KPMG

LEGACY HEALTH

Consolidated Financial Statements and Other Financial Information

March 31, 2021 and 2020

(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, 2021 and 2020, 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, 2021 and 2020, and the results of their operations and their cash flows for the years then ended, in accordance with U.S. generally accepted accounting principles.

Other Matters

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The supplemental information included in the consolidating schedule of balance sheet information and consolidating schedule of operations information 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 18, 2021

LEGACY HEALTH

Consolidated Balance Sheets

March 31, 2021 and 2020

(Dollars in thousands)

Assets		**2021**	**2020**
Current assets:			
Cash and cash equivalents	$	563,629	144,041
Accounts receivable from patients, net		299,669	261,266
Settlements receivable from third-party payors, net		—	39,486
Other receivables		54,755	63,644
Inventories		30,856	25,767
Prepaid expenses		20,044	17,420
Total current assets		968,953	551,624
Assets limited as to use		39,219	84,114
Property, plant, and equipment, net		813,406	815,660
Noncurrent investments		1,236,114	920,247
Investments in unconsolidated affiliates		339,590	263,823
Pension asset		57,391	—
Other assets		99,734	99,321
Total assets	$	3,554,407	2,734,789
Liabilities and Net Assets			
Current liabilities:			
Accounts payable	$	77,327	66,575
Accrued wages, salaries, and benefits		202,510	171,749
Accrued interest		5,695	5,633
Settlements payable to third-party payors, net		36,004	—
Other current liabilities		79,910	72,427
Current portion of long-term debt		24,871	23,736
Total current liabilities		426,317	340,120
Long-term debt, less current portion		723,951	529,135
General and professional claims liability		48,960	41,884
Pension liability		—	185,007
Other liabilities		208,586	104,542
Total liabilities		1,407,814	1,200,688
Net assets:			
Without donor restrictions, controlling		2,053,647	1,456,573
Without donor restrictions, noncontrolling		20,986	20,362
With donor restrictions		71,960	57,166
Total net assets		2,146,593	1,534,101
Total liabilities and net assets	$	3,554,407	2,734,789

See accompanying notes to consolidated financial statements.

LEGACY HEALTH

Consolidated Statements of Operations

Years ended March 31, 2021 and 2020

(Dollars in thousands)

		2021	2020
Operating revenues:			
Net patient service revenue	$	2,052,818	2,192,248
Capitation revenue		78	35,920
Other revenue		213,097	108,375
Total operating revenues		2,265,993	2,336,543
Operating expenses:			
Wages, salaries, and benefits		1,392,595	1,370,974
Supplies		362,667	367,241
Professional fees		56,073	57,896
Purchased services		134,990	137,512
Purchased medical services		40	29,659
Utilities, insurance, and other expenses		178,872	186,803
Depreciation		82,384	92,646
Interest and amortization		16,081	14,448
Total operating expenses		2,223,702	2,257,179
Income from operations		42,291	79,364
Nonoperating income (loss):			
Investment income (loss), net		300,948	(37,947)
Other, net		20,096	(5,219)
Total nonoperating income (loss)		321,044	(43,166)
Excess of revenues over expenses		363,335	36,198
Change in pension		234,103	(76,374)
Net assets released from restriction		1,808	869
Distributions to joint venture partners		(1,583)	(2,750)
Other		35	(17)
Change in net assets without donor restrictions	$	597,698	(42,074)

See accompanying notes to consolidated financial statements.

LEGACY HEALTH

Consolidated Statements of Changes in Net Assets

Years ended March 31, 2021 and 2020

(Dollars in thousands)

		Without donor restrictions, controlling	Without donor restrictions, noncontrolling	With donor restrictions	Total net assets
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
Excess of revenues over expenses		361,019	2,316	—	363,335
Change in pension liability		234,103	—	—	234,103
Restricted contributions and grants		—	—	8,518	8,518
Net assets released from restriction		1,808	—	(10,521)	(8,713)
Investment gain, net		—	—	16,832	16,832
Distributions to joint venture partners		109	(1,692)	—	(1,583)
Other		35	—	(35)	—
Change in net assets		597,074	624	14,794	612,492
Balance, March 31, 2021	$	2,053,647	20,986	71,960	2,146,593

See accompanying notes to consolidated financial statements.

LEGACY HEALTH

Consolidated Statements of Cash Flows

Years ended March 31, 2021 and 2020

(Dollars in thousands)

		2021	2020
Cash flows from operating activities:			
Change in net assets	$	612,492	(47,721)
Adjustments to reconcile change in net assets to net cash provided by operating activities:			
Net distributions to noncontrolling partners		1,692	2,718
Depreciation and amortization		90,001	100,051
Loss on disposal of assets		588	6,553
Change in net realized and unrealized losses (gains) on investments		(320,405)	41,450
Restricted contributions		(328)	2,352
Equity earnings from joint ventures and investment companies, net		(45,440)	(21,819)
Pension and other post retirement adjustments		(234,103)	76,374
Change in certain current assets and current liabilities		91,353	43,950
Change in certain long-term operating assets and liabilities		102,139	(11,472)
Net cash from operating activities		297,989	192,436
Cash flows from investing activities:			
Purchase of property, plant, and equipment		(94,517)	(113,153)
Proceeds from sale of assets		595	1,191
Change in funds held by trustee		44,895	46,970
Change in other long-term assets		273	(999)
Investment in joint ventures		(30,200)	(30,450)
Distributions from joint ventures and investment companies		2,740	12,890
Purchases of investments		(445,508)	(476,556)
Sales of investments		447,180	449,865
Net cash from investing activities		(74,542)	(110,242)
Cash flows from financing activities:			
Proceeds from issuance of long-term debt		220,970	24,390
Refund of deferred financing costs		—	(335)
Repayment of long-term debt		(23,465)	(46,405)
Distributions to noncontrolling partners		(1,692)	(2,718)
Proceeds from restricted contributions		328	(2,352)
Net cash from financing activities		196,141	(27,420)
Increase in cash and cash equivalents		419,588	54,774
Cash and cash equivalents, beginning of year		144,041	89,267
Cash and cash equivalents, end of year	$	563,629	144,041
Supplemental disclosures of cash flow information:			
Cash paid for interest (net of amount capitalized)	$	17,546	16,394
Change in amounts accrued for property, plant, and equipment, net		4,040	863

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)
Legacy USP Surgery Centers, LLC (LUSC)

The consolidated financial statements also include the accounts of affiliated foundations (Legacy Health 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 $18,134 has been invested as of March 31, 2021) 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 2021 and 2020, 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 for substantially all services is recognized at the time services are rendered.

Prices are 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 each class of patient.

Retroactive settlements with third-party payors due to audits, reviews, or investigations are considered variable consideration and included in the estimated transaction price for providing patient care. These settlements are estimated based on the terms of the 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 2021 and 2020, Legacy recorded an increase to net patient service revenue of approximately $18,165 and $29,820, 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, 2021 and 2020 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. Legacy's most significant capitation arrangement expired on December 31, 2019.

(i) Cash and Cash Equivalents

Cash equivalents include investments in highly liquid investments with original maturities of three months or less. Cash equivalents exclude amounts with 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, 7 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. 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. As the implicit rates are not readily determinable, 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, minus 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 $36,940 and $81,790 as of March 31, 2021 and 2020, respectively, as well as 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.

(Continued)

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 stipulations that limit their use. 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. 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 and 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, 2021 and 2020 was $63 and $66, 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 $151 and $128 as of March 31, 2021 and 2020, respectively. These marketable securities are comprised of cash equivalents and other fixed income instruments.

(p) New Accounting Pronouncements

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.

(2) COVID-19 Pandemic and CARES Act Funding

The Coronavirus Aid, Relief, and Economic Security (CARES) Act was enacted on March 27, 2020 and authorized $100 billion in funding to hospitals and other healthcare providers to be distributed through the Public Health and Social Services Emergency Fund (the Fund). Payments from the Fund are intended to compensate healthcare providers for lost revenues and incremental expenses incurred in response to the COVID-19 pandemic and are not required to be repaid provided the recipients attest to and comply with certain terms and conditions, including limitations on balance billing and not using the funding to reimburse expenses or losses that other sources are obligated to reimburse. During the year ended March 31, 2021, Legacy received payments of approximately $93,616 from the Fund, of which $83,816 was recognized as Other operating revenue.

To increase cash flow to Medicare providers, the CARES Act also expanded the Medicare Accelerated and Advance Payment Program. CMS based payment amounts for inpatient acute care hospitals on the provider's Medicare fee-for-service reimbursements in the last six months of 2019. These accelerated payments are interest free for inpatient acute care hospitals and ambulatory providers for up to 29 months, and the program currently requires CMS to start recouping the payments beginning 12 months after receipt by the provider by withholding future Medicare fee-for-service payments for claims until the full accelerated payment has been recouped. The recoupment will start at 25% for the first 11 months, then increases to 50% for the succeeding six months, and any outstanding balance remaining after 29 months is to be repaid by the provider or be subject to an interest rate currently set at 4%. The payments are made for services a healthcare entity will provide to its Medicare patients who are the healthcare entity's customers. Therefore, they are accounted for as revenue once the services are provided to the patients. During the year ended March 31, 2021, Legacy received $116,458 of accelerated payments which have been accrued in the accompanying consolidated balance sheets in settlements payable to third-party payors, net ($65,874) and other long-term ($51,145) liabilities. These liabilities will be reduced as payment for services recognized for claims submitted for services provided after the one-year period, which for Legacy begins in April 2021.

The CARES Act also provided for deferred payment of the employer portion of social security taxes between March 27, 2020 and December 31, 2020, with 50% of the deferred amount due December 31, 2021 and the remaining 50% due December 31, 2022. As of March 31, 2021, Legacy deferred $45,524 in social security taxes, of which $22,762 are included in accrued wages, salaries and benefits and $22,762 included in other non-current liabilities in the accompanying consolidated balance sheets.

(Continued)

Under U.S. generally accepted accounting principles, management is required to make estimates and assumptions that affect reported amounts. Accordingly, the impact of COVID-19 has increased the uncertainty associated with several of the assumptions underlying management's estimates. COVID-19's overall impact on Legacy will be driven primarily by the severity and duration of the pandemic; the pandemic's impact on the U.S. economy; and the timing, scope, and effectiveness of federal, state, and local governmental responses to the pandemic. Those primary drivers are uncertain and beyond management's control and may adversely impact Legacy's revenue growth, supply chain, investments, and workforce, among other aspects of Legacy's business. The actual impact of COVID-19 on Legacy's consolidated financial statements may differ significantly from the judgments and estimates made as of the year ended March 31, 2021.

(3) 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 was as follows:

	Accounts receivable from patients, net		Net patient service revenue	
	2021	**2020**	**2021**	**2020**
Medicare	21.5 %	22.8 %	24.3 %	29.3 %
Medicaid	15.7	17.7	20.2	20.7
Blue Cross	17.2	18.4	19.7	15.5
Private pay	3.9	7.8	0.3	0.4
Other	41.7	33.3	35.5	34.1
	100.0 %	100.0 %	100.0 %	100.0 %

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

	2021	**2020**
Hospital	88.2 %	88.4 %
Physician services	8.8	8.8
Hospice	0.6	0.6
Referral lab	1.7	1.5
Other	0.7	0.7
	100.0 %	100.0 %

(4) 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, 2021			
	In-kind costs	Costs of service	Offsetting revenue	Net cost
Services for people in need:				
Charity care	$ —	42,868	—	42,868
Medicaid	—	581,449	323,275	258,174
Medicare	—	786,702	595,143	191,559
Other government programs	—	30,785	23,205	7,580
	—	1,441,804	941,623	500,181
Benefits to the community:				
Medical education and research	—	22,292	7,621	14,671
Community health services	—	2,101	144	1,957
Community benefit activities	196	—	—	196
Contributions to community organizations	154	4,086	—	4,240
	350	28,479	7,765	21,064
	$ 350	1,470,283	949,388	521,245
Percentage of total operating expenses				23.4 %

	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
Contributions to community organizations	209	2,127	—	2,336
	517	34,820	8,088	27,249
	$ 517	1,454,370	971,901	482,986
Percentage of total operating expenses				21.4 %

(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 are 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 2021 and 2020, Legacy provided charity care benefiting patients associated with 54,409 and 65,784 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.

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 $1,251 and $1,220 in 2021 and 2020, 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. Contributions to community 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 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 $7,903 and $7,952 in local and state taxes in 2021 and 2020, respectively.

(5) Liquidity and Availability

As of March 31, 2021 and 2020, Legacy had a working capital of $534,603 and $216,504 and average days (based on normal expenditures) cash on hand of 303.6 and 177.0, respectively. As part of Legacy's liquidity management plan, cash in excess of daily requirements is 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 except those held in private equity and private value-added real estate. Financial assets available for general expenditures within one year of the balance sheet date consist of the following:

	2021	2020
Cash and cash equivalents	$ 563,629	144,041
Accounts receivable from patients, net	299,669	261,266
Other receivables	54,755	63,644
Noncurrent investments	1,236,114	920,247
Total financial assets	2,154,167	1,389,198
Less amounts not available to be used within one year:		
Funds held in private equity	19,877	4,949
Financial assets available to meet general expenditures within one year	$ 2,134,290	1,384,249

(6) Investments

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

	March 31, 2021			
	Level 1	Level 2	Level 3	Total fair value
Cash equivalents	$ 51,758	—	—	51,758
Mutual funds – equity	425,779	—	—	425,779
Equity securities:				
Domestic	252,792	—	—	252,792
Foreign	35,567	—	—	35,567
Mutual funds – fixed income	32,607	—	—	32,607
Domestic debt securities:				
State and federal governments	—	46,434	—	46,434
Corporate and securitized	—	255,733	—	255,733
Foreign debt securities	—	32,067	—	32,067
Commingled funds	—	87,027	—	87,027
Interest rate swaps	—	8,692	—	8,692
	$ 798,503	429,953	—	1,228,456
Investments measured using NAV as a practical expedient				46,877
Total investments				$ 1,275,333

	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

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
	2021	2020	frequency	notice period
Private real estate – core	$ 27,000	29,865	Quarterly	60–95 days
Private real estate – value-added	—	—	N/A	N/A
Private equity	19,877	4,949	N/A	N/A
Total	$ 46,877	34,814		

Private real estate includes investments in both core and value-added funds. Core funds aim to generate a target return mainly from rental returns by income producing properties while value-added funds also seek market value returns in addition to rental income. Legacy's core fund is held via a pooled, commingled open-ended fund while value-added funds are held in the form of limited partnership/trust investments, similar to private equity and are discussed below.

As of March 31, 2021, Legacy had a capital commitment of $56,000 to private equity funds and $16,250 to value-added private real estate funds in the form of limited partnership/trust investments. These commitments are due on demand from the general partners/advisers. The 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, 2021, approximately 4% 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.

(Continued)

(7) Investments in Unconsolidated Affiliates

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

		2021	2020
PacificSource	$	280,703	214,509
Lifeflight Network		48,473	39,328
Other		10,414	9,986
Total investments in unconsolidated affiliates	$	339,590	263,823

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 46.8% and 43.2% as of March 31, 2021 and 2020, 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:

		2020	2019
Assets	$	957,798	716,257
Liabilities		440,891	317,951
Net assets:			
Without donor restrictions		518,301	401,339
Accumulated other comprehensive loss		(2,014)	(3,770)
Noncontrolling interests		620	737
Total net assets without donor restrictions		516,907	398,306
Total liabilities and net assets	$	957,798	716,257

		2020	2019
Underwriting income	$	34,068	(5,757)
Other income		59,744	26,868
Income tax expense		(6,307)	25,770
Net income	$	87,505	46,881

Legacy recorded net income on the investment in PS of $40,224 and $20,503 in 2021 and 2020, respectively. Legacy recorded $3,530 and $3,558 of amortization expense in 2021 and 2020, 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 $3,810 and $3,734 in 2021 and 2020, 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.

(8) Property, Plant, and Equipment

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

		2021	2020
Land	$	51,422	53,122
Land improvements		24,228	23,587
Buildings and improvements		1,249,676	1,236,031
Equipment and software		947,912	927,941
Construction in progress		143,617	94,778
		2,416,855	2,335,459
Accumulated depreciation		(1,603,449)	(1,519,799)
	$	813,406	815,660

There were capital expenditure purchase commitments outstanding as of March 31, 2021 for various construction and equipment projects. The estimated cost to complete such projects at March 31, 2021 was $183,851, of which $24,679 was contractually committed.

(9) 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.

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

		2021	2020
Operating lease cost	$	10,680	10,437
Variable lease cost		594	503
Short-term lease cost		6,196	5,269
Total lease cost	$	17,470	16,209
Operating lease liabilities	$	63,625	65,536
Operating lease ROU assets		62,250	65,136

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

	2021	2020
Operating leases weighted average lease term	5.7 years	6.4 years
Operating leases weighted average discount rate	3.5 %	3.5 %

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

2022	$	11,743
2023		11,534
2024		10,550
2025		8,895
2026		7,253
Thereafter		23,181
Total undiscounted lease payments		73,156
Less imputed interest		(9,531)
Total lease liabilities	$	63,625

(10) Long-Term Debt

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

		2021	2020
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 2011A, payable in 2021 from $19,980 to $22,060 through 2021, at rates ranging from 4.125% to 5.25%		22,060	43,030
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		22,225	24,675
Taxable bullet loan maturing April 2030, issued at 2.74% fixed rate		100,000	—
Taxable bullet loan maturing April 2023, issued at 1.83% fixed rate		100,000	—
Multi-draw taxable term loan maturing June 2030, issued at 1.75% fixed rate		20,970	—
Other debt		648	700
		726,258	528,760
Premiums and deferred financing costs		22,564	24,111
Less current portion		(24,871)	(23,736)
	$	723,951	529,135

Interest cost incurred related to funds borrowed was $16,067 and $14,405 in 2021 and 2020, respectively. These amounts were reduced by $4,725 and $2,336 in 2021 and 2020, respectively, in the consolidated statements of operations for amounts capitalized for construction and other capital projects.

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

2022	$	24,871
2023		18,065
2024		118,309
2025		18,721
2026		19,376
Thereafter		526,916
	$	726,258

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 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.

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 2021 Bonds were used to refinance previously issued debt.

In April 2020, Legacy secured a taxable, 10-year $100,000 bullet, term loan with Wells Fargo Bank, N.A. In May 2020, Legacy secured a taxable, 3-year $100,0000 bullet, term loan with U.S. Bank, N.A. All principal on these bullet loans is due at loan maturity.

In May 2020, Legacy secured a taxable, multi-draw 10-year term loan with J.P. Morgan Chase Bank, N.A. The total loan commitment is $43,030 and proceeds will be used to pay debt service on the Series 2011 Bond. In May 2020, $20,970 was drawn and the remaining $22,060 is expected to be drawn in May 2021.

In April 2020, Legacy secured a $100,000 revolving line of credit through U.S. Bank, N.A. The term of the line of credit is for 12 months and bears interest at a variable rate based upon LIBOR. No draws have occurred as of March 31, 2021.

(11) 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	
		2021	**2020**	**2021**	**2020**
Education	$	10,415	6,863	3,143	3,113
Patient care		28,517	19,487	11,937	11,775
Research		6,798	4,484	1,641	1,640
Capital acquisition		2,854	3,329	—	—
Other		6,273	6,092	382	383
	$	54,857	40,255	17,103	16,911

(12) 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.

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

	2021				
	Hospital services	Physician services	Lab and other health services	Support services	Total
Wages, salaries, and benefits	$ 815,796	285,486	46,553	244,760	1,392,595
Supplies	288,664	13,585	25,896	34,522	362,667
Professional fees	42,729	2,766	28	10,550	56,073
Purchased services	9,566	4,843	67,434	53,147	134,990
Interaffiliate purchased services	95,496	(37,671)	(57,825)	—	—
Purchased medical services	40	—	—	—	40
Utilities, insurance, and other expenses	36,809	23,225	849	117,989	178,872
Depreciation	54,313	2,789	2,544	22,738	82,384
Interest and amortization	8,611	12	—	7,458	16,081
	$ 1,352,024	295,035	85,479	491,164	2,223,702

	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

(13) 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 $65,658 and $62,797 for 2021 and 2020, 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 are taken into account in determining a participant's retirement benefits. After the Freeze Date, future retirement benefits are provided by the defined contribution plans.

Legacy 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 asset (liability) at March 31 and for the years then ended is as follows:

		2021	2020
Change in projected benefit obligation:			
Projected benefit obligation at beginning of year	$	918,835	915,469
Interest cost		30,259	35,581
Actuarial loss		8,918	22,619
Benefits paid		(55,930)	(54,834)
Projected benefit obligation at end of year		902,082	918,835
Change in plan assets:			
Fair value of assets at beginning of year		733,828	801,593
Actual return on plan assets		279,880	(18,309)
Employer contribution		1,695	5,378
Benefits paid		(55,930)	(54,834)
Fair value of assets at end of year		959,473	733,828
Funded status	$	57,391	(185,007)
Unrecognized net actuarial loss	$	120,633	354,736
Accumulated benefit obligation		902,082	918,835

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, 2022 are $0 and $5,523, respectively.

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

		2021	2020
Interest cost	$	30,259	35,581
Expected return on plan assets		(43,489)	(40,907)
Special recognition curtailments and settlements		25	17
Recognized net actuarial loss		6,606	5,444
Net periodic pension (benefit) cost	$	(6,599)	135

(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:

	2021	2020
Benefit obligation (measured as of March 31):		
Discount rate	3.26 %	3.39 %

	2020	2019
Net periodic benefit cost (measured for the year ended March 31):		
Discount rate	3.39 %	4.00 %
Long-term rate of return	6.00	6.00

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 2021 was the Pri-2012 Blue Collar Tables for Employees and Annuitants, projected using MP-2020 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.

(ii) Pension Plan Assets

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

	Target allocation	2021 Actual allocation	2020 Actual allocation
Equity securities	0–60%	63 %	52 %
Fixed income	40–100	34	45
Real estate	—	2	2
Alternative investments	— %	1	1

Pension plan assets are managed according to an investment policy adopted by the Legacy Health Retirement Committee. 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.

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

	March 31, 2021			
	Level 1	Level 2	Level 3	Total fair value
Cash and cash equivalents	$ 16,291	—	—	16,291
Mutual funds – equity	241,729	—	—	241,729
Equity securities:				
Domestic	219,450	—	—	219,450
Foreign	31,282	—	—	31,282
Mutual funds – fixed income	55,058	—	—	55,058
Domestic debt securities:				
State and federal government	—	91,266	—	91,266
Corporate and securitized	—	177,945	—	177,945
Foreign debt securities	—	72,063	—	72,063
Commingled funds	—	105,660	—	105,660
Derivative assets, net	—	(319)	—	(319)
	$ 563,810	446,615	—	1,010,425
Investments measured using NAV as a practical expedient				22,163
Unsettled trades				(73,115)
Total assets at fair value				$ 959,473

	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

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

	2021	2020	Redemption frequency	Redemption notice period
Private real estate – core	$ 15,486	16,970	Quarterly	60–95 days
Private equity	6,677	8,510	N/A	N/A
Total	$ 22,163	25,480		

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.

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

	2021	2020
Derivative assets:		
Future contracts	$ 397	5,972
Other derivatives and forward setting contracts	—	2,612
	397	8,584
Derivative liabilities:		
Future contracts	(397)	(5,972)
Other derivatives and forward setting contracts	(319)	(7,809)
	(716)	(13,781)
Net investment derivative liabilities	$ (319)	(5,197)

(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:

2022	$ 59,158
2023	55,347
2024	56,153
2025	56,874
2026	60,271
2027–2031	270,611

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

(14) 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 11% of Legacy employees were covered under collective bargaining agreements at March 31, 2021, including certain service and maintenance employees. Approximately 1,347 employees are covered by collective bargaining agreements that expire within one year. In June 2019, the nursing staff at UNITY Behavioral Health voted to join the Oregon Nurses Association union. This collective bargaining group will represent 193 nurses when contract negotiations are complete.

(15) 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.

(16) Subsequent Events

A significant contract with Kaiser Permanente has changed such that beginning in July 2021, Kaiser Permanente will no longer send members in Southwest Washington to Legacy Salmon Creek Medical Center for inpatient hospital care, though they may still seek care in the emergency department and family birth center. Management estimates an annual reduction in net patient revenue in fiscal year 2022 of approximately $27,000.

Legacy evaluated and disclosed all material subsequent events through June 18, 2021, the date the consolidated financial statements were issued.

LEGACY HEALTH

Consolidating Schedule of Balance Sheet Information

March 31, 2021 and 2020

(Dollars in thousands)

Assets	Credit reporting group	Other affiliates and eliminations	March 31, 2021 consolidated	March 31, 2020 consolidated
Current assets:				
Cash and cash equivalents	$ 563,331	298	563,629	144,041
Accounts receivable from patients, net	285,799	13,870	299,669	261,266
Settlements receivable from third-party payors, net	—	—	—	39,486
Other receivables	45,884	8,871	54,755	63,644
Inventories	29,362	1,494	30,856	25,767
Prepaid expenses	19,395	649	20,044	17,420
Total current assets	943,771	25,182	968,953	551,624
Assets limited as to use	39,219	—	39,219	84,114
Property, plant, and equipment, net	786,989	26,417	813,406	815,660
Noncurrent investments	1,236,114	—	1,236,114	920,247
Investments in unconsolidated affiliates	348,539	(8,949)	339,590	263,823
Pension asset greater than liabilities	57,391	—	57,391	—
Other assets	68,916	30,818	99,734	99,321
Interaffiliate receivable (payable)	(11,959)	11,959	—	—
Total assets	$ 3,468,980	85,427	3,554,407	2,734,789
Liabilities and Net Assets				
Current liabilities:				
Accounts payable	$ 73,507	3,820	77,327	66,575
Accrued wages, salaries, and benefits	192,980	9,530	202,510	171,749
Accrued interest	5,695	—	5,695	5,633
Settlements payable to third-party payors, net	33,365	2,639	36,004	—
Other current liabilities	73,533	6,377	79,910	72,427
Current portion of long-term debt	24,550	321	24,871	23,736
Total current liabilities	403,630	22,687	426,317	340,120
Long-term debt, less current portion	723,624	327	723,951	529,135
General and professional claims liability	44,977	3,983	48,960	41,884
Pension liability	—	—	—	185,007
Other liabilities	201,833	6,753	208,586	104,542
Total liabilities	1,374,064	33,750	1,407,814	1,200,688
Net assets:				
Without donor restrictions, controlling	2,024,031	29,616	2,053,647	1,456,573
Without donor restrictions, noncontrolling	—	20,986	20,986	20,362
With donor restrictions	70,885	1,075	71,960	57,166
Total net assets	2,094,916	51,677	2,146,593	1,534,101
Total liabilities and net assets	$ 3,468,980	85,427	3,554,407	2,734,789

See accompanying independent auditors' report.

LEGACY HEALTH

Consolidating Schedule of Operations Information

Years ended March 31, 2021 and 2020

(Dollars in thousands)

	Credit reporting group	Other affiliates and eliminations	Year ended March 31, 2021 consolidated	Year ended March 31, 2020 consolidated
Operating revenues:				
Net patient service revenue	$ 1,937,796	115,022	2,052,818	2,192,248
Capitation revenue	68	10	78	35,920
Other revenue	207,624	5,473	213,097	108,375
Total operating revenues	2,145,488	120,505	2,265,993	2,336,543
Operating expenses:				
Wages, salaries, and benefits	1,319,244	73,351	1,392,595	1,370,974
Supplies	350,159	12,508	362,667	367,241
Professional fees	51,919	4,154	56,073	57,896
Purchased services	123,799	11,191	134,990	137,512
Purchased medical services	—	40	40	29,659
Utilities, insurance, and other expenses	166,313	12,559	178,872	186,803
Depreciation	78,910	3,474	82,384	92,646
Interest and amortization	16,069	12	16,081	14,448
Management fees	(1,100)	1,100	—	—
Total operating expenses	2,105,313	118,389	2,223,702	2,257,179
Income from operations	40,175	2,116	42,291	79,364
Nonoperating (loss) income:				
Investment (loss) income, net	297,957	2,991	300,948	(37,947)
Other, net	19,865	231	20,096	(5,219)
Total nonoperating (loss) income	317,822	3,222	321,044	(43,166)
Excess of revenues over expenses	357,997	5,338	363,335	36,198
Change in pension liability	234,103	—	234,103	(76,374)
Net assets released from restriction	1,682	126	1,808	869
Distributions to joint venture partners	—	(1,583)	(1,583)	(2,750)
Other	35	—	35	(17)
Change in net assets without donor restrictions	$ 593,817	3,881	597,698	(42,074)

See accompanying independent auditors’ report.

LEGACY HEALTH

Consolidated Financial and Statistical Highlights

Years ended March 31

(Unaudited)

	2021	2020	2019	2018
Utilization:				
Average number of available beds	1,267	1,256	1,253	1,236
Discharges	51,881	60,091	62,746	64,280
Adjusted discharges	108,307	126,112	125,605	122,602
Patient days	294,134	316,983	304,398	315,073
Average length of stay	5.7	5.3	4.9	4.9
Percentage occupancy	63.6 %	69.1 %	66.6 %	69.8 %
Emergency room visits	235,397	292,653	290,940	294,135
Clinic visits	1,258,556	1,339,231	1,267,733	1,163,784
Surgical cases – inpatient	13,106	15,636	16,572	17,059
Surgical cases – outpatient	28,033	30,594	29,153	28,076
Average full-time equivalent (FTE) employees:				
Number of paid FTEs	11,109	11,271	11,310	11,249
FTEs per adjusted occupied bed	6.6	6.2	6.8	6.8
Ratios:				
Operating margin	1.9 %	3.4 %	2.7 %	2.1 %
Net days in accounts receivable	48.6	42.8	45.9	45.7
Days cash on hand	303.6	177.0	180.6	177.7
Capitalization	26.1 %	27.0 %	26.9 %	28.4 %

See accompanying independent auditors’ report.