KPMG

LEGACY HEALTH

Consolidated Financial Statements and Other Financial Information

March 31, 2022 and 2021

(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:

Opinion

We have audited the consolidated financial statements of Legacy Health and its subsidiaries (the Company), which comprise the consolidated balance sheets as of March 31, 2022 and 2021, 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.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Company as of March 31, 2022 and 2021, and the results of its operations and its cash flows for the years then ended in accordance with U.S. generally accepted accounting principles.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are required to be independent of the Company and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with U.S. generally accepted accounting principles, and for 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.

In preparing the consolidated financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern for one year after the date that the consolidated financial statements are issued.

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the consolidated financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Company's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

Supplementary Information

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 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 GAAS. 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 17, 2022

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Consolidated Balance Sheets

March 31, 2022 and 2021

(Dollars in thousands)

Assets		2022	2021
Current assets:			
Cash and cash equivalents	$	317,014	563,629
Short-term investments		99,054	—
Accounts receivable from patients, net		336,596	299,669
Other receivables		78,220	54,755
Inventories		33,244	30,856
Prepaid expenses		23,392	20,044
Total current assets		887,520	968,953
Assets limited as to use		14,305	39,219
Property, plant, and equipment, net		781,216	813,406
Noncurrent investments		1,243,633	1,236,114
Investments in unconsolidated affiliates		375,762	339,590
Pension asset		57,681	57,391
Other assets		90,511	99,734
Total assets	$	3,450,628	3,554,407
Liabilities and Net Assets			
Current liabilities:			
Accounts payable	$	76,661	77,327
Accrued wages, salaries, and benefits		226,777	202,510
Accrued interest		5,078	5,695
Settlements payable to third-party payors, net		25,792	36,004
Other current liabilities		112,760	79,910
Current portion of long-term debt		18,032	24,871
Total current liabilities		465,100	426,317
Long-term debt, less current portion		655,260	723,951
General and professional claims liability		37,321	48,960
Other liabilities		140,897	208,586
Total liabilities		1,298,578	1,407,814
Net assets:			
Without donor restrictions, controlling		2,061,545	2,053,647
Without donor restrictions, noncontrolling		20,369	20,986
With donor restrictions		70,136	71,960
Total net assets		2,152,050	2,146,593
Total liabilities and net assets	$	3,450,628	3,554,407

See accompanying notes to consolidated financial statements.

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Consolidated Statements of Operations

Years ended March 31, 2022 and 2021

(Dollars in thousands)

	2022	2021
Operating revenues:		
Net patient service revenue	$ 2,341,714	2,052,818
Other revenue	220,735	213,175
Total operating revenues	2,562,449	2,265,993
Operating expenses:		
Wages, salaries, and benefits	1,591,162	1,392,595
Supplies	407,840	362,667
Professional fees	68,545	56,073
Purchased services	154,495	135,030
Utilities, insurance, and other expenses	213,206	178,872
Depreciation	77,034	82,384
Interest and amortization	19,073	16,081
Total operating expenses	2,531,355	2,223,702
Income from operations	31,094	42,291
Nonoperating income (loss):		
Investment income, net	17,624	300,948
Other, net	(30,844)	20,096
Total nonoperating (loss) income	(13,220)	321,044
Excess of revenues over expenses	17,874	363,335
Change in pension	(10,313)	234,103
Net assets released from restriction	3,029	1,808
Distributions to joint venture partners	(3,309)	(1,583)
Other	—	35
Change in net assets without donor restrictions	$ 7,281	597,698

See accompanying notes to consolidated financial statements.

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Consolidated Statements of Changes in Net Assets

Years ended March 31, 2022 and 2021

(Dollars in thousands)

		Without donor restrictions, controlling	Without donor restrictions, noncontrolling	With donor restrictions	Total net assets
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
Excess of revenues over expenses		15,290	2,584	—	17,874
Change in pension liability		(10,313)	—	—	(10,313)
Restricted contributions and grants		—	—	6,807	6,807
Net assets released from restriction		3,029	—	(10,362)	(7,333)
Investment gain, net		—	—	1,731	1,731
Distributions to joint venture partners		(108)	(3,201)	—	(3,309)
Other		—	—	—	—
Change in net assets		7,898	(617)	(1,824)	5,457
Balance, March 31, 2022	$	2,061,545	20,369	70,136	2,152,050

See accompanying notes to consolidated financial statements.

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Consolidated Statements of Cash Flows

Years ended March 31, 2022 and 2021

(Dollars in thousands)

		2022	2021
Cash flows from operating activities:			
Change in net assets	$	5,457	612,492
Adjustments to reconcile change in net assets to net cash provided by operating activities:			
Net distributions to noncontrolling partners		3,202	1,692
Depreciation and amortization		86,486	90,001
Loss on disposal of assets		(2,029)	588
Change in net realized and unrealized losses (gains) on investments		(16,933)	(320,405)
Restricted contributions		(357)	(328)
Equity earnings from joint ventures and investment companies, net		(12,873)	(45,440)
Pension and other post retirement adjustments		10,313	(234,103)
Change in certain current assets and current liabilities		(28,655)	91,353
Change in certain long-term operating assets and liabilities		(82,518)	102,139
Net cash from operating activities		(37,907)	297,989
Cash flows from investing activities:			
Purchase of property, plant, and equipment		(48,777)	(94,517)
Proceeds from sale of assets		5,071	595
Change in funds held by trustee		24,914	44,895
Change in other long-term assets		361	273
Investment in joint ventures		(29,500)	(30,200)
Distributions from joint ventures and investment companies		8,846	2,740
Purchases of investments		(384,161)	(445,508)
Sales of investments		291,612	447,180
Net cash from investing activities		(131,634)	(74,542)
Cash flows from financing activities:			
Proceeds from issuance of long-term debt		22,060	220,970
Repayment of long-term debt		(96,289)	(23,465)
Distributions to noncontrolling partners		(3,202)	(1,692)
Proceeds from restricted contributions		357	328
Net cash from financing activities		(77,074)	196,141
(Decrease) Increase in cash and cash equivalents		(246,615)	419,588
Cash and cash equivalents, beginning of year		563,629	144,041
Cash and cash equivalents, end of year	$	317,014	563,629
Supplemental disclosures of cash flow information:			
Cash paid for interest (net of amount capitalized)	$	20,518	17,546
Change in amounts accrued for property, plant, and equipment, net		(7,148)	4,040

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, 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 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 $57,580 within 8 years to grow and improve patient care services at SH (of which $19,251 has been invested as of March 31, 2022).

(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.

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

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MHN, LHSIC, and Legacy United Surgical Partners. During 2022 and 2021, Legacy did not record any liability for uncertain tax benefits.

(c) 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, Pacificsource Health Plan investment income, and other lessor activities.

(d) 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.

(e) 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.

(f) 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 as 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 2022 and 2021, Legacy recorded an increase to net patient service revenue of approximately $33,885 and $18,165, 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 31,2022 and 2021 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.

(g) 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.

(h) Inventories

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

(i) 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, 30 years; equipment and software, 7 years; and land improvements, 14 years.

(j) 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.

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

Assets limited as to use include assets held by trustees under indenture agreements of $14,305 and $36,940 as of March 31,2022 and 2021, 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.

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.

(l) 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.

(m) 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, 2022 and 2021 was $57 and $63, 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 $141 and $151 as of March 31, 2022 and 2021, respectively. These marketable securities are comprised of cash equivalents and other fixed income instruments.

(n) 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 was effective for Legacy on April 1, 2021, and there were no material effects to the consolidated balance sheets or statements of operations.

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(o) 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, which was enacted on March 27, 2020, authorized $100,000 in funding to hospitals and other healthcare providers. In 2021, that authorization was increased to $178,000 and CARES Act funds were distributed through the Public Health and Social Services Emergency Fund (the Fund). Payments from the Fund were intended to compensate healthcare providers for lost revenues and incremental expenses incurred in response to the COVID-19 pandemic and were 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 this funding to reimburse expenses or losses that other sources are obligated to reimburse. Legacy received payments of $53,733 and $93,616 from the Fund in calendar years 2021 and 2020, respectively, and $49,826 and $83,816 were recognized as other operating revenue during the years ended March 31, 2022 and 2021, respectively.

As a way to increase cash flow to Medicare providers impacted by the COVID-19 pandemic, the CARES Act expanded the Medicare Accelerated and Advance Payment Program. Inpatient acute care hospitals requested accelerated payments of up to 100% of the Medicare payment amount for a six-month period (not including Medicare Advantage payments). Under this 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. Such accelerated payments were interest free for inpatient acute care hospitals and Legacy’s ambulatory providers for up to 29 months. The program required 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 started at 25% for the first 11 months, and then increased to 50% for the succeeding six months. The program requires any outstanding balance remaining after 29 months to be repaid by the provider or be subject to an interest rate currently set at 4%. The payments were made for services a healthcare entity provided to its Medicare patients who are the healthcare entity’s customers. These payments have no impact on recognition of revenue, which is recognized at the time services are provided to the patients. During the year ended March 31, 2021, Legacy received $116,458 of accelerated payments which were accrued in the accompanying consolidated balance sheets in settlements payable to third-party payors, $65,313, and other long-term liabilities of $51,145. These liabilities were subject to repayment over an 18-month period beginning in April 2021. Repayment is in the form of Medicare claims payment reductions. As of March 31, 2022, Legacy had remaining accelerated payment liability of $59,786, included in the accompanying consolidated balance sheets in settlements payable to third-party payors.

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. In addition, Legacy was granted a one-time credit against FICA expense of $5.4 million to compensate for 50% of the wage and benefit costs of employee payments for cancelled shifts and COVID exposures. As of March 31, 2022 and 2021, Legacy deferred $17,350 and $45,524, respectively, in net social security taxes, of which $17,350 and $22,762, respectively, are included in accrued wages, salaries and benefits and $0 and $22,762, respectively, are included in other non-current liabilities in the accompanying consolidated balance sheets.

(Dollars in thousands)

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, 2022.

(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	
	2022	2021	2022	2021
Medicare	22.6 %	21.5 %	565,769	505,041
Medicaid	14.1	15.7	664,957	528,426
Blue Cross	18.9	17.2	418,473	365,677
Private pay	3.7	3.9	5,049	5,790
Other	40.7	41.7	687,466	647,884
	100.0 %	100.0 %	2,341,714	2,052,818

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

	2022	2021
Hospital	$ 2,044,317	1,810,585
Physician services	234,171	180,648
Hospice	9,367	12,317
Referral lab	37,467	34,898
Other	16,392	14,370
	$ 2,341,714	2,052,818

(Dollars in thousands)

(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, 2022			
	In-kind costs	Costs of service (1)	Offsetting revenue	Net cost
Services for people in need:				
Charity care	$ —	40,845	—	40,845
Medicaid	—	683,863	390,897	292,966
Medicare	—	874,941	609,107	265,834
Other government programs	—	37,383	23,443	13,940
	—	1,637,032	1,023,447	613,585
Benefits to the community:				
Medical education and research	—	26,389	8,215	18,174
Community health services	1,688	3,206	174	4,720
Community benefit activities	3,681	4	2,544	1,141
Contributions to community organizations	138	2,489	—	2,627
	5,507	32,088	10,933	26,662
	$ 5,507	1,669,120	1,034,380	640,247
Percentage of total operating expenses				25.3 %

(1) The cost of services for fiscal 2022 above was derived using cost to charge ratios calculated on a consolidated system basis, whereas fiscal 2021 community benefit costs were calculated using specific cost to charge ratios for the individual hospitals of Legacy. This change was required to comply with Oregon HB 3076, effective January 1, 2021, which implemented the community benefit minimum spending floor program for all Oregon hospitals and updated the community benefit definitions and rules for reporting to the Oregon Hospital Authority.

(Dollars in thousands)

	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 %

(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 2022 and 2021, Legacy provided charity care benefiting patients associated with 48,810 and 54,409 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 $1,212 and $1,251 in 2022 and 2021, respectively.

(b) Benefits to the Community

Medical education and research include 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 $11,514 and $7,903 in local and state taxes in 2022 and 2021, respectively.

(5) Liquidity and Availability

As of March 31, 2022 and 2021, Legacy had a working capital of $422,420 and $534,603 and average days (based on normal expenditures) cash on hand of 244.1 and 303.6, 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:

(Dollars in thousands)

		2022	2021
Cash and cash equivalents	$	317,014	563,629
Short term investments		99,054	—
Accounts receivable from patients, net		336,596	299,669
Other receivables		78,220	54,755
Noncurrent investments		1,243,633	1,236,114
Total financial assets		2,074,517	2,154,167
Less amounts not available to be used within one year:			
Funds held in private equity and private value-added real estate		65,291	19,877
Financial assets available to meet general expenditures within one year	$	2,009,226	2,134,290

(Dollars in thousands)

(6) Investments

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

	March 31, 2022			
	Level 1	**Level 2**	**Level 3**	**Total fair value**
Cash equivalents	$ 17,722	—	—	17,722
Mutual funds – equity	414,036	—	—	414,036
Equity securities:				
Domestic	269,726	—	—	269,726
Foreign	34,803	—	—	34,803
Mutual funds – fixed income	67,632	—	—	67,632
Domestic debt securities:				
State and federal governments	—	53,105	—	53,105
Corporate and securitized	—	283,395	—	283,395
Foreign debt securities	—	47,887	—	47,887
Commingled funds	—	77,001	—	77,001
Interest rate swaps	—	2,300	—	2,300
	$ 803,919	463,688	—	1,267,607
Investments measured using NAV as a practical expedient				89,385
Total investments				$ 1,356,992

(Dollars in thousands)

	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

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 as of March 31:

	Fair value		Redemption	Redemption
	2022	2021	frequency	notice period
Private real estate – core	$ 24,094	27,000	Quarterly	60–95 days
Private real estate – value-added	11,966	—	N/A	N/A
Private equity	53,325	19,877	N/A	N/A
Total	$ 89,385	46,877		

(Dollars in thousands)

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, 2022, Legacy had a capital commitment of $95,750 to private equity funds and $36,500 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, 2022, approximately 7% of noncurrent investments require advance written notice of 90 days or longer to redeem the securities. For certain of these investments, it may take up to 90 days to receive the funds after the requested redemption date, and certain redemptions may be subject to other restrictions in accordance with subscription agreements.

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

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)

(7) Investments in Unconsolidated Affiliates

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

		2022	2021
PacificSource	$	286,306	280,703
Life Flight Network		76,408	48,473
Other		13,048	10,414
Total investments in unconsolidated affiliates	$	375,762	339,590

PacificSource

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 included plans for additional investments over five years to attain 50% ownership in September 2021. Legacy's equity interest was 50.0% and 46.8% as of March 31, 2022 and 2021, respectively. Legacy records financial activity of PacificSource operations on a 3-month lag, consistent with allowable accounting practice. 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:

		2021	2020
Assets	$	1,143,080	957,798
Liabilities		626,228	440,891
Net assets:			
Without donor restrictions		522,657	518,301
Accumulated other comprehensive loss		(6,277)	(2,014)
Noncontrolling interests		472	620
Total net assets without donor restrictions		516,852	516,907
Total liabilities and net assets	$	1,143,080	957,798

(Dollars in thousands)

		2021	2020
Underwriting income	$	(63,070)	34,068
Other income		29,604	59,744
Income tax expense		8,377	(6,307)
Net (loss) income	$	(25,089)	87,505

Legacy recorded net (loss) income on the investment in PS of $(16,937) and $40,224 in 2022 and 2021, respectively. Legacy recorded $6,960 and $3,530 of amortization expense in 2022 and 2021, 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 $3,931 and $3,810 in 2022 and 2021, 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.

Life Flight Network

Legacy holds a 25% ownership interest in Life Flight Network, LLC, an air and ground life-saving emergency transport company whose members represent regional hospitals who provide trauma services. Legacy records financial activity of Life Flight operations on a 1-month lag, consistent with allowable accounting practice.

The following table represents assets, liabilities, and net assets of Life Flight per financial statements as of February 28 and the related operating results for the year ended February 28 consistent with the recognition period used by Legacy:

		2022	2021
Assets	$	340,743	230,860
Liabilities		35,110	36,966
Members equity/net assets:			
Life Flight Network, LLC members' equity		296,304	186,600
Life Flight Network Foundation net assets:			
Without donor restrictions		9,329	7,294
With donor restrictions		—	—
Total members' equity/net assets		305,633	193,894
Total liabilities, equity and net assets	$	340,743	230,860

(Continued)

(Dollars in thousands)

		2022	2021
Net patient service revenue	$	249,326	154,628
Other operating revenue		20,521	16,446
		269,847	171,074
Operating expenses		(166,861)	(135,448)
Income from operations		102,986	35,626
Other income		810	954
Net income	$	103,796	36,580

(8) Property, Plant, and Equipment

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

		2022	2021
Land	$	50,759	51,422
Land improvements		24,447	24,228
Buildings and improvements		1,391,446	1,249,676
Equipment and software		961,168	947,912
Construction in progress		18,997	143,617
		2,446,817	2,416,855
Accumulated depreciation		(1,665,601)	(1,603,449)
	$	781,216	813,406

There were capital expenditure purchase commitments outstanding as of March 31, 2022 for various construction and equipment projects. The estimated cost to complete such projects as of March 31, 2022 was $178,899, of which $43,425 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.

(Dollars in thousands)

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

		2022	2021
Operating lease cost	$	10,257	10,680
Variable lease cost		877	594
Short-term lease cost		7,614	6,196
Total lease cost	$	18,748	17,470
Operating lease liabilities	$	56,620	63,625
Operating lease ROU assets		56,124	62,250

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

	2022	2021
Operating leases weighted average lease term	5.3 years	5.7 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:

2023	$	11,140
2024		10,078
2025		8,194
2026		6,856
2027		6,166
Thereafter		16,821
Total undiscounted lease payments		59,255
Less imputed interest		(2,635)
Total lease liabilities	$	56,620

(Dollars in thousands)

(10) Long-Term Debt

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

		2022	2021
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
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
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 2026		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		19,735	22,225
Taxable bullet loan maturing April 2030, issued at 2.74% fixed rate		100,000	100,000
Taxable bullet loan maturing April 2023, issued at 1.83% fixed rate		100,000	100,000
Multi-draw taxable term loan maturing June 2030, issued at 1.75% fixed rate		43,030	20,970
Other debt		630	648
		652,030	726,258
Premiums and deferred financing costs		21,262	22,564
Less current portion		(18,032)	(24,871)
	$	655,260	723,951

Interest cost incurred related to funds borrowed was $19,051 and $16,067 in 2022 and 2021, respectively. These amounts were reduced by $302 and $4,725 in 2022 and 2021, 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:

2023	$	18,084
2024		118,377
2025		18,808
2026		14,895
2027		15,101
Thereafter		466,765
	$	652,030

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 2022, Legacy issued new long-term revenue bonds and repaid the 2008 bonds.

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. This debt was paid off in May 2021 with the proceeds from the multi-draw taxable loan with J.P. Morgan Chase Bank, N.A.

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. This debt was paid off in June 2021 with cash on hand.

In November 2016, Legacy issued $288,635 of Revenue Bonds Series 2016A (2016 Bonds) through the Oregon Facilities Authority. The proceeds from the 2016 Bonds were 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 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 June 2022, the loan with U.S. Bank, NA was extended to 2032, with a new interest rate of 3.62%.

In May 2020, Legacy secured a taxable, multi-draw 10-year term loan with J.P. Morgan Chase Bank, N.A. The proceeds were used to pay debt service on the Series 2011A Bond. $20,970 was drawn in May 2020 and an additional $22,100 was drawn in May 2021 for a total of $43,030.

In April 2021, Legacy renewed a $100,000 revolving line of credit through U.S. Bank, N.A. The term of the line of credit is for 3 years and bears interest at a variable rate based upon LIBOR. No draws have occurred as of March 31, 2022.

In May 2021, Legacy secured a $100,000 revolving line of credit through J.P. Morgan Chase 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, 2022.

(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	
		2022	**2021**	**2022**	**2021**
Education	$	10,628	10,415	3,172	3,143
Patient care		27,423	28,517	12,109	11,937
Research		6,232	6,798	1,641	1,641
Capital acquisition		2,289	2,854	—	—
Other		6,258	6,273	384	382
	$	52,830	54,857	17,306	17,103

(12) Functional Expenses

Legacy provides hospital services, physician services, and referral lab and other health services. Support services include costs that benefit the entire organization but are not controllable by operational leadership. Costs that are controllable by operational leadership are directly assigned to the respective program activities. 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:

	2022				
	Hospital services	Physician services	Lab and other health services	Support services	Total
Wages, salaries, and benefits	$ 791,077	276,865	45,708	477,512	1,591,162
Supplies	333,769	11,228	27,844	34,999	407,840
Professional fees	46,715	2,202	8	19,620	68,545
Purchased services	1,599	3,333	76,878	72,685	154,495
Interaffiliate purchased services	120,507	(53,300)	(67,207)	—	—
Utilities, insurance, and other expenses	29,814	40,502	578	142,312	213,206
Depreciation	46,963	1,793	2,526	25,752	77,034
Interest and amortization	9,910	—	—	9,163	19,073
	$ 1,380,354	282,623	86,335	782,043	2,531,355

	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	9,606	4,843	67,434	53,147	135,030
Interaffiliate purchased services	95,496	(37,671)	(57,825)	—	—
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

(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 $67,476 and $65,658 for 2022 and 2021, respectively.

(Dollars in thousands)

(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 at March 31 and for the years then ended is as follows:

		2022	2021
Change in projected benefit obligation:			
Projected benefit obligation at beginning of year	$	902,082	918,835
Interest cost		28,444	30,259
Actuarial loss		(35,024)	8,918
Benefits paid		(56,579)	(55,930)
Projected benefit obligation at end of year		838,923	902,082
Change in plan assets:			
Fair value of assets at beginning of year		959,473	733,828
Actual return on plan assets		(6,416)	279,880
Employer contribution		126	1,695
Benefits paid		(56,579)	(55,930)
Fair value of assets at end of year		896,604	959,473
Funded status	$	57,681	57,391
Unrecognized net actuarial loss	$	130,946	120,633
Accumulated benefit obligation		838,923	902,082

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, 2023 are $0 and $3,268, respectively.

(Dollars in thousands)

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

		2022	2021
Interest cost	$	28,444	30,259
Expected return on plan assets		(44,465)	(43,489)
Special recognition curtailments and settlements		20	25
Recognized net actuarial loss		5,523	6,606
Net periodic pension benefit	$	(10,478)	(6,599)

(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:

	2022	2021
Benefit obligation (measured as of March 31):		
Discount rate	3.92 %	3.26 %

	2022	2021
Net periodic benefit cost (measured for the year ended March 31):		
Discount rate	3.26 %	3.39 %
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 the Pri-2012 Blue Collar Tables for Employees and Annuitants, projected using MP-2021 and MP-2020, respectively, to reflect both current and future improvements in mortality.

(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	2022 Actual allocation	2021 Actual allocation
Equity securities	0–60%	39 %	63 %
Fixed income	40–100	58	34
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 provide expert analysis and investment performance reporting. The primary objectives are to preserve and grow the assets to provide for long-term benefit payments. 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, 2022			
	Level 1	Level 2	Level 3	Total fair value
Cash and cash equivalents	$ 21,040	—	—	21,040
Mutual funds – equity	109,606	—	—	109,606
Equity securities:				
Domestic	128,541	—	—	128,541
Foreign	15,882	—	—	15,882
Mutual funds – fixed income	253,282	—	—	253,282
Domestic debt securities:				
State and federal government	—	70,956	—	70,956
Corporate and securitized	—	172,654	—	172,654
Foreign debt securities	—	61,667	—	61,667
Commingled funds	—	87,274	—	87,274
Derivative assets, net	—	(1,801)	—	(1,801)
	$ 528,351	390,750	—	919,101
Investments measured using NAV as a practical expedient				21,218
Unsettled trades				(43,715)
Total assets at fair value				$ 896,604

(Dollars in thousands)

	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

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

	2022	2021	Redemption frequency	Redemption notice period
Private real estate – core	$ 14,660	15,486	Quarterly	60–95 days
Private equity	6,558	6,677	N/A	N/A
Total	$ 21,218	22,163		

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:

	2022	2021
Derivative assets:		
Future contracts	$ 4,672	397
	4,672	397
Derivative liabilities:		
Future contracts	(4,672)	(397)
Other derivatives and forward setting contracts	(1,801)	(319)
	(6,473)	(716)
Net investment derivative liabilities	$ (1,801)	(319)

(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:

2023	$ 61,830
2024	56,125
2025	55,153
2026	56,235
2027	59,033
2028–2032	273,272

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, 2022, including certain service and maintenance employees. Approximately 35 employees are covered by collective bargaining agreements that expire within one year.

(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 claim 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

In April 2022, Legacy signed a 17-year lease for office space commencing March 2023, representing future lease payments of approximately $81.7 million.

In May 2022, Legacy issued $187,695 of Revenue Bonds ("2022 Bonds", which comprise Series A of $98,070 and Series B of $98,070) through the Oregon Facilities Authority. The proceeds from the 2022 Bonds will be used to refinance 2008 Bond Issue and to fund construction projects. In conjunction with the bond issuance transaction, Legacy expanded the Credit Group to include Silverton Health.

Legacy evaluated and disclosed all material subsequent events through June 17, 2022, the date the consolidated financial statements were issued.

LEGACY HEALTH

Consolidating Schedule of Balance Sheet Information

March 31, 2022 and 2021

(Dollars in thousands)

Assets		Credit reporting group	Other affiliates and eliminations	March 31, 2022 consolidated	March 31, 2021 consolidated
Current assets:					
Cash and cash equivalents	$	316,904	110	317,014	563,629
Short-term investments		99,054	—	99,054	—
Accounts receivable from patients, net		321,052	15,544	336,596	299,669
Settlements receivable from third-party payors, net		—	—	—	—
Other receivables		57,999	20,221	78,220	54,755
Inventories		31,703	1,541	33,244	30,856
Prepaid expenses		22,560	832	23,392	20,044
Total current assets		849,272	38,248	887,520	968,953
Assets limited as to use		14,305	—	14,305	39,219
Property, plant, and equipment, net		754,287	26,929	781,216	813,406
Noncurrent investments		1,243,633		1,243,633	1,236,114
Investments in unconsolidated affiliates		384,139	(8,377)	375,762	339,590
Pension asset		57,681		57,681	57,391
Other assets		60,414	30,097	90,511	99,734
Interaffiliate receivable (payable)		(7,742)	7,742	—	—
Total assets	$	3,355,989	94,639	3,450,628	3,554,407
Liabilities and Net Assets					
Current liabilities:					
Accounts payable	$	70,479	6,182	76,661	77,327
Accrued wages, salaries, and benefits		216,144	10,633	226,777	202,510
Accrued interest		5,078	—	5,078	5,695
Settlements payable to third-party payors, net		22,162	3,630	25,792	36,004
Other current liabilities		95,209	17,551	112,760	79,910
Current portion of long-term debt		17,796	236	18,032	24,871
Total current liabilities		426,868	38,232	465,100	426,317
Long-term debt, less current portion		654,867	393	655,260	723,951
General and professional claims liability		33,140	4,181	37,321	48,960
Other liabilities		137,566	3,331	140,897	208,586
Total liabilities		1,252,441	46,137	1,298,578	1,407,814
Net assets:					
Without donor restrictions, controlling		2,034,493	27,052	2,061,545	2,053,647
Without donor restrictions, noncontrolling		—	20,369	20,369	20,986
With donor restrictions		69,055	1,081	70,136	71,960
Total net assets		2,103,548	48,502	2,152,050	2,146,593
Total liabilities and net assets	$	3,355,989	94,639	3,450,628	3,554,407

See accompanying independent auditors' report.

LEGACY HEALTH

Consolidating Schedule of Operations Information

Years ended March 31, 2022 and 2021

(Dollars in thousands)

	Credit reporting group	Other affiliates and eliminations	Year ended March 31, 2022 consolidated	Year ended March 31, 2021 consolidated
Operating revenues:				
Net patient service revenue	$ 2,206,379	135,335	2,341,714	2,052,818
Other revenue	226,114	(5,379)	220,735	213,175
Total operating revenues	2,432,493	129,956	2,562,449	2,265,993
Operating expenses:				
Wages, salaries, and benefits	1,510,318	80,844	1,591,162	1,392,595
Supplies	392,757	15,083	407,840	362,667
Professional fees	62,986	5,559	68,545	56,073
Purchased services	142,565	11,930	154,495	135,030
Utilities, insurance, and other expenses	200,548	12,658	213,206	178,872
Depreciation	73,522	3,512	77,034	82,384
Interest and amortization	19,052	21	19,073	16,081
Management fees	(800)	800	—	—
Total operating expenses	2,400,948	130,407	2,531,355	2,223,702
Income from operations	31,545	(451)	31,094	42,291
Nonoperating (loss) income:				
Investment (loss) income, net	17,343	281	17,624	300,948
Other, net	(31,073)	229	(30,844)	20,096
Total nonoperating (loss) income	(13,730)	510	(13,220)	321,044
Excess of revenues over expenses	17,815	59	17,874	363,335
Change in pension liability	(10,313)	—	(10,313)	234,103
Net assets released from restriction	2,960	69	3,029	1,808
Distributions to joint venture partners	—	(3,309)	(3,309)	(1,583)
Other	—	—	—	35
Change in net assets without donor restrictions	$ 10,462	(3,181)	7,281	597,698

See accompanying independent auditors' report.

LEGACY HEALTH

Consolidated Financial and Statistical Highlights

Years ended March 31

(Unaudited)

	2022	2021	2020	2019
Utilization:				
Average number of available beds	1,267	1,267	1,256	1,253
Discharges	51,069	51,881	60,091	62,746
Adjusted discharges	109,067	108,307	126,112	125,605
Patient days	330,798	294,134	316,983	304,398
Average length of stay	6.5	5.7	5.3	4.9
Percentage occupancy	71.5 %	63.6 %	69.1 %	66.6 %
Emergency room visits	274,218	235,397	292,653	290,940
Clinic visits	1,411,467	1,258,556	1,339,231	1,267,733
Surgical cases – inpatient	11,553	13,106	15,636	16,572
Surgical cases – outpatient	30,601	28,033	30,594	29,153
Average full-time equivalent (FTE) employees:				
Number of paid FTEs	11,711	11,109	11,271	11,310
FTEs per adjusted occupied bed	6.1	6.6	6.2	6.8
Ratios:				
Operating margin	1.2 %	1.9 %	3.4 %	2.7 %
Net days in accounts receivable	51.5	48.6	42.8	45.9
Days cash on hand	244.1	303.6	177.0	180.6
Capitalization	24.0 %	26.1 %	27.0 %	26.9 %

See accompanying independent auditors' report.