KPMG

LEGACY HEALTH

Consolidated Financial Statements and Other Financial Information

March 31, 2019 and 2018

(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

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Legacy Health, which comprise the consolidated balance sheets as of March 31, 2019 and 2018, and the related consolidated statements of operations, changes in net assets, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Legacy Health as of March 31, 2019 and 2018, and the results of their operations and their cash flows for the years then ended, in accordance with U.S. generally accepted accounting principles.

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Emphasis of Matter

As discussed in Note 1 to the consolidated financial statements, in 2019, Legacy Health adopted new accounting guidance in accordance with Accounting Standards Update (ASU) No. 2014-09, *Revenue from Contracts with Customers (Topic 606),* and ASU No. 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities (Topic 958).* Our opinion is not modified with respect to these matters.

Other Matters

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The supplemental information included in the consolidating schedule of balance sheet information and consolidating schedule of operations information on pages 33 through 34 is presented for the purposes of additional analysis and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the consolidated financial statements as a whole.

The consolidated financial and statistical highlights on page 35 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 20, 2019

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Consolidated Balance Sheets

March 31, 2019 and 2018

(Dollars in thousands)

Assets		**2019**	**2018**
Current assets:			
Cash and cash equivalents	$	89,257	67,256
Short-term investments		10	31,158
Accounts receivable from patients, net		279,663	254,574
Settlements receivable from third-party payors, net		26,423	12,438
Other receivables		70,623	52,770
Inventories		23,710	23,390
Prepaid expenses		14,843	14,064
Total current assets		504,529	455,650
Assets limited as to use		140,854	157,328
Property, plant, and equipment, net		810,959	840,329
Noncurrent investments		938,425	867,443
Investments in unconsolidated affiliates		211,255	172,188
Other assets		35,863	36,250
Total assets	$	2,641,885	2,529,188
Liabilities and Net Assets			
Current liabilities:			
Accounts payable	$	54,845	53,745
Accrued wages, salaries, and benefits		151,092	131,319
Accrued interest		6,060	6,244
Other current liabilities		67,253	61,688
Current portion of long-term debt		22,390	11,532
Total current liabilities		301,640	264,528
Long-term debt, less current portion		553,531	577,067
General and professional claims liability		43,245	41,482
Pension liability		113,876	103,660
Other liabilities		47,771	43,486
Total liabilities		1,060,063	1,030,223
Net assets:			
Without donor restrictions, controlling		1,498,395	1,414,039
Without donor restrictions, noncontrolling		20,614	20,918
With donor restrictions		62,813	64,008
Total net assets		1,581,822	1,498,965
Total liabilities and net assets	$	2,641,885	2,529,188

See accompanying notes to consolidated financial statements.

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Consolidated Statements of Operations

Years ended March 31, 2019 and 2018

(Dollars in thousands)

		2019	2018
Operating revenues:			
Net patient service revenue	$	2,066,673	1,979,603
Capitation revenue		47,638	39,435
Other revenue		105,057	98,832
Total operating revenues		2,219,368	2,117,870
Operating expenses:			
Wages, salaries, and benefits		1,315,479	1,248,477
Supplies		334,103	328,045
Professional fees		52,940	54,482
Purchased services		129,186	131,102
Purchased medical services		43,183	27,406
Utilities, insurance, and other expenses		169,625	161,957
Depreciation		98,945	102,867
Interest and amortization		16,535	18,536
Total operating expenses		2,159,996	2,072,872
Income from operations		59,372	44,998
Nonoperating income (loss):			
Investment income, net		54,381	67,996
Other, net		(10,248)	(12,817)
Total nonoperating income		44,133	55,179
Excess of revenues over expenses		103,505	100,177
Change in pension liability		(19,365)	4,579
Net assets released from restriction		2,832	8,598
Distributions to joint venture partners		(2,920)	(2,528)
Other		—	(19)
Change in net assets without donor restrictions	$	84,052	110,807

See accompanying notes to consolidated financial statements.

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Consolidated Statements of Changes in Net Assets

Years ended March 31, 2019 and 2018

(Dollars in thousands)

		Without donor restrictions, controlling	Without donor restrictions, noncontrolling	With donor restrictions	Total net assets
Balance, March 31, 2017	$	1,305,306	18,844	64,934	1,389,084
Excess of revenues over expenses		97,374	2,803	—	100,177
Change in pension liability		4,579	—	—	4,579
Restricted contributions and grants		—	—	9,981	9,981
Net assets released from restriction		8,598	—	(15,380)	(6,782)
Investment gain, net		—	—	4,454	4,454
Distributions to joint venture partners		(1,799)	(729)	—	(2,528)
Other		(19)	—	19	—
Change in net assets		108,733	2,074	(926)	109,881
Balance, March 31, 2018		1,414,039	20,918	64,008	1,498,965
Excess of revenues over expenses		101,135	2,370	—	103,505
Change in pension liability		(19,365)	—	—	(19,365)
Restricted contributions and grants		—	—	7,348	7,348
Net assets released from restriction		2,832	—	(7,369)	(4,537)
Investment gain, net		—	—	(1,174)	(1,174)
Distributions to joint venture partners		(246)	(2,674)	—	(2,920)
Other		—	—	—	—
Change in net assets		84,356	(304)	(1,195)	82,857
Balance, March 31, 2019	$	1,498,395	20,614	62,813	1,581,822

See accompanying notes to consolidated financial statements.

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Consolidated Statements of Cash Flows

Years ended March 31, 2019 and 2018

(Dollars in thousands)

		2019	2018
Cash flows from operating activities:			
Change in net assets	$	82,857	109,881
Adjustments to reconcile change in net assets to net cash provided by operating activities:			
Net distributions to noncontrolling partners		2,674	729
Depreciation and amortization		106,043	109,075
Loss on disposal of assets		186	215
Change in net realized and unrealized gains on investments		(46,372)	(61,862)
Restricted contributions		8	(1,115)
Equity earnings from joint ventures and investment companies, net		(14,251)	(16,404)
Pension and other post retirement adjustments		19,365	(4,579)
Change in certain current assets and current liabilities		(33,086)	1,791
Change in certain long-term operating assets and liabilities		(2,817)	4,181
Net cash from operating activities		114,607	141,912
Cash flows from investing activities:			
Purchase of property, plant, and equipment		(77,115)	(91,147)
Proceeds from sale of assets		38	45
Change in funds held by trustee		15,211	18,853
Change in other long-term assets		1,366	(806)
Investment in joint ventures		(32,400)	(30,650)
Distributions from joint ventures and investment companies		6,925	3,479
Purchases of investments		(966,733)	(45,037)
Sales of investments		973,931	46,094
Net cash from investing activities		(78,777)	(99,169)
Cash flows from financing activities:			
Proceeds from issuance of long-term debt		297	544
Refund of deferred financing costs		—	9
Repayment of long-term debt		(11,444)	(19,944)
Distributions to noncontrolling partners		(2,674)	(729)
Proceeds from restricted contributions		(8)	1,115
Net cash from financing activities		(13,829)	(19,005)
Increase in cash and cash equivalents		22,001	23,738
Cash and cash equivalents, beginning of year		67,256	43,518
Cash and cash equivalents, end of year	$	89,257	67,256
Supplemental disclosures of cash flow information:			
Cash paid for interest (net of amount capitalized)	$	18,294	20,958
Change in amounts accrued for property, plant, and equipment, net		(1,313)	88

See accompanying notes to consolidated financial statements.

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Notes to Consolidated Financial Statements

March 31, 2019 and 2018

(Dollars in thousands)

(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
Legacy Good Samaritan Hospital and Medical Center
Legacy Meridian Park Hospital
Legacy Mount Hood Medical Center
Silverton Health
Legacy Salmon Creek Hospital
Legacy Visiting Nurse Association and Affiliates
Managed HealthCare Northwest, Inc. (MHN)
Legacy Health System Insurance Company (LHSIC)
Legacy USP Surgery Centers, LLC (LUSC)

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

On June 1, 2016, Legacy became the sole corporate member of Silverton Health (SH) and affiliates, assuming their operations and assets, in exchange for the assumption of their liabilities and outstanding debt obligations. Among the requirements of the affiliation agreement are for Legacy to operate SH's hospital and additional health facilities for 10 years, invest $57,600 within 8 years to grow and improve patient care services at SH (of which $16,734 has been invested as of March 31, 2019) and provide the Silverton Health Foundation with a contribution of $3,000.

(b) Use of Estimates

The preparation of consolidated financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates. Significant estimates include implicit and explicit price concessions on patient accounts receivable, self-insured liabilities, and pension obligations.

(c) Income Taxes

Legacy has been recognized as exempt from federal income taxes, except on unrelated business income, under Section 501(a) of the Internal Revenue Code (IRC) as an organization described in Section 501(c)(3) and further described as a public charitable organization under Section 509(a)(3). Substantially all of Legacy's direct affiliates have been granted exemptions from federal income tax under Section 501(a) of the IRC as charitable organizations described in Section 501(c)(3), except MHN, LHSIC, and LUSC. During 2019 and 2018, Legacy did not record any liability for uncertain tax benefits.

(d) Income from Operations

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

(e) Excess of Revenues Over Expenses

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

(f) Fair Value Measurements

Accounting Standards Codification Topic 820, *Fair Value Measurement*, establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to measurements involving significant unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are as follows:

- Level 1 inputs include quoted prices (unadjusted) in active markets for identical assets and liabilities.
- Level 2 inputs include inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.
- Level 3 inputs are unobservable inputs for the asset or liability.

The level in the fair value hierarchy within which a fair value measurement in its entirety falls is based on the lowest level input that is significant to the fair value measurement. Investments valued utilizing net asset value (NAV) as a practical expedient are excluded from the hierarchy.

(g) Net Patient Service Revenue

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

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(Dollars in thousands)

are performed and/or the patient is discharged from the facility. Revenue is recognized as performance obligations are satisfied.

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

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

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

Settlements with third-party payors for retroactive adjustments due to audits, reviews, or investigations are considered variable consideration and are included in the determination of the estimated transaction price for providing patient care. These settlements are estimated based on the terms of the payment agreement with the payor, correspondence from the payor, and Legacy's historical settlement activity and are adjusted in future periods as adjustments become known or as years are settled or are no longer subject to such audits, reviews, and investigations. In 2019 and 2018, Legacy recorded an increase (decrease) to net patient service revenue of approximately $20,659 and $(292), 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 December 31, 2019 and 2018 was not significant.

Consistent with Legacy's mission, Legacy provides care without charge or at amounts less than its established 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

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based on its collection history with those patients who have been determined to qualify for financial assistance.

(h) Capitation Revenue

Capitation revenue is received on a prepaid basis and is recognized as revenue during the month for which the enrolled member is entitled to healthcare services. Capitation revenue received for future months is recorded as unearned revenue.

(i) Cash and Cash Equivalents

Cash equivalents include investments in highly liquid investments with original maturities of three months or less.

(j) Inventories

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

(k) Property, Plant, and Equipment

Property, plant, and equipment are stated at cost. Donated items are reported at fair market value on the date of donation. Interest cost incurred on borrowed funds during the period of construction of capital assets is capitalized as a component of acquiring those assets.

Impairment of property, plant, and equipment is assessed when there is evidence that events or changes in circumstances have made recovery of the net carrying value of assets unlikely.

Depreciation is determined by the straight-line method, which allocates cost equally over the estimated useful life. Average useful lives are as follows: buildings and improvements, 27 years; equipment and software, 7 years; and land improvements, 14 years. Leased assets that have been capitalized are amortized over the term of the lease or the useful life of the asset, whichever is shorter. Leased asset amortization is reported as part of depreciation expense.

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

Short-term investments include corporate and government obligation securities, which are included in managed, low duration portfolios. The maturities of these related securities can exceed one year. Management anticipates the securities will be liquidated within the next year. These investments are considered trading securities.

Assets limited as to use include assets held by trustees under indenture agreements of $128,924 and $144,135 as of March 31, 2019 and 2018, respectively, as well as designated assets set aside by the board of directors to provide funding for certain community health projects and assets restricted for capital acquisition.

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

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

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

(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 donor or grantor stipulations that limit the use of the donated assets. When the terms of a donor or grantor restriction are met, net assets with donor restrictions may be reclassified as net assets without donor restrictions and reported in the consolidated statements of operations or consolidated statements of changes in net assets as net assets released from restriction. Donor-restricted contributions whose restrictions are met within the same year as received are reported as unrestricted contributions.

(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 based on donor intent for the proceeds. In subsequent periods, payments to the annuitant reduce the annuity liability. Adjustments to the annuity liability to reflect amortization of the discount, changes in life expectancy, and death of the annuitant are recognized as other operating expenses. The annuity liability included in other current liabilities in the consolidated balance sheets as of March 31, 2019 and 2018 was $80 and $47, 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 $169 and $103 as of March 31, 2019 and 2018, respectively. These marketable securities are comprised of cash, cash equivalents, and other fixed income instruments.

(o) New Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2014-09, *Revenue from Contracts with Customers*, to clarify the principles for recognizing revenue and to improve financial reporting by creating common revenue recognition guidance for U.S. generally accepted accounting principles and International Financial Reporting Standards. Effective April 1, 2018, Legacy adopted ASU No. 2014-09 using the full retrospective method of transition. This ASU converged and replaced existing revenue recognition. As a result of implementing ASU No. 2014-09, certain patient activity for which collection is uncertain no longer meets the criteria for revenue recognition. Accordingly, the provision for uncollectible accounts after the adoption date is significantly reduced with a corresponding reduction to net patient service revenue as this activity was previously reported through March 31, 2018 as the provision for uncollectible accounts in Legacy's consolidated statements of operations. Such patient activity is now classified as an implicit price concession. Other aspects of Legacy's implementation of ASU No. 2014-09 impacting net patient service revenue include judgments regarding collection analyses and estimates of variable consideration and the addition of certain qualitative and quantitative disclosures, and these are reflected in note 1(g). The adoption of ASU No. 2014-09 in relation to other applicable revenue activity had no material impact on the consolidated financial statements.

In February 2016, the FASB issued ASU No. 2016-02, *Leases*, which requires lessees to recognize a lease liability and a right of use asset for all lease obligations with exception for short-term leases. The lease liability will represent the lessee's obligation to make lease payments arising from the lease measured on a discounted basis and the right of use asset will represent the lessee's right to use or control the use of a specified asset for a lease term. The new standard is effective for Legacy on April 1, 2019. Management estimates that the additional lease liabilities and right of use assets to be approximately $47,000.

In August 2016, the FASB issued ASU No. 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities*, with the intent to reduce diversity in reporting practice, reduce complexity, and enhance understandability of not-for-profit (NFP) financial statements. This ASU contains the following key aspects: (A) reduces the number of net asset classes presented from three to two: with donor restrictions and without donor restrictions; (B) requires all NFPs to present expenses by their functional and their natural classifications in one location in the financial statements; (C) requires NFPs to provide quantitative and qualitative Information about management of liquid resources and availability of financial assets to meet cash needs within one year of the balance sheet date; and (D) retains the option to present the statement of cash flows using either the direct or indirect method. Legacy adopted ASU No. 2016-14 for the period beginning April 1, 2018.

In June 2018, the FASB issued ASU No. 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. The ASU is intended to clarify and improve current guidance about whether a transfer of assets (or the reduction, settlement, or cancellation of liabilities) is a contribution or an exchange transaction. Legacy adopted ASU No. 2018-08 for the period beginning April 1, 2018 and there was no material change to Legacy's financial statements upon adoption.

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

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(Dollars in thousands)

determining when fees paid in a cloud computing arrangement (hosting arrangement) includes a software license such that an intangible asset is recognized for the license and amortized. The new standard is effective for Legacy on April 1, 2021. Legacy is currently evaluating the extent of the impact of the adoption of ASU No. 2018-15.

In March 2017, the FASB issued ASU No. 2017-07, *Compensation – Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Pension Cost*. Legacy adopted the ASU for the period beginning April 1, 2018 and recorded nonoperating income of $2,535 for reductions in net periodic benefit costs of the Legacy Employee Retirement Plan. This amount is included in “Other, net” in the nonoperating section of the statements of operations for the year ended March 31, 2019.

(p) Reclassifications

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

(2) Net Patient Service Revenue

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

	Accounts receivable from patients, net		Net patient service revenue	
	2019	**2018**	**2019**	**2018**
Medicare	27.5 %	24.3 %	29.7 %	28.7 %
Medicaid	13.7	13.8	20.3	20.5
Blue Cross	17.3	15.7	16.8	15.6
Private pay	4.3	4.8	0.3	0.3
Other	37.2	41.4	32.9	34.9
	100.0 %	100.0 %	100.0 %	100.0 %

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

	2019	**2018**
Hospital	88.1 %	88.1 %
Physician services	8.8	8.4
Hospice	0.7	0.9
Referral lab	1.7	1.8
Other	0.7	0.8
	100.0 %	100.0 %

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Notes to Consolidated Financial Statements

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(Dollars in thousands)

(3) Benefits to the Community

The board of directors allocates funds for health initiatives and programs capable of impacting the health of the community either by prevention or health improvement. Contributions made to community-sponsored initiatives were $620 and $567 in 2019 and 2018, respectively.

In addition to funding selected community health initiatives, Legacy provides services to the community both for people in need and to enhance the health status of the broader community as part of its charitable mission. The following tables represent the estimated cost of providing certain services to the community, along with a description of selected activities sponsored by Legacy:

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

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March 31, 2019 and 2018

(Dollars in thousands)

	March 31, 2018			
	In-kind costs	Costs of service	Offsetting revenue	Net cost
Services for people in need:				
Charity care	$ —	49,236	—	49,236
Medicaid	—	550,892	327,580	223,312
Medicare	—	739,213	596,284	142,929
Other government programs	—	21,644	18,719	2,925
	—	1,360,985	942,583	418,402
Benefits to the community:				
Medical education and research	—	24,574	7,795	16,779
Community health services	—	4,072	296	3,776
Community benefit activities	361	65	—	426
Donations to charitable organizations	290	2,945	—	3,235
Community health fund contributions	—	567	—	567
	651	32,223	8,091	24,783
	$ 651	1,393,208	950,674	443,185
Percentage of total operating expenses				21.4 %

(a) Services for People in Need

In support of its mission, Legacy provides medically necessary patient care services that are discounted or free of charge to persons who have insufficient resources and/or who are uninsured. The criteria for charity care is determined based on eligibility for insurance coverage, household income, qualified assets, catastrophic medical events, or other information supporting a patient's inability to pay for services provided. Specifically, Legacy provides an uninsured discount of 35% to patients. Additional discounts, on a sliding scale, are available to patients whose household income is less than 400% of the federal poverty level. For patients whose household income is at or below 300% of the federal poverty level, a full subsidy is available. In addition to the household income criteria, the patients' qualified assets (e.g., 25% of household assets) and other catastrophic or economic circumstances are considered in determining eligibility for charity care. During 2019 and 2018, Legacy provided charity care benefiting patients associated with 65,210 and 73,556 patient accounts, respectively.

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

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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 $1,202 and $1,407 in 2019 and 2018, respectively.

(b) Benefits to the Community

Medical education and research includes, among other initiatives, the unreimbursed cost of nursing education, graduate medical education, and research.

Community health services include classes provided to the community at minimal or no cost, health education for children and parents with young families, resource centers, support groups, health screenings, senior wellness, volunteer programs, caregiver respite, and support for parish nursing programs.

Community benefit activities include activities that develop community health programs and partnerships.

Donations to charitable organizations include direct support provided to community organizations through cash or in-kind donations to enhance those organizations' missions of supporting health and human services, civic and community causes, and business development efforts.

In-kind contributions provided by Legacy include facility space, staff availability for training and education opportunities, supplies, and professional services in collaboration with charitable, educational, and government organizations throughout its community.

(c) Other Benefits

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

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

Legacy pays taxes associated with various states' local business and occupation taxes and property taxes that local and state governments use to fund healthcare, civil, and education services to the community. Legacy paid $7,676 and $7,446 in local and state taxes in 2019 and 2018, respectively.

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(4) Liquidity and Availability

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

		2019
Cash and cash equivalents	$	89,257
Short-term investments		10
Accounts receivable from patients, net		279,663
Other receivables		70,623
Noncurrent investments		938,425
	$	1,377,978

(5) Investments

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

		March 31, 2019			
		Level 1	Level 2	Level 3	Total fair value
Cash and cash equivalents	$	53,478	—	—	53,478
Mutual funds – equity		269,002	—	—	269,002
Equity securities:					
Domestic		174,261	—	—	174,261
Foreign		22,688	—	—	22,688
Mutual funds – fixed income		29,981	—	—	29,981
Domestic debt securities:					
State and federal governments		—	41,078	—	41,078
Corporate and securitized		—	340,215	—	340,215
Foreign debt securities		—	29,849	—	29,849
Commingled funds		—	60,208	—	60,208
Interest rate swaps		—	9,850	—	9,850
Derivatives, net		—	(80)	—	(80)
	$	549,410	481,120	—	1,030,530
Investments measured using NAV as a practical expedient					48,759
Total investments				$	1,079,289

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	March 31, 2018			
	Level 1	Level 2	Level 3	Total fair value
Cash and cash equivalents	$ 59,852	—	—	59,852
Mutual funds – equity	231,493	—	—	231,493
Equity securities:				
Domestic	91,737	—	—	91,737
Foreign	11,104	—	—	11,104
Mutual funds – fixed income	192,432	—	—	192,432
Domestic debt securities:				
State and federal governments	—	4,113	—	4,113
Corporate and securitized	—	101,662	—	101,662
Other	—	1,446	—	1,446
Commingled funds	118,809	—	—	118,809
Absolute return funds	67,423	—	—	67,423
Interest rate swaps	—	8,008	—	8,008
	$ 772,850	115,229	—	888,079
Investment in Oregon Community Foundation				130
Investments measured using NAV as a practical expedient				167,720
Total investments				$ 1,055,929

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

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

	Fair value		Redemption	Redemption
	2019	2018	frequency	notice period
Hedge funds	$ 5,473	56,368	Quarterly	60–95 days
Private real estate	43,026	110,652	Quarterly	60–95 days
Private equity	260	700	N/A	N/A
Total	$ 48,759	167,720		

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Hedge fund investments utilize strategies designed to generate consistent long-term capital appreciation with low volatility and little correlation with equity and bond markets. Legacy invests in a fund of hedge funds, which is an investment vehicle whose portfolio consists of shares in a number of hedge funds and engages in a variety of investment strategies, including convertible bond arbitrage, equity long/short, and statistical arbitrage.

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

As of March 31, 2019, Legacy had a capital commitment of $24,654 to private equity funds in the form of limited partnership/trust investments. These commitments are due on demand from the general partners/advisers. These private equity funds invest in emerging companies, venture capital funds, and other alternative investments. The termination of these partnerships/trusts is based upon specific provisions in the agreements. In most cases, the life of the trusts is a minimum of 10 years. Legacy can only transfer its interest in the investments with the consent of the general partner/adviser. The fair values of these investments are determined either by the underlying security value on the open market or by the general partner/adviser utilizing fair value principles.

As of March 31, 2019, approximately 4% of noncurrent investments require advance written notice of 90 days or longer to redeem the securities. For certain of these investments, it may take up to 90 days to receive the funds after the requested redemption date, and certain redemptions may be subject to other restrictions in accordance with subscription agreements.

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

Notional amount	Cash flow settlement	Legacy pays	Legacy receives	Termination date
$ 82,000	Semiannually	SIFMA index	62% of LIBOR, plus 1.011%	December 2033
50,000	Quarterly	SIFMA index	67% of LIBOR, plus 0.6% for three years; 94.1% of LIBOR thereafter	April 2029
50,000	Quarterly	SIFMA index	67% of LIBOR, plus 0.6% for three years; 84.45% of LIBOR thereafter	September 2030
50,000	Quarterly	SIFMA index	67% of LIBOR, plus 0.6% for three years; 84% of LIBOR thereafter	September 2030

The objective of these transactions is to assume the tax-basis risk for a portion of the fixed-rate exposure on outstanding long-term indebtedness in exchange for positive cash flows. These transactions do not meet the criteria for hedge accounting; therefore, any changes in fair value under these agreements are recorded as part of investment income in the consolidated statements of operations. The fair value of these swaps is determined by the spread in interest rates.

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(6) Investments in Unconsolidated Affiliates

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

		2019	2018
PacificSource	$	168,064	133,489
Lifeflight Network		32,812	26,655
Other		10,379	12,044
Total investments in unconsolidated affiliates	$	211,255	172,188

In September 2016, Legacy completed a transaction to acquire up to a 50% ownership interest in PacificSource (PS). PS is the sole corporate member of PacificSource Health Plans, a not-for-profit community health plan offering commercial medical and dental plans in Oregon, Idaho, Montana, and Washington. PS is also the sole corporate member of PacificSource Community Health Plans, a health insurance company licensed in the states of Oregon, Idaho, and Montana, which offers Medicare Advantage and, through a subsidiary, Medicaid plans. PS owns 60% of the outstanding shares of Idaho Physicians Network, Inc., a physician contracting network.

An initial investment of $100,000 was funded with unrestricted cash and investments in September 2016 to acquire a 28.8% interest in PS. Legacy's agreement with PS includes plans for additional investments over five years to attain 50% ownership before September 2021. Legacy's equity interest was 39.1% and 34.4% as of March 31, 2019 and 2018, respectively. The following table represents assets, liabilities, and net assets of PS per audited financial statements as of December 31 and the related operating results for the year ended December 31:

		2018	2017
Assets	$	564,936	541,311
Liabilities		249,853	277,642
Net assets:			
Unrestricted		324,089	264,114
Accumulated other comprehensive loss		(9,673)	(1,094)
Noncontrolling interests		667	649
Total net assets without donor restrictions		315,083	263,669
Total liabilities and net assets	$	564,936	541,311

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		2018	2017
Underwriting income	$	36,821	36,559
Other income		8,142	4,370
Income tax expense		(14,438)	(12,407)
Net income	$	30,525	28,522

Legacy recorded net income on the investment in PS of $8,351 and $8,588 in 2019 and 2018, respectively. Legacy recorded $3,276 and $4,383 of amortization expense in 2019 and 2018, 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 $3,578 and $3,284 in 2019 and 2018, respectively, for third-party health claims administration services for Legacy's self-insured health benefit plan, which are included in wages, salaries, and benefits in the consolidated statements of operations.

(7) Property, Plant, and Equipment

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

		2019	2018
Land	$	53,122	51,421
Land improvements		22,929	19,880
Buildings and improvements		1,219,654	1,193,350
Equipment and software		934,758	914,276
Construction in progress		40,171	29,588
		2,270,634	2,208,515
Accumulated depreciation		(1,459,675)	(1,368,186)
	$	810,959	840,329

There were capital expenditure purchase commitments outstanding as of March 31, 2019 for various construction and equipment projects. The estimated cost to complete such projects at March 31, 2019 was $268,420, of which $14,390 was contractually committed.

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(Dollars in thousands)

(8) Long-Term Debt

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

		2019	2018
Hospital Revenue Bonds, Series 2008, payable in installments through 2038, subject to a seven-day put provision; variable interest rate	$	100,000	100,000
Hospital Revenue Bonds, Series 2010A, payable in installments from $2,125 to $2,735 through 2030, at rates ranging from 4.375% to 5.0%, callable on or after March 2020		26,425	28,465
Hospital Revenue Bonds, Series 2011A, payable in installments from $19,980 to $22,060 through 2021, at rates ranging from 4.125% to 5.25%		63,010	72,170
Hospital Revenue Bonds, Series 2014A, payable in installments from $2,985 to $10,540 through 2040, at fixed rate of 2.425% subject to a mandatory tender on June 30, 2021, at which time Legacy can remarket the bonds, convert the bonds to a different mode, or pay off the bonds		71,720	71,720
Hospital Revenue Bonds, Series 2016A, payable in installments from $1,950 to $28,330 through 2047, at rates ranging from 3.0% to 5.0%, callable on or after June 2027		288,635	288,635
Other debt		985	932
		550,775	561,922
Deferred financing costs		25,146	26,677
Less current portion		(22,390)	(11,532)
	$	553,531	577,067

Interest cost incurred related to funds borrowed was $16,473 and $18,495 in 2019 and 2018, respectively. These amounts were reduced by $883 and $526 in 2019 and 2018, respectively, in the consolidated statements of operations for amounts capitalized for construction and other capital projects.

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(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:

2020	$	22,390
2021		23,380
2022		24,531
2023		12,909
2024		13,310
Thereafter		454,255
	$	550,775

The master trust indenture and other loan agreements covering these obligations contain, among other things, provisions placing restrictions on additional borrowings and leases and require the maintenance of debt service coverage and other ratios.

In November 2008, Legacy issued $150,000 of Revenue Bonds Series 2008 (2008 Bonds), which are unsecured, variable-rate debt in an initial short-term interest rate mode, through the Hospital Facility Authority of Clackamas County, Oregon. The proceeds from the 2008 Bonds were restricted for capital expenditures and to pay the expenses incurred with the issuance. The 2008 Bonds, while subject to a long-term amortization period, may be put to Legacy at the option of the bondholders at certain remarketing dates. Series C ($50,000) of the 2008 Bonds were refinanced in November 2016. In conjunction with the issuance, Legacy has entered into four year letter of credit and reimbursement agreements with a national bank, whereby the bank will purchase any bonds that are put by bondholders and not successfully remarketed. In the event of a draw under this agreement, there are no principal payments due within a year. If the bonds have not been remarketed or redeemed and amounts remain outstanding after a year, such amounts are converted to a term loan due in eight quarterly payments. As a result, the 2008 Bonds are classified as long-term.

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

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

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

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

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(9) 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	
	2019	2018	2019	2018
Education	$ 8,053	7,916	3,035	2,831
Patient care	21,016	21,801	11,319	10,897
Research	5,363	6,674	1,950	1,949
Capital acquisition	5,440	7,074	—	—
Other	6,254	4,483	383	383
	$ 46,126	47,948	16,687	16,060

(10) Functional Expenses

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

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

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

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(Dollars in thousands)

	2018				
	Hospital services	Physician services	Lab and other health services	Support services	Total
Wages, salaries, and benefits	$ 765,136	246,674	49,804	186,863	1,248,477
Supplies	270,283	13,888	22,870	21,004	328,045
Professional fees	44,988	1,294	23	8,177	54,482
Purchased services	30,581	4,998	10,290	85,233	131,102
Purchased lab services	55,499	—	(55,499)	—	—
Purchased medical services	27,406	—	—	—	27,406
Utilities, insurance, and other expenses	27,905	20,363	5	113,685	161,958
Depreciation	63,084	2,722	2,417	34,643	102,866
Interest and amortization	14,338	16	—	4,182	18,536
	$ 1,299,220	289,955	29,910	453,787	2,072,872

(11) Retirement Plans

(a) Defined Contribution Plans

Legacy sponsors defined contribution retirement plans that cover substantially all employees. The plans provide for employer matching contributions in an amount equal to a percentage of employee pretax contributions, up to a maximum. Expense related to these plans was $59,620 and $55,353 for 2019 and 2018, respectively.

(b) Pension Benefit Plans

Legacy sponsors a pension plan, the Legacy Employees' Retirement Plan (the Plan). The retirement benefits of all participants in the Plan were frozen effective December 31, 2016 (the Freeze Date). No benefit service after the Freeze Date will be taken into account in determining a participant's retirement benefits. After the Freeze Date, future retirement benefits are provided by the defined contribution plans. Legacy uses a measurement date of March 31 for the Plan.

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

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

		2019	2018
Change in projected benefit obligation:			
Projected benefit obligation at beginning of year	$	914,952	897,087
Interest cost		36,408	37,338
Actuarial loss		11,879	24,528
Benefits paid		(47,770)	(44,001)
Projected benefit obligation at end of year		915,469	914,952
Change in plan assets:			
Fair value of assets at beginning of year		811,292	780,508
Actual return on plan assets		37,987	74,785
Employer contribution		84	—
Benefits paid		(47,770)	(44,001)
Fair value of assets at end of year		801,593	811,292
Funded status	$	(113,876)	(103,660)
Unrecognized net actuarial loss	$	278,362	258,996
Accumulated benefit obligation		915,469	914,952

The prior service credit and actuarial losses included in unrestricted net assets without donor restrictions and expected to be recognized in net periodic pension cost during the year ending March 31, 2020 are $0 and $5,444, respectively.

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

		2019	2018
Interest cost	$	36,408	37,338
Expected return on plan assets		(50,395)	(49,972)
Special recognition curtailments and settlements		12	—
Recognized net actuarial loss		4,910	4,294
Net periodic pension benefit	$	(9,065)	(8,340)

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(i) Assumptions

Legacy used the following actuarial assumptions to determine its benefit obligations at March 31 and its net periodic benefit cost for the years ended March 31:

	2019	2018
Benefit obligation (measured as of March 31):		
Discount rate	4.00 %	4.09 %
	2018	**2017**
Net periodic benefit cost (measured as of March 31):		
Discount rate	4.09 %	4.29 %
Long-term rate of return	6.50	6.50

The source data for the discount rate used to determine the benefit obligation was a universe of AA or higher rated U.S. dollar denominated bonds with similar maturities to the projected benefit payments. The expected long-term rate of return on plan assets was based on Legacy's asset allocation mix and the long-term historical return for each asset class, taking into account current and expected market conditions. The source data for the mortality table utilized was the RP-2014 Blue Collar Blended Employee and Annuitant for all annuitants as of December 31, 2014. All mortality tables were projected forward to 2027 using improvements rates determined on Legacy's specific population of participants.

(ii) Pension Plan Assets

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

	2019 Target allocation	2019	2018 Target allocation	2018
Equity securities	42%–75%	54 %	22%–40%	33 %
Fixed income	40%–100%	42	35%–48%	42
Real estate	— %	3	0%–15%	8
Absolute return funds	— %	—	0%–18%	15
Alternative investments	— %	1	0%–5%	2

Pension plan assets are managed according to an investment policy adopted by the Legacy Health Employees Retirement Plan Trustees. Professional investment managers are retained to manage specific asset classes and professional consulting is utilized for investment performance reporting. The primary objectives are to preserve and grow the assets to provide for long-term benefit payments. Diversification is intended to reduce the risk of large losses and enhance opportunities for appropriate appreciation along with current income. It is also an objective to invest a significant portion of the assets in fixed-income assets that have a similar interest rate sensitivity as the projected liabilities for the Plan. Assets are rebalanced quarterly when balances fall outside of the approved range for each asset class.

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

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

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	March 31, 2018			
	Level 1	Level 2	Level 3	Total fair value
Cash and cash equivalents	$ 17,526	—	—	17,526
Mutual funds – equity	191,747	—	—	191,747
Equity securities:				
Domestic	63,278	—	—	63,278
Foreign	7,433	—	—	7,433
Mutual funds – fixed income	113,927	—	—	113,927
Domestic debt securities:				
State and federal government	—	35,126	—	35,126
Corporate and securitized	—	17,319	—	17,319
Foreign debt securities	—	3,674	—	3,674
Commingled funds	164,090	—	—	164,090
Absolute return funds	78,579	—	—	78,579
Derivative assets, net	—	1,228	—	1,228
	$ 636,580	57,347	—	693,927
Investments measured using NAV as a practical expedient				123,771
Unsettled trades				(6,406)
Total assets at fair value				$ 811,292

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

	2019	2018	Redemption frequency	Redemption notice period
Hedge funds	$ 1,867	38,485	Quarterly	60–95 days
Private real estate	24,970	71,256	Quarterly	60–95 days
Private equity	10,865	14,030	N/A	N/A
Total	$ 37,702	123,771		

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.

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

		2019	2018
Derivative assets:			
Future contracts	$	14,285	19,181
Other derivatives and forward setting contracts		933	1,661
		15,218	20,842
Derivative liabilities:			
Future contracts		(14,285)	(19,181)
Other derivatives and forward setting contracts		(390)	(433)
		(14,675)	(19,614)
Net investment derivative assets	$	543	1,228

(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:

2020	$	51,870
2021		50,693
2022		52,280
2023		52,948
2024		55,368
2025–2029		282,737

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

(12) Commitments and Contingencies

(a) Professional and General Liability

Legacy is self-insured for professional and general liability coverage. Legacy accrues estimated general and professional liability claims based upon management's estimate of the ultimate costs for both reported claims and actuarially determined estimates of claims incurred but not reported. Coverage in excess of self-insurance limits is provided on a claims-made basis through Legacy's captive insurance company, LHSIC.

LEGACY HEALTH

Notes to Consolidated Financial Statements

March 31, 2019 and 2018

(Dollars in thousands)

(b) Employee Benefits

Legacy is self-insured for workers' compensation, employee health, and long-term and short-term disability. Legacy accrues the unpaid portion of claims that have been reported and estimates of claims that have been incurred but not reported based on an actuarial study.

(c) Operating Leases

Legacy leases various equipment and real property under operating leases. Future minimum lease commitments under noncancelable operating leases for the years ending March 31 are as follows:

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

Rent expense for 2019 and 2018 totaled $16,182 and $15,706, respectively.

(d) Collective Bargaining Agreements

Approximately 10% of Legacy employees were covered under collective bargaining agreements at March 31, 2019, including certain service and maintenance employees. Approximately 36 employees are covered by collective bargaining agreements that expire within one year.

(13) Compliance with Laws and Regulations

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

Management is aware of certain asserted and unasserted claims and regulatory matters arising in the ordinary course of business. After consultation with legal counsel, management estimates these matters will be resolved without material adverse effect to Legacy's consolidated financial statements.

LEGACY HEALTH

Notes to Consolidated Financial Statements

March 31, 2019 and 2018

(Dollars in thousands)

(14) Subsequent Events

Legacy evaluated and disclosed all material subsequent events through June 20, 2019, the date the consolidated financial statements were issued.

LEGACY HEALTH

Consolidating Schedule of Balance Sheet Information

March 31, 2019 and 2018

(Dollars in thousands)

Assets		Credit reporting group	Other affiliates and eliminations	March 31, 2019 consolidated	March 31, 2018 consolidated
Current assets:					
Cash and cash equivalents	$	89,057	200	89,257	67,256
Short-term investments		10	—	10	31,158
Accounts receivable from patients, net		264,069	15,594	279,663	254,574
Settlements receivable from third-party payors, net		24,365	2,058	26,423	12,438
Other receivables		59,480	11,143	70,623	52,770
Inventories		22,398	1,312	23,710	23,390
Prepaid expenses		14,195	648	14,843	14,064
Total current assets		473,574	30,955	504,529	455,650
Assets limited as to use		140,854	—	140,854	157,328
Property, plant, and equipment, net		783,583	27,376	810,959	840,329
Noncurrent investments		938,425	—	938,425	867,443
Investments in unconsolidated affiliates		216,385	(5,130)	211,255	172,188
Other assets		9,681	26,182	35,863	36,250
Interaffiliate receivable (payable)		(3,587)	3,587	—	—
Total assets	$	2,558,915	82,970	2,641,885	2,529,188
Liabilities and Net Assets					
Current liabilities:					
Accounts payable	$	51,294	3,551	54,845	53,745
Accrued wages, salaries, and benefits		143,740	7,352	151,092	131,319
Accrued interest		6,060	—	6,060	6,244
Other current liabilities		53,185	14,068	67,253	61,688
Current portion of long-term debt		22,105	285	22,390	11,532
Total current liabilities		276,384	25,256	301,640	264,528
Long-term debt, less current portion		552,831	700	553,531	577,067
General and professional claims liability		39,303	3,942	43,245	41,482
Pension liability		113,876	—	113,876	103,660
Other liabilities		47,355	416	47,771	43,486
Total liabilities		1,029,749	30,314	1,060,063	1,030,223
Net assets:					
Without donor restrictions, controlling		1,467,165	31,230	1,498,395	1,414,039
Without donor restrictions, noncontrolling		—	20,614	20,614	20,918
With donor restrictions		62,001	812	62,813	64,008
Total net assets		1,529,166	52,656	1,581,822	1,498,965
Total liabilities and net assets	$	2,558,915	82,970	2,641,885	2,529,188

See accompanying independent auditors' report.

LEGACY HEALTH

Consolidating Schedule of Operations Information

Years ended March 31, 2019 and 2018

(Dollars in thousands)

		Credit reporting group	Other affiliates and eliminations	Year ended March 31, 2019 consolidated	Year ended March 31, 2018 consolidated
Operating revenues:					
Net patient service revenue	$	1,936,273	130,400	2,066,673	1,979,603
Capitation revenue		164	47,474	47,638	39,435
Other revenue		112,663	(7,606)	105,057	98,832
Total operating revenues		2,049,100	170,268	2,219,368	2,117,870
Operating expenses:					
Wages, salaries, and benefits		1,233,774	81,705	1,315,479	1,248,477
Supplies		316,603	17,500	334,103	328,045
Professional fees		47,925	5,015	52,940	54,482
Purchased services		116,803	12,383	129,186	131,102
Purchased medical services		—	43,183	43,183	27,406
Utilities, insurance, and other expenses		156,966	12,659	169,625	161,957
Depreciation		95,592	3,353	98,945	102,867
Interest and amortization		16,481	54	16,535	18,536
Management fees		(1,100)	1,100	—	—
Total operating expenses		1,983,044	176,952	2,159,996	2,072,872
Income from operations		66,056	(6,684)	59,372	44,998
Nonoperating income (loss):					
Investment income, net		54,251	130	54,381	67,996
Other, net		(9,971)	(277)	(10,248)	(12,817)
Total nonoperating income		44,280	(147)	44,133	55,179
Excess of revenues over expenses		110,336	(6,831)	103,505	100,177
Change in pension liability		(19,208)	(157)	(19,365)	4,579
Net assets released from restriction		2,832	—	2,832	8,598
Distributions to joint venture partners		—	(2,920)	(2,920)	(2,528)
Other		—	—	—	(19)
Change in net assets without donor restrictions	$	93,960	(9,908)	84,052	110,807

See accompanying independent auditors’ report.

LEGACY HEALTH

Consolidated Financial and Statistical Highlights

Years ended March 31

(Unaudited)

	2019	2018	2017	2016
Utilization:				
Average number of available beds	1,253	1,236	1,177	1,093
Discharges	62,746	64,280	62,798	59,308
Adjusted discharges	125,605	122,602	115,117	106,274
Patient days	304,398	315,073	297,537	274,338
Average length of stay	4.9	4.9	4.7	4.6
Percentage occupancy	66.6 %	69.8 %	69.3 %	68.8 %
Emergency room visits	290,940	294,135	233,215	216,518
Clinic visits	1,267,733	1,163,784	1,040,401	879,296
Surgical cases – inpatient	16,572	17,059	17,666	16,967
Surgical cases – outpatient	29,153	28,076	26,631	24,841
Average full-time equivalent (FTE) employees:				
Number of paid FTEs	11,310	11,249	10,675	9,473
FTEs per adjusted occupied bed	6.8	6.8	7.1	7.1
Ratios:				
Operating margin	2.7 %	2.1 %	2.9 %	5.0 %
Net days in accounts receivable	45.9	45.7	51.7	47.4
Days cash on hand	180.6	177.7	175.8	192.6
Capitalization	26.9 %	28.4 %	30.5 %	27.2 %

See accompanying independent auditors' report.

KPMG

LEGACY HEALTH

Consolidated Financial Statements and Other Financial Information

March 31, 2020 and 2019

(With Independent Auditors' Report Thereon)

LEGACY HEALTH

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

Independent Auditors' Report

The Board of Directors
Legacy Health:

We have audited the accompanying consolidated financial statements of Legacy Health, which comprise the consolidated balance sheets as of March 31, 2020 and 2019, and the related consolidated statements of operations, changes in net assets, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Legacy Health as of March 31, 2020 and 2019, and the results of their operations and their cash flows for the years then ended, in accordance with U.S. generally accepted accounting principles.

Emphasis of Matter

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

KPMG

Other Matters

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The supplemental information included in the consolidating schedule of balance sheet information and consolidating schedule of operations information is presented for the purposes of additional analysis and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the consolidated financial statements as a whole.

The consolidated financial and statistical highlights is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the consolidated financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

KPMG LLP

Portland, Oregon
June 30, 2020

LEGACY HEALTH

Consolidated Balance Sheets

March 31, 2020 and 2019

(Dollars in thousands)

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

See accompanying notes to consolidated financial statements.

LEGACY HEALTH

Consolidated Statements of Operations

Years ended March 31, 2020 and 2019

(Dollars in thousands)

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

See accompanying notes to consolidated financial statements.

LEGACY HEALTH

Consolidated Statements of Changes in Net Assets

Years ended March 31, 2020 and 2019

(Dollars in thousands)

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

See accompanying notes to consolidated financial statements.

LEGACY HEALTH

Consolidated Statements of Cash Flows

Years ended March 31, 2020 and 2019

(Dollars in thousands)

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

See accompanying notes to consolidated financial statements.

LEGACY HEALTH

Notes to Consolidated Financial Statements

March 31, 2020 and 2019

Dollars in thousands

(1) Organization and Summary of Significant Accounting Policies

(a) Organization and Basis of Consolidation

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

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

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

On June 1, 2016, Legacy became the sole corporate member of Silverton Health (SH) and affiliates, assuming their operations and assets, in exchange for the assumption of their liabilities and outstanding debt obligations. Among the requirements of the affiliation agreement are for Legacy to operate SH's hospital and additional health facilities for 10 years, invest $57,600 within 8 years to grow and improve patient care services at SH (of which $16,848 has been invested as of March 31, 2020) and provide the Silverton Health Foundation with a contribution of $3,000.

(b) Use of Estimates

The preparation of consolidated financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates. Significant estimates include implicit and explicit price concessions on patient accounts receivable, self-insured liabilities, and pension obligations.

(c) Income Taxes

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

LEGACY HEALTH

Notes to Consolidated Financial Statements

March 31, 2020 and 2019

Dollars in thousands

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

(d) Income from Operations

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

(e) Excess of Revenues Over Expenses

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

(f) Fair Value Measurements

Accounting Standards Codification Topic 820, *Fair Value Measurement*, establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to measurements involving significant unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are as follows:

- Level 1 inputs include quoted prices (unadjusted) in active markets for identical assets and liabilities.
- Level 2 inputs include inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.
- Level 3 inputs are unobservable inputs for the asset or liability.

The level in the fair value hierarchy within which a fair value measurement in its entirety falls is based on the lowest level input that is significant to the fair value measurement. Investments valued utilizing net asset value (NAV) as a practical expedient are excluded from the hierarchy.

(g) Net Patient Service Revenue

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

Revenue for performance obligations satisfied over time, generally relating to patients in Legacy's hospitals receiving inpatient acute care services, is recognized based on actual goods or services

LEGACY HEALTH

Notes to Consolidated Financial Statements

March 31, 2020 and 2019

Dollars in thousands

provided. Revenue for performance obligations satisfied at a point in time is recognized when goods or services are provided and Legacy does not believe it is required to provide additional goods or services to the patient. The timing of revenue and recognition of substantially all services is at the time services are rendered.

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

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

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

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

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

LEGACY HEALTH

Notes to Consolidated Financial Statements

March 31, 2020 and 2019

Dollars in thousands

(h) Capitation Revenue

Capitation revenue is received on a prepaid basis and is recognized as revenue during the month for which the enrolled member is entitled to healthcare services. Capitation revenue received for future months is recorded as unearned revenue.

(i) Cash and Cash Equivalents

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

(j) Inventories

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

(k) Property, Plant, and Equipment

Property, plant, and equipment are stated at cost. Donated items are reported at fair market value on the date of donation. Interest cost incurred on borrowed funds during the period of construction of capital assets is capitalized as a component of acquiring those assets.

Impairment of property, plant, and equipment is assessed when there is evidence that events or changes in circumstances have made recovery of the net carrying value of assets unlikely.

Depreciation is determined by the straight-line method, which allocates cost equally over the estimated useful life. Average useful lives are as follows: buildings and improvements, 27 years; equipment and software, 6 years; and land improvements, 14 years.

(l) Leases

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

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

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

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

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

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

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

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

Unconditional promises to give cash and other assets to Legacy are reported at fair value at the date the promise is received. Conditional promises to give and indications of intentions to give are reported at fair value at the date the condition is satisfied or the gift is received. Gifts or grants are reported as restricted contributions if they are received with donor or grantor stipulations that limit the use of the donated assets. When the terms of a donor or grantor restriction are met, net assets with donor restrictions may be reclassified as net assets without donor restrictions and reported in the consolidated statements of operations or consolidated statements of changes in net assets as net assets released from restriction. Donor-restricted contributions whose restrictions are met within the same year as received are reported as unrestricted contributions.

(o) Charitable Gift Annuities

Legacy has certificates of authority from the State of Oregon and the State of Washington to receive transfers of money or property upon agreement to pay an annuity. A charitable gift annuity is an arrangement between a donor and Legacy in which the donor contributes assets to Legacy in exchange for Legacy's agreement to pay a fixed amount for a specified period of time to the donor or other individuals and organizations as designated by the donor (annuitant). Upon execution of such an arrangement, Legacy recognizes the assets received at fair value and an annuity payment liability at the present value of future cash flows expected to be paid. Contribution revenue is recognized based upon the difference between these two amounts based on donor intent for the proceeds. In subsequent

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periods, payments to the annuitant reduce the annuity liability. Adjustments to the annuity liability to reflect amortization of the discount, changes in life expectancy, and death of the annuitant are recognized as other operating expenses. The annuity liability included in other current liabilities in the consolidated balance sheets as of March 31, 2020 and 2019 was $66 and $80, respectively. The annuities are not issued by an insurance company and are not subject to regulation by the State of Oregon or protected by an insurance guaranty association.

Although Legacy is exempt under Oregon Revised Statute 731.039 from the requirement to maintain a separate and distinct trust fund adequate to meet the actuarially determined future payments of the charitable gift annuities, Legacy does maintain trust accounts with a bank for all gift annuities. The amounts under trust were $128 and $169 as of March 31, 2020 and 2019, respectively. These marketable securities are comprised of cash equivalents and other fixed income instruments.

(p) New Accounting Pronouncements

In February 2016, the Financial Accounting Standards Board (FASB) issued ASU No. 2016-02, *Leases*, which requires lessees to recognize a lease liability and a right of use asset for all lease obligations with exception for short-term leases. The lease liability represents the lessee's obligation to make lease payments arising from the lease measured on a discounted basis and the right of use asset represents the lessee's right to use or control the use of a specified asset for a lease term. Legacy implemented the new standard effective April 1, 2019 on a prospective basis. Lease liabilities and related right of use assets were $65,536 and $65,136 respectively as of March 31, 2020.

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

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

(q) Reclassifications

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

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(2) Net Patient Service Revenue

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

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

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

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

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(3) Benefits to the Community

Legacy provides services to the community both for people in need and to enhance the health status of the broader community as part of its charitable mission. The following tables represent the estimated cost of providing certain services to the community:

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

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

(a) *Services for People in Need*

In support of its mission, Legacy provides medically necessary patient care services that are discounted or free of charge to persons who have insufficient resources and/or who are uninsured. The criteria for charity care is determined based on eligibility for insurance coverage, household income, qualified assets, catastrophic medical events, or other information supporting a patient's inability to pay for services provided. Specifically, Legacy provides an uninsured discount of 35% to patients. Additional discounts, on a sliding scale, are available to patients whose household income is less than 400% of the federal poverty level. For patients whose household income is at or below 300% of the federal poverty level, a full subsidy is available. In addition to the household income criteria, patients' qualified assets (e.g., 25% of household assets) and other catastrophic or economic circumstances are considered in determining eligibility for charity care. During 2020 and 2019, Legacy provided charity care benefiting patients associated with 65,784 and 65,210 patient accounts, respectively.

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

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

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

(b) Benefits to the Community

Medical education and research includes the unreimbursed cost of nursing education, graduate medical education, and research.

Community health services include classes provided to the community at minimal or no cost, health education for children and parents with young families, resource centers, support groups, health screenings, senior wellness, volunteer programs, caregiver respite, and support for parish nursing programs.

Community benefit activities include activities that develop community health programs and partnerships. Donations to charitable organizations include direct support provided to community organizations through cash or in-kind donations to enhance those organizations' missions of supporting health and human services, civic and community causes, and business development efforts. In-kind contributions provided by Legacy include facility space, staff availability for training and education opportunities, supplies, and professional services in collaboration with charitable, educational, and government organizations throughout its community.

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

(c) Other Benefits

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

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

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

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(4) Liquidity and Availability

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

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

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(5) Investments

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

	March 31, 2020			
	Level 1	Level 2	Level 3	Total fair value
Cash equivalents	$ 72,165	—	—	72,165
Mutual funds – equity	266,038	—	—	266,038
Equity securities:				
Domestic	151,303	—	—	151,303
Foreign	20,999	—	—	20,999
Mutual funds – fixed income	33,141	—	—	33,141
Domestic debt securities:				
State and federal governments	—	59,346	—	59,346
Corporate and securitized	—	274,581	—	274,581
Foreign debt securities	—	33,615	—	33,615
Commingled funds	—	51,865	—	51,865
Interest rate swaps	—	6,519	—	6,519
Derivatives, net	—	(25)	—	(25)
	$ 543,646	425,901	—	969,547
Investments measured using NAV as a practical expedient				34,814
Total investments				$ 1,004,361

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

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

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

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

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

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

As of March 31, 2020, approximately 3% of noncurrent investments require advance written notice of 90 days or longer to redeem the securities. For certain of these investments, it may take up to 90 days to receive the funds after the requested redemption date, and certain redemptions may be subject to other restrictions in accordance with subscription agreements.

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

Notional amount	Cash flow settlement	Legacy pays	Legacy receives	Termination date
$ 82,000	Semiannually	SIFMA index	62% of LIBOR, plus 1.011%	December 2033
50,000	Quarterly	SIFMA index	67% of LIBOR, plus 0.6% for three years; 94.1% of LIBOR thereafter	April 2029
50,000	Quarterly	SIFMA index	67% of LIBOR, plus 0.6% for three years; 84.45% of LIBOR thereafter	September 2030
50,000	Quarterly	SIFMA index	67% of LIBOR, plus 0.6% for three years; 84% of LIBOR thereafter	September 2030

The objective of these transactions is to assume the tax-basis risk for a portion of the fixed-rate exposure on outstanding long-term indebtedness in exchange for positive cash flows. These transactions do not meet the criteria for hedge accounting; therefore, any changes in fair value under these agreements are recorded as part of investment income in the consolidated statements of operations. The fair value of these swaps is determined by the spread in interest rates.

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(6) Investments in Unconsolidated Affiliates

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

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

In September 2016, Legacy completed a transaction to acquire up to a 50% ownership interest in PacificSource (PS). PS is the sole corporate member of PacificSource Health Plans, a not-for-profit community health plan offering commercial medical and dental plans in Oregon, Idaho, Montana, and Washington. PS is also the sole corporate member of PacificSource Community Health Plans, a health insurance company licensed in the states of Oregon, Idaho, and Montana, which offers Medicare Advantage and, through a subsidiary, Medicaid plans. PS owns 60% of the outstanding shares of Idaho Physicians Network, Inc., a physician contracting network.

An initial investment of $100,000 was funded with unrestricted cash and investments in September 2016 to acquire a 28.8% interest in PS. Legacy's agreement with PS includes plans for additional investments over five years to attain 50% ownership in September 2021. Legacy's equity interest was 43.2% and 39.1% as of March 31, 2020 and 2019, respectively. The following table represents assets, liabilities, and net assets of PS per audited financial statements as of December 31 and the related operating results for the year ended December 31:

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

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

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

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

(7) Property, Plant, and Equipment

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

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

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

(8) Leases

Legacy leases various equipment and real property and has classified these leases as operating leases. These leases generally contain renewal options for periods ranging from three to five years. Unless Legacy is reasonably certain to exercise these renewal options, the optional periods are not included in determining the lease term, and associated payments under these renewal options are excluded from

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lease payments. Legacy's leases do not include termination options for either party to the lease or restrictive financial or other covenants. Payments due under the lease contracts include fixed payments plus any variable payments. Some of Legacy's office and medical space leases require variable payments for Legacy's proportionate share of the building's property taxes, insurance, and common area maintenance. These variable lease payments are not included in lease payments used to determine lease liability and are recognized as variable costs when incurred.

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

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

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

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

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

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

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

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

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

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

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(9) Long-Term Debt

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

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

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

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

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

The master trust indenture and other loan agreements covering these obligations contain, among other things, provisions placing restrictions on additional borrowings and leases and require the maintenance of debt service coverage and other ratios. The Credit Group, which was formed to facilitate borrowing, includes Legacy, LEH, LGS, LMP, LMH, LSC, and the Foundations.

In November 2008, Legacy issued $150,000 of Revenue Bonds Series 2008 (2008 Bonds), which are unsecured, variable-rate debt in an initial short-term interest rate mode, through the Hospital Facility Authority of Clackamas County, Oregon. The proceeds from the 2008 Bonds were restricted for capital expenditures and to pay the expenses incurred with the issuance. The 2008 Bonds, while subject to a long-term amortization period, may be put to Legacy at the option of the bondholders at certain remarketing dates. Series C ($50,000) of the 2008 Bonds were refinanced in November 2016. In conjunction with the issuance, Legacy arranged letter of credit and reimbursement agreements with a national bank, whereby the bank will purchase any bonds that are put by bondholders and not successfully remarketed. The letter of credit is due to expire in June 2022. In the event of a draw under this agreement, there are no principal payments due within a year. If the bonds have not been remarketed or redeemed and amounts remain outstanding after a year, such amounts are converted to a term loan due in eight quarterly payments. As a result, the 2008 Bonds are classified as long-term.

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

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

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

In November 2016, Legacy issued $288,635 of Revenue Bonds Series 2016A (2016 Bonds) through the Oregon Facilities Authority. The proceeds from the 2016 Bonds will be used for capital expenditures, debt

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Notes to Consolidated Financial Statements

March 31, 2020 and 2019

Dollars in thousands

service during the construction period, and expenses incurred for the issuance. A portion of the proceeds was used to refinance Series C of the 2008 Bonds and other previously issued debt.

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

(10) Net Assets with Donor Restrictions

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

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

(11) Functional Expenses

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

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

LEGACY HEALTH

Notes to Consolidated Financial Statements

March 31, 2020 and 2019

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

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

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

(12) Retirement Plans

(a) Defined Contribution Plans

Legacy sponsors defined contribution retirement plans that cover substantially all employees. The plans provide for employer matching contributions in an amount equal to a percentage of employee pretax contributions, up to a maximum. Expense related to these plans was $62,797 and $59,620 for 2020 and 2019, respectively.

(b) Pension Benefit Plans

Legacy sponsors a pension plan, the Legacy Employees' Retirement Plan (the Plan). The retirement benefits of all participants in the Plan were frozen effective December 31, 2016 (the Freeze Date). No

LEGACY HEALTH

Notes to Consolidated Financial Statements

March 31, 2020 and 2019

Dollars in thousands

benefit service after the Freeze Date will be taken into account in determining a participant's retirement benefits. After the Freeze Date, future retirement benefits are provided by the defined contribution plans.

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

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

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

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

LEGACY HEALTH

Notes to Consolidated Financial Statements

March 31, 2020 and 2019

Dollars in thousands

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

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

(i) Assumptions

Legacy used the following actuarial assumptions to determine its benefit obligations at March 31 and its net periodic benefit cost for the years ended March 31:

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

The source data for the discount rate used to determine the benefit obligation was a universe of AA or higher rated U.S. dollar denominated bonds with similar maturities to the projected benefit payments. The expected long-term rate of return on plan assets was based on Legacy's asset allocation mix and the long-term historical return for each asset class, taking into account current and expected market conditions. The source data for the mortality table utilized for 2020 was the Pri-2012 Blue Collar Tables for Employees and Annuitants, projected using MP-2019 to reflect both current and future improvements in mortality. The source data for the mortality table utilized for 2019 was the RP-2014 Blue Collar Blended Employee and Annuitant using the RPEC 2014 projection scale.

LEGACY HEALTH

Notes to Consolidated Financial Statements

March 31, 2020 and 2019

Dollars in thousands

(ii) Pension Plan Assets

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

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

Pension plan assets are managed according to an investment policy adopted by the Legacy Health Employees Retirement Plan Trustees. Professional investment managers are retained to manage specific asset classes and professional consulting is utilized for investment performance reporting. The primary objectives are to preserve and grow the assets to provide for long-term benefit payments. Diversification is intended to reduce the risk of large losses and enhance opportunities for appropriate appreciation along with current income. It is also an objective to invest a significant portion of the assets in fixed-income assets that have a similar interest rate sensitivity as the projected liabilities for the Plan. Assets are rebalanced when balances fall outside of the approved range for each asset class.

LEGACY HEALTH

Notes to Consolidated Financial Statements

March 31, 2020 and 2019

Dollars in thousands

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

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

LEGACY HEALTH

Notes to Consolidated Financial Statements

March 31, 2020 and 2019

Dollars in thousands

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

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

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

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

LEGACY HEALTH

Notes to Consolidated Financial Statements

March 31, 2020 and 2019

Dollars in thousands

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

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

(iii) Cash Flows

Legacy's policy with respect to funding the qualified plans is to fund at least the minimum required by the Employee Retirement Income Security Act of 1974, as amended, plus such additional amounts as deemed appropriate.

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

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

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

(13) Commitments and Contingencies

(a) Professional and General Liability

Legacy is self-insured for professional and general liability coverage. Legacy accrues estimated general and professional liability claims based upon management's estimate of the ultimate costs for both reported claims and actuarially determined estimates of claims incurred but not reported. Coverage in excess of self-insurance limits is provided on a claims-made basis through Legacy's captive insurance company, LHSIC.

(b) Employee Benefits

Legacy is self-insured for workers' compensation, employee health, and long-term and short-term disability. Legacy accrues the unpaid portion of claims that have been reported and estimates of claims that have been incurred but not reported based on an actuarial study.

(c) Collective Bargaining Agreements

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

(14) Compliance with Laws and Regulations

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

Management is aware of certain asserted and unasserted claims and regulatory matters arising in the ordinary course of business. After consultation with legal counsel, management estimates these matters will be resolved without material adverse effect to Legacy's consolidated financial statements.

(15) COVID-19 Pandemic

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

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

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Notes to Consolidated Financial Statements

March 31, 2020 and 2019

Dollars in thousands

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

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

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

(16) Subsequent Events

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

LEGACY HEALTH

Consolidating Schedule of Balance Sheet Information

March 31, 2020 and 2019

(Dollars in thousands)

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

See accompanying independent auditors' report.

LEGACY HEALTH

Consolidating Schedule of Operations Information

Years ended March 31, 2020 and 2019

(Dollars in thousands)

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

See accompanying independent auditors' report.

LEGACY HEALTH

Consolidated Financial and Statistical Highlights

Years ended March 31

(Unaudited)

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

See accompanying independent auditors' report.

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LEGACY HEALTH

Consolidated Financial Statements and Other Financial Information

March 31, 2021 and 2020

(With Independent Auditors' Report Thereon)

LEGACY HEALTH

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KPMG

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

Independent Auditors' Report

The Board of Directors
Legacy Health:

We have audited the accompanying consolidated financial statements of Legacy Health, which comprise the consolidated balance sheets as of March 31, 2021 and 2020, and the related consolidated statements of operations, changes in net assets, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Legacy Health as of March 31, 2021 and 2020, and the results of their operations and their cash flows for the years then ended, in accordance with U.S. generally accepted accounting principles.

Other Matters

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The supplemental information included in the consolidating schedule of balance sheet information and consolidating schedule of operations information is presented for the purposes of additional analysis and is not

KPMG

a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the consolidated financial statements as a whole.

The consolidated financial and statistical highlights is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the consolidated financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

KPMG LLP

Portland, Oregon
June 18, 2021

LEGACY HEALTH

Consolidated Balance Sheets

March 31, 2021 and 2020

(Dollars in thousands)

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

See accompanying notes to consolidated financial statements.

LEGACY HEALTH

Consolidated Statements of Operations

Years ended March 31, 2021 and 2020

(Dollars in thousands)

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

See accompanying notes to consolidated financial statements.

LEGACY HEALTH

Consolidated Statements of Changes in Net Assets

Years ended March 31, 2021 and 2020

(Dollars in thousands)

		Without donor restrictions, controlling	Without donor restrictions, noncontrolling	With donor restrictions	Total net assets
Balance, March 31, 2019	$	1,498,395	20,614	62,813	1,581,822
Excess of revenues over expenses		33,732	2,466	—	36,198
Change in pension liability		(76,374)	—	—	(76,374)
Restricted contributions and grants		—	—	5,618	5,618
Net assets released from restriction		869	—	(4,363)	(3,494)
Investment gain, net		—	—	(6,919)	(6,919)
Distributions to joint venture partners		(32)	(2,718)	—	(2,750)
Other		(17)	—	17	—
Change in net assets		(41,822)	(252)	(5,647)	(47,721)
Balance, March 31, 2020		1,456,573	20,362	57,166	1,534,101
Excess of revenues over expenses		361,019	2,316	—	363,335
Change in pension liability		234,103	—	—	234,103
Restricted contributions and grants		—	—	8,518	8,518
Net assets released from restriction		1,808	—	(10,521)	(8,713)
Investment gain, net		—	—	16,832	16,832
Distributions to joint venture partners		109	(1,692)	—	(1,583)
Other		35	—	(35)	—
Change in net assets		597,074	624	14,794	612,492
Balance, March 31, 2021	$	2,053,647	20,986	71,960	2,146,593

See accompanying notes to consolidated financial statements.

LEGACY HEALTH

Consolidated Statements of Cash Flows

Years ended March 31, 2021 and 2020

(Dollars in thousands)

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

See accompanying notes to consolidated financial statements.

LEGACY HEALTH

Notes to Consolidated Financial Statements

March 31, 2021 and 2020

(1) Organization and Summary of Significant Accounting Policies

(a) Organization and Basis of Consolidation

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

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

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

On June 1, 2016, Legacy became the sole corporate member of Silverton Health (SH) and affiliates, assuming their operations and assets, in exchange for the assumption of their liabilities and outstanding debt obligations. Among the requirements of the affiliation agreement are for Legacy to operate SH's hospital and additional health facilities for 10 years, invest $57,600 within 8 years to grow and improve patient care services at SH (of which $18,134 has been invested as of March 31, 2021) and provide the Silverton Health Foundation with a contribution of $3,000.

(b) Use of Estimates

The preparation of consolidated financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates. Significant estimates include implicit and explicit price concessions on patient accounts receivable, self-insured liabilities, and pension obligations.

LEGACY HEALTH

Notes to Consolidated Financial Statements

March 31, 2021 and 2020

(c) Income Taxes

Legacy has been recognized as exempt from federal income taxes, except on unrelated business income, under Section 501(a) of the Internal Revenue Code (IRC) as an organization described in Section 501(c)(3) and further described as a public charitable organization under Section 509(a)(3). Substantially all of Legacy's direct affiliates have been granted exemptions from federal income tax under Section 501(a) of the IRC as charitable organizations described in Section 501(c)(3), except MHN, LHSIC, and LUSC. During 2021 and 2020, Legacy did not record any liability for uncertain tax benefits.

(d) Income from Operations

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

(e) Excess of Revenues Over Expenses

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

(f) Fair Value Measurements

Accounting Standards Codification Topic 820, *Fair Value Measurement*, establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to measurements involving significant unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are as follows:

- Level 1 inputs include quoted prices (unadjusted) in active markets for identical assets and liabilities.
- Level 2 inputs include inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.
- Level 3 inputs are unobservable inputs for the asset or liability.

The level in the fair value hierarchy within which a fair value measurement in its entirety falls is based on the lowest level input that is significant to the fair value measurement. Investments valued utilizing net asset value (NAV) as a practical expedient are excluded from the hierarchy.

(g) Net Patient Service Revenue

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

LEGACY HEALTH

Notes to Consolidated Financial Statements

March 31, 2021 and 2020

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

Retroactive settlements with third-party payors due to audits, reviews, or investigations are considered variable consideration and included in the estimated transaction price for providing patient care. These settlements are estimated based on the terms of the agreement with the payor, correspondence from the payor, and Legacy's historical settlement activity and are adjusted in future periods as adjustments become known or as years are settled or are no longer subject to such audits, reviews, and investigations. In 2021 and 2020, Legacy recorded an increase to net patient service revenue of approximately $18,165 and $29,820, respectively, relating to settlement of prior years' reimbursement from Medicare and Medicaid programs.

Generally, patients who are covered by third-party payors are responsible for related deductibles and coinsurance. Legacy also provides services to uninsured patients and offers those uninsured patients a discount from standard charges. Legacy estimates the transaction price for patients with deductibles and coinsurance and from those who are uninsured based on historical experience and current market conditions. Subsequent changes to the estimate of the transaction price are generally recorded as adjustments to patient service revenue in the period of the change. Subsequent changes that are determined to be the result of an adverse change in the patient's ability to pay are recorded as bad debt expense. Bad debt expense for the years ended March 31, 2021 and 2020 was not significant.

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

(h) Capitation Revenue

Capitation revenue is received on a prepaid basis and is recognized as revenue during the month for which the enrolled member is entitled to healthcare services. Capitation revenue received for future months is recorded as unearned revenue. Legacy's most significant capitation arrangement expired on December 31, 2019.

(i) Cash and Cash Equivalents

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

LEGACY HEALTH

Notes to Consolidated Financial Statements

March 31, 2021 and 2020

(j) Inventories

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

(k) Property, Plant, and Equipment

Property, plant, and equipment are stated at cost. Donated items are reported at fair market value on the date of donation. Interest cost incurred on borrowed funds during the period of construction of capital assets is capitalized as a component of acquiring those assets.

Impairment of property, plant, and equipment is assessed when there is evidence that events or changes in circumstances have made recovery of the net carrying value of assets unlikely.

Depreciation is determined by the straight-line method, which allocates cost equally over the estimated useful life. Average useful lives are as follows: buildings and improvements, 27 years; equipment and software, 7 years; and land improvements, 14 years.

(l) Leases

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

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

Assets limited as to use include assets held by trustees under indenture agreements of $36,940 and $81,790 as of March 31, 2021 and 2020, respectively, as well as assets restricted for capital acquisition.

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

LEGACY HEALTH

Notes to Consolidated Financial Statements

March 31, 2021 and 2020

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

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

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

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

Unconditional promises to give cash and other assets to Legacy are reported at fair value at the date the promise is received. Conditional promises to give and indications of intentions to give are reported at fair value at the date the condition is satisfied or the gift is received. Gifts or grants are reported as restricted contributions if they are received with stipulations that limit their use. When the terms of a donor or grantor restriction are met, net assets with donor restrictions may be reclassified as net assets without donor restrictions and reported in the consolidated statements of operations or consolidated statements of changes in net assets as net assets released from restriction. Contributions whose restrictions are met within the same year as received are reported as unrestricted contributions.

(o) Charitable Gift Annuities

Legacy has certificates of authority from the State of Oregon and the State of Washington to receive transfers of money or property upon agreement to pay an annuity. A charitable gift annuity is an arrangement between a donor and Legacy in which the donor contributes assets to Legacy in exchange for Legacy's agreement to pay a fixed amount for a specified period of time to the donor or other individuals and organizations as designated by the donor (annuitant). Upon execution of such an arrangement, Legacy recognizes the assets received at fair value and an annuity payment liability at the present value of future cash flows expected to be paid. Contribution revenue is recognized based upon the difference between these two amounts and on donor intent for the proceeds. In subsequent periods, payments to the annuitant reduce the annuity liability. Adjustments to the annuity liability to reflect amortization of the discount, changes in life expectancy, and death of the annuitant are recognized as other operating expenses. The annuity liability included in other current liabilities in the consolidated balance sheets as of March 31, 2021 and 2020 was $63 and $66, respectively. The annuities are not issued by an insurance company and are not subject to regulation by the State of Oregon or protected by an insurance guaranty association.

Although Legacy is exempt under Oregon Revised Statute 731.039 from the requirement to maintain a separate and distinct trust fund adequate to meet the actuarially determined future payments of the charitable gift annuities, Legacy does maintain trust accounts with a bank for all gift annuities. The amounts under trust were $151 and $128 as of March 31, 2021 and 2020, respectively. These marketable securities are comprised of cash equivalents and other fixed income instruments.

(p) New Accounting Pronouncements

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

(q) Reclassifications

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

(2) COVID-19 Pandemic and CARES Act Funding

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

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

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

LEGACY HEALTH

Notes to Consolidated Financial Statements

March 31, 2021 and 2020

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

(3) Net Patient Service Revenue

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

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

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

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

LEGACY HEALTH

Notes to Consolidated Financial Statements

March 31, 2021 and 2020

(4) Benefits to the Community

Legacy provides services to the community both for people in need and to enhance the health status of the broader community as part of its charitable mission. The following tables represent the estimated cost of providing certain services to the community:

	March 31, 2021			
	In-kind costs	Costs of service	Offsetting revenue	Net cost
Services for people in need:				
Charity care	$ —	42,868	—	42,868
Medicaid	—	581,449	323,275	258,174
Medicare	—	786,702	595,143	191,559
Other government programs	—	30,785	23,205	7,580
	—	1,441,804	941,623	500,181
Benefits to the community:				
Medical education and research	—	22,292	7,621	14,671
Community health services	—	2,101	144	1,957
Community benefit activities	196	—	—	196
Contributions to community organizations	154	4,086	—	4,240
	350	28,479	7,765	21,064
	$ 350	1,470,283	949,388	521,245
Percentage of total operating expenses				23.4 %

LEGACY HEALTH

Notes to Consolidated Financial Statements

March 31, 2021 and 2020

		March 31, 2020			
		In-kind costs	Costs of service	Offsetting revenue	Net cost
Services for people in need:					
Charity care	$	—	51,426	—	51,426
Medicaid		—	533,028	326,392	206,636
Medicare		—	808,207	615,086	193,121
Other government programs		—	26,889	22,335	4,554
		—	1,419,550	963,813	455,737
Benefits to the community:					
Medical education and research		—	27,472	7,668	19,804
Community health services		—	5,134	420	4,714
Community benefit activities		308	87	—	395
Contributions to community organizations		209	2,127	—	2,336
		517	34,820	8,088	27,249
	$	517	1,454,370	971,901	482,986
Percentage of total operating expenses					21.4 %

(a) *Services for People in Need*

In support of its mission, Legacy provides medically necessary patient care services that are discounted or free of charge to persons who have insufficient resources and/or who are uninsured. The criteria for charity care are based on eligibility for insurance coverage, household income, qualified assets, catastrophic medical events, or other information supporting a patient's inability to pay for services provided. Specifically, Legacy provides an uninsured discount of 35% to patients. Additional discounts, on a sliding scale, are available to patients whose household income is less than 400% of the federal poverty level. For patients whose household income is at or below 300% of the federal poverty level, a full subsidy is available. In addition to the household income criteria, patients' qualified assets (e.g., 25% of household assets) and other catastrophic or economic circumstances are considered in determining eligibility for charity care. During 2021 and 2020, Legacy provided charity care benefiting patients associated with 54,409 and 65,784 patient accounts, respectively.

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

Legacy also employs financial counselors and social workers who assist patients in obtaining coverage for their healthcare needs. This includes assistance with workers' compensation, motor vehicle accident policies, COBRA, veterans' assistance, and public assistance programs, such as Medicaid. This program assists many patients in obtaining coverage through a third party, reducing the patients' financial responsibility. The costs associated with this program were $1,251 and $1,220 in 2021 and 2020, respectively.

(b) Benefits to the Community

Medical education and research includes the unreimbursed cost of nursing education, graduate medical education, and research.

Community health services include classes provided to the community at minimal or no cost, health education for children and parents with young families, resource centers, support groups, health screenings, senior wellness, volunteer programs, caregiver respite, and support for parish nursing programs.

Community benefit activities include activities that develop community health programs and partnerships. Contributions to community organizations include direct support provided to community organizations through cash or in-kind donations to enhance those organizations' missions of supporting health and human services, civic and community causes, and business development efforts. In-kind contributions provided by Legacy include facility space, staff availability for training and education opportunities, supplies, and professional services in collaboration with charitable, educational, and government organizations throughout its community.

(c) Other Benefits

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

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

Legacy pays taxes associated with various states' local business and occupation taxes and property taxes that local and state governments use to fund healthcare, civil, and education services to the community. Legacy paid $7,903 and $7,952 in local and state taxes in 2021 and 2020, respectively.

LEGACY HEALTH

Notes to Consolidated Financial Statements

March 31, 2021 and 2020

(5) Liquidity and Availability

As of March 31, 2021 and 2020, Legacy had a working capital of $534,603 and $216,504 and average days (based on normal expenditures) cash on hand of 303.6 and 177.0, respectively. As part of Legacy's liquidity management plan, cash in excess of daily requirements is invested in cash equivalents and short-term investments. Noncurrent investments are classified as such as management does not intend to use them in the next year; however, they are sufficiently liquid that they would be available if needed except those held in private equity and private value-added real estate. Financial assets available for general expenditures within one year of the balance sheet date consist of the following:

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

LEGACY HEALTH

Notes to Consolidated Financial Statements

March 31, 2021 and 2020

(6) Investments

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

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

LEGACY HEALTH

Notes to Consolidated Financial Statements

March 31, 2021 and 2020

	March 31, 2020			
	Level 1	Level 2	Level 3	Total fair value
Cash equivalents	$ 72,165	—	—	72,165
Mutual funds – equity	266,038	—	—	266,038
Equity securities:				
Domestic	151,303	—	—	151,303
Foreign	20,999	—	—	20,999
Mutual funds – fixed income	33,141	—	—	33,141
Domestic debt securities:				
State and federal governments	—	59,346	—	59,346
Corporate and securitized	—	274,581	—	274,581
Foreign debt securities	—	33,615	—	33,615
Commingled funds	—	51,865	—	51,865
Interest rate swaps	—	6,519	—	6,519
Derivatives, net	—	(25)	—	(25)
	$ 543,646	425,901	—	969,547
Investments measured using NAV as a practical expedient				34,814
Total investments				$ 1,004,361

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

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

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

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

As of March 31, 2021, Legacy had a capital commitment of $56,000 to private equity funds and $16,250 to value-added private real estate funds in the form of limited partnership/trust investments. These commitments are due on demand from the general partners/advisers. The private equity funds invest in emerging companies, venture capital funds, and other alternative investments. The termination of these partnerships/trusts is based upon specific provisions in the agreements. In most cases, the life of the trusts is a minimum of 10 years. Legacy can only transfer its interest in the investments with the consent of the general partner/adviser. The fair values of these investments are determined either by the underlying security value on the open market or by the general partner/adviser utilizing fair value principles.

As of March 31, 2021, approximately 4% of noncurrent investments require advance written notice of 90 days or longer to redeem the securities. For certain of these investments, it may take up to 90 days to receive the funds after the requested redemption date, and certain redemptions may be subject to other restrictions in accordance with subscription agreements.

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

Notional amount	Cash flow settlement	Legacy pays	Legacy receives	Termination date
$ 82,000	Semiannually	SIFMA index	62% of LIBOR, plus 1.011%	December 2033
50,000	Quarterly	SIFMA index	67% of LIBOR, plus 0.6% for three years; 94.1% of LIBOR thereafter	April 2029
50,000	Quarterly	SIFMA index	67% of LIBOR, plus 0.6% for three years; 84.45% of LIBOR thereafter	September 2030
50,000	Quarterly	SIFMA index	67% of LIBOR, plus 0.6% for three years; 84% of LIBOR thereafter	September 2030

The objective of these transactions is to assume the tax-basis risk for a portion of the fixed-rate exposure on outstanding long-term indebtedness in exchange for positive cash flows. These transactions do not meet the criteria for hedge accounting; therefore, any changes in fair value under these agreements are recorded as part of investment income in the consolidated statements of operations. The fair value of these swaps is determined by the spread in interest rates.

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(7) Investments in Unconsolidated Affiliates

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

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

In September 2016, Legacy completed a transaction to acquire up to a 50% ownership interest in PacificSource (PS). PS is the sole corporate member of PacificSource Health Plans, a not-for-profit community health plan offering commercial medical and dental plans in Oregon, Idaho, Montana, and Washington. PS is also the sole corporate member of PacificSource Community Health Plans, a health insurance company licensed in the states of Oregon, Idaho, and Montana, which offers Medicare Advantage and, through a subsidiary, Medicaid plans. PS owns 60% of the outstanding shares of Idaho Physicians Network, Inc., a physician contracting network.

An initial investment of $100,000 was funded with unrestricted cash and investments in September 2016 to acquire a 28.8% interest in PS. Legacy's agreement with PS includes plans for additional investments over five years to attain 50% ownership in September 2021. Legacy's equity interest was 46.8% and 43.2% as of March 31, 2021 and 2020, respectively. The following table represents assets, liabilities, and net assets of PS per audited financial statements as of December 31 and the related operating results for the year ended December 31:

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

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Notes to Consolidated Financial Statements

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

Legacy recorded net income on the investment in PS of $40,224 and $20,503 in 2021 and 2020, respectively. Legacy recorded $3,530 and $3,558 of amortization expense in 2021 and 2020, respectively, related to intangible assets acquired as part of the PS investment. Both net income and amortization expense related to PS are included in nonoperating income (loss), other in the consolidated statements of operations.

Legacy paid PS $3,810 and $3,734 in 2021 and 2020, respectively, for third-party health claims administration services for Legacy’s self-insured health benefit plan, which are included in wages, salaries, and benefits in the consolidated statements of operations.

(8) Property, Plant, and Equipment

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

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

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

(9) Leases

Legacy leases various equipment and real property and has classified these leases as operating leases. These leases generally contain renewal options for periods ranging from three to five years. Unless Legacy is reasonably certain to exercise these renewal options, the optional periods are not included in determining the lease term, and associated payments under these renewal options are excluded from lease payments. Legacy’s leases do not include termination options for either party to the lease or restrictive financial or other covenants. Payments due under the lease contracts include fixed payments

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plus any variable payments. Some of Legacy's office and medical space leases require variable payments for Legacy's proportionate share of the building's property taxes, insurance, and common area maintenance. These variable lease payments are not included in lease payments used to determine lease liability and are recognized as variable costs when incurred.

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

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

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

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

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

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

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Notes to Consolidated Financial Statements

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(10) Long-Term Debt

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

		2021	2020
Hospital Revenue Bonds, Series 2008, payable in installments through 2038, subject to a seven-day put provision; variable interest rate	$	100,000	100,000
Hospital Revenue Bonds, Series 2011A, payable in 2021 from $19,980 to $22,060 through 2021, at rates ranging from 4.125% to 5.25%		22,060	43,030
Hospital Revenue Bonds, Series 2014A, payable in installments from $2,985 to $10,540 through 2040, at fixed rate of 2.425% subject to a mandatory tender on June 30, 2021, at which time Legacy can remarket the bonds, convert the bonds to a different mode, or pay off the bonds		71,720	71,720
Hospital Revenue Bonds, Series 2016A, payable in installments from $1,950 to $28,330 through 2047, at rates ranging from 3.0% to 5.0%, callable on or after June 2027		288,635	288,635
Hospital Revenue Bonds, Series 2020A, payable in installments from $2,410 to $2,520 through 2030, at fixed rate of 1.71% callable on or after June 2027		22,225	24,675
Taxable bullet loan maturing April 2030, issued at 2.74% fixed rate		100,000	—
Taxable bullet loan maturing April 2023, issued at 1.83% fixed rate		100,000	—
Multi-draw taxable term loan maturing June 2030, issued at 1.75% fixed rate		20,970	—
Other debt		648	700
		726,258	528,760
Premiums and deferred financing costs		22,564	24,111
Less current portion		(24,871)	(23,736)
	$	723,951	529,135

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

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Notes to Consolidated Financial Statements

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

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

The master trust indenture and other loan agreements covering these obligations contain, among other things, provisions placing restrictions on additional borrowings and leases and require the maintenance of debt service coverage and other ratios. The Credit Group, which was formed to facilitate borrowing, includes Legacy, LEH, LGS, LMP, LMH, LSC, and the Foundations.

In November 2008, Legacy issued $150,000 of Revenue Bonds Series 2008 (2008 Bonds), which are unsecured, variable-rate debt in an initial short-term interest rate mode, through the Hospital Facility Authority of Clackamas County, Oregon. The proceeds from the 2008 Bonds were restricted for capital expenditures and to pay the expenses incurred with the issuance. The 2008 Bonds, while subject to a long-term amortization period, may be put to Legacy at the option of the bondholders at certain remarketing dates. Series C ($50,000) of the 2008 Bonds were refinanced in November 2016. In conjunction with the issuance, Legacy arranged letter of credit and reimbursement agreements with a national bank, whereby the bank will purchase any bonds that are put by bondholders and not successfully remarketed. The letter of credit is due to expire in June 2022. In the event of a draw under this agreement, there are no principal payments due within a year. If the bonds have not been remarketed or redeemed and amounts remain outstanding after a year, such amounts are converted to a term loan due in eight quarterly payments. As a result, the 2008 Bonds are classified as long-term.

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

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

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

In March 2020, Legacy issued $24,675 under a bond purchase agreement with the Oregon Facilities Authority and a commercial bank. The proceeds from the 2021 Bonds were used to refinance previously issued debt.

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Notes to Consolidated Financial Statements

March 31, 2021 and 2020

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

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

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

(11) Net Assets with Donor Restrictions

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

		Restricted to a specific time period or purpose		Principal restricted in perpetuity	
		2021	**2020**	**2021**	**2020**
Education	$	10,415	6,863	3,143	3,113
Patient care		28,517	19,487	11,937	11,775
Research		6,798	4,484	1,641	1,640
Capital acquisition		2,854	3,329	—	—
Other		6,273	6,092	382	383
	$	54,857	40,255	17,103	16,911

(12) Functional Expenses

Legacy provides hospital services, physician services, and referral lab and other services. Support services include costs that are not controllable by operational leadership. Legacy leadership drives these costs, which benefit the entire organization. Costs that are controllable by operational leadership are allocated to the respective program activities. Labor and other direct costs that are controllable by operational leadership are attributed to the respective functional services. Employee benefits and other shared costs are allocated based on relative direct costs.

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Notes to Consolidated Financial Statements

March 31, 2021 and 2020

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

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

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

(13) Retirement Plans

(a) Defined Contribution Plans

Legacy sponsors defined contribution retirement plans that cover substantially all employees. The plans provide for employer matching contributions in an amount equal to a percentage of employee pretax contributions, up to a maximum. Expense related to these plans was $65,658 and $62,797 for 2021 and 2020, respectively.

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Notes to Consolidated Financial Statements

March 31, 2021 and 2020

(b) Pension Benefit Plans

Legacy sponsors a pension plan, the Legacy Employees' Retirement Plan (the Plan). The retirement benefits of all participants in the Plan were frozen effective December 31, 2016 (the Freeze Date). No benefit service after the Freeze Date are taken into account in determining a participant's retirement benefits. After the Freeze Date, future retirement benefits are provided by the defined contribution plans.

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

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

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

The prior service credit and actuarial losses included in net assets without donor restrictions and expected to be recognized in net periodic pension cost during the year ending March 31, 2022 are $0 and $5,523, respectively.

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Notes to Consolidated Financial Statements

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

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

(i) Assumptions

Legacy used the following actuarial assumptions to determine its benefit obligations at March 31 and its net periodic benefit cost for the years ended March 31:

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

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

The source data for the discount rate used to determine the benefit obligation was a universe of AA or higher rated U.S. dollar denominated bonds with similar maturities to the projected benefit payments. The expected long-term rate of return on plan assets was based on Legacy's asset allocation mix and the long-term historical return for each asset class, taking into account current and expected market conditions. The source data for the mortality table utilized for 2021 was the Pri-2012 Blue Collar Tables for Employees and Annuitants, projected using MP-2020 to reflect both current and future improvements in mortality. The source data for the mortality table utilized for 2019 was the RP-2014 Blue Collar Blended Employee and Annuitant using the RPEC 2014 projection scale.

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Notes to Consolidated Financial Statements

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(ii) Pension Plan Assets

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

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

Pension plan assets are managed according to an investment policy adopted by the Legacy Health Retirement Committee. Professional investment managers are retained to manage specific asset classes and professional consulting is utilized for investment performance reporting. The primary objectives are to preserve and grow the assets to provide for long-term benefit payments. Diversification is intended to reduce the risk of large losses and enhance opportunities for appropriate appreciation along with current income. It is also an objective to invest a significant portion of the assets in fixed-income assets that have a similar interest rate sensitivity as the projected liabilities for the Plan. Assets are rebalanced when balances fall outside of the approved range for each asset class.

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

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

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March 31, 2021 and 2020

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

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

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

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

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

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

(iii) Cash Flows

Legacy's policy with respect to funding the qualified plans is to fund at least the minimum required by the Employee Retirement Income Security Act of 1974, as amended, plus such additional amounts as deemed appropriate.

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

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

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

(14) Commitments and Contingencies

(a) Professional and General Liability

Legacy is self-insured for professional and general liability coverage. Legacy accrues estimated general and professional liability claims based upon management's estimate of the ultimate costs for both reported claims and actuarially determined estimates of claims incurred but not reported. Coverage in excess of self-insurance limits is provided on a claims-made basis through Legacy's captive insurance company, LHSIC.

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Notes to Consolidated Financial Statements

March 31, 2021 and 2020

(b) Employee Benefits

Legacy is self-insured for workers' compensation, employee health, and long-term and short-term disability. Legacy accrues the unpaid portion of claims that have been reported and estimates of claims that have been incurred but not reported based on an actuarial study.

(c) Collective Bargaining Agreements

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

(15) Compliance with Laws and Regulations

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

Management is aware of certain asserted and unasserted claims and regulatory matters arising in the ordinary course of business. After consultation with legal counsel, management estimates these matters will be resolved without material adverse effect to Legacy's consolidated financial statements.

(16) Subsequent Events

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

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

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Consolidating Schedule of Balance Sheet Information

March 31, 2021 and 2020

(Dollars in thousands)

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

See accompanying independent auditors' report.

LEGACY HEALTH

Consolidating Schedule of Operations Information

Years ended March 31, 2021 and 2020

(Dollars in thousands)

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

See accompanying independent auditors' report.

LEGACY HEALTH

Consolidated Financial and Statistical Highlights

Years ended March 31

(Unaudited)

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

See accompanying independent auditors' report.

KPMG

LEGACY HEALTH

Consolidated Financial Statements and Other Financial Information

March 31, 2022 and 2021

(With Independent Auditors' Report Thereon)

LEGACY HEALTH

Table of Contents

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

LEGACY HEALTH

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.

LEGACY HEALTH

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.

LEGACY HEALTH

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.

LEGACY HEALTH

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.

LEGACY HEALTH

Notes to Consolidated Financial Statements

March 31, 2022 and 2021

(Dollars in thousands)

(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

LEGACY HEALTH

Notes to Consolidated Financial Statements

March 31, 2022 and 2021

(Dollars in thousands)

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

LEGACY HEALTH

Notes to Consolidated Financial Statements

March 31, 2022 and 2021

(Dollars in thousands)

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.

LEGACY HEALTH

Notes to Consolidated Financial Statements

March 31, 2022 and 2021

(Dollars in thousands)

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.

LEGACY HEALTH

Notes to Consolidated Financial Statements

March 31, 2022 and 2021

(Dollars in thousands)

(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,

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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.

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

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(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.

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	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.

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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

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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:

		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

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(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

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	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 frequency	Redemption notice period
	2022	2021		
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		

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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.

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(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

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		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

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		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

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maintenance. These variable lease payments are not included in lease payments used to determine lease liability and are recognized as variable costs when incurred.

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

		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

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(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.

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

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.

LEGACY HEALTH

Notes to Consolidated Financial Statements

March 31, 2022 and 2021

(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.

LEGACY HEALTH

Notes to Consolidated Financial Statements

March 31, 2022 and 2021

(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.

LEGACY HEALTH

Notes to Consolidated Financial Statements

March 31, 2022 and 2021

(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.

LEGACY HEALTH

Notes to Consolidated Financial Statements

March 31, 2022 and 2021

(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.

LEGACY HEALTH

Notes to Consolidated Financial Statements

March 31, 2022 and 2021

(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

LEGACY HEALTH

Notes to Consolidated Financial Statements

March 31, 2022 and 2021

(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.

LEGACY HEALTH

Notes to Consolidated Financial Statements

March 31, 2022 and 2021

(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.

LEGACY HEALTH

Notes to Consolidated Financial Statements

March 31, 2022 and 2021

(Dollars in thousands)

(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.

LEGACY HEALTH

Consolidated Financial Statements and Other Financial Information

March 31, 2023 and 2022

(With Independent Auditors' Report Thereon)

LEGACY HEALTH

Table of Contents

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, 2023 and 2022, 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, 2023 and 2022, 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 30, 2023

LEGACY HEALTH

Consolidated Balance Sheets

March 31, 2023 and 2022

(Dollars in thousands)

Assets		2023	2022
Current assets:			
Cash and cash equivalents	$	140,241	317,014
Short-term investments		—	99,054
Accounts receivable from patients, net		370,446	336,596
Settlements receivable from third-party payors, net		18,225	—
Other receivables		86,932	78,220
Inventories		32,073	33,244
Prepaid expenses		28,644	23,392
Total current assets		676,561	887,520
Assets limited as to use		92,959	14,305
Property, plant, and equipment, net		797,208	781,216
Noncurrent investments		1,169,930	1,243,633
Investments in unconsolidated affiliates		375,110	375,762
Pension asset		32,947	57,681
Other assets		105,809	90,511
Total assets	$	3,250,524	3,450,628
Liabilities and Net Assets			
Current liabilities:			
Accounts payable	$	86,729	76,661
Accrued wages, salaries, and benefits		162,382	226,777
Accrued interest		8,104	5,078
Settlements payable to third-party payors, net		—	25,792
Other current liabilities		83,863	112,760
Current portion of long-term debt		84,160	18,032
Total current liabilities		425,238	465,100
Long-term debt, less current portion		743,912	655,260
General and professional claims liability		43,677	37,321
Other liabilities		163,603	140,897
Total liabilities		1,376,430	1,298,578
Net assets:			
Without donor restrictions, controlling		1,780,548	2,061,545
Without donor restrictions, noncontrolling		19,224	20,369
With donor restrictions		74,322	70,136
Total net assets		1,874,094	2,152,050
Total liabilities and net assets	$	3,250,524	3,450,628

See accompanying notes to consolidated financial statements.

LEGACY HEALTH

Consolidated Statements of Operations

Years ended March 31, 2023 and 2022

(Dollars in thousands)

	2023	2022
Operating revenues:		
Patient service revenue	$ 2,414,938	2,341,714
Other revenue	177,814	220,735
Total operating revenues	2,592,752	2,562,449
Operating expenses:		
Wages, salaries, and benefits	1,765,501	1,591,162
Supplies	433,811	407,840
Professional fees	93,598	68,545
Purchased services	178,301	154,495
Utilities, insurance, and other expenses	194,217	213,206
Depreciation	73,262	77,034
Interest and amortization	25,712	19,073
Total operating expenses	2,764,402	2,531,355
(Loss) income from operations	(171,650)	31,094
Nonoperating (loss) income:		
Investment (loss) income, net	(60,411)	17,624
Other, net	(13,715)	(30,844)
Total nonoperating loss	(74,126)	(13,220)
(Deficit) excess of revenues over expenses	(245,776)	17,874
Change in pension	(34,628)	(10,313)
Net assets released from restriction	1,318	3,029
Distributions to joint venture partners	(4,154)	(3,309)
Other transfers	1,098	—
Change in net assets without donor restrictions	$ (282,142)	7,281

See accompanying notes to consolidated financial statements.

LEGACY HEALTH

Consolidated Statements of Changes in Net Assets

Years ended March 31, 2023 and 2022

(Dollars in thousands)

		Without donor restrictions, controlling	Without donor restrictions, noncontrolling	With donor restrictions	Total net assets
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 transfers		—	—	—	—
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
Excess 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

See accompanying notes to consolidated financial statements.

LEGACY HEALTH

Consolidated Statements of Cash Flows

Years ended March 31, 2023 and 2022

(Dollars in thousands)

		2023	2022
Cash flows from operating activities:			
Change in net assets	$	(277,956)	5,457
Adjustments to reconcile change in net assets to net cash from operating activities:			
Net distributions to noncontrolling partners		4,153	3,201
Depreciation and amortization		79,690	86,486
Loss (gain) on disposal of assets		225	(2,029)
Change in net realized and unrealized (gains) losses on investments		(90,712)	(16,933)
Restricted contributions		(249)	(357)
Net losses (earnings) from joint ventures and investment companies		1,981	(12,873)
Pension and other post retirement adjustments		24,734	10,313
Change in certain current assets and current liabilities		(170,662)	(28,655)
Change in certain long-term operating assets and liabilities		13,767	(82,518)
Net cash from operating activities		(415,029)	(37,908)
Cash flows from investing activities:			
Purchase of property, plant, and equipment		(98,689)	(48,777)
Proceeds from sale of assets		50	5,071
Addition to funds held by trustee		(100,002)	—
Draws on funds held by trustee		21,348	24,914
Change in other long-term assets		—	361
Investment in joint ventures		—	(29,500)
Net from joint ventures and investment companies		3,721	8,846
Purchases of investments		(378,163)	(384,161)
Sales of investments		636,582	291,612
Net cash from investing activities		84,847	(131,634)
Cash flows from financing activities:			
Proceeds from draw on line of credit		80,000	—
Repayment of line of credit		(10,000)	—
Proceeds from issuance of long-term debt		202,843	22,060
Financing cost paid		(1,974)	—
Repayment of long-term debt		(113,556)	(96,289)
Distributions to noncontrolling partners		(4,153)	(3,201)
Proceeds from restricted contributions		249	357
Net cash from financing activities		153,409	(77,073)
Change in cash and cash equivalents		(176,773)	(246,615)
Cash and cash equivalents, beginning of year		317,014	563,629
Cash and cash equivalents, end of year	$	140,241	317,014
Supplemental disclosures of cash flow information:			
Cash paid for interest (net of amount capitalized)	$	28,291	20,518
Change in amounts accrued for property, plant, and equipment, net		(198)	(7,148)
Right of use lease assets acquired		34,441	—

See accompanying notes to consolidated financial statements.

LEGACY HEALTH

Notes to Consolidated Financial Statements

March 31, 2023 and 2022

(Dollars in thousands)

(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 $27,434 has been invested as of March 31, 2023).

(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.

LEGACY HEALTH

Notes to Consolidated Financial Statements

March 31, 2023 and 2022

(Dollars in thousands)

(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 2023 and 2022, Legacy did not record any liability for uncertain tax benefits.

(d) (Loss) Income from Operations

(Loss) 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 lessor activities.

(e) (Deficit) Excess of Revenues Over Expenses

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

(f) Fair Value Measurements

Accounting Standards Codification Topic 820, *Fair Value Measurement*, establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to measurements involving significant unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are as follows:

- Level 1 inputs include quoted prices (unadjusted) in active markets for identical assets and liabilities.
- Level 2 inputs include inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.
- Level 3 inputs are unobservable inputs for the asset or liability.

The level in the fair value hierarchy within which a fair value measurement in its entirety falls is based on the lowest level input that is significant to the fair value measurement. Investments valued utilizing net asset value (NAV) as a practical expedient are excluded from the hierarchy.

LEGACY HEALTH

Notes to Consolidated Financial Statements

March 31, 2023 and 2022

(Dollars in thousands)

(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 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 2023 and 2022, Legacy recorded an increase to patient service revenue of approximately $3,587 and $33,885, 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, 2023 and 2022 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.

LEGACY HEALTH

Notes to Consolidated Financial Statements

March 31, 2023 and 2022

(Dollars in thousands)

(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 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.

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

Assets limited as to use include assets held by trustees under indenture agreements of $92,959 and $14,305 as of March 31, 2023 and 2022, respectively.

LEGACY HEALTH

Notes to Consolidated Financial Statements

March 31, 2023 and 2022

(Dollars in thousands)

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, including unrealized gains or losses, is included in revenues in (deficit) excess 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, 2023 and 2022 was $54 and $57, 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 $120 and $141 as of March 31, 2023 and 2022, respectively. These marketable securities are comprised of cash equivalents and other fixed income instruments.

(o) Reclassifications

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

(2) COVID-19 Pandemic

The Coronavirus Aid, Relief, and Economic Security (CARES) Act, which was enacted on March 27, 2020, authorized $100,000,000 in funding to hospitals and other healthcare providers. In 2021, that authorization was increased to $178,000,000 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 recognized $13,773 and $49,826 in other operating revenue during the years ended March 31, 2023 and 2022, 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. These liabilities were subject to repayment over an 18-month period beginning in April 2021. During the year ended March 31, 2021, Legacy received $116,458 of accelerated payments, of which $0 and $59,786 remained outstanding as of March 31, 2023 and 2022, respectively, 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, 2023 and 2022, respectively, $0 and $17,350 remained outstanding in accrued wages, salaries and benefits in the accompanying consolidated balance sheets.

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 organization, 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 year ended March 31, 2023, Legacy submitted a total of $25,772 for reimbursement from the Federal Emergency Management Agency (FEMA), of which $13,710 was obligated and therefore recognized in other revenue and other receivables.

LEGACY HEALTH

Notes to Consolidated Financial Statements

March 31, 2023 and 2022

(Dollars in thousands)

(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	
	2023	2022	2023	2022
Medicare	23.9 %	22.6 %	771,583	565,769
Medicaid	16.0	14.1	562,007	664,957
Blue cross	21.3	18.9	369,192	418,473
Private pay	3.2	3.7	11,201	5,049
Other	35.6	40.7	700,955	687,466
	100.0 %	100.0 %	2,414,938	2,341,714

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

	2023	2022
Hospital	$ 2,122,604	2,044,317
Physician services	228,069	234,171
Hospice	10,884	9,367
Referral lab	34,637	37,467
Other	18,744	16,392
	$ 2,414,938	2,341,714

LEGACY HEALTH

Notes to Consolidated Financial Statements

March 31, 2023 and 2022

(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, 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
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 %

LEGACY HEALTH

Notes to Consolidated Financial Statements

March 31, 2023 and 2022

(Dollars in thousands)

	March 31, 2022			
	In-kind costs	Costs of service	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 %

(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 2023 and 2022, Legacy provided charity care benefiting patients associated with 51,545 and 48,810 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 HEALTH

Notes to Consolidated Financial Statements

March 31, 2023 and 2022

(Dollars in thousands)

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. The costs associated with this program were $1,081 and $1,212 in 2023 and 2022, 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, 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 $10,486 and $11,514 in local and state taxes in 2023 and 2022, respectively.

LEGACY HEALTH

Notes to Consolidated Financial Statements

March 31, 2023 and 2022

(Dollars in thousands)

(5) Liquidity and Availability

As of March 31, 2023 and 2022, Legacy had working capital of $251,323 and $422,420 and average days (based on normal expenditures) cash on hand of 175.2 and 244.1, 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:

		2023	2022
Cash and cash equivalents	$	140,241	317,014
Short term investments		—	99,054
Accounts receivable from patients, net		370,446	336,596
Other receivables		86,932	78,220
Noncurrent investments		1,169,930	1,243,633
Total financial assets		1,767,549	2,074,517
Less amounts not available to be used within one year:			
Funds held in private equity and private value-added real estate		101,245	65,291
Financial assets available to meet general expenditures within one year	$	1,666,304	2,009,226

LEGACY HEALTH

Notes to Consolidated Financial Statements

March 31, 2023 and 2022

(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, 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

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	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

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 frequency	Redemption notice period
	2023	2022		
Private real estate – core	$ 21,835	24,094	Quarterly	60–95 days
Private real estate – value-added	21,767	11,966	N/A	N/A
Private equity	79,478	53,325	N/A	N/A
Total	$ 123,080	89,385		

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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, 2023, Legacy had a capital commitment of $52,552 to private equity funds and $25,110 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, 2023, 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 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.

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(7) Investments in Unconsolidated Affiliates

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

		2023	2022
PacificSource	$	284,815	286,306
Life Flight Network		77,116	76,408
Other		13,179	13,048
Total investments in unconsolidated affiliates	$	375,110	375,762

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:

		2022	2021
Assets	$	1,198,817	1,153,548
Liabilities	$	673,689	636,696
Net assets:			
Without donor restrictions		551,622	522,657
Accumulated other comprehensive loss		(27,008)	(6,277)
Noncontrolling interests		514	472
Total net assets without donor restrictions		525,128	516,852
Total liabilities and net assets	$	1,198,817	1,153,548

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		2022	2021
Underwriting income	$	90,575	(63,070)
Other (loss) income		(49,995)	29,604
Income tax expense		(11,573)	8,377
Net income (loss)	$	29,007	(25,089)

Legacy recorded total net loss, including amortization expense, on the investment in PS of $1,492 and $23,897 in 2023 and 2022, respectively, which is included in nonoperating income (loss), other in the consolidated statements of operations.

Legacy paid PS $4,144 and $3,931 in 2023 and 2022, 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:

		2023	2022
Assets	$	365,050	340,743
Liabilities	$	56,586	35,110
Members equity/net assets		308,464	305,633
Total liabilities, equity and net assets	$	365,050	340,743

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		2023	2022
Net patient service revenue	$	208,991	249,326
Other operating revenue		16,601	20,521
		225,592	269,847
Operating expenses		(192,733)	(166,861)
Income from operations		32,859	102,986
Other income		2,085	810
Net income	$	34,944	103,796

(8) Property, Plant, and Equipment

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

		2023	2022
Land	$	50,759	50,759
Land improvements		24,746	24,447
Buildings and improvements		1,402,759	1,391,446
Equipment and software		981,135	961,168
Construction in progress		69,948	18,997
		2,529,347	2,446,817
Accumulated depreciation		(1,732,139)	(1,665,601)
	$	797,208	781,216

There were capital expenditure purchase commitments outstanding as of March 31, 2023 for various construction and equipment projects. The estimated cost to complete such projects as of March 31, 2023 was $214,488, of which $59,848 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

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maintenance. These variable lease payments are not included in lease payments used to determine lease liability and are recognized as variable costs when incurred.

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

	2023	2022
Operating lease cost	$ 10,408	10,257
Variable lease cost	701	877
Short-term lease cost	9,621	7,614
Total lease cost	$ 20,730	18,748
Operating lease liabilities	$ 71,016	56,620
Operating lease ROU assets	71,078	56,124

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

	2023	2022
Operating leases weighted average lease term	11.1 years	5.3 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:

2024	$ 11,734
2025	10,245
2026	9,113
2027	7,986
2028	6,419
Thereafter	39,856
Total undiscounted lease payments	85,353
Less imputed interest	(14,337)
Total lease liabilities	$ 71,016

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(10) Long-Term Debt

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

	2023	2022
Hospital Revenue Bonds, Series 2008, payable in installments through 2038, subject to a seven-day put provision; variable interest rate	$ —	100,000
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	282,380	288,635
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%	17,215	19,735
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	—
Hospital Revenue Bonds, Series 2022B, bullet maturity in 2030, at a fixed rate of 5.0%	89,625	—
Taxable bullet loan maturing April 2030, issued at 2.74% fixed rate	100,000	100,000
Taxable bullet loan maturing April 2032, issued at 3.62% fixed rate	100,000	100,000
Multi-draw taxable term loan maturing June 2030, issued at 1.75% fixed rate	38,249	43,030
Line of credit	70,000	—
Other debt	917	630
	796,456	652,030
Premiums and deferred financing costs	31,616	21,262
Less current portion	(84,160)	(18,032)
	$ 743,912	655,260

Interest cost incurred related to funds borrowed was $25,687 and $19,051 in 2023 and 2022, respectively. These amounts were reduced by $71 and $302 in 2023 and 2022, respectively, in the consolidated statements of operations for amounts capitalized for construction and other capital projects.

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

2024	$	84,160
2025		14,540
2026		10,530
2027		10,406
2028		10,551
Thereafter		666,269
	$	796,456

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

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

In March 2020, Legacy issued $24,675 under a bond purchase agreement with the Oregon Facilities Authority and a commercial bank. The proceeds from the 2021 Bonds were used to refinance previously issued debt.

In 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 the outstanding Series 2008 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 3.62%.

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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 the Secured Overnight Financing Rate (SOFR, 5.27% at March 31, 2023). As of March 31, 2023, $70,000 was outstanding on the line of credit and was included in Current portion of long-term debt in the accompanying consolidated balance sheets.

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, 2023.

(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	
	2023	**2022**	**2023**	**2022**
Education	$ 9,587	10,628	3,278	3,172
Patient care	32,732	27,423	12,252	12,109
Research	2,780	6,232	1,641	1,641
Capital acquisition	5,504	2,289	—	—
Other	6,165	6,258	383	384
	$ 56,768	52,830	17,554	17,306

(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.

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

	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

	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

(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 $74,596 and $67,476 for 2023 and 2022, respectively.

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(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:

		2023	2022
Change in projected benefit obligation:			
Projected benefit obligation at beginning of year	$	838,923	902,082
Interest cost		31,674	28,444
Actuarial gain		(96,181)	(35,024)
Benefits paid		(56,618)	(56,579)
Projected benefit obligation at end of year		717,798	838,923
Change in plan assets:			
Fair value of assets at beginning of year		896,604	959,473
Actual return on plan assets		(89,399)	(6,416)
Employer contribution		158	126
Benefits paid		(56,618)	(56,579)
Fair value of assets at end of year		750,745	896,604
Funded status	$	32,947	57,681
Unrecognized net actuarial loss	$	165,574	130,946
Accumulated benefit obligation		717,798	838,923

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, 2024 are $0 and $158, respectively.

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

		2023	2022
Interest cost	$	31,674	28,444
Expected return on plan assets		(44,677)	(44,465)
Special recognition curtailments and settlements		—	20
Recognized net actuarial loss		3,268	5,523
Net periodic pension benefit	$	(9,735)	(10,478)

(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:

	2023	2022
Benefit obligation (measured as of March 31):		
Discount rate	5.28 %	3.92 %

	2023	2022
Net periodic benefit cost (measured for the year ended March 31):		
Discount rate	3.92 %	3.26 %
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.

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(ii) Pension Plan Assets

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

	Target allocation	2023 Actual allocation	2022 Actual allocation
Equity securities	0–60%	39 %	39 %
Fixed income	40–100	59	58
Real estate	—	2	2
Alternative investments	— %	—	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, 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

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	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

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

	2023	2022	Redemption frequency	Redemption notice period
Private real estate – core	$ 11,490	14,660	Quarterly	60–95 days
Private equity	4,580	6,558	N/A	N/A
Total	$ 16,070	21,218		

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.

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

		2023	2022
Derivative assets:			
Future contracts	$	4,248	4,672
		4,248	4,672
Derivative liabilities:			
Future contracts		(4,248)	(4,672)
Other derivatives and forward setting contracts		539	(1,801)
		(3,709)	(6,473)
Net investment derivative liabilities	$	539	(1,801)

(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, 2024 is anticipated to be $0.

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

2024	$	68,300
2025		55,000
2026		54,900
2027		55,800
2028		59,600
2029–2033		263,100

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.

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(Dollars in thousands)

(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 14% of Legacy employees were covered under collective bargaining agreements at March 31, 2023, including certain service and maintenance employees. Approximately 181 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

Legacy evaluated all material subsequent events through June 30, 2023, the date the consolidated financial statements were issued.

LEGACY HEALTH

Consolidating Schedule of Balance Sheet Information

March 31, 2023 and 2022

(Dollars in thousands)

Assets		Credit reporting group	Other affiliates and eliminations	March 31, 2023 consolidated	March 31, 2022 consolidated
Current assets:					
Cash and cash equivalents	$	142,317	(2,076)	140,241	317,014
Short-term investments		—	—	—	99,054
Accounts receivable from patients, net		366,377	4,069	370,446	336,596
Settlements receivable from third-party payors, net		18,225	—	18,225	—
Other receivables		77,774	9,158	86,932	78,220
Inventories		31,530	543	32,073	33,244
Prepaid expenses		28,525	119	28,644	23,392
Total current assets		664,748	11,813	676,561	887,520
Assets limited as to use		92,959	—	92,959	14,305
Property, plant, and equipment, net		795,436	1,772	797,208	781,216
Noncurrent investments		1,169,930	—	1,169,930	1,243,633
Investments in unconsolidated affiliates		384,165	(9,055)	375,110	375,762
Pension asset		32,947	—	32,947	57,681
Other assets		76,513	29,296	105,809	90,511
Interaffiliate receivable (payable)		(18,527)	18,527	—	—
Total assets	$	3,198,171	52,353	3,250,524	3,450,628
Liabilities and Net Assets					
Current liabilities:					
Accounts payable	$	84,256	2,473	86,729	76,661
Accrued wages, salaries, and benefits		161,190	1,192	162,382	226,777
Accrued interest		8,104	—	8,104	5,078
Settlements payable to third-party payors, net		—	—	—	25,792
Other current liabilities		75,313	8,550	83,863	112,760
Current portion of long-term debt		83,861	299	84,160	18,032
Total current liabilities		412,724	12,514	425,238	465,100
Long-term debt, less current portion		743,294	618	743,912	655,260
General and professional claims liability		42,820	857	43,677	37,321
Other liabilities		161,223	2,380	163,603	140,897
Total liabilities		1,360,061	16,369	1,376,430	1,298,578
Net assets:					
Without donor restrictions, controlling		1,765,002	15,546	1,780,548	2,061,545
Without donor restrictions, noncontrolling		—	19,224	19,224	20,369
With donor restrictions		73,108	1,214	74,322	70,136
Total net assets		1,838,110	35,984	1,874,094	2,152,050
Total liabilities and net assets	$	3,198,171	52,353	3,250,524	3,450,628

See accompanying independent auditors' report.

LEGACY HEALTH

Consolidating Schedule of Operations Information

Years ended March 31, 2023 and 2022

(Dollars in thousands)

	Credit reporting group	Other affiliates and eliminations	Year ended March 31, 2023 consolidated	Year ended March 31, 2022 consolidated
Operating revenues:				
Patient service revenue	$ 2,385,301	29,637	2,414,938	2,341,714
Other revenue	178,975	(1,161)	177,814	220,735
Total operating revenues	2,564,276	28,476	2,592,752	2,562,449
Operating expenses:				
Wages, salaries, and benefits	1,752,102	13,399	1,765,501	1,591,162
Supplies	428,279	5,532	433,811	407,840
Professional fees	93,034	564	93,598	68,545
Purchased services	174,974	3,327	178,301	154,495
Utilities, insurance, and other expenses	191,427	2,790	194,217	213,206
Depreciation	72,534	728	73,262	77,034
Interest and amortization	25,687	25	25,712	19,073
Total operating expenses	2,738,037	26,365	2,764,402	2,531,355
Income from operations	(173,761)	2,111	(171,650)	31,094
Nonoperating (loss) income:				
Investment (loss) income, net	(59,903)	(508)	(60,411)	17,624
Other, net	(13,711)	(4)	(13,715)	(30,844)
Total nonoperating (loss) income	(73,614)	(512)	(74,126)	(13,220)
Excess of revenues over expenses	(247,375)	1,599	(245,776)	17,874
Change in pension liability	(34,628)	—	(34,628)	(10,313)
Net assets released from restriction	1,563	(245)	1,318	3,029
Distributions to joint venture partners	—	(4,154)	(4,154)	(3,309)
Other transfers	—	1,098	1,098	—
Transfer of Silverton Health to Credit reporting group	10,949	(10,949)	—	—
Change in net assets without donor restrictions	$ (269,491)	(12,651)	(282,142)	7,281

See accompanying independent auditors' report.

LEGACY HEALTH

Consolidated Financial and Statistical Highlights

Years ended March 31

(Unaudited)

	2023	2022	2021	2020
Utilization:				
Average number of available beds	1,261	1,267	1,267	1,256
Discharges	54,646	51,069	51,881	60,091
Adjusted discharges	116,708	109,067	108,307	126,112
Patient days	361,753	330,798	294,134	316,983
Average length of stay	6.6	6.5	5.7	5.3
Percentage occupancy	78.6 %	71.5 %	63.6 %	69.1 %
Emergency room visits	313,964	274,218	235,397	292,653
Clinic visits	1,489,773	1,411,467	1,258,556	1,339,231
Surgical cases – inpatient	12,716	11,553	13,106	15,636
Surgical cases – outpatient	31,574	30,601	28,033	30,594
Average full-time equivalent (FTE) employees:				
Number of paid FTEs	12,197	11,711	11,109	11,271
FTEs per adjusted occupied bed	6.1	6.1	6.6	6.2
Ratios:				
Operating margin	(6.6)%	1.2 %	1.9 %	3.4 %
Net days in accounts receivable	54.8	51.5	48.6	42.8
Days cash on hand	175.2	244.1	303.6	177.0
Long-term debt to capitalization	30.9 %	24.0 %	26.1 %	27.0 %

See accompanying independent auditors' report.