy provides services under various states' Medicaid programs for low-income patients, to Medicare beneficiaries, and to beneficiaries under other government programs (such as TRICARE). The cost of providing services to these beneficiaries exceeds the reimbursement from these programs. The cost of services is determined based on the relationship of costs to billed charges.

Legacy also employs financial counselors and social workers who assist patients in obtaining coverage for their healthcare needs. This includes assistance with workers' compensation, motor vehicle accident policies, COBRA, veterans' assistance, and public assistance programs, such as Medicaid.

This program assists many patients in obtaining coverage through a third party, reducing the patients' financial responsibility. The costs associated with this program were $1,220 and $1,202 in 2020 and 2019, respectively.

(b) Benefits to the Community

Medical education and research includes 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.

Community health fund contributions include funds Legacy has allocated for health initiatives and programs capable of impacting the health of the community either by prevention or health improvement.

(c) Other Benefits

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

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

Legacy pays taxes associated with various states' local business and occupation taxes and property taxes that local and state governments use to fund healthcare, civil, and education services to the community. Legacy paid $7,952 and $7,676 in local and state taxes in 2020 and 2019, respectively.

(Continued)

Dollars in thousands

(4) Liquidity and Availability

As of March 31, 2020 and 2019, Legacy had a working capital of $216,504 and $202,889 and average days (based on normal expenditures) cash on hand of 177.0 and 180.6, respectively. As part of Legacy's liquidity management plan, cash in excess of daily requirements are invested in cash equivalents and short-term investments. Noncurrent investments are classified as such as management does not intend to use them in the next year; however, they are sufficiently liquid that they would be available if needed. Financial assets available for general expenditures within one year of the balance sheet date consist of the following:

	2020	2019
Cash and cash equivalents	$ 144,041	89,267
Accounts receivable from patients, net	261,266	279,663
Other receivables	63,644	70,623
Noncurrent investments	910,477	938,425
Total financial assets	1,379,428	1,377,978
Less amounts not available to be used within one year:		
Funds held in private equity	4,949	
Financial assets available to meet general expenditures within one year	$ 1,374,479	

Dollars in thousands

(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, 2020			
	Level 1	Level 2	Level 3	Total fair value
Cash equivalents	$ 72,165	—	—	72,165
Mutual funds – equity	266,038	—	—	266,038
Equity securities:				
Domestic	151,303	—	—	151,303
Foreign	20,999	—	—	20,999
Mutual funds – fixed income	33,141	—	—	33,141
Domestic debt securities:				
State and federal governments	—	59,346	—	59,346
Corporate and securitized	—	274,581	—	274,581
Foreign debt securities	—	33,615	—	33,615
Commingled funds	—	51,865	—	51,865
Interest rate swaps	—	6,519	—	6,519
Derivatives, net	—	(25)	—	(25)
	$ 543,646	425,901	—	969,547
Investments measured using NAV as a practical expedient				34,814
Total investments				$ 1,004,361

Dollars in thousands

	March 31, 2019			
	Level 1	Level 2	Level 3	Total fair value
Cash equivalents	$ 53,468	—	—	53,468
Mutual funds – equity	269,002	—	—	269,002
Equity securities:				
Domestic	174,261	—	—	174,261
Foreign	22,688	—	—	22,688
Mutual funds – fixed income	29,981	—	—	29,981
Domestic debt securities:				
State and federal governments	—	41,078	—	41,078
Corporate and securitized	—	340,215	—	340,215
Foreign debt securities	—	29,849	—	29,849
Commingled funds	—	60,208	—	60,208
Interest rate swaps	—	9,850	—	9,850
Derivatives, net	—	(80)	—	(80)
	$ 549,400	481,120	—	1,030,520
Investments measured using NAV as a practical expedient				48,759
Total investments				$ 1,079,279

Legacy's primary fixed income manager uses derivatives for both investment and hedging purposes and may take long and/or short positions. The derivative investments may include, but are not restricted to, futures and swaps.

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

	Fair value		Redemption	Redemption
	2020	2019	frequency	notice period
Hedge funds	$ —	5,473	Quarterly	60–95 days
Private real estate	29,865	43,026	Quarterly	60–95 days
Private equity	4,949	260	N/A	N/A
Total	$ 34,814	48,759		

Dollars in thousands

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

As of March 31, 2020, Legacy had a capital commitment of $38,404 to private equity funds in the form of limited partnership/trust investments. These commitments are due on demand from the general partners/advisers. These private equity funds invest in emerging companies, venture capital funds, and other alternative investments. The termination of these partnerships/trusts is based upon specific provisions in the agreements. In most cases, the life of the trusts is a minimum of 10 years. Legacy can only transfer its interest in the investments with the consent of the general partner/adviser. The fair values of these investments are determined either by the underlying security value on the open market or by the general partner/adviser utilizing fair value principles.

As of March 31, 2020, approximately 3% 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:

Notional amount	Cash flow settlement	Legacy pays	Legacy receives	Termination date
$ 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 part of investment income in the consolidated statements of operations. The fair value of these swaps is determined by the spread in interest rates.

Dollars in thousands

(6) Investments in Unconsolidated Affiliates

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

		2020	2019
PacificSource	$	214,509	168,064
Lifeflight Network		39,328	32,812
Other		9,986	10,379
Total investments in unconsolidated affiliates	$	263,823	211,255

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.

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 in September 2021. Legacy's equity interest was 43.2% and 39.1% as of March 31, 2020 and 2019, respectively. The following table represents assets, liabilities, and net assets of PS per audited financial statements as of December 31 and the related operating results for the year ended December 31:

		2019	2018
Assets	$	716,257	564,936
Liabilities		317,951	249,853
Net assets:			
Without donor restrictions		401,339	324,089
Accumulated other comprehensive loss		(3,770)	(9,673)
Noncontrolling interests		737	667
Total net assets without donor restrictions		398,306	315,083
Total liabilities and net assets	$	716,257	564,936

Dollars in thousands

		2019	2018
Underwriting income	$	(5,759)	36,821
Other income		26,869	8,142
Income tax expense		25,770	(14,438)
Net income	$	46,880	30,525

Legacy recorded net income on the investment in PS of $20,503 and $8,351 in 2020 and 2019, respectively. Legacy recorded $3,558 and $3,276 of amortization expense in 2020 and 2019, respectively, related to intangible assets acquired as part of the PS investment. Both net income and amortization expense related to PS are included in nonoperating income (loss), other in the consolidated statements of operations.

Legacy paid PS $3,734 and $3,578 in 2020 and 2019, respectively, for third-party health claims administration services for Legacy's self-insured health benefit plan, which are included in wages, salaries, and benefits in the consolidated statements of operations.

(7) Property, Plant, and Equipment

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

		2020	2019
Land	$	53,122	53,122
Land improvements		23,587	22,929
Buildings and improvements		1,236,031	1,219,654
Equipment and software		927,941	934,758
Construction in progress		94,778	40,171
		2,335,459	2,270,634
Accumulated depreciation		(1,519,799)	(1,459,675)
	$	815,660	810,959

There were capital expenditure purchase commitments outstanding as of March 31, 2020 for various construction and equipment projects. The estimated cost to complete such projects at March 31, 2020 was $183,863, of which $27,897 was contractually committed.

(8) Leases

Legacy leases various equipment and real property and has classified these leases as operating leases. These leases generally contain renewal options for periods ranging from three to five years. Unless Legacy is reasonably certain to exercise these renewal options, the optional periods are not included in determining the lease term, and associated payments under these renewal options are excluded from lease payments. Legacy's leases do not include termination options for either party to the lease or restrictive financial or other covenants. Payments due under the lease contracts include fixed payments plus any variable payments. Some of Legacy's office and medical space leases require variable payments for Legacy's proportionate share of the building's property taxes, insurance, and common area maintenance. These variable lease payments are not included in lease payments used to determine lease liability and are recognized as variable costs when incurred.

Dollars in thousands

The following table represents lease information as of and for the year ended March 31:

		2020
Operating lease cost	$	10,437
Variable lease cost		503
Short-term lease cost		5,269
Total lease cost	$	16,209
Operating lease liabilities	$	65,536
Operating lease ROU assets		65,136

Other information related to leases as of March 31 is as follows:

	2020
Operating leases weighted average lease term	6.4 years
Operating leases weighted average discount rate	3.5 %

Maturities of lease liabilities under noncancelable operating leases as of March 31 are as follows:

2021	$	10,683
2022		10,364
2023		9,727
2024		8,762
2025		7,623
Thereafter		28,421
Total undiscounted lease payments		75,580
Less imputed interest		(10,044)
Total lease liabilities	$	65,536

Dollars in thousands

Relevant leasing information for the year ended March 31, 2019, which applied the accounting requirements of Accounting Standards Codification (ASC) 840, *Leases*, are as follows:

Rent expense totaled $16,182 for the year ended March 31, 2019, and is included in utilities, insurance and other expense in the accompanying consolidated statements of operations.

As of March, 2019, future minimum rental commitments for the five years subsequent to and thereafter, under noncancelable operating lease agreements, that have initial or remaining lease terms in excess of a year were as follows:

2020	$	8,697
2021		7,220
2022		6,901
2023		6,478
2024		6,150
Thereafter		21,268
	$	56,714

Dollars in thousands

(9) Long-Term Debt

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

	2020	2019
Hospital Revenue Bonds, Series 2008, payable in installments through 2038, subject to a seven-day put provision; variable interest rate	$ 100,000	100,000
Hospital Revenue Bonds, Series 2010A, payable in installments from $2,125 to $2,735 through 2030, at rates ranging from 4.375% to 5.0%, callable on or after March 2020	—	26,425
Hospital Revenue Bonds, Series 2011A, payable in installments from $19,980 to $22,060 through 2021, at rates ranging from 4.125% to 5.25%	43,030	63,010
Hospital Revenue Bonds, Series 2014A, payable in installments from $2,985 to $10,540 through 2040, at fixed rate of 2.425% subject to a mandatory tender on June 30, 2021, at which time Legacy can remarket the bonds, convert the bonds to a different mode, or pay off the bonds	71,720	71,720
Hospital Revenue Bonds, Series 2016A, payable in installments from $1,950 to $28,330 through 2047, at rates ranging from 3.0% to 5.0%, callable on or after June 2027	288,635	288,635
Hospital Revenue Bonds, Series 2020A, payable in installments from $2,410 to $2,520 through 2030, at fixed rate of 1.71% callable on or after June 2027	24,675	—
Other debt	700	985
	528,760	550,775
Premiums and deferred financing costs	24,111	25,146
Less current portion	(23,736)	(22,390)
	$ 529,135	553,531

Interest cost incurred related to funds borrowed was $14,405 and $16,473 in 2020 and 2019, respectively. These amounts were reduced by $2,336 and $883 in 2020 and 2019, respectively, in the consolidated statements of operations for amounts capitalized for construction and other capital projects.

Dollars in thousands

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

2021	$	23,736
2022		24,810
2023		13,139
2024		13,470
2025		13,940
Thereafter		439,665
	$	528,760

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. The Credit Group, which was formed to facilitate borrowing, includes Legacy, LEH, LGS, LMP, LMH, LSC, and the Foundations.

In November 2008, Legacy issued $150,000 of Revenue Bonds Series 2008 (2008 Bonds), which are unsecured, variable-rate debt in an initial short-term interest rate mode, through the Hospital Facility Authority of Clackamas County, Oregon. The proceeds from the 2008 Bonds were restricted for capital expenditures and to pay the expenses incurred with the issuance. The 2008 Bonds, while subject to a long-term amortization period, may be put to Legacy at the option of the bondholders at certain remarketing dates. Series C ($50,000) of the 2008 Bonds were refinanced in November 2016. In conjunction with the issuance, Legacy arranged 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. The letter of credit is due to expire in June 2022. 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.

In January 2010, Legacy issued $123,745 of Revenue Bonds Series 2010A (2010 Bonds) through the Oregon Facilities Authority. The proceeds from the 2010 Bonds were used to refund previously issued debt and pay expenses for the issuance. The 2010 Bonds were refinanced in March 2020.

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

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

In November 2016, Legacy issued $288,635 of Revenue Bonds Series 2016A (2016 Bonds) through the Oregon Facilities Authority. The proceeds from the 2016 Bonds will be used for capital expenditures, debt service during the construction period, and expenses incurred for the issuance. A portion of the proceeds was used to refinance Series C of the 2008 Bonds and other previously issued debt.

Dollars in thousands

In March 2020, Legacy issued $24,675 under a bond purchase agreement with the Oregon Facilities Authority and a commercial bank. The proceeds from the 2020 Bonds were used to refinance the 2010 Bonds and pay expenses for the issuance.

(10) Net Assets with Donor Restrictions

Net assets with donor restrictions are available for the following purposes as of March 31:

		Restricted to a specific time period or purpose		Principal restricted in perpetuity	
		2020	**2019**	**2020**	**2019**
Education	$	6,863	8,053	3,113	3,035
Patient care		19,487	21,016	11,775	11,319
Research		4,484	5,363	1,640	1,950
Capital acquisition		3,329	5,440	—	—
Other		6,092	6,254	383	383
	$	40,255	46,126	16,911	16,687

(11) Functional Expenses

Legacy provides hospital services, physician services, and referral lab and other services. Support services include costs that are not controllable by operational leadership. Legacy leadership drives these costs, which benefit the entire organization. Costs that are controllable by operational leadership are allocated to the respective program activities.

Labor and other direct costs that are controllable by operational leadership are attributed to the respective functional services. Employee benefits and other shared costs are allocated based on relative direct costs.

Dollars in thousands

Expenses related to providing services were as follows for the years ended March 31:

	2020				
	Hospital services	**Physician services**	**Lab and other health services**	**Support services**	**Total**
Wages, salaries, and benefits	$ 812,012	284,673	49,277	225,012	1,370,974
Supplies	302,057	11,706	23,360	30,118	367,241
Professional fees	46,390	2,176	77	9,253	57,896
Purchased services	10,810	5,492	65,854	55,356	137,512
Interaffiliate purchased services	86,331	(30,113)	(56,218)	—	—
Purchased medical services	29,659	—	—	—	29,659
Utilities, insurance, and other expenses	25,860	24,398	544	136,001	186,803
Depreciation	59,283	3,365	2,429	27,569	92,646
Interest and amortization	10,884	17	—	3,547	14,448
	$ 1,383,286	301,714	85,323	486,856	2,257,179

	2019				
	Hospital services	**Physician services**	**Lab and other health services**	**Support services**	**Total**
Wages, salaries, and benefits	$ 792,925	270,151	49,408	202,995	1,315,479
Supplies	273,531	14,702	22,785	23,085	334,103
Professional fees	45,564	1,451	44	5,881	52,940
Purchased services	30,540	4,930	9,387	84,329	129,186
Interaffiliate purchased services	56,217	—	(56,217)	—	—
Purchased medical services	43,183	—	—	—	43,183
Utilities, insurance, and other expenses	24,658	18,235	57	126,675	169,625
Depreciation	62,600	3,158	2,433	30,754	98,945
Interest and amortization	12,605	52	—	3,878	16,535
	$ 1,341,823	312,679	27,897	477,597	2,159,996

(12) 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. Expense related to these plans was $62,797 and $59,620 for 2020 and 2019, 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 (the 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.

Dollars in thousands

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

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

		2020	2019
Change in projected benefit obligation:			
Projected benefit obligation at beginning of year	$	915,469	914,952
Interest cost		35,581	36,408
Actuarial loss		22,619	11,879
Benefits paid		(54,834)	(47,770)
Projected benefit obligation at end of year		918,835	915,469
Change in plan assets:			
Fair value of assets at beginning of year		801,593	811,292
Actual return on plan assets		(18,309)	37,987
Employer contribution		5,378	84
Benefits paid		(54,834)	(47,770)
Fair value of assets at end of year		733,828	801,593
Funded status	$	(185,007)	(113,876)
Unrecognized net actuarial loss	$	354,736	278,362
Accumulated benefit obligation		918,835	915,469

The prior service credit and actuarial losses included in net assets without donor restrictions and expected to be recognized in net periodic pension cost during the year ending March 31, 2021 are $0 and $6,606, respectively.

Dollars in thousands

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

		2020	2019
Interest cost	$	35,581	36,408
Expected return on plan assets		(40,907)	(50,395)
Special recognition curtailments and settlements		17	12
Recognized net actuarial loss		5,444	4,910
Net periodic pension cost (benefit)	$	135	(9,065)

(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:

	2020	2019
Benefit obligation (measured as of March 31):		
Discount rate	3.00 %	4.00 %
	2019	**2018**
Net periodic benefit cost (measured for the year ended March 31):		
Discount rate	4.00 %	4.09 %
Long-term rate of return	6.00	6.50

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. The source data for the mortality table utilized for 2020 was the Pri-2012 Blue Collar Tables for Employees and Annuitants, projected using MP-2019 to reflect both current and future improvements in mortality. The source data for the mortality table utilized for 2019 was the RP-2014 Blue Collar Blended Employee and Annuitant using the RPEC 2014 projection scale.

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	2020 Actual allocation	2019 Actual allocation
Equity securities	0–60%	52 %	54 %
Fixed income	40–100%	45	42
Real estate	— %	2	3
Alternative investments	— %	1	1

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 when balances fall outside of the approved range for each asset class.

Dollars in thousands

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

	March 31, 2020			
	Level 1	Level 2	Level 3	Total fair value
Cash and cash equivalents	$ 25,942	—	—	25,942
Mutual funds – equity	150,789	—	—	150,789
Equity securities:				
Domestic	127,870	—	—	127,870
Foreign	17,745	—	—	17,745
Mutual funds – fixed income	23,345	—	—	23,345
Domestic debt securities:				
State and federal government	—	149,341	—	149,341
Corporate and securitized	—	157,647	—	157,647
Foreign debt securities	—	54,959	—	54,959
Commingled funds	—	64,096	—	64,096
Derivative assets, net	—	(5,197)	—	(5,197)
	$ 345,691	420,846	—	766,537
Investments measured using NAV as a practical expedient				25,480
Unsettled trades				(58,189)
Total assets at fair value				$ 733,828

Dollars in thousands

	March 31, 2019			
	Level 1	Level 2	Level 3	Total fair value
Cash and cash equivalents	$ 17,585	—	—	17,585
Mutual funds – equity	171,785	—	—	171,785
Equity securities:				
Domestic	146,711	—	—	146,711
Foreign	19,386	—	—	19,386
Mutual funds – fixed income	68,623	—	—	68,623
Domestic debt securities:				
State and federal government	—	115,195	—	115,195
Corporate and securitized	—	138,489	—	138,489
Foreign debt securities	—	42,390	—	42,390
Commingled funds	—	75,401	—	75,401
Derivative assets, net	—	543	—	543
	$ 424,090	372,018	—	796,108
Investments measured using NAV as a practical expedient				37,702
Unsettled trades				(32,217)
Total assets at fair value				$ 801,593

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

	2020	2019	Redemption frequency	Redemption notice period
Hedge funds	$ —	1,867	Quarterly	60–95 days
Private real estate	16,970	24,970	Quarterly	60–95 days
Private equity	8,510	10,865	N/A	N/A
Total	$ 25,480	37,702		

The Plan allows certain fixed-income investment managers to use derivative financial instruments to manage interest rate risk, which may include, but are not limited to, futures, options, swaps, and forward currency contracts.

Dollars in thousands

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

		2020	2019
Derivative assets:			
Future contracts	$	5,972	14,285
Other derivatives and forward setting contracts		2,612	933
		8,584	15,218
Derivative liabilities:			
Future contracts		(5,972)	(14,285)
Other derivatives and forward setting contracts		(7,809)	(390)
		(13,781)	(14,675)
Net investment derivative (liabilities) assets	$	(5,197)	543

(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:

2021	$	52,466
2022		50,826
2023		51,471
2024		52,729
2025		53,804
2026–2030		272,824

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

(13) 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.

(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) Collective Bargaining Agreements

Approximately 12% of Legacy employees were covered under collective bargaining agreements at March 31, 2020, including certain service and maintenance employees. Approximately 949 employees are covered by collective bargaining agreements that expire within one year.

(14) Compliance with Laws and Regulations

The healthcare industry is subject to numerous laws and regulations from federal, state, and local governments, including those concerning Medicare and Medicaid, which are complex and subject to varying interpretation. As a result of investigations by government agencies, various healthcare organizations have received requests for information and notices regarding alleged noncompliance with those laws and regulations, which, in some instances, have resulted in organizations entering into significant settlement agreements. Compliance with such laws and regulations may also be subject to future government review and interpretation as well as significant regulatory action, including fines, penalties, and potential exclusion from the related programs. There can be no assurance that regulatory authorities will not challenge Legacy's compliance with these laws and regulations, and it is not possible to determine the impact (if any) such claims or penalties would have upon Legacy. In addition, the contracts Legacy has with commercial payors also provide for retroactive audit and review of claims.

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 to Legacy's consolidated financial statements.

(15) COVID-19 Pandemic

A new strain of coronavirus (COVID-19) was identified in China in December 2019 and rapidly spread around the world creating an international pandemic. By early March 2020, public health officials forecasted a potential surge of COVID-19 patients that was expected to overwhelm the health care systems in Portland and Southwest Washington. Both the states of Washington and Oregon declared states of emergency and shortly thereafter, President Trump declared a national state of emergency, ordering all states to set up emergency operations and authorizing federal funding.

Adequate supplies of personal protective equipment (PPE), ventilators and ICU beds were identified as a primary risk. To reserve bed capacity and to prioritize PPE for containment of the pandemic, Legacy and all other health systems in the area suspended all elective and nonurgent procedures on March 18, 2020. Statewide bans on elective procedures followed shortly thereafter.

(Continued)

In late April 2020, public health researchers determined that mitigation efforts had limited the spread of COVID-19 in Washington and Oregon, and there was no longer a risk of an overwhelming surge of COVID-19 patients. Oregon governor Kate Brown lifted a statewide ban on elective procedures on May 1, 2020, but instituted limits over nonemergent procedures to no more than 50% of pre-COVID-19 levels until June 1, 2020. Thereafter, hospitals were permitted to expand services beyond the 50% limit only if they continued to meet Oregon Health Authority guidelines for PPE, testing and bed capacity, and were prepared to stop nonemergent and elective procedures if a resurgence of COVID-19 cases developed. In Washington, the prohibition on elective and nonemergent procedures expired on May 18, 2020. Legacy resumed nonurgent and elective procedures in compliance with state guidelines on the first dates allowed.

The temporary suspension of elective and nonemergent procedures has had, and will continue to have, a negative effect on patient volumes and revenues. Subsequent to year end, Legacy secured bank loans and lines of credit to ensure adequate cash reserves through the recovery from COVID-19.

- April 8, 2020, 10-year $100 million taxable direct term loan with Wells Fargo Bank.
- April 27, 2020, 3-year $100 million taxable direct term loan with U.S. Bank
- April 27, 2020, $100 million revolving line of credit with U.S. Bank.
- May 1, 2020, $43 million draw-down loan with J.P. Morgan, for payment of debt service on Series 2011A bonds

(16) Subsequent Events

Legacy evaluated and disclosed all material subsequent events through June 30, 2020, the date the consolidated financial statements were issued.

LEGACY HEALTH

Consolidating Schedule of Balance Sheet Information

March 31, 2020 and 2019

(Dollars in thousands)

Assets	Credit reporting group	Other affiliates and eliminations	March 31, 2020 consolidated	March 31, 2019 consolidated
Current assets:				
Cash and cash equivalents	$ 143,821	220	144,041	89,267
Accounts receivable from patients, net	247,739	13,527	261,266	279,663
Settlements receivable from third-party payors, net	38,966	520	39,486	26,423
Other receivables	56,236	7,408	63,644	70,623
Inventories	24,099	1,668	25,767	23,710
Prepaid expenses	16,840	580	17,420	14,843
Total current assets	527,701	23,923	551,624	504,529
Assets limited as to use	93,884	—	93,884	140,854
Property, plant, and equipment, net	788,102	27,558	815,660	810,959
Noncurrent investments	910,477	—	910,477	938,425
Investments in unconsolidated affiliates	269,083	(5,260)	263,823	211,255
Other assets	67,763	31,558	99,321	35,863
Interaffiliate receivable (payable)	3,265	(3,265)	—	—
Total assets	$ 2,660,275	74,514	2,734,789	2,641,885
Liabilities and Net Assets				
Current liabilities:				
Accounts payable	$ 63,678	2,897	66,575	54,845
Accrued wages, salaries, and benefits	164,110	7,639	171,749	151,092
Accrued interest	5,633	—	5,633	6,060
Other current liabilities	65,637	6,790	72,427	67,253
Current portion of long-term debt	23,420	316	23,736	22,390
Total current liabilities	322,478	17,642	340,120	301,640
Long-term debt, less current portion	528,751	384	529,135	553,531
General and professional claims liability	37,968	3,916	41,884	43,245
Pension liability	185,007	—	185,007	113,876
Other liabilities	99,718	4,824	104,542	47,771
Total liabilities	1,173,922	26,766	1,200,688	1,060,063
Net assets:				
Without donor restrictions, controlling	1,430,214	26,359	1,456,573	1,498,395
Without donor restrictions, noncontrolling	—	20,362	20,362	20,614
With donor restrictions	56,139	1,027	57,166	62,813
Total net assets	1,486,353	47,748	1,534,101	1,581,822
Total liabilities and net assets	$ 2,660,275	74,514	2,734,789	2,641,885

See accompanying independent auditors’ report.

LEGACY HEALTH

Consolidating Schedule of Operations Information

Years ended March 31, 2020 and 2019

(Dollars in thousands)

	Credit reporting group	Other affiliates and eliminations	Year ended March 31, 2020 consolidated	Year ended March 31, 2019 consolidated
Operating revenues:				
Net patient service revenue	$ 2,062,379	129,869	2,192,248	2,066,673
Capitation revenue	75	35,845	35,920	47,638
Other revenue	116,457	(8,082)	108,375	105,057
Total operating revenues	2,178,911	157,632	2,336,543	2,219,368
Operating expenses:				
Wages, salaries, and benefits	1,290,527	80,447	1,370,974	1,315,479
Supplies	350,569	16,672	367,241	334,103
Professional fees	52,827	5,069	57,896	52,940
Purchased services	124,857	12,655	137,512	129,186
Purchased medical services	—	29,659	29,659	43,183
Utilities, insurance, and other expenses	175,848	10,955	186,803	169,625
Depreciation	89,349	3,297	92,646	98,945
Interest and amortization	14,423	25	14,448	16,535
Management fees	(1,100)	1,100	—	—
Total operating expenses	2,097,300	159,879	2,257,179	2,159,996
Income from operations	81,611	(2,247)	79,364	59,372
Nonoperating (loss) income:				
Investment (loss) income, net	(37,232)	(715)	(37,947)	54,381
Other, net	(5,764)	545	(5,219)	(10,248)
Total nonoperating (loss) income	(42,996)	(170)	(43,166)	44,133
Excess of revenues over expenses	38,615	(2,417)	36,198	103,505
Change in pension liability	(76,374)	—	(76,374)	(19,365)
Net assets released from restriction	825	44	869	2,832
Distributions to joint venture partners	—	(2,750)	(2,750)	(2,920)
Other	(17)	—	(17)	—
Change in net assets without donor restrictions	$ (36,951)	(5,123)	(42,074)	84,052

See accompanying independent auditors’ report.

LEGACY HEALTH

Consolidated Financial and Statistical Highlights

Years ended March 31

(Unaudited)

	2020	2019	2018	2017
Utilization:				
Average number of available beds	1,256	1,253	1,236	1,177
Discharges	60,091	62,746	64,280	62,798
Adjusted discharges	126,112	125,605	122,602	115,117
Patient days	316,983	304,398	315,073	297,537
Average length of stay	5.3	4.9	4.9	4.7
Percentage occupancy	69.1 %	66.6 %	69.8 %	69.3 %
Emergency room visits	292,653	290,940	294,135	233,215
Clinic visits	1,339,231	1,267,733	1,163,784	1,040,401
Surgical cases – inpatient	15,636	16,572	17,059	17,666
Surgical cases – outpatient	30,594	29,153	28,076	26,631
Average full-time equivalent (FTE) employees:				
Number of paid FTEs	11,271	11,310	11,249	10,675
FTEs per adjusted occupied bed	6.2	6.8	6.8	7.1
Ratios:				
Operating margin	3.4 %	2.7 %	2.1 %	2.9 %
Net days in accounts receivable	42.8	45.9	45.7	51.7
Days cash on hand	177.0	180.6	177.7	175.8
Capitalization	27.0 %	26.9 %	28.4 %	30.5 %

See accompanying independent auditors' report.