LEGACY HEALTH

Consolidated Financial Statements and Other Financial Information

March 31, 2024 and 2023

(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, 2024 and 2023, 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, 2024 and 2023, 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 and opinion or provide any assurance on it.

KPMG LLP

Portland, Oregon
June 28, 2024

LEGACY HEALTH

Consolidated Balance Sheets

March 31, 2024 and 2023

(Dollars in thousands)

Assets		**2024**	**2023**
Current assets:			
Cash and cash equivalents	$	100,622	140,241
Accounts receivable from patients, net		419,442	370,446
Settlements receivable from third-party payors, net		48,996	18,225
Other receivables		76,359	86,932
Inventories		30,742	32,073
Prepaid expenses		29,118	28,644
Total current assets		705,279	676,561
Assets limited as to use		32,355	92,959
Property, plant, and equipment, net		838,917	797,208
Noncurrent investments		1,327,405	1,169,930
Investments in unconsolidated affiliates		391,931	375,110
Pension asset		88,633	32,947
Other assets		136,279	105,809
Total assets	$	3,520,799	3,250,524
Liabilities and Net Assets			
Current liabilities:			
Accounts payable	$	114,780	86,729
Accrued wages, salaries, and benefits		145,884	162,382
Accrued interest		7,962	8,104
Other current liabilities		94,177	83,863
Current portion of long-term debt		14,473	84,160
Total current liabilities		377,276	425,238
Long-term debt, less current portion		726,816	743,912
General and professional claims liability		48,688	43,677
Other liabilities		208,715	163,603
Total liabilities		1,361,495	1,376,430
Net assets:			
Without donor restrictions, controlling		2,057,150	1,780,548
Without donor restrictions, noncontrolling		20,821	19,224
With donor restrictions		81,333	74,322
Total net assets		2,159,304	1,874,094
Total liabilities and net assets	$	3,520,799	3,250,524

See accompanying notes to consolidated financial statements.

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Consolidated Statements of Operations

Years ended March 31, 2024 and 2023

(Dollars in thousands)

		2024	2023
Operating revenues:			
Patient service revenue	$	2,600,880	2,414,938
Other revenue		276,632	177,814
Total operating revenues		2,877,512	2,592,752
Operating expenses:			
Wages, salaries, and benefits		1,764,116	1,765,501
Supplies		439,667	433,811
Professional fees		97,475	93,598
Purchased services		209,582	178,301
Utilities, insurance, and other expenses		253,684	194,217
Depreciation		71,266	73,262
Interest and amortization		25,217	25,712
Total operating expenses		2,861,007	2,764,402
Income (loss) from operations		16,505	(171,650)
Nonoperating income (loss):			
Investment income (loss), net		162,061	(60,411)
Other, net		51,254	(13,715)
Total nonoperating loss		213,315	(74,126)
Excess (deficit) of revenues over expenses		229,820	(245,776)
Change in pension		48,813	(34,628)
Net assets released from restriction		3,132	1,318
Contributions from joint venture partners		550	—
Distributions to joint venture partners		(4,719)	(4,154)
Other transfers		603	1,098
Change in net assets without donor restrictions	$	278,199	(282,142)

See accompanying notes to consolidated financial statements.

LEGACY HEALTH

Consolidated Statements of Changes in Net Assets

Years ended March 31, 2024 and 2023

(Dollars in thousands)

		Without donor restrictions, controlling	Without donor restrictions, noncontrolling	With donor restrictions	Total net assets
Balance, March 31, 2022	$	2,061,545	20,369	70,136	2,152,050
Deficit of revenues over expenses		(248,785)	3,009	—	(245,776)
Change in pension liability		(34,628)	—	—	(34,628)
Restricted contributions and grants		—	—	14,417	14,417
Net assets released from restriction		1,318	—	(7,814)	(6,496)
Investment loss, net		—	—	(2,432)	(2,432)
Distributions to joint venture partners		—	(4,154)	—	(4,154)
Other transfers		1,098	—	15	1,113
Change in net assets		(280,997)	(1,145)	4,186	(277,956)
Balance, March 31, 2023		1,780,548	19,224	74,322	1,874,094
Excess of revenues over expenses		224,054	5,766	—	229,820
Change in pension liability		48,813	—	—	48,813
Restricted contributions and grants		—	—	10,603	10,603
Net assets released from restriction		3,132	—	(11,039)	(7,907)
Investment income, net		—	—	7,442	7,442
Contributions from joint venture partners		—	550	—	550
Distributions to joint venture partners		—	(4,719)	—	(4,719)
Other transfers		603	—	5	608
Change in net assets		276,602	1,597	7,011	285,210
Balance, March 31, 2024	$	2,057,150	20,821	81,333	2,159,304

See accompanying notes to consolidated financial statements.

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Consolidated Statements of Cash Flows

Years ended March 31, 2024 and 2023

(Dollars in thousands)

		2024	2023
Cash flows from operating activities:			
Change in net assets	$	285,210	(277,956)
Adjustments to reconcile change in net assets to net cash from operating activities:			
Net distributions to noncontrolling partners		4,719	4,153
Depreciation and amortization		77,503	79,690
(Gain) Loss on disposal of assets		(154,761)	225
Change in net realized and unrealized (gains) losses on investments		(178,404)	(90,712)
Restricted contributions		(115)	(249)
Net (earnings) losses from joint ventures and investment companies		(14,839)	1,981
Pension and other post retirement adjustments		(48,813)	24,734
Change in certain current assets and current liabilities		(48,878)	(170,662)
Change in certain long-term operating assets and liabilities		12,780	13,767
Net cash from operating activities		(65,598)	(415,029)
Cash flows from investing activities:			
Purchase of property, plant, and equipment		(130,817)	(98,689)
Proceeds from sale of assets		63,329	50
Proceeds from sale of lab assets		102,680	—
Addition to funds held by trustee		—	(100,002)
Draws on funds held by trustee		60,604	21,348
Investment in joint ventures		(3,350)	—
Net from joint ventures and investment companies		5,313	3,721
Purchases of investments		(361,029)	(378,163)
Sales of investments		378,013	636,582
Net cash from investing activities		114,743	84,847
Cash flows from financing activities:			
Proceeds from draw on line of credit		118,000	80,000
Repayment of line of credit		(188,000)	(10,000)
Proceeds from issuance of long-term debt		—	202,843
Financing cost paid		—	(1,974)
Repayment of long-term debt		(14,160)	(113,556)
Distributions to noncontrolling partners		(4,719)	(4,153)
Proceeds from restricted contributions		115	249
Net cash from financing activities		(88,764)	153,409
Change in cash and cash equivalents		(39,619)	(176,773)
Cash and cash equivalents, beginning of year		140,241	317,014
Cash and cash equivalents, end of year	$	100,622	140,241
Supplemental disclosures of cash flow information:			
Cash paid for interest (net of amount capitalized)	$	30,908	28,291
Change in amounts accrued for property, plant, and equipment, net		1,755	(198)
Right of use lease assets acquired		40,012	34,441

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 $46,604 has been invested as of March 31, 2024).

On November 6, 2023, Legacy sold its outreach laboratory operations to Labcorp, resulting in a $98,284 operating gain. In addition, Labcorp now manages Legacy's hospital lab operations through a separate long-term agreement.

(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.

(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 Legacy United Surgical Partners. During 2024 and 2023, Legacy did not record any liability for uncertain tax benefits.

(d) Income (Loss) from Operations

Income (Loss) 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 lessor activities.

(e) Excess (Deficit) of Revenues Over Expenses

When measuring Legacy as a whole, management believes that Excess (deficit) of revenues over expenses provides the most useful indicator of performance. This excludes Changes in net assets without donor restrictions, which represents 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) Patient Service Revenue

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

(Continued)

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 2024 and 2023, Legacy recorded an increase to patient service revenue of approximately $40,446 and $3,587, 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, 2024 and 2023 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.

In February 2024, Legacy was notified that one of its healthcare technology vendors, Change Healthcare, experienced a cyber security event. Legacy utilized Change Healthcare's clearinghouse/exchange for claims submissions prior to this security event. In the interest of protecting its patients, Legacy took immediate action by disconnecting all systems to prevent further impact. Legacy has shifted to another clearinghouse and is currently receiving provider claims for processing and payments. The estimated duration and extent of the disruption has not been determined and while some additional costs may have incurred and timing of collections of receivable balances have been affected, the full scope of the related impacts has not been determined. Legacy is unable to determine whether the incident will have a material effect on its future financial position or results of operations at this time.

(h) 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.

(i) Inventories

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

(j) 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.

(k) 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 lease liabilities 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 based on straight-line amortization. Lease cost for lease payments is recognized on a straight-line basis over the lease term.

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

Assets limited as to use include assets held by trustees under indenture agreements of $32,355 and $92,959 as of March 31, 2024 and 2023, respectively.

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.

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

Investment income or loss, including unrealized gains or losses, is included in revenues in excess (deficit) of expenses unless the income or loss is restricted by donor or law.

(m) 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.

(n) 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, 2024 and 2023 was $55 and $54, 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 $123 and $120 as of March 31, 2024 and 2023, respectively. These marketable securities are comprised of cash equivalents and other fixed income instruments.

(Dollars in thousands)

(o) Reclassifications

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

(2) COVID-19 Pandemic

On March 20, 2020, President Donald J. Trump declared a major disaster under section 501(b) of the Robert T. Stafford Disaster Relief and Emergency Assistance Act in response to the COVID-19 pandemic. Under the declaration, private nonprofit organizations, such as hospitals, are entitled monetary assistance for the cost of certain emergency protective measures. Assistance to public nonprofit organizations will be provided on qualifying costs incurred through May 15, 2023. During the years ended March 31, 2024 and 2023, Legacy submitted a total of $6,039 and $25,772, respectively, for reimbursement from the Federal Emergency Management Agency (FEMA), of which $17,373 and $13,710 was obligated and therefore recognized in other revenue during the years ended March 31, 2024 and 2023, respectively. As of March 31, 2024 and 2023, other receivables included outstanding FEMA receivables of $10,792 and $13,710, respectively.

(3) Patient Service Revenue

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

		Accounts receivable from patients, net		Patient service revenue	
		2024	2023	2024	2023
Medicare	$	97,875	88,709	774,281	771,583
Medicaid		60,087	59,346	671,740	562,007
Blue cross		94,077	78,889	393,899	369,192
Private pay		2,322	11,909	13,433	11,201
Other		165,081	131,593	747,527	700,955
	$	419,442	370,446	2,600,880	2,414,938

(Dollars in thousands)

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

	2024	2023
Hospital	$ 2,301,313	2,122,604
Physician services	245,172	228,069
Hospice	10,690	10,884
Referral lab	18,843	34,637
Other	24,862	18,744
	$ 2,600,880	2,414,938

(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, 2024			
	In-kind costs	Costs of service	Offsetting revenue	Net cost
Services for people in need:				
Charity care	$ —	41,681	—	41,681
Medicaid	—	762,584	491,017	271,567
Medicare	—	1,035,352	737,461	297,891
Other government programs	—	47,122	33,731	13,391
	—	1,886,739	1,262,209	624,530
Benefits to the community:				
Medical education and research	—	35,290	10,773	24,517
Community health services	—	17,124	6,748	10,376
Community benefit activities	155	61	—	216
Contributions to community organizations	358	2,554	—	2,912
	513	55,029	17,521	38,021
	$ 513	1,941,768	1,279,730	662,551
Percentage of total operating expenses				23.2 %

(Dollars in thousands)

	March 31, 2023			
	In-kind costs	Costs of service	Offsetting revenue	Net cost
Services for people in need:				
Charity care	$ —	46,092	—	46,092
Medicaid	—	765,533	438,349	327,184
Medicare	—	1,025,143	751,236	273,907
Other government programs	—	41,853	29,216	12,637
	—	1,878,621	1,218,801	659,820

	March 31, 2023			
	In-kind costs	Costs of service	Offsetting revenue	Net cost
Benefits to the community:				
Medical education and research	$ —	32,090	10,236	21,854
Community health services	—	12,519	6,313	6,206
Community benefit activities	157	46	—	203
Contributions to community organizations	280	1,294	—	1,574
	437	45,949	16,549	29,837
	$ 437	1,924,570	1,235,350	689,657
Percentage of total operating expenses				24.9 %

(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 2024 and 2023, Legacy provided charity care benefiting patients associated with 48,818 and 51,545 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, and veterans' assistance and supports many patients in obtaining coverage through a third party, reducing the patients' financial responsibility.

(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, assistance with Medicaid enrollment 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 $11,086 and $10,486 in local and state taxes in 2024 and 2023, respectively.

(5) Liquidity and Availability

As of March 31, 2024 and 2023, Legacy had working capital of $328,003 and $251,323 and average days (based on normal expenditures) cash on hand of 185.0 and 175.2, 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

(Continued)

(Dollars in thousands)

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:

		2024	2023
Cash and cash equivalents	$	100,622	140,241
Accounts receivable from patients, net		419,442	370,446
Other receivables		76,359	86,932
Noncurrent investments		1,327,405	1,169,930
Total financial assets		1,923,828	1,767,549
Less amounts not available to be used within one year:			
Funds held in private equity and private value-added real estate		118,822	101,245
Financial assets available to meet general expenditures within one year	$	1,805,006	1,666,304

(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, 2024				
		Level 1	Level 2	Level 3		Total fair value
Cash equivalents	$	24,607	—	—		24,607
Mutual funds – equity		424,021	—	—		424,021
Equity securities:						
Domestic		317,164	—	—		317,164
Foreign		41,612	—	—		41,612
Mutual funds – fixed income		37,660	—	—		37,660
Domestic debt securities:						
State and federal governments		26,804	13,064	—		39,868
Corporate and securitized		—	207,112	—		207,112
Foreign debt securities		—	32,628	—		32,628
Commingled funds		—	90,762	—		90,762
Interest rate swaps		—	8,149	—		8,149
	$	871,868	351,715	—		1,223,583
Investments measured using NAV as a practical expedient						136,177
Total investments					$	1,359,760

(Dollars in thousands)

	March 31, 2023			
	Level 1	Level 2	Level 3	Total fair value
Cash equivalents	$ 38,656	—	—	38,656
Mutual funds – equity	379,611	—	—	379,611
Equity securities:				
Domestic	240,271	—	—	240,271
Foreign	36,268	—	—	36,268
Mutual funds – fixed income	36,341	—	—	36,341
Domestic debt securities:				
State and federal governments	—	72,874	—	72,874
Corporate and securitized	—	232,546	—	232,546
Foreign debt securities	—	29,075	—	29,075
Commingled funds	—	69,948	—	69,948
Interest rate swaps	—	4,219	—	4,219
	$ 731,147	408,662	—	1,139,809
Investments measured using NAV as a practical expedient				123,080
Total investments				$ 1,262,889

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. 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
	2024	2023	frequency	notice period
Private real estate – core	$ 17,355	21,835	Quarterly	60–95 days
Private real estate – value-added	29,888	21,767	N/A	N/A
Private equity	88,934	79,478	N/A	N/A
Total	$ 136,177	123,080		

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

(Continued)

(Dollars in thousands)

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, 2024, Legacy had a capital commitment of $69,361 to private equity funds and $19,058 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, 2024, approximately 10% 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 SOFR-Based Fallback Rate, plus 1.011%	December 2033
50,000	Quarterly	SIFMA index	94.1% of SOFR-Based Fallback Rate	April 2029
50,000	Quarterly	SIFMA index	84.45% of SOFR-Based Fallback Rate	September 2030
50,000	Quarterly	SIFMA index	84% of SOFR-Based Fallback Rate	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. As of July 1, 2023, 1-month and 3-month LIBOR have transitioned to the applicable Secured Overnight Financing Rate (SOFR)-Based Fallback Rate. For 1-month LIBOR, the fallback rate is calculated as daily SOFR compounded over 30 days + 0.11448% and 3-month LIBOR is calculated as daily SOFR compounded over 90 days + 0.26161%.

(Dollars in thousands)

(7) Investments in Unconsolidated Affiliates

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

		2024	2023
PacificSource	$	296,516	284,815
Life Flight Network		85,575	77,116
Other		9,840	13,179
Total investments in unconsolidated affiliates	$	391,931	375,110

PacificSource

Legacy holds 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.

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:

		2023	2022
Assets	$	1,298,548	1,198,817
Liabilities	$	740,972	673,689
Net assets:			
Without donor restrictions		573,801	551,622
Accumulated other comprehensive loss		(16,760)	(27,008)
Noncontrolling interests		535	514
Total net assets without donor restrictions		557,576	525,128
Total liabilities and net assets	$	1,298,548	1,198,817

(Dollars in thousands)

		2023	2022
Underwriting (loss) income	$	(18,160)	90,575
Other income (loss)		46,045	(49,995)
Income tax expense		(5,685)	(11,573)
Net income (loss)	$	22,200	29,007

Legacy recorded total net income (loss), including amortization expense, on the investment in PS of $11,701 and $(1,492) in 2024 and 2023, respectively, which is included in nonoperating income (loss), other in the consolidated statements of operations.

Legacy paid PS $4,852 and $4,144 in 2024 and 2023, 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, LLC

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

The following table represents assets, liabilities, and net assets of LFN 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:

		2024	2023
Assets	$	400,335	365,050
Liabilities	$	58,034	56,586
Members equity/net assets		342,301	308,464
Total liabilities, equity and net assets	$	400,335	365,050

(Dollars in thousands)

		2024	2023
Net patient service revenue	$	237,424	208,991
Other operating revenue		18,060	16,601
		255,484	225,592
Operating expenses		(222,792)	(192,733)
Income from operations		32,692	32,859
Other income		1,145	2,085
Net income	$	33,837	34,944

(8) Property, Plant, and Equipment

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

		2024	2023
Land	$	48,865	50,759
Land improvements		24,683	24,746
Buildings and improvements		1,373,611	1,402,759
Equipment and software		968,004	981,135
Construction in progress		145,253	69,948
		2,560,416	2,529,347
Accumulated depreciation		(1,721,499)	(1,732,139)
	$	838,917	797,208

There were capital expenditure purchase commitments outstanding as of March 31, 2024 for various construction and equipment projects. The estimated cost to complete such projects as of March 31, 2024 was $166,295, of which $72,828 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:

	2024	2023
Operating lease cost	$ 12,917	10,408
Variable lease cost	686	701
Short-term lease cost	9,435	9,621
Total lease cost	$ 23,038	20,730
Short term operating lease liabilities	$ 14,815	11,565
Long term operating lease liabilities	87,279	59,451
Operating lease ROU assets	102,254	71,078

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

	2024	2023
Operating leases weighted average lease term	10.8 years	11.1 years
Operating leases weighted average discount rate	4.4 %	3.5 %

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

2025	$ 15,102
2026	14,478
2027	13,749
2028	12,089
2029	10,497
Thereafter	61,778
Total undiscounted lease payments	127,693
Less imputed interest	(25,599)
Total lease liabilities	$ 102,094

(Dollars in thousands)

(10) Long-Term Debt

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

	2024	2023
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	$ 275,755	282,380
Direct Purchase Bonds, Series 2020A, issued under a bond purchase agreement with the Oregon Facilities Authority and a commercial bank, at a fixed rate of 1.71%	14,760	17,215
Hospital Revenue Bonds, Series 2022A, payable in installments from $14,540 to $18,265 from 2047 through 2052, at rates ranging from 4.125% to 5.0%, callable on or after June 2032	98,070	98,070
Hospital Revenue Bonds, Series 2022B, bullet maturity in 2030, at a fixed rate of 5.0%	89,625	89,625
Taxable bullet loan maturing April 2030, at 2.89% fixed rate	100,000	100,000
Taxable bullet loan maturing April 2032, at 3.67% fixed rate	100,000	100,000
Multi-draw taxable term loan maturing June 2030, issued at 1.75% fixed rate	33,468	38,249
Line of credit	—	70,000
Other debt	618	917
	712,296	796,456
Premiums and deferred financing costs	28,993	31,616
Less current portion	(14,473)	(84,160)
	$ 726,816	743,912

Interest cost incurred related to funds borrowed was $25,217 and $25,687 in 2024 and 2023, respectively. These amounts were reduced by $329 and $71 in 2024 and 2023, 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:

2025	$	14,473
2026		10,617
2027		10,386
2028		10,551
2029		10,651
Thereafter		655,618
	$	712,296

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, SH and the Foundations.

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 previously issued debt.

In March 2020, Legacy issued $24,675 (2020A Bonds) under a bond purchase agreement with the Oregon Facilities Authority and a commercial bank. The proceeds from the bonds were used to refinance previously issued debt.

In May 2022, Legacy issued Revenue Bonds Series 2022A (2022A Bonds) for $98,070 and Series 2022B (2022B Bonds) for $89,625 through the Oregon Facilities Authority. The proceeds from the 2022A bonds were used for capital expenditures and to pay for expenses incurred for the issuance. The proceeds from the 2022B bonds were primarily used to refinance previously issued bonds and to pay expenses incurred for the issuance. As part of this issuance, SH was added to the Credit Group.

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 3.67%.

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, maturing May 2024, and bears interest at a variable rate based upon SOFR plus 0.65% (5.98% at March 31, 2024). As of March 31, 2024 and 2023, there was $0 and $70,000 outstanding on the line of credit, respectively, included in Current portion of long-term debt in the accompanying consolidated balance sheets. In May 2024, Legacy renewed this line of credit through April 2027 and it bears interest at a variable rate based upon SOFR.

(Dollars in thousands)

In May 2022, Legacy renewed a $100,000 revolving line of credit through J.P. Morgan Chase Bank, N.A. The term of the line of credit is for 3 years and bears interest at a variable rate based upon SOFR. No draws have occurred as of March 31, 2024.

(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	
		2024	2023	2024	2023
Education	$	11,185	9,587	3,351	3,278
Patient care		37,286	32,732	12,495	12,252
Research		6,448	2,780	1,641	1,641
Capital acquisition		2,241	5,504	—	—
Other		6,303	6,165	383	383
	$	63,463	56,768	17,870	17,554

(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.

(Continued)

(Dollars in thousands)

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

	2024				
	Hospital services	Physician services	Lab and other health services	Support services	Total
Wages, salaries, and benefits	$ 999,341	384,171	41,362	339,242	1,764,116
Supplies	393,686	15,927	16,793	13,261	439,667
Professional fees	72,037	1,843	28	23,567	97,475
Purchased services	86,243	4,335	9,677	109,327	209,582
Interaffiliate purchased services	100,434	(63,889)	(36,545)	—	—
Utilities, insurance, and other expenses	49,493	26,898	1,123	176,170	253,684
Depreciation	41,267	11,167	1,778	17,054	71,266
Interest and amortization	17,843	—	—	7,374	25,217
	$ 1,760,344	380,452	34,216	685,995	2,861,007

	2023				
	Hospital services	Physician services	Lab and other health services	Support services	Total
Wages, salaries, and benefits	$ 1,021,441	357,286	50,776	335,998	1,765,501
Supplies	376,802	14,017	27,044	15,948	433,811
Professional fees	56,272	1,932	2	35,392	93,598
Purchased services	55,001	4,246	10,665	108,389	178,301
Interaffiliate purchased services	130,620	(61,076)	(69,544)	—	—
Utilities, insurance, and other expenses	31,962	22,093	48	140,114	194,217
Depreciation	41,113	10,930	2,469	18,750	73,262
Interest and amortization	18,212	—	—	7,500	25,712
	$ 1,731,423	349,428	21,460	662,091	2,764,402

(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 $78,801 and $74,596 for 2024 and 2023, 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 is taken into account in determining a participant's retirement benefits. After the Freeze Date, future retirement benefits are provided by the defined contribution plans.

(Dollars in thousands)

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

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

		2024	2023
Change in projected benefit obligation:			
Projected benefit obligation at beginning of year	$	717,798	838,923
Interest cost		36,094	31,674
Actuarial gain		(14,626)	(96,181)
Benefits paid		(52,999)	(56,618)
Projected benefit obligation at end of year		686,267	717,798
Change in plan assets:			
Fair value of assets at beginning of year		750,745	896,604
Actual return on plan assets		76,748	(89,399)
Employer contribution		406	158
Benefits paid		(52,999)	(56,618)
Fair value of assets at end of year		774,900	750,745
Funded status	$	88,633	32,947
Unrecognized net actuarial loss	$	116,761	165,574
Accumulated benefit obligation		686,267	717,798

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, 2025 are each $0.

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

		2024	2023
Interest cost	$	36,094	31,674
Expected return on plan assets		(42,726)	(44,677)
Recognized net actuarial loss		152	3,268
Net periodic pension benefit	$	(6,480)	(9,735)

(Continued)

(Dollars in thousands)

(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:

	2024	2023
Benefit obligation (measured as of March 31):		
Discount rate	5.58 %	5.28 %

	2024	2023
Net periodic benefit cost (measured for the year ended March 31):		
Discount rate	5.28 %	3.92 %
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 Mortality Tables for Employees and Annuitants, projected using MP-2021 to reflect both current and future improvements in mortality.

(ii) Pension Plan Assets

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

	Target allocation	2024 Actual allocation	2023 Actual allocation
Equity securities	0–60%	41 %	39 %
Fixed income	40–100	58	59
Real estate	—	1	2
Alternative investments	— %	—	—

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.

(Continued)

(Dollars in thousands)

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

	March 31, 2024			
	Level 1	**Level 2**	**Level 3**	**Total fair value**
Cash and cash equivalents	$ 54,366	—	—	54,366
Mutual funds – equity	110,863	—	—	110,863
Equity securities:				
Domestic	115,167	—	—	115,167
Foreign	14,587	—	—	14,587
Mutual funds – fixed income	81,401	—	—	81,401
Domestic debt securities:				
State and federal government	61,100	65,298	—	126,398
Corporate and securitized	—	164,529	—	164,529
Foreign debt securities	—	65,759	—	65,759
Commingled funds	—	66,095	—	66,095
Derivative assets, net	—	(1,121)	—	(1,121)
	$ 437,484	360,560	—	798,044
Investments measured using NAV as a practical expedient				13,203
Unsettled trades				(36,347)
Total assets at fair value				$ 774,900

	March 31, 2023			
	Level 1	**Level 2**	**Level 3**	**Total fair value**
Cash and cash equivalents	$ 18,013	—	—	18,013
Mutual funds – equity	100,276	—	—	100,276
Equity securities:				
Domestic	98,266	—	—	98,266
Foreign	14,567	—	—	14,567
Mutual funds – fixed income	195,054	—	—	195,054
Domestic debt securities:				
State and federal government	—	74,140	—	74,140
Corporate and securitized	—	151,723	—	151,723
Foreign debt securities	—	56,283	—	56,283
Commingled funds	—	70,812	—	70,812
Derivative assets, net	—	539	—	539
	$ 426,176	353,497	—	779,673
Investments measured using NAV as a practical expedient				16,070
Unsettled trades				(44,998)
Total assets at fair value				$ 750,745

(Dollars in thousands)

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

		2024	2023	Redemption frequency	Redemption notice period
Private real estate – core	$	9,851	11,490	Quarterly	60–95 days
Private equity		3,352	4,580	N/A	N/A
Total	$	13,203	16,070		

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:

		2024	2023
Derivative assets:			
Future contracts	$	88,779	4,248
		88,779	4,248
Derivative liabilities:			
Future contracts		(88,779)	(4,248)
Other derivatives and forward setting contracts		(1,121)	539
		(89,900)	(3,709)
Net investment derivative liabilities	$	(1,121)	539

(Dollars in thousands)

(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. Funding of the qualified plans during the year ending March 31, 2025 is anticipated to be $0.

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

2025	$	68,400
2026		54,600
2027		54,400
2028		55,700
2029		58,600
2030-2034		257,500

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 20% of Legacy employees were covered under collective bargaining agreements at March 31, 2024, including certain service and maintenance employees. Approximately 455 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 May 2024, Oregon Health & Science University (OHSU) and Legacy signed a definitive agreement to affiliate, creating a unified healthcare system under OHSU Health. This affiliation aims to improve care quality, increase access to services, and promote patient-centered healthcare throughout Oregon and Southwest Washington. OHSU and Legacy plan to file for regulatory approval with the Oregon Health Authority in the coming months.

Legacy evaluated all material subsequent events through June 28, 2024, the date the consolidated financial statements were issued.

LEGACY HEALTH

Consolidating Schedule of Balance Sheet Information

March 31, 2024 and 2023

(Dollars in thousands)

Assets	Credit reporting group	Other affiliates and eliminations	March 31, 2024 consolidated	March 31, 2023 consolidated
Current assets:				
Cash and cash equivalents	$ 100,730	(108)	100,622	140,241
Accounts receivable from patients, net	412,985	6,457	419,442	370,446
Settlements receivable from third-party payors, net	48,996	—	48,996	18,225
Other receivables	68,263	8,096	76,359	86,932
Inventories	30,126	616	30,742	32,073
Prepaid expenses	28,078	1,040	29,118	28,644
Total current assets	689,178	16,101	705,279	676,561
Assets limited as to use	32,355		32,355	92,959
Property, plant, and equipment, net	837,547	1,370	838,917	797,208
Noncurrent investments	1,327,405	—	1,327,405	1,169,930
Investments in unconsolidated affiliates	401,161	(9,230)	391,931	375,110
Pension asset	88,633	—	88,633	32,947
Other assets	107,707	28,572	136,279	105,809
Interaffiliate receivable (payable)	(15,141)	15,141	—	—
Total assets	$ 3,468,845	51,954	3,520,799	3,250,524
Liabilities and Net Assets				
Current liabilities:				
Accounts payable	$ 111,640	3,140	114,780	86,729
Accrued wages, salaries, and benefits	144,825	1,059	145,884	162,382
Accrued interest	7,962	—	7,962	8,104
Other current liabilities	87,329	6,848	94,177	83,863
Current portion of long-term debt	14,241	232	14,473	84,160
Total current liabilities	365,997	11,279	377,276	425,238
Long-term debt, less current portion	726,430	386	726,816	743,912
General and professional claims liability	48,634	54	48,688	43,677
Other liabilities	207,207	1,508	208,715	163,603
Total liabilities	1,348,268	13,227	1,361,495	1,376,430
Net assets:				
Without donor restrictions, controlling	2,039,975	17,175	2,057,150	1,780,548
Without donor restrictions, noncontrolling	—	20,821	20,821	19,224
With donor restrictions	80,602	731	81,333	74,322
Total net assets	2,120,577	38,727	2,159,304	1,874,094
Total liabilities and net assets	$ 3,468,845	51,954	3,520,799	3,250,524

See accompanying independent auditors’ report.

LEGACY HEALTH

Consolidating Schedule of Operations Information

Years ended March 31, 2024 and 2023

(Dollars in thousands)

	Credit reporting group	Other affiliates and eliminations	Year ended March 31, 2024 consolidated	Year ended March 31, 2023 consolidated
Operating revenues:				
Patient service revenue	$ 2,565,318	35,562	2,600,880	2,414,938
Other revenue	278,702	(2,070)	276,632	177,814
Total operating revenues	2,844,020	33,492	2,877,512	2,592,752
Operating expenses:				
Wages, salaries, and benefits	1,749,713	14,403	1,764,116	1,765,501
Supplies	433,357	6,310	439,667	433,811
Professional fees	97,036	439	97,475	93,598
Purchased services	205,128	4,454	209,582	178,301
Utilities, insurance, and other expenses	251,045	2,639	253,684	194,217
Depreciation	70,720	546	71,266	73,262
Interest and amortization	25,234	(17)	25,217	25,712
Management fees	(52)	52	—	—
Total operating expenses	2,832,181	28,826	2,861,007	2,764,402
Income from operations	11,839	4,666	16,505	(171,650)
Nonoperating income (loss):				
Investment income (loss), net	160,551	1,510	162,061	(60,411)
Other, net	51,249	5	51,254	(13,715)
Total nonoperating income (loss)	211,800	1,515	213,315	(74,126)
Excess (deficit) of revenues over expenses	223,639	6,181	229,820	(245,776)
Change in pension liability	48,813	—	48,813	(34,628)
Net assets released from restriction	4,171	(1,039)	3,132	1,318
Contributions from joint venture partners	—	550	550	—
Distributions to joint venture partners	—	(4,719)	(4,719)	(4,154)
Other transfers	(1,650)	2,253	603	1,098
Change in net assets without donor restrictions	$ 274,973	3,226	278,199	(282,142)

See accompanying independent auditors' report.

LEGACY HEALTH

Consolidated Financial and Statistical Highlights

Years ended March 31

(Unaudited)

	2024	2023	2022	2021
Utilization:				
Average number of available beds	1,261	1,261	1,267	1,267
Discharges	55,427	54,646	51,069	51,881
Adjusted discharges	123,497	116,708	109,067	108,307
Patient days	346,456	361,753	330,798	294,134
Average length of stay	6.1	6.6	6.5	5.7
Percentage occupancy	75.3 %	78.6 %	71.5 %	63.6 %
Emergency room visits	313,813	313,964	274,218	235,397
Clinic visits	1,587,635	1,489,773	1,411,467	1,258,556
Surgical cases – inpatient	12,897	12,716	11,553	13,106
Surgical cases – outpatient	33,557	31,574	30,601	28,033
Average full-time equivalent (FTE) employees:				
Number of paid FTEs	11,906	12,197	11,711	11,109
FTEs per adjusted occupied bed	6.0	6.1	6.1	6.6
Ratios:				
Operating margin	0.6 %	(6.6)%	1.2 %	1.9 %
Net days in accounts receivable	57.8	54.8	51.5	48.6
Days cash on hand	185.0	175.2	244.1	303.6
Long-term debt to capitalization	25.7 %	30.9 %	24.0 %	26.1 %

See accompanying independent auditors’ report.