



## **LEGACY HEALTH**

Consolidated Financial Statements and Other Financial Information

March 31, 2023 and 2022

(With Independent Auditors' Report Thereon)

## LEGACY HEALTH

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

## Independent Auditors' Report

The Board of Directors  
Legacy Health:

### *Opinion*

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

<b>Assets</b>	<b>2023</b>	<b>2022</b>
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
<b>Liabilities and Net Assets</b>		
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)

	<u>2023</u>	<u>2022</u>
Operating revenues:		
Patient service revenue	\$ 2,414,938	2,341,714
Other revenue	<u>177,814</u>	<u>220,735</u>
Total operating revenues	<u>2,592,752</u>	<u>2,562,449</u>
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	<u>25,712</u>	<u>19,073</u>
Total operating expenses	<u>2,764,402</u>	<u>2,531,355</u>
(Loss) income from operations	<u>(171,650)</u>	<u>31,094</u>
Nonoperating (loss) income:		
Investment (loss) income, net	(60,411)	17,624
Other, net	<u>(13,715)</u>	<u>(30,844)</u>
Total nonoperating loss	<u>(74,126)</u>	<u>(13,220)</u>
(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	<u>1,098</u>	<u>—</u>
Change in net assets without donor restrictions	<u>\$ (282,142)</u>	<u>7,281</u>

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)

	<u>Without donor restrictions, controlling</u>	<u>Without donor restrictions, noncontrolling</u>	<u>With donor restrictions</u>	<u>Total net assets</u>
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	<u>7,898</u>	<u>(617)</u>	<u>(1,824)</u>	<u>5,457</u>
Balance, March 31, 2022	<u>2,061,545</u>	<u>20,369</u>	<u>70,136</u>	<u>2,152,050</u>
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	<u>(280,997)</u>	<u>(1,145)</u>	<u>4,186</u>	<u>(277,956)</u>
Balance, March 31, 2023	<u>\$ 1,780,548</u>	<u>19,224</u>	<u>74,322</u>	<u>1,874,094</u>

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.

## LEGACY HEALTH

### Notes to Consolidated Financial Statements

March 31, 2023 and 2022

(Dollars in thousands)

#### **(o) Reclassifications**

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

#### **(2) COVID-19 Pandemic**

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
	<u>100.0 %</u>	<u>100.0 %</u>	<u>2,414,938</u>	<u>2,341,714</u>

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
	<u>\$ 2,414,938</u>	<u>2,341,714</u>

## 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

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(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

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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, 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

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#### (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:

	<u>2023</u>	<u>2022</u>
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	<u>1,169,930</u>	<u>1,243,633</u>
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	<u>101,245</u>	<u>65,291</u>
Financial assets available to meet general expenditures within one year	<u>\$ 1,666,304</u>	<u>2,009,226</u>

## LEGACY HEALTH

### Notes to Consolidated Financial Statements

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(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

## LEGACY HEALTH

### Notes to Consolidated Financial Statements

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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		

## LEGACY HEALTH

### Notes to Consolidated Financial Statements

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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:

<u>Notional amount</u>	<u>Cash flow settlement</u>	<u>Legacy pays</u>	<u>Legacy receives</u>	<u>Termination date</u>
\$ 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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### Notes to Consolidated Financial Statements

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#### (7) Investments in Unconsolidated Affiliates

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

	<b>2023</b>	<b>2022</b>
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:

	<b>2022</b>	<b>2021</b>
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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### Notes to Consolidated Financial Statements

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	<b>2022</b>	<b>2021</b>
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:

	<b>2023</b>	<b>2022</b>
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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Notes to Consolidated Financial Statements

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	<b>2023</b>	<b>2022</b>
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:

	<b>2023</b>	<b>2022</b>
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

**LEGACY HEALTH**

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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:

	<b>2023</b>	<b>2022</b>
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:

	<b>2023</b>	<b>2022</b>
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:

	<b>2023</b>	<b>2022</b>
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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### 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:

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

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 \$100,000 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:

	<b>Restricted to a specific time period or purpose</b>		<b>Principal restricted in perpetuity</b>	
	<b>2023</b>	<b>2022</b>	<b>2023</b>	<b>2022</b>
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
	<u>\$ 56,768</u>	<u>52,830</u>	<u>17,554</u>	<u>17,306</u>

#### (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

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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:

	<b>2023</b>	<b>2022</b>
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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Notes to Consolidated Financial Statements

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

	<b>2023</b>	<b>2022</b>
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:

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

## LEGACY HEALTH

### Notes to Consolidated Financial Statements

March 31, 2023 and 2022

(Dollars in thousands)

	<b>March 31, 2022</b>			
	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total fair value</b>
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:

	<b>2023</b>	<b>2022</b>	<b>Redemption frequency</b>	<b>Redemption notice period</b>
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.

**LEGACY HEALTH**

Notes to Consolidated Financial Statements

March 31, 2023 and 2022

(Dollars in thousands)

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

	<b>2023</b>	<b>2022</b>
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.

## LEGACY HEALTH

Notes to Consolidated Financial Statements

March 31, 2023 and 2022

(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)

<b>Assets</b>	<b>Credit reporting group</b>	<b>Other affiliates and eliminations</b>	<b>March 31, 2023 consolidated</b>	<b>March 31, 2022 consolidated</b>
<b>Current assets:</b>				
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
<b>Liabilities and Net Assets</b>				
<b>Current liabilities:</b>				
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
<b>Net assets:</b>				
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)

	<u>Credit reporting group</u>	<u>Other affiliates and eliminations</u>	<u>Year ended March 31, 2023 consolidated</u>	<u>Year ended March 31, 2022 consolidated</u>
Operating revenues:				
Patient service revenue	\$ 2,385,301	29,637	2,414,938	2,341,714
Other revenue	<u>178,975</u>	<u>(1,161)</u>	<u>177,814</u>	<u>220,735</u>
Total operating revenues	<u>2,564,276</u>	<u>28,476</u>	<u>2,592,752</u>	<u>2,562,449</u>
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	<u>25,687</u>	<u>25</u>	<u>25,712</u>	<u>19,073</u>
Total operating expenses	<u>2,738,037</u>	<u>26,365</u>	<u>2,764,402</u>	<u>2,531,355</u>
Income from operations	<u>(173,761)</u>	<u>2,111</u>	<u>(171,650)</u>	<u>31,094</u>
Nonoperating (loss) income:				
Investment (loss) income, net	(59,903)	(508)	(60,411)	17,624
Other, net	<u>(13,711)</u>	<u>(4)</u>	<u>(13,715)</u>	<u>(30,844)</u>
Total nonoperating (loss) income	<u>(73,614)</u>	<u>(512)</u>	<u>(74,126)</u>	<u>(13,220)</u>
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	<u>10,949</u>	<u>(10,949)</u>	<u>—</u>	<u>—</u>
Change in net assets without donor restrictions	\$ <u>(269,491)</u>	<u>(12,651)</u>	<u>(282,142)</u>	<u>7,281</u>

See accompanying independent auditors' report.

**LEGACY HEALTH**

Consolidated Financial and Statistical Highlights

Years ended March 31

(Unaudited)

	<u>2023</u>	<u>2022</u>	<u>2021</u>	<u>2020</u>
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.