KPMG

WELLSTAR HEALTH SYSTEM, INC. AND AFFILIATES

Combined Financial Statements

June 30, 2020 and 2019

(With Independent Auditors’ Report Thereon)

KPMG LLP
Suite 2000
303 Peachtree Street, N.E.
Atlanta, GA 30308-3210

Independent Auditors' Report

The Board of Trustees
Wellstar Health System, Inc.:

We have audited the accompanying combined financial statements of Wellstar Health System, Inc. and Affiliates (Wellstar), which comprise the combined balance sheets as of June 30, 2020 and 2019, and the related combined statements of operations, changes in net assets, and cash flows for the years then ended, and the related notes to the combined financial statements.

Management's Responsibility for the Combined Financial Statements

Management is responsible for the preparation and fair presentation of these combined 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 combined 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 combined 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 combined financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the combined financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the combined 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 combined 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 combined 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 combined financial statements referred to above present fairly, in all material respects, the financial position of Wellstar Health System, Inc. and Affiliates as of June 30, 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.

KPMG LLP, a Delaware limited liability partnership and a member firm of
the KPMG global organization of independent member firms affiliated with
KPMG International Limited, a private English company limited by guarantee.

Other Matter

Our audit was conducted for the purpose of forming an opinion on the combined financial statements as a whole. Schedules 1 and 2 are presented for purposes of additional analysis and are not a required part of the combined 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 combined financial statements. The information has been subjected to the auditing procedures applied in the audit of the combined financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the combined financial statements or to the combined 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 combined financial statements as a whole.

Emphasis of Matter

As discussed in note 1(w) to the combined financial statements, in fiscal year 2020, Wellstar adopted new accounting guidance in connection with its implementation of Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) No. 2016-02, *Leases, (Topic 842)*. Our opinion is not modified with respect to this matter.

KPMG LLP

Atlanta, Georgia
November 6, 2020

WELLSTAR HEALTH SYSTEM, INC. AND AFFILIATES

Combined Balance Sheets

June 30, 2020 and 2019

(In thousands)

Assets		**2020**	**2019**
Current assets:			
Cash and cash equivalents	$	545,334	66,819
Patient accounts receivable, net		590,580	624,298
Assets limited as to use – required for current liabilities		306	4,928
Other current assets		158,186	140,100
Total current assets		1,294,406	836,145
Assets limited as to use		1,304,237	1,321,514
Property and equipment, net		1,856,475	1,758,273
Goodwill		415,453	415,174
Other assets		234,974	73,124
Total assets	$	5,105,545	4,404,230
Liabilities and Net Assets			
Current liabilities:			
Accounts payable	$	200,003	216,755
Accrued salaries, wages, and benefits		192,527	184,985
Other accrued expenses		96,734	53,272
Provider Relief Funds – deferred grant funding		65,743	—
Medicare accelerated and advanced payment liability		264,581	—
Current installments of long-term debt and finance lease obligations		22,927	110,038
Total current liabilities		842,515	565,050
Long-term debt and finance lease obligations, excluding current installments		1,360,909	1,272,802
Self-insurance reserves		195,958	174,893
Accrued pension liability		739,272	539,320
Long-term operating lease obligations		142,278	—
Other long-term liabilities		72,744	61,039
Total liabilities		3,353,676	2,613,104
Net assets:			
Without donor restrictions		1,699,998	1,741,576
With donor restrictions		51,871	49,550
Total net assets		1,751,869	1,791,126
Total liabilities and net assets	$	5,105,545	4,404,230

See accompanying notes to combined financial statements.

WELLSTAR HEALTH SYSTEM, INC. AND AFFILIATES

Combined Statements of Operations

Years ended June 30, 2020 and 2019

(In thousands)

	2020	2019
Revenue, gains, and other support:		
Patient service revenue, net of contractual allowances and discounts	$ 3,615,812	3,457,302
Other revenue	156,900	106,726
Total revenue, gains, and other support	3,772,712	3,564,028
Expenses:		
Salaries and employee benefits	2,127,600	1,989,233
Supplies and other expenses	1,297,878	1,160,263
Depreciation and amortization	187,897	174,752
Interest	39,600	41,969
Total expenses	3,652,975	3,366,217
Operating income, before incremental COVID-19 expenses, Provider Relief Funds grant funding and impairment losses	119,737	197,811
Incremental COVID-19 expenses	(43,216)	—
Provider Relief Funds grant funding	120,664	—
Operating income before impairment losses	197,185	197,811
Impairment of long-lived assets	(54,656)	—
Operating income	142,529	197,811
Nonoperating gains (losses):		
Investment income, net	58,764	71,064
Other components of net periodic pension cost	(19,470)	(7,537)
Change in fair value of interest rate swap	(9,371)	(5,559)
Gain on disposal of property and equipment	741	793
Loss on extinguishment of long-term debt	(27)	—
Revenue, gains, and other support in excess of expenses and losses	173,166	256,572
Accrued pension liability adjustments	(218,194)	(142,699)
Net assets released from restriction used for the purchase of property and equipment	2,331	1,767
Other	1,119	(976)
Change in net assets without donor restrictions	$ (41,578)	114,664

See accompanying notes to combined financial statements.

WELLSTAR HEALTH SYSTEM, INC. AND AFFILIATES

Combined Statements of Changes in Net Assets

Years ended June 30, 2020 and 2019

(In thousands)

	2020	2019
Net assets with donor restrictions:		
Contributions	$ 5,621	6,821
Investment return, net	629	1,464
Inflation adjustment to corpus as required by donor	—	14
Net assets released from restrictions	(3,929)	(3,658)
Change in net assets with donor restrictions	2,321	4,641
Change in net assets without donor restrictions	(41,578)	114,664
Change in net assets	(39,257)	119,305
Net assets, beginning of period	1,791,126	1,671,821
Net assets, end of period	$ 1,751,869	1,791,126

See accompanying notes to combined financial statements.

WELLSTAR HEALTH SYSTEM, INC. AND AFFILIATES

Combined Statements of Cash Flows

Years ended June 30, 2020 and 2019

(In thousands)

		2020	2019
Cash flows from operating activities:			
Change in net assets	$	(39,257)	119,305
Adjustments to reconcile change in net assets to cash provided by operating activities:			
Depreciation and amortization		187,897	174,752
Amortization of bond discount, premium, and issue costs		(2,084)	(1,961)
Gain on sale of property and equipment		(741)	(793)
Loss on impairment of long-lived asset		54,656	—
Realized and unrealized gains on trading investments, net		(33,800)	(47,523)
Change in fair value of interest rate swap		9,371	5,559
Loss on extinguishment of debt		27	—
Restricted contributions and related investment income		(60)	(42)
Equity in earnings of joint ventures		(4,163)	(3,309)
Changes in operating assets and liabilities:			
Patient accounts receivable		33,718	(67,014)
Other current assets		(18,086)	(29,225)
Other assets		6,238	(2,818)
Accounts payable, accrued salaries, wages and benefits, and other accrued expenses		8,010	51,299
Provider Relief Funds – deferred grant funding		65,743	—
Medicare accelerated and advanced payment liability		264,581	—
Self-insurance reserves		21,065	16,156
Accrued pension liability		199,952	140,472
Other long-term liabilities		8,982	517
Net cash provided by operating activities		762,049	355,375
Cash flows from investing activities:			
Purchases of property and equipment		(314,362)	(314,855)
Proceeds from the sale of property and equipment		547	16
Purchase of assets limited as to use		(843,720)	(826,508)
Proceeds from the sale of assets limited as to use		917,212	670,944
Distributions (contributions) from joint ventures, net		4,130	(6,580)
Healthcare business acquisitions		—	(5,106)
Net cash used in investing activities		(236,193)	(482,089)
Cash flows from financing activities:			
Proceeds from borrowings		221,425	50,000
Principal repayments of long-term debt and finance lease obligations		(250,865)	(30,146)
Issue costs paid		(168)	—
Restricted contributions and related investment income		60	42
Net cash (used in) provided by financing activities		(29,548)	19,896
Net change in cash and cash equivalents		496,308	(106,818)
Cash, cash equivalents and restricted cash, beginning of year		101,443	208,261
Cash, cash equivalents and restricted cash, end of year	$	597,751	101,443
Reconciliation of cash, cash equivalents and restricted cash:			
Cash and cash equivalents	$	545,334	66,819
Assets limited as to use – required for current liabilities		306	210
Assets limited as to use		52,111	34,414
Cash, cash equivalents and restricted cash, end of year	$	597,751	101,443

See accompanying notes to combined financial statements.

(1) Summary of Significant Accounting Policies

Wellstar Health System, Inc. (Wellstar) is a multidimensional integrated healthcare organization, headquartered in Marietta, Georgia, which provides inpatient, outpatient, physician care, and emergency services for residents of Metro Atlanta and LaGrange, Georgia. The significant accounting policies used by Wellstar in preparing and presenting its combined financial statements follow:

(a) Organization and Business

The combined financial statements include the accounts of Wellstar and its controlled affiliates, including the following hospitals and medical group:

- Cobb Hospital, Inc. (WCH)
- Douglas Hospital, Inc. (WDH)
- Kennestone Hospital, Inc. (WKH)
- Paulding Medical Center, Inc. (WPMC)
- Wellstar Atlanta Medical Center, Inc. (WAMC)
- Wellstar Medical Group, LLC (WMG)
- Wellstar North Fulton Hospital, Inc. (WNFH)
- Wellstar Spalding Regional Hospital, Inc. (WSRH)
- Wellstar Sylvan Grove Hospital, Inc. (WSGH)
- Wellstar West Georgia Medical Center, Inc. (WWGMC)
- Windy Hill Hospital

All significant intercompany accounts and transactions have been eliminated in combination.

The board of trustees (the Board) of Wellstar has the authority to approve appointments of the members of the boards of trustees of all affiliates.

Wellstar, WCH, WDH, WKH, WPMC, WAMC, WMG, WNFH, WSRH, WSGH, and WWGMC are the members of the Obligated Group.

(b) Use of Estimates

The preparation of combined financial statements in conformity with U.S. generally accepted accounting principles (GAAP) requires that management make estimates and assumptions affecting the reported amounts of assets, liabilities, revenue, and expenses, as well as disclosure of contingent assets and liabilities. Actual results could differ from those estimates.

Significant items subject to such estimates and assumptions include the determination of implicit and explicit price concessions, self-insurance reserves, estimated third-party payor settlements, and the actuarially determined benefit liability related to Wellstar’s pension plans. In particular, laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates associated with these programs will change by a material amount in the near term.

(c) Cash Equivalents

Wellstar considers investments in highly liquid debt instruments with an original maturity of three months or less to be cash equivalents.

(d) Investments and Investment Income

Investments in equity securities with readily determinable fair values and all investments in debt securities are reported at fair value in the combined balance sheets. Fair value is measured in accordance with relevant accounting literature as discussed in note 15 to the combined financial statements.

Investment income items (including realized and unrealized gains and losses on investments, interest, and dividends, and equity in earnings of joint ventures unrelated to healthcare operations) are included in revenue, gains, and other support in excess of expenses and losses in the combined statements of operations, unless restricted by the donor or law.

(e) Assets Limited as to Use

Assets limited as to use primarily include assets set aside by the Board for future capital improvements, over which the Board retains control and may at its discretion subsequently use for other purposes, assets held by trustees under indenture agreements, assets held under self-insurance funding arrangements and donor restricted assets. Amounts required to meet related current liabilities of Wellstar are classified as current assets in the accompanying combined balance sheets.

(f) Costs of Borrowing

Debt issuance costs related to recognized debt liabilities are presented on the combined balance sheets as a direct deduction from the carrying amount of that debt liability consistent with debt premiums and discounts. Debt issuance costs and bond premiums and discounts are amortized over the terms of the related debt issues.

Interest cost incurred on borrowed funds during the period of construction of capital assets is capitalized as a component of the cost of acquiring those assets. Capitalized interest specifically related to tax-exempt borrowings is recorded net of income earned on related trusted assets.

(g) Property and Equipment

Property and equipment are stated at cost. Provisions for depreciation are computed using the straight-line method based on the estimated useful lives of the assets. Equipment under finance lease obligations is amortized using the straight-line method over the shorter of the lease term or the estimated useful life of the equipment. Such amortization is included in depreciation and amortization expense in the accompanying combined statements of operations.

Gifts of long-lived assets, such as land, buildings, or equipment, are reported as support without donor restrictions and are excluded from revenue, gains, and other support in excess of expenses and losses. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used, including gifts of cash or other assets that must be used to acquire long-lived assets are reported as donor-restricted support. Absent explicit donor stipulations about how long those long-lived assets must be maintained, expirations of donor restrictions are reported when the donated or acquired long-lived

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assets are placed into service. Contributions donor-restricted to the purchase of property and equipment or other restricted purposes, which restrictions are met within the same year as received, are reported as increases in net assets without donor restrictions in the combined financial statements.

(h) Leases

Transactions give rise to leases when Wellstar receives substantially all the economic benefits from and has the ability to direct the use of specified property and equipment. Wellstar accounts for leases in accordance with Accounting Standards Codification (ASC) 842 *Leases*. As such, Wellstar determines if an arrangement is or contains a lease at contract inception and recognizes a right-of-use (ROU) asset and a lease liability at the lease commencement date.

For operating and financing leases, the lease liability is initially measured at the present value of the unpaid lease payments at the lease commencement date. Finance leases are subsequently measured at amortized cost using the effective-interest method. Key estimates and judgements include how Wellstar determines (1) the discount rate it uses to discount the unpaid lease payments to present value, (2) lease term and (3) lease payments.

- Wellstar uses the weighted average interest rate it pays on its noncollateralized borrowings as an input to deriving an appropriate incremental borrowing rate, adjusted for the amount of the lease payments, the lease term and the effect on that rate of designating specific collateral with a value equal to the unpaid lease payments for that lease.
- Wellstar has agreements with lease and non-lease components (such as common area maintenance) and generally has elected to account for the lease and non-lease components separately. Wellstar elects not to recognize right-of-use assets and lease liabilities that arise from short-term leases (i.e. leases with terms of 12 months or less).
- The lease term for all of the Wellstar leases includes the noncancellable period of the lease plus any additional periods covered by either an option to extend (or not to terminate) the lease that Wellstar is reasonably certain to exercise.
- Lease payments included in the measurement of the lease liability are comprised of fixed payments, including in-substance fixed payments, owed over the lease term (which includes termination penalties Wellstar would owe if the lease term assumes Wellstar’s exercise of a termination option), variable lease payments that depend on an index or rate, initially measured using the index or rate at the lease commencement date and the exercise price of Wellstar’s option to purchase the underlying asset if Wellstar is reasonably certain to exercise that option.

The ROU asset for operating leases is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made to the lessor at or before the commencement date, less the unamortized balance of lease incentives received and is included in other assets in the accompanying combined balance sheets. Lease expense is recognized on a straight-line basis over the lease term and included in supplies and other expenses in the combined statements of operations.

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Variable lease payments associated with Wellstar's leases are recognized when the event, activity, or circumstance in the lease agreement on which those payments are assessed occurs. Variable lease payments are presented as operating expense in Wellstar's combined statements of operations in the same line item as expense arising from fixed lease payments (operating leases) or amortization of the ROU asset (finance leases).

The ROU asset for finance leases is measured at cost, subsequently amortized using the straight-line method from the lease commencement date to the earlier of the end of its useful life or the end of the lease term unless the lease transfers ownership of the underlying asset to Wellstar or Wellstar is reasonably certain to exercise an option to purchase the underlying asset. In those cases, the ROU asset is amortized over the useful life of the underlying asset. Amortization of the ROU asset is recognized and presented separately from interest expense on the lease liability.

(i) Inventories

Inventories, consisting principally of medical supplies and pharmaceuticals, are stated at the lower of cost (first-in, first-out method) or net realizable value.

(j) Other Assets

Other assets include, among other things, investments in joint ventures, operating ROU assets and prepaid expenses. Investments in joint ventures are accounted for using the equity method or cost method if Wellstar's ownership portion is not significant. Cost method investments in joint ventures are reviewed annually for impairment.

(k) Impairment of Long-Lived Assets

Long-lived assets, such as property and equipment and purchased intangibles, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to estimated undiscounted future cash flows expected to be generated by the asset. If the carrying amount of an asset exceeds its estimated future cash flows, an impairment charge is recognized to the extent that the carrying amount of the asset exceeds its fair value. Fair value may be estimated based upon internal evaluations that include quantitative analyses of revenues and cash flows, reviews of recent sales of similar assets, independent appraisals or market responses based upon discussions with and offers received from potential purchasers.

(l) Goodwill

Wellstar applies the provisions of ASC 958, *Not-for-Profit Entities*, as it relates to subsequent accounting for goodwill and other intangible assets acquired in an acquisition.

Goodwill is an asset representing the future economic benefits arising from other assets acquired in a business combination that are not individually identified and separately recognized. Goodwill is reviewed for impairment at least annually. The goodwill impairment test is a two-step test. Under the first step, the fair value of the reporting unit is compared to its carrying value (including goodwill). If the fair value of the reporting unit is less than its carrying value, an indication of goodwill impairment exists for the reporting unit and step two of the impairment test (measurement) must be performed. Under step two, an impairment loss is recognized for any excess of the carrying amount of the reporting unit's

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goodwill over the implied fair value of that goodwill. The implied fair value of goodwill is determined by allocating the fair value of the reporting unit in a manner similar to a purchase price allocation and the residual fair value after this allocation is the implied fair value of the reporting unit's goodwill. Fair value of the reporting unit is determined using the market approach. If the fair value of the reporting unit exceeds its carrying value following step one, step two is not performed.

Wellstar performs its annual impairment review of goodwill each July 1 and when a triggering event occurs between annual impairment tests.

During the years ended June 30, 2020 and 2019, Wellstar did not identify any material reporting unit at risk of failing step one of the goodwill impairment test. The fair value of all reporting units is substantially in excess of their carrying value and therefore no impairment loss was recorded for the years ended June 30, 2020 or 2019.

(m) Net Assets Classification

Net assets with donor restrictions are those whose use by Wellstar is restricted by donors for a specific time period or purpose or net assets that have been restricted by donors to be maintained by Wellstar in perpetuity.

Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) No. 958 provides guidance, as amended by ASU 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities*, on the net asset classification of donor restricted endowment funds for a not-for-profit organization that are subject to an enacted version of the Uniform Prudent Management of Institutional Funds Act of 2006 (UPMIFA) and also requires disclosures about endowment funds, both donor-restricted endowment funds and board-designated endowment funds.

Wellstar has historically, and to-date, received a limited amount of donor-restricted endowment funds. The Board has interpreted Georgia's State Prudent Management of Institutional Funds Act (SPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds, absent explicit donor stipulations to the contrary. Income from Wellstar's donor-restricted endowment funds is generally restricted to specific donor-directed purposes and is therefore accounted for within net assets with donor restrictions until expended in accordance with the donor's stipulations. Wellstar oversees individual donor-restricted endowment funds to ensure that the fair value of the original gift is preserved.

Wellstar invests donor-restricted endowment funds within the framework of Wellstar's overall investment management program.

Cash receipts from the sale of donated financial assets are classified consistently with cash donations received in the combined statement of cash flows if those cash receipts were from the sale of donated financial assets that upon receipt were directed without the entity imposing any limitations for sale and were converted nearly immediately into cash.

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(n) Revenue, Gains, and Other Support in Excess of Expenses and Losses

The combined statements of operations include revenue, gains, and other support in excess of expenses and losses. Equity in earnings of joint ventures related to healthcare operations, are reported as other revenue in the accompanying combined statements of operations. Changes in net assets without donor restrictions, which are excluded from revenue, gains, and other support in excess of expenses and losses, include net assets released from restrictions used for the purchase of property and equipment and the recognition of pension and postretirement liability adjustments arising during the current period.

(o) Net Patient Service Revenue

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

Performance obligations are determined based on the nature of the services provided by Wellstar. Revenue for performance obligations satisfied over time is recognized based on actual charges incurred in relation to total expected (or actual) charges. Wellstar believes that this method provides a faithful depiction of the transfer of services over the term of the performance obligation based on the inputs needed to satisfy the obligation. Generally, performance obligations satisfied over time relate to patients receiving inpatient acute care services. Wellstar measures the performance obligation from admission into the hospital to the point when it is no longer required to provide services to that patient, which is generally at the time of discharge. Revenue for performance obligations satisfied at a point in time is recognized when goods or services are provided to patients and customers in a retail setting (for example, pharmaceuticals) and Wellstar does not believe it is required to provide additional goods or services to the patient or customer.

Wellstar’s performance obligations relate to contracts with a duration of less than one year; therefore, Wellstar has elected to apply the optional exemption provided in FASB ASC 606-10-50-14(a) and is not required to disclose the aggregate amount of the transaction price allocated to performance obligations that are unsatisfied or partially unsatisfied at the end of the reporting period. The unsatisfied or partially unsatisfied performance obligations referred to above are primarily related to inpatient acute care services at the end of the reporting period. The performance obligations for these contracts are generally completed when the patients are discharged, which generally occurs within days or weeks of the end of the reporting period.

Wellstar is utilizing the portfolio approach practical expedient in ASC 606 for contracts related to net patient service revenue. Wellstar accounts for the contracts within each portfolio as a collective group, rather than individual contracts, based on the payment pattern expected in each portfolio category and the similar nature and characteristics of the patients within each portfolio. The portfolios consist of major payor classes for inpatient revenue and outpatient revenue. Based on historical collection trends and other analyses, Wellstar has concluded that revenue for a given portfolio would not be materially different than if accounting for revenue on a contract-by-contract basis.

Wellstar has agreements with third-party payors that generally provide for payments to Wellstar at amounts different from its established rates. For uninsured patients who do not qualify for charity care, Wellstar recognizes revenue based on established rates, subject to certain discounts and implicit price concessions as determined by Wellstar. Wellstar determines the transaction price based on standard charges for services provided, reduced by explicit price concessions provided to third-party payors, discounts provided to uninsured patients in accordance with Wellstar's policy, and implicit price concessions provided to uninsured patients. Explicit price concessions are based on contractual agreements, discount policies and historical experience. Implicit price concessions represent differences between amounts billed and the estimated consideration Wellstar expects to receive from patients, which are determined based on historical collection experience, current market conditions and other factors.

Generally, patients who are covered by third-party payors are responsible for patient responsibility balances, including deductibles and coinsurance, which vary in amount. Wellstar estimates the transaction price for patients with deductibles and coinsurance based on historical experience and current market conditions. The initial estimate of the transaction price is determined by reducing the standard charge by any contractual adjustments, discounts, and implicit price concessions.

Subsequent changes to the estimate of the transaction price are generally recorded as adjustments to patient service revenue in the period of the change. Adjustments arising from a change in the transaction price were not significant in 2020 or 2019.

(p) Charity Care

Wellstar provides care to patients who meet certain criteria under its community financial aid and charity care policies without charge or at amounts less than its established rates. Because Wellstar does not pursue collection of amounts determined to qualify as charity care, such amounts are not reported as revenue.

Wellstar uses cost as the measurement basis for charity care disclosure purposes. Management uses a cost-to-charge ratio to estimate charity care for disclosure purposes.

(q) Income Taxes

Wellstar and its affiliates have been recognized as exempt from federal income tax under Internal Revenue Code Section 501(a) as organizations described in Section 501(c)(3), and therefore, related income is generally not subject to federal or state income taxes.

Wellstar applies FASB ASC 740, *Income Taxes*, which addresses accounting for uncertainties in income tax positions. It also provides guidance on when tax positions are recognized in an entity's financial statements and how the values of these positions are determined. There is no impact on Wellstar's combined financial statements as a result of the application of ASC 740.

Wellstar has evaluated its tax positions and does not believe there are any material unrecognized tax benefits or obligations as of June 30, 2020 or 2019.

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(r) Contributions

Unconditional promises to give cash and other assets to Wellstar are reported at estimated fair value at the date the promise is received. Conditional promises to give are recognized when the conditions are substantially met while indications of intentions to give are not recorded. Gifts are reported with donor restricted support if they are received with donor stipulations that limit the use or timing of use of the donated assets. When a donor restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), net assets with donor restrictions are reclassified as net assets without donor restrictions and reported as net assets released from restrictions.

(s) Derivative Instruments and Hedging Activities

At the effective date of any hedge accounting election, Wellstar designates the associated derivative as either (1) a hedge of the fair value of a recognized asset or liability or of an unrecognized firm commitment (fair value hedge) or (2) a hedge of a forecasted transaction or the variability of cash flows to be received or paid related to a recognized asset or liability (cash flow hedge). Wellstar formally assesses, both at inception and on an ongoing basis, whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items. When it is determined that a derivative is not highly effective as a hedge or that it has ceased to be a highly effective hedge, Wellstar discontinues hedge accounting prospectively. To the extent that hedge ineffectiveness is associated with these changes in fair value, it is recognized in revenue, gains, and other support in excess of expenses and losses. Wellstar monitors the effectiveness of interest rate swaps designated as hedges on a quarterly basis.

Should hedge accounting be discontinued because it is determined that the derivative no longer qualifies as an effective cash flow hedge, Wellstar continues to carry the derivative on the combined balance sheet at its fair value with subsequent changes in fair value included in revenue, gains, and other support in excess of expenses and losses. Gains and losses that were previously accumulated in net assets are amortized on a straight-line basis over the remaining life of the derivative in the determination of revenue, gains, and other support in excess of expenses and losses.

Wellstar does not currently apply hedge accounting to its derivative instrument.

(t) Asset Retirement Obligations

Wellstar recognizes the fair value of its legal obligations associated with asset retirements in the period incurred, if a reasonable estimate of the fair value of the obligation can be made. When the liability is initially recorded, Wellstar capitalizes the cost of the asset retirement obligation by increasing the carrying amount of the related long-lived asset. Over time, the liability is accreted to its present value each period, and the capitalized cost associated with the retirement obligation is depreciated over the useful life of the related asset. Upon settlement of the obligation, any difference between the cost to settle the asset retirement obligation and the recorded liability is recognized as a gain or loss in the combined statements of operations.

(u) Retirement Benefits

Wellstar recognizes the unfunded status of its defined benefit pension plans and postretirement plan on its combined balance sheet, measures plan assets and benefit obligations as of fiscal year-end and applies the applicable disclosure requirements as described in note 10.

(Continued)

(v) Liquidity and Availability of Resources

Cash and cash equivalents, assets limited as to use required for current liabilities, assets limited as to use limited by the board for capital improvements and other system needs, and patient accounts receivable as reported in the accompanying combined balance sheets are the primary liquid resources used by Wellstar to meet general expenditure needs within the next year. Wellstar has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due. Wellstar maintains immediate daily cash liquidity requirements that average between two and 10 days of operating expenses and invests cash in excess of daily requirements in liquid investments accessible within three to four days. To help manage unanticipated liquidity needs, Wellstar maintains a line of credit facility as described in note 6.

(w) Recently Issued Accounting Standards

In June 2018, the FASB issued ASU No. 2018-08, *Not-for-Profit Entities (Topic 958): Clarifying the Scope and Accounting Guidance for Contributions Received and Contributions Made*. ASU 2018-08 requires an entity to evaluate whether transactions should be accounted for as contributions (nonreciprocal transactions) within the scope of Topic 958 or as exchange (reciprocal) transactions subject to other guidance. Additionally, an entity must determine whether a contribution is conditional and the related impact on revenue recognition. The amendments in the update on contributions received are effective for conduit issuers for periods beginning after June 15, 2018 and for contributions made for periods beginning after December 15, 2018. Wellstar adopted the amendments in the ASU to contributions received and contributions made effective July 1, 2018 and July 1, 2019, respectively, on a modified prospective basis. The adoption of the amendments did not have a material effect on the combined financial statements.

The FASB issued ASU 2016-02, *Leases (Topic 842)*, in February 2016, which supersedes FASB ASC Topic 840, *Leases*, and makes other conforming amendments to U.S. GAAP. ASU 2016-02 requires, among other changes to the lease accounting guidance, lessees to recognize most leases on the balance sheet through both a right-of-use asset and a corresponding lease obligation liability, and additional qualitative and quantitative disclosures. Early adoption is permitted and ASU 2016-02 mandates a modified retrospective transition method. Wellstar adopted the provisions of ASU 2016-02 on July 1, 2019 using the modified retrospective transition approach, without adjusting the comparative periods presented. For leases that commenced before the effective date of ASU 2016-02, Wellstar elected the permitted practical expedients to not reassess the following: (i) whether any expired or existing contacts contain leases; (ii) the lease classification for any expired or existing leases; and (iii) initial direct costs for any existing leases. The adoption resulted in the additions of a right-of-use (ROU) operating asset and a related lease liability of $176.8 million at implementation. See additional discussion on the adoption of ASU 2016-02 in note 13.

In August 2016, the FASB issued ASU 2016-15, *Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments – a consensus of the FASB Emerging Issues Task Force*. ASU 2016-15 amends ASC 230, *Statement of Cash Flows*, to add or clarify guidance on the classification of certain cash receipts and payments in the statement of cash flows with the intent of reducing diversity in practice with respect to eight types of cash flows. ASU 2016-15 is effective for fiscal years beginning after December 15, 2018 and interim periods within fiscal years beginning after December 15, 2019. Early adoption is permitted, and entities must apply the guidance retrospectively to all periods presented. Wellstar adopted ASU 2016-15 effective July 1, 2019 and the adoption did not have a material impact on its combined financial statements.

In November 2016, the FASB issued ASU 2016-18, *Statement of Cash Flows (Topic 230): Restricted Cash*, which requires companies to present amounts generally described as restricted cash and restricted cash equivalents in cash and cash equivalents on the statement of cash flows. ASU 2016-18 is effective for annual periods in fiscal years beginning after December 15, 2018 and requires retrospective application. Wellstar adopted the provisions of the ASU resulting in an increase to beginning cash and cash equivalents on the combined statement of cash flows of approximately $52.4 million, $34.6 million and $122.4 million for the years ended June 30, 2020, 2019 and 2018, respectively.

In March 2017, the FASB issued ASU 2017-07, *Compensation-Retirement Benefit (Topic 715)*, which requires companies to present the service cost component of net benefit cost in the income statement line items where they report compensation cost, and all other components of net benefit cost in the income statement separately from the service cost component and outside of operating income, if this subtotal is presented. Additionally, the service cost component will be the only component that can be capitalized. ASU 2017-07 is effective in annual periods in fiscal years beginning after December 15, 2018. The standard requires retrospective application for the amendments related to the presentation of the service cost component and other components of net benefit cost, and prospective application for the amendments related to the capitalization requirements for the service cost components of net benefit cost. Wellstar implemented ASU 2017-07 for its fiscal year beginning July 1, 2019. The adoption of ASU 2017-07 required that classification of non-service cost components of net periodic pension cost be presented outside of the performance indicator. As such, Wellstar reclassified $19.5 million and $7.5 million from total expenses to nonoperating gains (losses) for the years ended June 30, 2020 and 2019, respectively, in the accompanying combined statements of operations.

In January 2017, the FASB issued ASU 2017-04, *Intangibles – Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment*, eliminating Step 2 from the impairment test and changed the requirement to perform its annual impairment test by comparing the fair value of a reporting unit with its carrying amount and recognize an impairment charge for the amount by which the carrying amount exceeds the fair value up to the amount of goodwill allocated to the reporting unit. The ASU also eliminates the requirements for any reporting unit with a zero or negative carrying amount to perform a qualitative assessment. The amendments are effective for goodwill impairment tests in fiscal years beginning after December 15, 2020. Wellstar has not assessed the impact of this ASU on the combined financial statements.

In May 2019, the FASB issued ASU 2019-06, *Intangibles – Goodwill and Other (Topic 350), Business Combinations (Topic 805), and Not-for-Profit Entities (Topic 958) Extending the Private Company Accounting Alternatives on Goodwill and Certain Identifiable Intangible Assets to Not-for-Profit Entities*, provides not-for-profit entities an open-ended effective date and unconditional one-time election to adopt the private company alternatives from Topic 350 and Topic 805. Topic 350 provides that an entity should amortize goodwill on a straight-line basis over 10 years, or less, if applicable. An accounting policy election is required to test goodwill for impairment at the entity or reporting unit level and requires testing for impairment when a triggering event occurs. Topic 805 requires customer related intangible assets that are not capable of being sold or licensed independently from the other assets of a business and all noncompetition agreements to be amortized consistent with the period of goodwill amortization. The ASU requires election of Topic 350 if Topic 850 is elected. Topic 350 may be adopted without adoption of Topic 850. Wellstar has not elected to apply the provisions of the ASU at this time.

In January 2016, the FASB issued ASU No. 2016-01, *Recognition and Measurement of Financial Assets and Liabilities*. ASU 2016-01 addresses certain aspects of recognition, measurement, presentation, and disclosure of financial instruments. The ASU is effective for not-for-profit entities for fiscal years beginning after December 15, 2018, with early adoption restricted to certain provisions and within certain time periods. Under the ASU, not-for-profit and private entities are no longer required to disclose fair value information concerning financial instruments measured at amortized cost such as long-term debt. The adoption of the provisions of ASU 2016-01 as of July 1, 2019, resulted in the elimination of the disclose the fair value of long-term debt in the footnotes and did not have any other material impact to the combined financial statements.

In August 2018, the FASB issued ASU No. 2018-13, *Fair Value Measurement, Disclosure Framework – Changes to the Disclosure Requirements for Fair Value Measurement*. This ASU intends to improve the effectiveness of disclosures in the notes to financial statements by modifying disclosure requirements for fair value measurements. The ASU is effective for Wellstar for annual reporting periods beginning after December 15, 2019, with early adoption permitted. Wellstar is currently assessing the impact that ASU 2018-13 will have on its combined financial statements and will adopt the provisions upon the effective date.

In August 2018, the FASB issued ASU 2018-14, *Compensation --Retirement Benefits --Defined Benefit Plans --General (Subtopic 715-20): Disclosure Framework --Changes to the Disclosure Requirements for Defined Benefit Plans*, which modifies the disclosure requirements for employers that sponsor defined benefit pension or other postretirement plans. Disclosure requirements removed from Subtopic 715-20 include: the amounts in accumulated other comprehensive income expected to be recognized as components of net periodic benefit cost over the next fiscal year and the amount and timing of plan assets expected to be returned to the employer. ASU 2018-14 also requires disclosure of the weighted average interest crediting rates for cash balance plans and other plans with promised interest crediting rates, and an explanation of the reasons for significant gains and losses related to changes in the benefit obligation for the period. ASU 2018-14 is effective for Wellstar for annual and interim periods beginning after December 15, 2019 and will be applied prospectively. Early adoption is permitted. Wellstar does not expect the adoption of ASU 2018-14 to have a material effect on its combined financial statements.

(Continued)

(2) Assets Limited as to Use

The composition of assets limited as to use follows:

		2020	2019
		(In thousands)	
By the Board for capital improvements and other system needs:			
Cash and cash equivalents	$	28,615	19,336
Asset backed securities		103,347	103,605
Mortgage backed securities		31,633	52,232
Obligations of the U.S. government and its agencies		96,620	105,270
Corporate debt securities – domestic		325,174	321,093
Corporate debt securities – international		26,948	22,789
Corporate equity securities – domestic		398,766	373,440
Corporate equity securities – international		63,384	82,000
Mutual funds		23,001	20,748
		1,097,488	1,100,513
Under self-insurance funding arrangements:			
Cash and cash equivalents		6,448	915
Asset backed securities		—	1,002
Obligations of the U.S. government and its agencies		65,966	61,056
Corporate debt securities – domestic		66,225	57,534
Corporate debt securities – international		3,440	1,201
Corporate equity securities – domestic		19,065	16,097
International investments		1,151	669
		162,295	138,474
By donor stipulation:			
Cash and cash equivalents		17,048	14,163
Foreign investment		555	744
Obligations of the U.S. government and its agencies		165	184
Corporate debt securities – domestic		9,171	8,367
Corporate debt securities – international		274	682
Corporate equity securities – domestic		11,689	12,058
Corporate equity securities International		3,125	3,489
Other		2,427	1,559
		44,454	41,246

		2020	2019
		(In thousands)	
Under bond indenture agreements – held by trustee:			
Cash and cash equivalents		306	210
Obligations of the U.S. government and its agencies		—	10,798
Asset backed securities		—	35,201
		306	46,209
		1,304,543	1,326,442
Less amounts classified as current assets		(306)	(4,928)
	$	1,304,237	1,321,514

The composition of net investment income follows:

		2020	2019
		(In thousands)	
Net investment income included in nonoperating gains:			
Net realized gains on investments	$	27,817	26,858
Interest and dividend income		24,211	22,586
Net unrealized gain on investments		5,983	20,665
Equity in earnings of joint ventures unrelated to healthcare operations, net		753	955
		58,764	71,064
Restricted net investment income		629	1,478
	$	59,393	72,542

Interest and dividend income include management fees of $3.5 million and $3.2 million for fiscal years 2020 and 2019, respectively.

(3) Other Current Assets

The composition of other current assets follows:

		2020	2019
		(In thousands)	
Inventories	$	100,492	81,203
Prepaid expenses		32,370	35,368
Other receivables		25,324	23,529
	$	158,186	140,100

(4) Property and Equipment

A summary of property and equipment follows:

	2020	2019
	(In thousands)	
Land and land improvements	$ 206,194	204,623
Buildings and fixtures	1,829,054	1,619,075
Equipment	1,443,892	1,332,843
	3,479,140	3,156,541
Less accumulated depreciation and amortization	1,758,753	1,578,044
	1,720,387	1,578,497
Construction in progress	136,088	179,776
	$ 1,856,475	1,758,273

Construction in progress at June 30, 2020 is principally comprised of costs incurred to complete expansion and renovation projects at various affiliates' facilities. The estimated remaining cost to complete projects in progress as of June 2020 is approximately $116.0 million. Wellstar's present capital improvements program provides for planned capital expenditures during fiscal years 2021 through 2025 as follows: 2021 – $100.8 million, 2022 – $256.2 million, 2023 – $189.8 million, 2024 – $232.5 million, and 2025 – $326.4 million. The 2021 and forward capital expenditures amounts do not include carryover dollars from 2020 and prior years of $262.8 million. Total property and equipment, net includes accruals for capital purchases totaling $19.7 million and $20.4 million as of June 30, 2020 and 2019, respectively.

(5) Other Assets

The composition of other assets follows:

	2020	2019
	(In thousands)	
Right of use lease assets	$ 171,478	—
Investments in joint ventures	32,125	35,215
Other long-term receivables	16,029	23,085
Intangible assets	8,669	9,061
Other long-term assets	6,673	5,763
	$ 234,974	73,124

Other long-term receivables largely consist of a portfolio of patient accounts in process of qualifying for Medicaid eligibility. These receivables are carried at net realizable value based on Wellstar's historical experience with such accounts.

Effective September 1, 2018 Wellstar, through certain subsidiaries, acquired a minority interest in certain outpatient surgery centers for $19.0 million. Wellstar has other interests in joint ventures, none of which exceed $3.0 million individually.

(6) Long-term Debt and Finance Lease Obligations

The composition of long-term debt and finance lease obligations follows:

		2020	2019
		(In thousands)	
Series 2004 hospital authority revenue anticipation certificates issued in April 2004. Variable weekly interest rates; interest payments due monthly; principal payments due annually April 1, 2032 through 2034	$	25,000	25,000
Series 2006 hospital authority revenue anticipation certificates issued in April 2006. Variable weekly interest rates; interest payments due monthly; principal payments due annually April 1, 2034 through 2036		25,000	25,000
Series 2011 hospital authority revenue anticipation refunding and improvement certificates issued in November 2011. Interest rates range from 3.00% to 5.25% per annum; interest payments due semiannually on April 1 and October 1; principal payments due annually April 1, 2012 through 2041		91,685	96,195
Series 2012A hospital authority revenue anticipation improvement certificates issued in June 2012. Interest rates range from 3.0% to 5.0% per annum; interest payments due semiannually on April 1 and October 1. Principal payments due annually April 1, 2017 through 2042		28,200	28,995
Series 2012B hospital authority revenue anticipation improvement certificates issued in June 2012. Variable weekly interest rates; interest payments due monthly; principal payments due April 1, 2041 through 2043		68,750	68,750
Series 2012 hospital authority revenue anticipation improvement certificates issued in November 2012. Interest rates range from 2.0% to 5.25% per annum; interest payments due annually April 1 through 2032. Principal payments due annually on April 1, 2014 through 2032		85,775	89,800
Series 2017A hospital authority revenue anticipation certificates issued August 2017. Interest rates range from 1% to 5% per annum; interest payments due semiannually on April 1 and October 1. Principal payments due annually April 1, 2018 through 2047		149,340	151,215

	2020	2019
	(In thousands)	
Series 2017A development authority hospital revenue bonds issued August 2017. Interest rates range from 1% to 5% per annum; interest payments due semiannually on April 1 and October 1. Principal payments due annually April 1, 2018 through 2047	172,960	174,610
Series 2017A hospital authority revenue anticipation certificates issued August 2017. Interest rates range from 1% to 5% per annum; interest payments due semiannually on April 1 and October 1. Principal payments due annually April 1, 2018 through 2047	167,290	168,315
Series 2017A hospital authority revenue anticipation certificates issued August 2017. Interest rates range from 1% to 5% per annum; interest payments due semiannually on April 1 and October 1. Principal payments due annually April 1, 2018 through 2047	58,560	59,700
Series 2017B hospital authority revenue anticipation certificates issued August 2017. Variable weekly interest rates; interest payments due monthly; principal payments due April 1, 2018 through April 1, 2047	55,875	57,210
Series 2017B development authority hospital revenue bonds issued August 2017. Variable weekly interest rates; interest payments due monthly; principal payments due April 1, 2018 through April 1, 2047	83,700	85,695
Series 2017B hospital authority revenue anticipation certificates issued August 2017. Variable weekly interest rates; interest payments due monthly; principal payments due April 1, 2018 through April 1, 2047	46,500	47,610
Series 2017C hospital authority revenue anticipation certificates issued December 2017. Variable weekly interest rates; interest payments due monthly; principal payments due April 1, 2018 through April 1, 2042	—	61,100
Series 2017C development authority hospital revenue bonds issued August 2017. Variable weekly interest rates; interest payments due monthly; principal payments due April 1, 2018 through April 1, 2047	27,900	28,565
Series 2017D development authority hospital revenue bonds issued August 2017. Variable weekly interest rates; interest payments due monthly; principal payments due April 1, 2018 through April 1, 2047	27,900	28,565

	2020	2019
	(In thousands)	
Bank of America, N.A. loan dated October 15, 2018, amended March 31, 2020. Variable LIBOR daily floating rate plus 0.24% per annum. Interest paid monthly maturing December 21, 2021.	190,484	50,000
HCP, Inc., lease agreement for WellStar North Fulton Hospital dated March 31, 2016. Lease payments are due monthly in arrears. Lease ended February 19, 2020 on purchase of North Fulton Hospital	—	86,144
Finance lease obligations	35,016	4,217
Total revenue certificates, debt, and finance lease obligations	1,339,935	1,336,686
Plus unamortized premium	50,869	53,209
Less unamortized cost of issuance	(6,917)	(7,002)
Less unamortized discount	(51)	(53)
Total long-term debt and finance lease obligations	1,383,836	1,382,840
Less current installments	22,927	110,038
	$ 1,360,909	1,272,802

Subsequent to year end, on August 6, 2020, Wellstar issued Revenue Bonds Series 2020A Development Authority of Fulton County (Series 2020A DAFC Certificates) in the original principal amount of $70.2 million to provide funds to pay off the portion of the outstanding bank note with Bank of America (the bank) used to acquire the interest in Wellstar North Fulton Hospital owned by HCP, Inc. and to pay for certain costs of issuance. The proceeds of the Series 2020A DAFC certificates were paid to the bank under the loan agreement. The Series 2020A DAFC certificates bear interest at the fixed rate of 4%.

Subsequent to year end, on August 6, 2020, Wellstar issued Series 2020A Cobb County Kennestone Hospital Authority Revenue Anticipation Certificates (Series 2020A CCKHA Certificates) in the original principal amount of $93.3 million to provide funds to pay off the portion of the outstanding bank note with Bank of America (the bank) used to acquire Vinings Health Park and Kennestone Outpatient Pavilion and to pay for certain costs of issuance. The proceeds of the Series 2020A CCKHA certificates were paid to the bank under the loan agreement. The Series 2020A CCKHA certificates bear interest at fixed rates ranging from 3% to 5%.

Subsequent to year end, on August 6, 2020, Wellstar initiated plans to provide funds to forward refund the outstanding Series 2011 Cobb County Kennestone Hospital Authority Revenue Anticipation Certificates (Series 2011 Certificates) and to pay for certain costs of issuance with the Series 2020B Cobb County Kennestone Hospital Authority Revenue Anticipation Certificates (Series 2020B CCKHA certificates) in the original principal amount of $76.5 million. The proceeds of the Series 2020B CCKHA Certificates will be deposited in a defeasance trust for the refunding of the Series 2011 Certificates. The settlement date is set for January 4, 2021. The Series 2020B certificates bear interest at fixed rates ranging from 4% to 5.25%.

On August 3, 2017, Wellstar issued Revenue Anticipation Certificates Series 2017A Cobb County Kennestone Authority (Series 2017A CCKHA certificates) in the original principal amount of $156.1 million to provide funds to refund the outstanding Cobb County Kennestone Hospital Authority Revenue Anticipation Certificates Series 2005B (Series 2005B Certificates) to finance a portion of the costs of the planning, design, acquisition, construction, installation, and equipping of a new emergency department on the KH campus and to pay for certain costs of issuance. The proceeds of the Series 2017A CCKHA Certificates were deposited in a defeasance trust for the refunding of the Series 2005B Certificates and a construction fund. The Series 2017A CCKA Certificates bear interest at fixed rates ranging from 1% to 5%.

On August 3, 2017, Wellstar issued Revenue Anticipation Certificates Series 2017A Development Authority of Fulton County (Series 2017A DAFC Certificates) in the original principal amount of $178.9 million to provide funds to repay a portion of the $600.0 million outstanding bank loan with Bank of America (the bank) and to pay for certain costs of issuance. The proceeds of the Series 2017A DAFC Certificates were paid to the bank under the loan agreement. The Series 2017A DAFC Certificates bear interest at fixed rates ranging from 1% to 5%.

On August 3, 2017, Wellstar issued Revenue Anticipation Certificates Series 2017A Griffin-Spalding Authority (Series 2017A GSA Certificates) in the original principal amount of $170.9 million to provide funds to repay a portion of the $600.0 million outstanding bank loan with Bank of America and to pay for certain costs of issuance. The proceeds of the Series 2017A GSA Certificates were paid to the bank under the loan agreement. The Series 2017A GSA Certificates bear interest at fixed rates ranging from 1% to 5%.

On August 3, 2017, Wellstar issued Revenue Anticipation Certificates Series 2017A LaGrange-Troup Authority (Series 2017A LTCHA Certificates) in the original principal amount of $62.4 million to provide funds to refund the outstanding 2014 LaGrange-Troup County Hospital Authority Revenue Anticipation Certificates Series 2014 (Series 2014 Certificates) and the LaGrange-Troup County Hospital Authority Revenue Anticipation Certificates Series 2008A (Series 2008A Certificates) and to pay for certain costs of issuance. The proceeds of the Series 2017A LTCHA Certificates were deposited in a defeasance trust for the refunding of the Series 2008A Certificates and paid to Columbus Bank and Trust to repay the outstanding amounts on the Series 2014 Certificates. The Series 2017A LTCHA Certificates bear interest at fixed rates ranging from 1% to 5%.

On August 3, 2017, Wellstar issued Revenue Anticipation Certificates Series 2017B Cobb County Kennestone Authority (Series 2017B CCKHA Certificates) in the original principal amount of $60.1 million to Banc of America Public Capital Corp. to provide funds to refund the outstanding Cobb County Kennestone Hospital Authority Revenue Anticipation Certificates Series 2005A (Series 2005A Certificates) and to pay for certain costs of issuance. The proceeds of the Series 2017B CCKHA Certificates were paid to bond holders to redeem the outstanding certificates. The Series 2017B CCKHA Certificates bear interest at a variable rate (67% of LIBOR plus the applicable spread of 0.55%) and are subject to an index put date on the seventh anniversary of issuance. The Series 2017B CCKHA Certificates have mandatory redemptions under the agreement beginning April 1, 2018 and through April 1, 2047.

On August 3, 2017, Wellstar issued Revenue Anticipation Certificates Series 2017B Development Authority of Fulton County (Series 2017B DAFC Certificates) in the original principal amount of $90.0 million to Banc of America Public Capital Corp. to provide funds to repay a portion of the $600 million outstanding bank loan and to pay for certain costs of issuance. The proceeds of the Series 2017B DAFC Certificates were paid to the bank under the loan agreement. The Series 2017B DAFC Certificates bear interest at a variable rate (67% of LIBOR plus the applicable spread of 0.55%) and are subject to an index put date on the seventh anniversary of issuance. The Series 2017B DAFC Certificates have mandatory redemptions under the agreement beginning April 1, 2018 and through April 1, 2047.

On August 3, 2017, Wellstar issued Revenue Anticipation Certificates Series 2017B Griffin-Spalding Authority (Series 2017B GSA Certificates) in the original principal amount of $50.0 million to Banc of America Public Capital Corp. to provide funds to repay a portion of the $600 million outstanding bank loan and to pay for certain costs of issuance. The proceeds of the Series 2017B GSA Certificates were paid to the bank under the loan agreement. The Series 2017B GSA Certificates bear interest at a variable rate (67% of LIBOR plus the applicable spread of 0.35%) and are subject to an index put date on the seventh anniversary of issuance. The GSA Certificates were amended with an effective date of December 21, 2018 to change the percentage of LIBOR to 79% plus 0.55%. The Series 2017B GSA Certificates have mandatory redemptions under the agreement beginning April 1, 2018 and through April 1, 2047.

On August 3, 2017, Wellstar issued Revenue Anticipation Certificates Series 2017C Development Authority of Fulton County (Series 2017C DAFC Certificates) in the original principal amount of $30 million to STI Institutional & Government, Inc. to provide funds to repay a portion of the $600 million outstanding bank loan and to pay for certain costs of issuance. The proceeds of the Series 2017C DAFC Certificates were paid to the bank under the loan agreement. The Series 2017C DAFC Certificates bear interest at a variable rate (67% of LIBOR plus the applicable spread of 0.35%) and are subject to an index put date on August 1, 2022. The Series 2017C DAFC Certificates have mandatory redemptions under the agreement beginning April 1, 2018 and through April 1, 2047.

On August 3, 2017, Wellstar issued Revenue Anticipation Certificates Series 2017D Development Authority of Fulton County (Series 2017D DAFC Certificates) in the original principal amount of $30.0 million to Wells Fargo Municipal Capital Strategies, LLC to provide funds to repay a portion of the $600 million outstanding bank loan and to pay for certain costs of issuance. The proceeds of the Series 2017D DAFC Certificates were paid to the bank under the loan agreement. The Series 2017D DAFC Certificates bear interest at a variable rate (70% of LIBOR plus the applicable spread of 0.55%) and are subject to an index put date on August 1, 2022. The Series 2017D DAFC Certificates have mandatory redemptions under the agreement beginning April 1, 2018 and through April 1, 2047.

On December 21, 2017, Wellstar issued Revenue Anticipation Certificates Series 2017C Cobb County Kennestone Authority (Series 2017C CCKHA Certificates) in the original principal amount of $66.4 million to Banc of America Public Capital Corp. to provide funds for the purchase of the Kennestone Outpatient Pavilion (KOP) and certain costs of issuance. The Series 2017C CCKA Certificates bear interest at a variable rate 67% of LIBOR plus the applicable spread of 0.35%) and are subject to an index put date on the third anniversary of issuance. The Series 2017C CCKA Certificates have mandatory redemptions under the agreement beginning April 1, 2018 and through April 1, 2042. The Series 2017C CCKHA Certificates were paid in full on March 31, 2020 as part of the amendment to the term loan agreement described herein.

On November 15, 2012, Wellstar issued Revenue Anticipation Refunding Certificates Series 2012 (Series 2012 Certificates) in the original principal amount of $108.5 million to provide funds to refund the Hospital Authority of Cobb County Revenue Anticipation Refunding and Improvement Certificates Series 2003 and to pay for certain costs of issuance. The proceeds of the Series 2012 Certificates were deposited in a defeasance trust. The Series 2012 Certificates bear interest at fixed rates ranging from 2.0% to 5.0%.

On June 28, 2012, Wellstar issued Revenue Anticipation Certificates Series 2012A (Series 2012A Certificates) and Series 2012B Certificates in the original principal amount of $31.25 million and $68.75 million, respectively, to finance a portion of the costs of the planning, design, acquisition, construction, installation, and equipping of a 112-bed replacement acute care hospital in Paulding County. The Series 2012A Certificates bear interest at fixed rates ranging from 3.0% to 5.0% and are supported by an intergovernmental contract with Paulding County, Georgia. The Series 2012B Certificates bear interest at a variable rate and are secured by a direct-pay letter of credit facility expiring July 2022. Interest rates are set weekly by the remarketing agent based upon prevailing rates for the contract period related to the remarketed tranche. In the event a market for variable rate instruments is not sustained, the letter of credit agreements require the bank to purchase the certificates.

On November 1, 2011, Wellstar issued Revenue Anticipation Refunding and Improvement Certificates (Series 2011 Certificates) in the original principal amount of $123.8 million to finance the costs of certain capital improvements, to refund all of the outstanding Series 1999 Certificates, and to pay for certain costs of issuance. The Series 2011 Certificates bear interest at fixed rates ranging from 3.0% to 5.3%. Wellstar plans to refund the Series 2011 Certificates with the Series 2020B CCKA Certificates on January 4, 2021.

The 2004 and 2006 revenue certificates bear interest at variable rates and are secured by direct-pay letters of credit expiring June 2, 2023. Interest rates are set weekly by the remarketing agent based upon prevailing rates for the contract period related to the remarketed tranche. In the event a market for variable rate instruments is not sustained, the letter of credit agreements require the bank to purchase the certificates.

On October 15, 2018, Wellstar Health System, Inc, and its Affiliates entered into a term loan agreement for $50.0 million to fund in part the purchase of Vinings Health Park by WCH. The interest rate is LIBOR daily floating rate plus 0.24% per annum. The loan was amended on March 31, 2020 to extend the due date and increase the amount outstanding to pay off Series 2017C CCKHA Certificates and provide financing to exercise the purchase option under the HCP, Inc Capital Lease. The term loan was paid in full on August 6, 2020 on issuance of the Series 2020A CCKHA Certificates described herein.

Pursuant to the asset sale agreement dated December 1, 2015 between Tenet Healthcare Corp. and Wellstar, Wellstar became the guarantor of the lease of WNFH building between Tenet Healthcare Corp. and HCP, Inc.

On March 31, 2016, Wellstar as the acquirer of WNFH and guarantor entered into a Lessor Estopel Certificate with HCP, Inc. for WNFH's interest in the leased premises of the WNFH and the assumption of the lease. The initial term of the lease expired February 19, 1999 and WNFH was granted the option to renew the term of the lease for up to eight extended terms. WNFH has invoked four extended terms and has the option to renew the lease for four additional extended terms of five years each. The current annual minimum payable under the lease is $7.0 million payable in equal monthly installments. In February 2019 Wellstar provided notice to the lessor of its intent to exercise its option under the lease to purchase the building in February 2020 at the fixed purchase price totaling $82.0 million. WNFH completed its purchase under the lease agreement for the agreed price using bridge financing. The bridge financing was refinanced on a long-term basis as described herein.

The average annual interest rate on Wellstar's variable rate obligations approximated 3.4% and 2.1% for the years ended June 30, 2020 and 2019, respectively.

Certain trusted assets described in note 2 and the future net revenue of Wellstar are pledged as security for payment of the various series' of hospital revenue certificates and revenue bonds outlined above. Substantially all of Wellstar's long-term debt agreements subject Wellstar to certain debt covenants typical of such obligations.

Wellstar maintains an unsecured revolving line of credit with a bank for $150 million. The facility is available until March 31, 2021. Wellstar anticipates renewal of the facility at expiration under substantially the same terms and conditions as the existing facility. There were no amounts outstanding under the facility at June 30, 2020 or 2019.

Wellstar paid interest of approximately $48.8 million and $51.2 million in 2020 and 2019, respectively.

Net interest capitalized on capital projects was approximately $5.7 million and $5.5 million, in 2020 and 2019, respectively.

Future maturities of long-term debt and finance lease obligations follow (in thousands):

2021	$	22,927
2022		214,355
2023		24,787
2024		21,655
2025		26,673
Thereafter		1,029,538
	$	1,339,935

(7) Derivative Instruments

Wellstar initially synthetically converted $60.0 million (the notional amount) of the Series 2005 Certificates (note 6) from variable rate debt to fixed rate debt through an interest rate swap agreement (swap) with a counterparty. In general, the swap obligates Wellstar to pay interest at a fixed rate of 3.45% and receive interest at 67% of LIBOR. The notional amount amortizes in the same fashion as the Series 2005 Certificates and the swap matures April 11, 2037. On August 3, 2017, Wellstar advance refunded the related Series 2005 Certificates. Wellstar did not cancel the swap and uses it as an overall hedge to its total debt portfolio.

Wellstar's credit risk involves the possible default of the counterparty. Collateral may be required in the future based on Wellstar's credit rating, the insurer's credit rating, or market valuations of the swaps. At June 30, 2020 and through the date these combined financial statements were issued, no such collateral was required.

The swap's fair value, if positive, is included in other assets in the accompanying combined balance sheets. If negative, the swap's fair value is included in other long-term liabilities in the accompanying combined balance sheets. The following is a summary of the derivative outstanding at June 30, 2020 and 2019 (in thousands):

2020

Notional amount	Maturity date	Average variable rate received	Fixed rate paid	Increase in interest expense	Swap fair value
$ 60,000	April 2040	1.04 %	3.45 %	$ 1,274	(28,481)

2019

Notional amount	Maturity date	Average variable rate received	Fixed rate paid	Increase in interest expense	Swap fair value
$ 60,000	April 2040	1.57 %	3.45 %	$ 1,129	(19,110)

(8) Net Patient Service Revenue and Patient Accounts Receivable

Wellstar revenues generally relate to contracts with patients in which the performance obligations are to provide health care services to the patients. Revenues are recorded during the period in which the obligations to provide health care services are satisfied. The performance obligations for inpatient services are generally satisfied over periods that average approximately five days, and revenues are recognized based on charges incurred in relation to total expected charges. The performance obligations for outpatient services are generally satisfied over a period of less than one day. The contractual relationships with patients, in most cases, also involve a third-party payer (Medicare, Medicaid, managed care health plans and commercial insurance companies, including plans offered through the health insurance exchanges) and the transaction prices for the services provided are dependent upon the terms provided by (Medicare and Medicaid) or negotiated with (managed care health plans and commercial insurance companies) the third-party payers. The payment arrangements with third-party payers for the service provided to the related patients typically specify payments at amounts less than the standard charges.

- *Medicare* – Inpatient and outpatient services rendered to Medicare program beneficiaries are generally paid at prospectively determined rates. These rates vary according to patient classification systems that are based on clinical, diagnostic, and other factors. Additionally, payments for certain other reimbursable items are made at tentative rates, with final settlements determined after submission of annual cost reports and audits by the Medicare fiscal intermediary. Wellstar affiliate hospitals received Medicare Disproportionate Share payments totaling $68.8 million and $49.3 million during fiscal years 2020 and 2019, respectively. The cost reports of all Wellstar affiliates have been audited and final settled for all fiscal years through June 30, 2015. June 30, 2016 and 2017 cost report audits are currently in process for a number of hospitals. Net revenue from the Medicare program accounted for approximately 33.7% and 31.8% of Wellstar's net patient service revenue for the years ended June 30, 2020 and 2019, respectively.

Wellstar, through one of its subsidiaries, participates in the Medicare Shared Saving Program (MSSP) “Track 1” involving upside only gain-sharing. The overall quality and savings benchmarks for its assigned patient population were met during fiscal year 2019. Wellstar has not received final results of its participation in the fiscal 2020 program. Other revenue in the accompanying fiscal 2020 combined statement of operations includes shared savings payments totaling $6.3 million. The savings realized under the program were distributed, net of program operating costs, 50% to participating physicians (including both employee and nonemployee physicians) with the remaining 50% retained by Wellstar. Continued participation provides for upside only gain-sharing and there can be no assurance the program will qualify for future shared savings payments under the program.

- *Medicaid* – Inpatient services rendered to Medicaid program beneficiaries are paid at prospectively determined rates per discharge. Outpatient services are generally paid based upon cost reimbursement methodologies. Wellstar’s Medicaid cost reports have been final settled through June 30, 2015 for all Wellstar affiliates. Net revenue from the Medicaid program accounted for approximately 10.7% and 11.2% of Wellstar’s net patient service revenue for the years ended June 30, 2020 and 2019, respectively.

During fiscal 2020 and 2019, net patient service revenue decreased by approximately $11.2 million and $9.3 million, respectively, due to changes in estimates for open Medicare and Medicaid cost reports and removal of allowances previously estimated that are no longer necessary as a result of final settlements. Wellstar has incorporated the most current and relevant data received from Medicare and Medicaid in the preparation of associated estimates at both June 30, 2020 and 2019.

Wellstar’s affiliate hospitals and nursing facilities participate in the Georgia Medicaid Upper Payment Limit (UPL) program for providers participating in the State of Georgia (the State) Medicaid program. Wellstar’s net reimbursement benefit associated with the program, totaling approximately $21.2 million and $18.8 million in fiscal years 2020 and 2019, respectively, is recognized as a reduction in related contractual adjustments in the accompanying combined statements of operations. There can be no assurance that Wellstar will continue to qualify for future participation in this program or that the program will not ultimately be discontinued or materially modified.

Wellstar’s affiliate hospitals participate in the Georgia Indigent Care Trust Fund (ICTF). Under the provisions of the ICTF, Medicaid disproportionate share hospitals (DSH) may contribute funds to be used by the State in the Medicaid Program that are supplemented by federal funds (combination dollars). The combination dollars are returned to DSH as additional Medicaid inpatient reimbursement. Wellstar’s net reimbursement benefit associated with the program, totaling approximately $66.6 million and $55.5 million in fiscal years 2020 and 2019, respectively, is recognized as additional Medicaid reimbursement and, therefore, is reflected as a reduction in associated contractual adjustments in the accompanying combined statements of operations.

The State’s determination related to Wellstar’s participation in the State’s fiscal year 2021 plan is currently in process, and the terms of the fiscal year 2021 plan have not been finalized. Accordingly, contributions to the State’s plan during 2021 and related amounts to be potentially received from Medicaid during 2021 have not been established. There can be no assurance that Wellstar will continue to qualify for future participation in this program or that the program will not ultimately be discontinued or materially modified.

Certain affiliates of Wellstar have also entered into other reimbursement arrangements providing for payment methodologies, which include prospectively determined rates per discharge, capitated payment arrangements, discounts from established charges, and prospectively determined per diem rates.

Wellstar has determined that the nature, amount, and uncertainty of revenue and cash flows are affected by the following factors: payors and service lines. The following tables provide details of these factors.

The composition of net patient service revenue by primary payor for the years ended June 30, 2020 and 2019 follow:

		2020	2019
		(In thousands)	
Medicare	$	1,107,794	982,192
Medicaid		352,109	350,322
Other third-party payors		1,994,957	1,984,667
Patients		160,952	140,121
Net patient service revenue	$	3,615,812	3,457,302

Revenue from patient’s deductibles and coinsurance are included in the preceding categories based on the primary payor.

The composition of net patient service revenue, based on Wellstar’s primary lines of business for the years ended June 30, 2020 and 2019 follow:

Service lines		2020	2019
		(In thousands)	
Hospital services	$	3,089,014	2,944,152
Physician services		457,490	444,182
Other healthcare services		69,308	68,968
Net patient service revenue	$	3,615,812	3,457,302

(9) Community Benefits and Uncompensated Care

Wellstar maintains records to identify and monitor the level of charity care it provides through its affiliates. These records include the costs and amount of charges foregone for services and supplies furnished under its Community Financial Aid Policy. Wellstar owns and operates two indigent clinics located on the campuses of two of its affiliate hospitals. In addition, Wellstar provides free lab and medical imaging services for a local community clinic, as well as funding for nurse practitioner services for a disadvantaged population within the community.

Wellstar also participates in certain governmental insurance programs, including Medicare and Medicaid. Under these programs, Wellstar provides care to patients at payment rates, which are determined by the federal and state governments, regardless of Wellstar's actual charges. In some cases, these programs pay Wellstar at amounts which are less than its cost of providing services.

The following is the cost to provide care to those patients qualifying for Community Financial Aid along with the unreimbursed cost of providing care to Medicare and Medicaid beneficiaries and other patients. These costs are determined using a cost-to-charge ratio.

		2020	2019
		(In thousands)	
Cost of providing charity care	$	329,120	293,047
Unreimbursed cost of providing care to Medicaid beneficiaries		126,326	104,179
Unreimbursed cost of providing care to Medicare beneficiaries		279,578	237,145
Unreimbursed cost of providing care to other patients		161,819	135,375
Cost of other community programs		25,141	15,125
	$	921,984	784,871

The State of Georgia Provider Payment Agreement Act provides that each hospital shall be assessed a provider payment in the amount of 1.45% (1.40% for four Wellstar affiliate hospitals [WAMC, WCH, WKH, WNFH] designated as Georgia Trauma Centers) of net patient service revenue of the hospital based on the annual financial survey filed with the State of Georgia Department of Community Health and such payments be recognized as a community benefit. In fiscal years 2020 and 2019, Wellstar affiliate hospitals made $35.0 million and $28.5 million, respectively, in provider payments and recognized such payments as a reduction in net patient service revenue in the accompanying combined financial statements.

Wellstar offers many wellness and educational services at little or no cost to the community. Health fairs are held throughout the year at accessible locations, providing various health screenings, such as mammograms, bone density, blood pressure, and cholesterol checks. A large number of educational programs are offered for all ages. These programs include bicycle safety, car seat safety, defensive driving, CPR, and first-aid classes. Flu shots are available to the community during flu season and health screenings, medical supplies, and immunizations are provided to children through local health departments and health fairs. The costs of these services are included in revenue, gains, and other support in excess of expenses and losses in the accompanying combined statements of operations.

(10) Employee Benefit Plans

(a) Pension Benefits – Wellstar Health System, Inc.

Wellstar sponsors four defined benefit pension plans (the Plans) and is a guarantor of the Lagrange Troup County Authority Pension Plan (LT Authority Plan). Effective July 1, 2019, Wellstar amended the Wellstar Health System, Inc. Retirement Plan for Active Employees and the Wellstar Health System, Inc. Retirement Plan by splitting these two pension plans into four pension plans and transferring the accrued benefits of current and former employees to one of the four pension plans based upon the value of their accrued benefits. There were no changes to participant benefits or vesting criteria as a result of the plan amendments.

The Plans cover certain employees who have attained the age of 21 and completed one year of service as defined in the plans. Wellstar contributes an amount sufficient to fund the plans as determined by consulting actuaries.

Effective December 31, 2019, the West Georgia Medical Center, Inc. Retirement Plan was amended to split the plan into four segments and each segment was transferred and merged into one of the four Wellstar pension plans thereby assigning these participants and their related accrued benefits to the Wellstar plans. The participant benefits and vesting criteria were unchanged as a result of the transfer and merging of participants.

The Plans were frozen on April 30, 2020 to future service credits accruals effective November 1, 2020 and a curtailment gain was recognized in the 2020 combined statement of operations totaling $9.1 million and a reduction in the projected benefit obligation totaling $59.4 million as a component of the change in net assets without donor restrictions.

The changes in the projected benefit obligations for the years ended June 30, 2020 and 2019 follow:

		2020	2019
		(In thousands)	
Projected benefit obligation, beginning of year	$	1,378,868	1,150,909
Service cost		72,808	62,156
Interest cost		48,983	49,601
Actuarial loss		261,883	146,917
Plan combinations		45,078	—
Curtailments		(59,374)	—
Benefits paid		(34,097)	(30,715)
Projected benefit obligation, end of year	$	1,714,149	1,378,868

The accumulated benefit obligations at June 30, 2020 and 2019 totaled $1.7 billion and $1.3 billion, respectively.

The changes in the fair value of plan assets, funded status of the plan, and the status of amounts recognized in Wellstar's combined balance sheets as of June 30, 2020 and 2019 follow:

		2020	2019
		(In thousands)	
Fair value of plan assets, beginning of year	$	904,648	808,381
Actual return on plan assets		37,420	57,642
Employer contributions		95,745	69,340
Benefits paid		(34,097)	(30,715)
Plan combinations		26,888	—
Fair value of assets, end of year	$	1,030,604	904,648
Accrued pension liability – funded status	$	(683,545)	(474,220)

The components of net periodic pension cost for 2020 and 2019 follow:

		2020	2019
		(In thousands)	
Service cost	$	72,808	62,156
Interest cost		48,983	49,601
Expected return on plan assets		(56,660)	(57,997)
Amortization of prior service cost		(9,458)	(9,458)
Amortization of net loss		34,855	23,875
Curtailments		(9,131)	—
	$	81,397	68,177

The amounts accumulated in net assets without donor restrictions in the combined balance sheets follow:

		2020	2019
		(In thousands)	
Prior service cost	$	—	(20,952)
Actuarial loss		715,945	517,803
	$	715,945	496,851

Wellstar is expected to amortize $34.9 million of net loss from net assets without donor restrictions into net periodic pension cost and $9.5 million of prior service cost credit during fiscal year 2020.

Weighted average assumptions used to determine benefit obligations in the accompanying combined balance sheets at June 30:

	2020	2019
Discount rate – Active Plan A	2.94 %	3.78 %
Discount rate – Active Plan B	3.07	N/A
Discount rate – Inactive Plan A	2.83	3.60
Discount rate – Inactive Plan B	2.81	N/A
Rate of compensation increase Active Plan A	N/A	3.30
Rate of compensation increase Active Plan B	N/A	N/A

Weighted average assumptions used to determine net periodic pension cost for the years ended June 30:

	2020	2019
Discount rate – Active Plan A	3.46 %	4.35 %
Discount rate – service cost – Active Plan A	3.82	4.38
Discount rate – interest cost – Active Plan A	3.63	4.32
Discount rate – Active Plan B	3.70	N/A
Discount rate – service cost – Active Plan B	3.93	N/A
Discount rate – interest cost – Active Plan B	3.80	N/A
Discount rate – Inactive Plan A	3.64	4.28
Discount rate – interest cost – Inactive Plan A	3.27	4.01
Discount rate – Inactive Plan B	3.65	N/A
Discount rate – interest cost – Inactive Plan B	3.19	N/A
Expected return on plan assets	7.00	7.00
Rate of compensation increase – Active Plan A	3.30	3.30
Rate of compensation increase – Active Plan B	3.30	N/A

Wellstar determines the interest cost component of net periodic pension cost by using the specific spot rates across the yield curve corresponding to the varying cash flow duration groups to calculate the interest cost component.

(i) Plan Assets

The plan's investment objectives are to protect long-term asset value by applying prudent, low-risk, high-quality investment disciplines and to enhance the values by maximizing investment returns through active security management within the framework of the plan's investment policy. Asset allocation strategies and investment management structure are designed to meet the plan's investment objectives.

Wellstar's pension plan target and weighted average asset allocations follow:

	Target allocation	2020	2019
Plan assets:			
Domestic equities	51 %	55 %	51 %
Domestic bonds	30	29	30
High yield	5	5	5
Global value	6	6	6
International equity	8	5	8
	100 %	100 %	100 %

The expected long-term rate of return assumption is based on the targeted asset allocation and the average return to be earned over the period of payment of the expected benefits included in the benefit obligation. In developing the expected returns, consideration is given to actual returns earned on the components of pension plan assets, projection of returns, current economic conditions, and historical rates of return, volatilities, and interactions of asset classifications.

Wellstar categorizes its pension assets, based on the priority of inputs used in related valuation techniques, into a three-level fair value hierarchy (note 15).

(ii) *Cash Flows*

Wellstar expects to contribute approximately $51.2 million to the Plans in fiscal year 2021.

(iii) *Expected Future Benefit Payments*

Benefit payments are expected to be paid as follows (in thousands):

2021	$	44,341
2022		48,661
2023		53,185
2024		57,567
2025		61,120
2026–2030		352,819

(iv) *Other Items*

Wellstar uses the straight-line method to amortize prior service cost.

(b) Pension Benefits – Wellstar West Georgia Health Services Inc. and Affiliates

Pursuant to the lease and transfer agreement between the LT Authority and WWGMC, employees of the LT Authority became employees of WWGMC on October 1, 2009. Pension benefit accruals under the LT Authority's pension plan were frozen on September 30, 2009. Employees who had participated in the LT Authority's pension plan (LT Authority Plan) retained their accrued benefit and on October 1, 2009 began accruing benefits under a new defined benefit pension plan sponsored by WWGMC (WWGMC Plan). The lease and transfer agreement requires WWGMC to fund all pension obligations of the LT Authority Plan. Obligations under the LT Authority Plan are reflected in the actuarial valuation related to that plan. Obligations related to the new WWGMC Plan, including future salary increases related to past service as of October 1, 2009, are reflected in the funded status of the WWGMC Plan. As disclosed in note 10(a), the WWGMC Plan was amended to split the plan into four segments, and each segment was transferred and merged into one of the four Wellstar pension plans effective December 31, 2019.

Actuarial services for the plans are provided by an independent consulting firm. WWGMC is required to contribute the amounts necessary to fund the plans, using the actuarial basis specified by the plans. The participants are fully vested in their benefits under the WWGMC Plan and the LT Authority Plan and both plans are closed to new participants. Employees may retire at age 55 if they have completed 10 years of service; normal retirement is at age 65 with 5 years of credited service. Upon retirement, each participant will receive a benefit under the plan sponsored by WWGMC that is calculated on the basis of consolidated service with the LT Authority and WWGMC and is offset by the amount of his or her frozen benefit under the LT Authority Plan.

The funded status of the WWGMC Plan plus amounts due to the LT Authority related to the LT Authority Plan is recognized as an asset or liability in the combined balance sheets. Net pension liability recognized in the combined balance sheets consists of the following at June 30, 2020 and 2019:

(i) WWGMC Pension Plan

The following table presents a reconciliation of the beginning and ending balances of the WWGMC Plan's projected benefit obligation, the fair value of plan assets, and the funded status of the WWGMC Plan:

	June 30	
	2020	**2019**
	(In thousands)	
Projected benefit obligation, beginning of period	$ 38,932	32,674
Service cost	941	1,141
Interest cost	1,305	1,389
Actuarial loss	4,690	4,389
Benefits paid	(790)	(661)
Transfer to another plan	(45,078)	—
Projected benefit obligation, end of period	—	38,932

	June 30	
	2020	2019
	(In thousands)	
Fair value of plan assets, beginning of period	$ 22,695	20,299
Actual return on plan assets	1,353	1,289
Contributions from the plan's sponsor	3,630	1,768
Benefits paid	(790)	(661)
Transfer to another plan	(26,888)	—
Fair value of plan assets, end of period	—	22,695
Accrued pension liability – funded status	$ —	(16,237)

The accumulated benefit obligation at June 30, 2019 totaled $31.2 million.

The amounts accumulated in net assets without donor restrictions related to the plan in the combined balance sheets consist of the following at June 30, 2020 and 2019:

	June 30	
	2020	2019
	(In thousands)	
Net actuarial loss	$ —	6,870
Transition obligation	—	2,919
	—	9,789
Deficit of cumulative employer contributions to net periodic pension cost	—	6,448
	$ —	16,237

Net periodic pension cost and other amounts recognized in net assets without donor restrictions excluding amounts transitioned from the LT Authority effective October 1, 2009, consist of the following at June 30, 2020 and 2019:

	June 30	
	2020	**2019**
	(In thousands)	
Net periodic pension cost components:		
Service cost	$ 941	1,141
Interest cost	1,305	1,389
Expected return on plan assets	(1,642)	(1,477)
Amortization of net loss	602	—
Amortization of transition obligation	556	556
Net periodic pension cost	1,762	1,609
Other changes in net assets without donor restrictions:		
Amortization of transition obligation	(556)	(556)
Amortization of net loss	(6,269)	4,577
Transition obligation due to merger	(2,363)	—
Net actuarial loss	(602)	—
Total loss recognized in net assets without donor restrictions	(9,790)	4,021
Total recognized in net periodic pension cost and net assets without donor restrictions	$ (8,028)	5,630

The initial transition obligation was established on the effective date of the WWGMC Plan, October 1, 2009, and it represents the unfunded projected benefit obligation as of that date. The initial amount was $8.3 million and is being amortized over 15 years at $556 thousand per year. No amount of the transition obligation will be amortized into net periodic pension cost in 2021.

Weighted average assumptions used to determine benefit obligations in the accompanying combined balance sheets at June 30:

	2020	**2019**
Discount rate	N/A	3.63 %
Rate of compensation increase	N/A	3.50

Weighted average assumptions used to determine net periodic pension cost for the years ended June 30, 2020 and 2019 are as follows:

	June 30	
	2020	2019
Net periodic pension cost	3.63 %	4.15 %
Benefit obligations	3.31	4.15
Expected return on plan assets	7.00	7.00

The respective long-term rate of returns were developed using anticipated rates of return on each asset category. All of the plans' assets at June 30, 2019 are invested in cash equivalents and mutual funds.

The plan's investment objectives are to protect long-term asset value by applying prudent, low-risk, high-quality investment disciplines and to enhance the values by maximizing investment returns through active security management within the framework of the plan's investment policy. Asset allocation strategies and investment management structure are designed to meet the plan's investment objectives.

(ii) LaGrange-Troup County Hospital Authority Pension Plan

The following table presents a reconciliation of the beginning and ending balances of the LT Authority Plan's projected benefit obligation, the fair value of plan assets, and the funded status of the LT Authority Plan:

		June 30	
		2020	2019
		(In thousands)	
Projected benefit obligation, beginning of period	$	101,010	95,296
Interest cost		3,168	3,872
Actuarial gain		8,647	5,821
Benefits paid		(4,087)	(3,979)
Projected benefit obligation, end of period		108,738	101,010
Fair value of LT Authority Plan assets, beginning of period		52,147	51,350
Actual return on LT Authority Plan assets		1,996	2,823
Contributions from the LT Authority Plan's sponsor		2,955	1,953
Benefits paid		(4,087)	(3,979)
Fair value of LT Authority Plan assets, end of period		53,011	52,147
Accrued pension liability – funded status of the LT Authority Plan, end of period	$	(55,727)	(48,863)

The accumulated benefit obligations at June 30, 2020 and 2019 totaled $108.7 million and $101.0 million, respectively.

Amounts recognized in net assets without donor restrictions related to the LT Authority Plan consist of the following at June 30, 2020 and June 30, 2019:

		June 30	
		2020	**2019**
		(In thousands)	
Actuarial loss	$	29,593	20,703
Accrued pension cost		26,134	28,160
	$	55,727	48,863

Net periodic pension cost and other amounts recognized in net assets without donor restrictions consist of the following at June 30, 2020 and 2019:

		June 30	
		2020	**2019**
		(In thousands)	
Net periodic pension cost components:			
Interest cost	$	3,168	3,872
Amortization of net loss		1,322	692
Expected return on plan assets		(3,561)	(3,516)
Net periodic pension cost		929	1,048
Other changes in net assets without donor restrictions:			
Net (gain) in net assets without donor restrictions		10,212	6,513
Amortization of net loss		(1,322)	(692)
Total gain recognized in net assets without donor restrictions		8,890	5,821
Total recognized in net periodic pension cost and net assets without donor restrictions	$	9,819	6,869

Weighted average assumptions used to determine benefit obligations in the accompanying combined balance sheets at June 30:

	2020	2019
Discount rate	2.76 %	3.59 %
Rate of compensation increase	N/A	N/A

Weighted average assumptions used to determine net periodic pension cost for the years ended June 30:

	2020	2019
Discount rate	3.59 %	4.15 %
Discount rate – interest cost	3.21	4.15
Expected return on plan assets	7.00	7.00
Rate of compensation increase	N/A	N/A

Wellstar determines the interest cost component of net periodic pension cost by using the specific spot rates across the yield curve corresponding to the varying cash flow duration groups to calculate the interest cost component.

WWGMC expects to make contributions to the LT Authority Plan of approximately $1.0 million through June 30, 2021.

(iii) Plan Assets

The WWGMC and LT Authority Plans’ target and weighted average asset allocations follow:

	Target	Plan assets at June 30	
	allocation	2020	2019
Cash and cash equivalents	0–10%	2 %	2 %
Fixed income	35–100	34	39
Equities	0–65	65	59

On a quarterly basis, the investment committee evaluates and monitors such factors as general economic and financial market conditions and trends, overall diversification of the investment options, the adherence of each option to its stated investment objective, and the role of the investment option in determining the asset allocation strategy for funding of the plans. WWGMC utilizes an outside investment consultant to implement its investment strategy.

Estimated future benefit payments, which reflect future service, as appropriate, are projected to be paid as follows:

		Authority plan benefit payments
		(In thousands)
Year ending June 30:		
2021	$	4,815
2022		5,031
2023		5,238
2024		5,469
2025		5,683
2026–2030		30,122

(c) Other Benefits

Wellstar sponsors a 403(b) defined contribution benefit plan (the Wellstar 403(b) Plan), which covers substantially all employees. Wellstar matches employee contributions based on the employees' primary affiliate employer and eligibility. Eligible employees may contribute up to 20% of compensation in any one year, subject to a regulatory limit.

Wellstar matches eligible employees of certain affiliates at a rate equal to 25% of the first 8% of each participant's compensation that is contributed by the participant. Employees are immediately vested in their contributions and net value changes thereon and are cliff vested 100% in Wellstar's matching contributions after three years of service.

Wellstar contributed approximately $20.4 million and $17.6 million to the plans during the years ended June 30, 2020 and 2019, respectively.

Wellstar sponsors a 457(f) plan for officers of the organization. Total liabilities under the plan included in other long-term liabilities in the accompanying combined balance sheets total $26.5 million and $23.9 million as of June 30, 2020 and 2019, respectively.

Wellstar also sponsors an unfunded postretirement medical plan covering members of the Board of Trustees and their dependents upon retirement from completion of 12 years of board service. The unfunded status of the plan at June 30, 2020 and 2019 is $2.2 million and $2.0 million, respectively, and is included in other long-term liabilities in the accompanying combined balance sheets. The plan is measured as of June 30 using a discount rate of 3.47% and 4.19% at June 30, 2020 and 2019, respectively. The assumed initial and ultimate healthcare trend rate is 0% in both 2020 and 2019.

(11) Business and Credit Concentrations

Wellstar grants credit to patients, substantially all of whom reside in the service areas of Wellstar's affiliates. Wellstar generally does not require collateral or other security in extending credit to patients;

however, it routinely obtains assignment of (or is otherwise entitled to receive) patients' benefits payable under their health insurance programs, plans, or policies (e.g., Medicare, Medicaid, Managed Care, capitated, and other preferred provider arrangements and commercial insurance policies).

The mix of net receivables from patients and third-party payors follows:

	2020	2019
Managed Care	56 %	49 %
Medicare	24	24
Medicaid	9	12
Patients	2	2
Other third-party payors	9	13
	100 %	100 %

The primary collection risks relate to uninsured patient accounts, including patient accounts for which the primary insurance carrier has paid the amounts covered by the applicable agreement, but patient responsibility amounts (deductibles and copayments) remain outstanding. Implicit price concessions relate primarily to amounts due directly from patients. Estimated implicit price concessions are recorded for all uninsured accounts, regardless of the aging of those accounts. Accounts are written off when all reasonable internal and external collection efforts have been performed.

The estimates for implicit price concessions are based upon management's assessment of historical write-offs and expected net collections, business and economic conditions, trends in federal, state and private employer health care coverage and other collection indicators. Management relies on the results of detailed reviews of historical write-offs and collections at facilities that represent a majority of Wellstar's revenues and accounts receivable (the hindsight analysis) as a primary source of information in estimating the collectability of accounts receivable. Wellstar performs the hindsight analysis quarterly, utilizing rolling twelve-months accounts receivable collection and write-off data. Wellstar believes quarterly updates to the estimated implicit price concession amounts at each of the hospital facilities provides reasonable estimates of revenues and valuation of accounts receivable. These routine, quarterly changes in estimates have not resulted in material adjustments to the valuation of accounts receivable or period-to-period comparisons of the results of operations.

(12) Self-Insurance Programs

Wellstar has established a wholly owned captive insurance company (CAC) for the purpose of self-insuring first-dollar coverage related to general liability, professional liability, worker's compensation risks on a claims made basis. Wellstar funds CAC in amounts as determined by consulting actuaries. General and professional liability risks are self-insured at an underlying annual coverage layer totaling $2.0 million and $7.0 million per individual loss, respectively, and $57.0 million for aggregate claims. Workers' compensation coverage is self-insured for individual claims up to $500 thousand.

CAC also provides first-dollar coverage for Directors and Officers ($500 thousand), property, automobile policies ($50 thousand) and cyber security ($250 thousand). In addition, Wellstar is self-insured through other arrangements for employee group health insurance, generally up to $1.0 million of lifetime coverage per employee.

Losses for all self-insured coverages, except for employee group health insurance, are managed through the Risk Management and Claims Committee process. Identified and incurred-but-not-reported losses are accrued based on estimates that incorporate Wellstar's past experience, as well as other considerations such as the nature of each claim or incident, relevant trend factors, and advice from consulting actuaries. The identified and estimated incurred-but-not-reported losses included in the accompanying combined balance sheets at both June 30, 2020 and 2019 have been discounted at 2.5%.

Wellstar also maintains substantial excess liability coverage for amounts in excess of the above-described limits through the provisions of certain claims-made insurance policies. To the extent that any claims-made coverage is not renewed or replaced with equivalent insurance, claims based on occurrences during the term of such coverage, but reported subsequently, would be uninsured. Management believes, based on incidents identified through Wellstar's incident reporting system and other reporting procedures, that any such claims would not have a material effect on Wellstar's operations or financial position. In any event, management anticipates that the claims-made coverages currently in place will be renewed or replaced with equivalent insurance as the terms of these coverages expire.

(13) Leases

Wellstar leases certain property, buildings, and equipment under both operating and financing leases expiring through May 31, 2045. Leases with terms greater than 12 months are recorded with the related ROU assets and ROU obligations at the present value of lease payments over the term. Wellstar uses an incremental borrowing rate to discount lease payments based on information available at lease commencement, as most leases do not provide a readily determinable implicit interest rate. The incremental borrowing rate for the year ended June 30, 2020 ranged from 2.0% to 3.29%. Leases that include rental escalation clauses and renewal options are factored into the determination of lease payments when appropriate.

(Continued)

The following table presents ROU assets and liabilities included in the accompanying combined balance sheets:

			June 30, 2020 (In thousands)
Assets:			
Operating	Other assets	$	171,478
Finance	Property and equipment, net		31,968
Total		$	203,446
Liabilities:			
Current:			
Operating	Other accrued expenses	$	29,636
Finance	Current installments of long-term debt and finance lease obligations		1,335
Noncurrent:			
Operating	Long-term operating lease obligations		142,278
Finance	Long-term debt		33,681
Total		$	206,930

Operating and financing lease expense included in the accompanying combined statements of operations follows:

		June 30, 2020 (In thousands)
Operating lease expense	$	33,386
Finance lease expense:		
Amortization of lease assets		1,148
Interest on lease liabilities		533
Short-term lease expense		16,098
Variable lease expense		642
Total	$	51,807

The following table presents other supplemental quantitative disclosures as of and for the year ended June 30, 2020 (dollars in thousands):

Cash paid for amounts included in the measurement of lease liabilities:		
Operating cash flows used for operating leases	$	28,348
Financing cash flows used for finance leases		1,298
Additions to right-of-use assets obtained from operating leases	$	17,768
Additions to right-of-use assets obtained from finance leases		27,197
Weighted average remaining lease term (years):		
Operating leases		7.58
Finance leases		21.32
Weighted average discount rate:		
Operating leases		3.25 %
Finance leases		3.28

The undiscounted future lease payments under non-cancelable operating and financing leases and reconciliation to the corresponding liabilities included in the accompanying combined balance sheets follows (in thousands):

Lease maturity		Operating leases	Finance leases	Total
2021	$	31,895	2,475	34,370
2022		27,185	2,500	29,685
2023		23,172	2,402	25,574
2024		20,078	2,353	22,431
2025		16,975	2,080	19,055
Thereafter		71,495	36,685	108,180
Total lease payments		190,800	48,495	239,295
Less amount representing interest		(18,886)	(13,479)	(32,365)
Present value of undiscounted future cash flows	$	171,914	35,016	206,930

(Continued)

Prior to the adoption of ASC 842, Wellstar's future minimum annual lease payments under non-cancellable operating leases for the year ended June 30, 2019 were as follows (in thousands):

Fiscal year:		
2020	$	32,342
2021		28,555
2022		23,935
2023		18,589
2024		12,241
Thereafter		27,318
	$	142,980

(14) Functional Expenses

Wellstar provides healthcare services to individuals generally residing within its geographic location. Expenses related to providing these services are characterized functionally as follows:

		2020		
		Healthcare services	General and administrative	Total
			(In thousands)	
Salaries and employee benefits	$	1,807,557	320,043	2,127,600
Supplies and other expenses		1,084,485	213,393	1,297,878
Depreciation and amortization		130,179	57,718	187,897
Interest		39,561	39	39,600
Incremental COVID-19 expenses		43,216	—	43,216
Impairment loss		54,656	—	54,656
Total expenses	$	3,159,654	591,193	3,750,847

		2019		
		Healthcare services	General and administrative	Total
			(In thousands)	
Salaries and employee benefits	$	1,670,972	318,261	1,989,233
Supplies and other expenses		980,333	179,930	1,160,263
Depreciation and amortization		117,394	57,358	174,752
Interest		41,467	502	41,969
Total expenses	$	2,810,166	556,051	3,366,217

(Continued)

The combined financial statements report certain categories of expenses that are attributable to more than one function. Therefore, these expenses require allocation on a reasonable basis that is consistently applied. The expenses that are allocated include salaries, wages and benefits, supplies and other expenses and depreciation and amortization which includes allocations on the basis of estimates of time and effort.

(15) Fair Value of Financial Instruments

In accordance with FASB ASC 820, *Fair Value Measurements and Disclosures*, Wellstar has categorized its financial instruments, based on the priority of inputs used in related valuation techniques, into a three-level fair value hierarchy. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets (Level 1) and the lowest priority to unobservable inputs (Level 3). If the inputs used to measure the financial instruments fall within different levels of the hierarchy, the categorization is based on the lowest level input that is significant to the fair value measurement of the instrument.

When available, Wellstar generally uses quoted market prices to determine fair value and classifies such items as Level 1. Wellstar's Level 2 securities are bonds and other debt securities whose fair values are determined by independent vendors. The vendors compile prices from various sources and may apply matrix pricing for similar bonds or loans where no price is observable in an actively traded market. If available, the vendor may also use quoted prices for recent trading activity of assets with similar characteristics to the bond being valued. Wellstar does not consider any of its investment holdings to be Level 3 securities.

The fair value hierarchy of assets limited as to use at June 30 follows:

		2020	
	Level 1	**Level 2**	**Total**
		(In thousands)	
By the Board for capital improvements and other system needs:			
Cash and cash equivalents	$ 28,615	—	28,615
Asset backed securities	—	103,347	103,347
Mortgage backed securities	—	31,633	31,633
Obligations of the U.S. government and its agencies	96,620	—	96,620
Corporate debt securities – domestic	325,174	—	325,174
Corporate debt securities – international	—	26,948	26,948
Corporate equity securities – domestic	398,766	—	398,766
Corporate equity securities – international	63,384	—	63,384
Mutual funds	23,001	—	23,001
	935,560	161,928	1,097,488

	2020		
	Level 1	**Level 2**	**Total**
		(In thousands)	
Under self-insurance funding arrangements:			
Cash and cash equivalents	6,448	—	6,448
Obligations of the U.S. government and its agencies	65,966	—	65,966
Corporate debt securities – domestic	—	66,225	66,225
Corporate debt securities – international	—	3,440	3,440
Corporate equity securities – domestic	19,065	—	19,065
Corporate equity securities – international	1,151	—	1,151
	92,630	69,665	162,295
By donor stipulation:			
Cash and cash equivalents	17,048	—	17,048
Foreign investments	—	555	555
Obligations of the U.S. government and its agencies	165	—	165
Corporate debt securities – domestic	7,243	1,928	9,171
Corporate debt securities – international	—	274	274
Corporate equity securities – domestic	11,689	—	11,689
Corporate equity securities – international	3,125	—	3,125
Other	—	2,427	2,427
	39,270	5,184	44,454
Under bond indenture agreements – held by trustee:			
Cash and cash equivalents	306	—	306
	$ 1,067,766	236,777	1,304,543

(Continued)

	2019		
	Level 1	**Level 2**	**Total**
		(In thousands)	
By the Board for capital improvements and other system needs:			
Cash and cash equivalents	$ 19,336	—	19,336
Asset backed securities	—	103,605	103,605
Mortgage backed securities	—	52,232	52,232
Obligations of the U.S. government and its agencies	105,270	—	105,270
Corporate debt securities – domestic	281,523	39,570	321,093
Corporate debt securities – international	—	22,789	22,789
Corporate equity securities – domestic	373,440	—	373,440
Corporate equity securities – international	82,000	—	82,000
Mutual funds	20,748	—	20,748
	882,317	218,196	1,100,513
Under self-insurance funding arrangements:			
Cash and cash equivalents	915	—	915
Asset backed securities	—	1,002	1,002
Obligations of the U.S. government and its agencies	61,056	—	61,056
Corporate debt securities – domestic	—	57,534	57,534
Corporate debt securities – international	—	1,201	1,201
Corporate equity securities – domestic	16,097	—	16,097
Corporate equity securities – international	669	—	669
	78,737	59,737	138,474
By donor stipulation:			
Cash and cash equivalents	14,163	—	14,163
Foreign investments	—	744	744
Obligations of the U.S. government and its agencies	184	—	184
Corporate debt securities – domestic	4,932	3,435	8,367
Corporate debt securities – international	—	682	682
Corporate equity securities – domestic	12,058	—	12,058
Corporate equity securities – international	3,489	—	3,489
Other	—	1,559	1,559
	34,826	6,420	41,246

(Continued)

	2019		
	Level 1	**Level 2**	**Total**
		(In thousands)	
Under bond indenture agreements – held by trustee:			
Cash and cash equivalents	210	—	210
Obligations of the U.S. government and its agencies	10,798	—	10,798
Asset backed securities	—	35,201	35,201
	11,008	35,201	46,209
	$ 1,006,888	319,554	1,326,442

The carrying amounts of all applicable asset and liability financial instruments reported in the accompanying combined balance sheets (except various debt instruments) approximate their estimated fair values, in all material respects, at June 30, 2020 and 2019. Fair value of a financial instrument is defined as the amount which would be received to sell an asset or paid to transfer a liability in an orderly transaction between willing market participants at the measurement date.

Wellstar has categorized its derivative instrument as Level 2 within the three-level fair value hierarchy. The interest rate swap entered into by Wellstar is executed over the counter and valued using the net present value of the cash flow streams as no quoted market prices exist for such instruments. Wellstar also employs an independent third party to perform a mark-to-market valuation assessment on the swap to assess the reasonableness of the valuation otherwise received by Wellstar.

The fair value hierarchy of the Wellstar pension plan assets at June 30, 2020 and 2019 follows:

	2020		
	Level 1	**Level 2**	**Total**
		(In thousands)	
Cash and cash equivalents	$ 24,118	—	24,118
Mortgage – and other asset-backed securities	—	40,293	40,293
Obligations of the U.S. government and its agencies	82,197	331	82,528
Corporate debt securities – domestic	—	160,855	160,855
Corporate debt securities – international	—	9,025	9,025
Corporate equity securities – domestic	647,045	—	647,045
Corporate equity securities – international	18,669	—	18,669
Open end mutual fund	48,071	—	48,071
	$ 820,100	210,504	1,030,604

	2019		
	Level 1	Level 2	Total
		(In thousands)	
Cash and cash equivalents	$ 23,738	—	23,738
Mortgage – and other asset-backed securities	—	39,937	39,937
Obligations of the U.S. government and its agencies	72,746	301	73,047
Corporate debt securities – domestic	—	142,809	142,809
Corporate debt securities – international	—	9,974	9,974
Corporate equity securities – domestic	552,741	—	552,741
Corporate equity securities – international	18,256	—	18,256
Open end mutual fund	44,146	—	44,146
	$ 711,627	193,021	904,648

The fair value hierarchy of the WWGMC and LT Authority pension plan at June 30, 2020 and 2019 follows:

	June 30, 2020	
	WWGMC Level 1 plan assets	LT Authority Level 1 plan assets
	(In thousands)	
Pension assets at fair value as of June 30, 2020:		
Money market funds	$ —	1,036
Domestic equity mutual funds:		
Technology	—	3,311
Large cap	—	18,929
Mid cap	—	2,099
Small cap	—	4,798
International equity mutual funds	—	5,071
Bond mutual funds:		
Long term	—	9,511
Intermediate term	—	2,366
Short term	—	5,890
Other	—	—
	$ —	53,011

(Continued)

	June 30, 2019	
	WWGMC Level 1 plan assets	**LT Authority Level 1 plan assets**
	(In thousands)	
Pension assets at fair value as of June 30, 2019:		
Cash and cash equivalents	$ 330	—
Money market funds	—	954
Domestic equity mutual funds:		
Technology	1,456	1,544
Large cap	8,455	17,837
Mid cap	1,164	1,887
Small cap	1,598	3,343
International equity mutual funds	1,941	4,899
Bond mutual funds:		
Long term	2,934	7,142
Intermediate term	1,773	5,148
Short term	1,976	6,374
Other	1,068	3,019
	$ 22,695	52,147

(16) Net Assets with Donor Restrictions

Net assets with donor restrictions as of June 30, 2020 and 2019 are available for the use of various Wellstar programs and affiliates as follows:

		2020	2019
		(In thousands)	
Subject to spending policy and appropriation:			
Patient services:			
Hospice services	$	7,573	7,665
Indigent care clinic support		177	185
Cancer services		1,320	1,371
Hospital general purpose:			
Trauma and emergency		4,774	4,079
Hospital enhancement and operations		19,384	17,906
Community services		152	58
Education and employee assistance:			
Scholarship		687	640
Employee assistance		277	423
Education		83	60
Any activities of the organization		2,484	1,909
		36,911	34,296
Subject to appropriation and expenditure when a specified event occurs:			
Land or proceeds from sale of land upon death of donor to support general activities		500	500
Net balance of original gift held under split-interest agreement upon death of donor to support general activities		53	20
Not subject to appropriation or expenditure:			
Endowment established to provide support to hospice care patients and supporting functions		4,576	4,534
Endowment established to provide nursing scholarships		768	750
Endowment established to provide support to cancer services		912	912
Land and attached assets required to be used for hospital purposes		8,151	8,538
Total net assets with donor restrictions	$	51,871	49,550

Wellstar Foundation has two separate endowments: The Hodges Fund and the Tranquility Angel Fund. The Hodges Fund is comprised of one investment account established for providing nursing scholarships. Related investment income is classified as net assets with donor restrictions until scholarships are appropriated for expenditure by the Wellstar Foundation Board. The related donor documents also call for an annual CPI adjustment to the corpus balance each year. The Tranquility Angel Fund consists of two separate investment accounts established for providing support to hospice care patients and supporting functions. Related investment income is classified as net assets with donor restrictions until such amounts are appropriated for expenditure in accordance with the donor's intent.

Endowment net assets and classification of related unappropriated income at June 30, 2020 and 2019 follow (in thousands):

	2020		
	Without donor restrictions	**With donor restrictions**	**Total**
Donor-restricted endowment funds:			
Original donor-restricted gift amount and amounts required to be maintained in perpetuity by donor	$ —	14,406	14,406
Accumulated investment gains	—	2,933	2,933
Total	$ —	17,339	17,339

	2019		
	Without donor restrictions	**With donor restrictions**	**Total**
Donor-restricted endowment funds:			
Original donor-restricted gift amount and amounts required to be maintained in perpetuity by donor	$ —	14,734	14,734
Accumulated investment gains	—	3,144	3,144
Total	$ —	17,878	17,878

The change in endowment net assets and related income classifications for the years ended June 30, 2020 and 2019 follows (in thousands):

	2020		
	Without donor restrictions	With donor restrictions	Total
Beginning of year	$ —	17,878	17,878
Contributions	—	42	42
Other	—	(785)	(785)
Investment return:			
Interest and dividend income	—	221	221
Net appreciation	—	(17)	(17)
	—	204	204
End of year	$ —	17,339	17,339

	2019		
	Without donor restrictions	With donor restrictions	Total
Beginning of year	$ —	17,992	17,992
Contributions	—	29	29
Other	—	(757)	(757)
Investment return:			
Interest and dividend income	—	246	246
Net appreciation	—	368	368
	—	614	614
End of year	$ —	17,878	17,878

All assets and liabilities of the LaGrange-Troup County Hospital Authority transferred to WWGMC are subject to the restrictions and covenants required by Callaway Foundation, Inc. and Fuller E. Callaway Foundation. Net assets with donor restrictions consist of land and the assets attached thereto contributed with donor-imposed restrictions by Callaway Foundation, Inc. The restrictions limit the use of the property to hospital purposes. In the event the property ceases to be used for such purposes, said land, along with all assets attached, shall revert to Callaway Foundation, Inc., its successors or assignee.

(17) COVID-19 Pandemic

COVID-19, a respiratory disease caused by a novel strain of the coronavirus, has spread around the world, including the State of Georgia, where Wellstar's service areas are located. The Centers for Disease Control confirmed the spread of the disease to the United States in February 2020 and the World Health Organization has declared the COVID-19 outbreak a pandemic. On April 2, 2020, Wellstar published a notice indicating that the COVID-19 pandemic event could reasonably be expected to have a material adverse effect on Wellstar. Subsequent to that notice, according to the American Hospital Association ("AHA"), the financial impact to health systems from COVID-19 was estimated to be more than $200 billion through June 2020 alone, due primarily to preparation to care for COVID-19 patients and reduced patient volumes. Wellstar patient volumes, operating revenue and expenses were materially impacted by the COVID-19 pandemic and continue to be impacted subsequent to June 30, 2020.

The Federal Coronavirus Aid, Relief, and Economic Security (CARES) Act was signed into law on March 27, 2020 and is designed, among other things, to provide provider relief funds (PRF) to providers on a tax identification number (TIN) basis, for purposes of covering costs incurred and lost revenues due to the pandemic. Subsequent to the passage of this legislation, the Department of Health and Human Services (HHS) has issued a litany of additional pronouncements, which provides guidance on how providers can apply, receive and recognize this funding, some of which has been reversed in succeeding guidance. This guidance has included a confirmation that certain funding (General Distributions) is transferrable among TINs under common control (Wellstar has multiple eligible TINs). Most recently, on October 22, 2020, HHS issued additional guidance on PRF. Specifically, the guidance designated calendar 2020 as the period for measuring pandemic related costs and lost revenues and compared to a the same period in 2019 (a possible extension of six additional months is also provided for, through June 2021) and defines how the PRF amounts can be recognized by a provider, in a two-step process:

1. Step one, a provider should identify healthcare related expenses attributable to coronavirus that another source has not reimbursed and is not obligated to reimburse (with some limitations of what expenses are allowable). These expenses are the first to be applied to PRF amounts received; and

2. Step two, if step one does not fully utilize PRF amounts received, then patient care lost revenue (as defined) can be applied to against the remaining PRF amounts.

Wellstar received approximately $186 million in CARES Act funding as of June 30, 2020. Following the guidance as summarized above and other guidance from HHS published to-date, Wellstar has estimated that it has met the requirements to recognize approximately $121 million of the funding received through June 30, 2020.

Wellstar received additional PRF subsequent to June 30, 2020 of $54 million, some or all of which may be earned in periods post June 30, 2020.

In addition to PRF amounts, to mitigate the financial impact of the pandemic, Wellstar has developed and implemented a resiliency plan, which included cost saving measures such as: executive, management and provider temporary pay reductions, a temporary hiring freeze, reductions in overtime and contract labor, elimination of discretionary purchased service expenses, temporary furloughs, temporary reduction in scheduled work weeks, freezing the defined benefit plan effective November 1, 2020, (to be replaced with a defined contribution plan) and the temporary pausing of initiating new major capital projects.

The impact of the COVID-19 pandemic on the combined financial statements for the year ended June 30, 2020 as compared to the year ended June 30, 2019 based on projected lost net revenues, incremental expenses and resiliency plan/cost savings initiatives follows:

		(Unaudited)	
		2020	**2019**
		(in thousands)	
Operating income before COVID-19 impact and resiliency plan	$	207,809	197,811
Operating margin% before COVID-19 impact and resiliency plan		5.5 %	5.6 %
COVID-19 impact:			
Lost net revenue under HHS guidance		(153,884)	—
Additional lost net revenue		(126,303)	—
Incremental COVID-19 expenses		(43,216)	—
Lost net revenue and incremental expenses		(323,403)	—
CARES Act reimbursement recognized		120,664	—
Net deficit of CARES Act funding		(202,739)	—
Operating income before resiliency plan		5,070	197,811
Operating margin% before resiliency plan		0.1 %	5.6 %
Resiliency plan/cost savings initiatives		137,459	—
Operating income after COVID-19 impact	$	142,529	197,811
Operating margin% after COVID-19 impact		3.7 %	5.6 %

The CARES Act provided for expansion by the Centers for Medicare & Medicaid Services (CMS) of the Accelerated and Advance Payment Program (MAPP) to a broader group of Medicare Part A providers and Part B suppliers. The program was expanded in order to increase the cash flow to providers of services and suppliers impacted by the COVID-19 pandemic. CMS is authorized to provide accelerated or advance payments during the period of the public health emergency to any Medicare provider/supplier who submits a request to the appropriate Medicare Administrative Contractor (MAC) and meets the required qualifications. WellStar applied for and received $264.6 million in MAPP Funding during fiscal 2020. The funding is an advance of payment of future services provided to Medicare beneficiaries. The Continuing Appropriations Act, 2021 and Other Extensions Act requires providers to begin repayment of MAPP funds one year from the date of receipt to be repaid at a rate of 25% for 11 months and at 50% for six additional months. After the repayment period ends, a letter for any remaining balance will be issued requiring repayment in full within 30 days.

(18) Subsequent Events

Wellstar has evaluated subsequent events through November 6, 2020, the date the combined financial statements were issued.

Schedule 1

WELLSTAR HEALTH SYSTEM, INC. AND AFFILIATES

Combining Balance Sheets

June 30, 2020

(In thousands)

Assets		Obligated group	Designated members	Eliminations	Total
Current assets:					
Cash and cash equivalents	$	537,940	7,394	—	545,334
Patient accounts receivable, net		586,371	4,209	—	590,580
Assets limited as to use – required for current liabilities		306	—	—	306
Other current assets		175,344	580	(17,738)	158,186
Total current assets		1,299,961	12,183	(17,738)	1,294,406
Assets limited as to use		1,091,768	212,469	—	1,304,237
Property and equipment, net		1,842,592	13,883	—	1,856,475
Goodwill		415,453	—	—	415,453
Other assets		234,884	90	—	234,974
Total assets	$	4,884,658	238,625	(17,738)	5,105,545
Liabilities and Net Assets					
Current liabilities:					
Accounts payable	$	199,036	2,342	(1,375)	200,003
Accrued salaries, wages, and benefits		191,717	810	—	192,527
Other accrued expenses		95,360	17,737	(16,363)	96,734
Provider Relief Funds – deferred grant funding		65,743	—	—	65,743
Medicare accelerated and advanced payment liability		264,581	—	—	264,581
Current installments of long-term debt and finance lease obligations		22,927	—	—	22,927
Total current liabilities		839,364	20,889	(17,738)	842,515
Long-term debt and finance lease obligations, excluding current installments		1,360,909	—	—	1,360,909
Self-insurance reserves		50,624	145,334	—	195,958
Accrued pension liability		739,272	—	—	739,272
Long-term operating lease obligations		142,278	—	—	142,278
Other long-term liabilities		71,804	940	—	72,744
Total liabilities		3,204,251	167,163	(17,738)	3,353,676
Net assets:					
Without donor restrictions		1,676,530	23,468	—	1,699,998
With donor restrictions		4,877	46,994	—	51,871
Total net assets		1,681,407	70,462	—	1,751,869
Total liabilities and net assets	$	4,885,658	237,625	(17,738)	5,105,545

See accompanying independent auditors’ report.

WELLSTAR HEALTH SYSTEM, INC. AND AFFILIATES

Combining Statements of Operations

Year ended June 30, 2020

(In thousands)

		Obligated group	Designated members	Eliminations	Total
Revenues, gains, and other support:					
Patient service revenue, net of contractual allowances and discounts	$	3,587,823	27,989	—	3,615,812
Other revenue		143,807	72,902	(59,809)	156,900
Total revenue, gains, and other support		3,731,630	100,891	(59,809)	3,772,712
Expenses:					
Salaries and employee benefits		2,105,201	28,732	(6,333)	2,127,600
Supplies and other expenses		1,265,009	75,156	(42,287)	1,297,878
Depreciation and amortization		187,023	874	—	187,897
Interest		39,600	—	—	39,600
Total expenses		3,596,833	104,762	(48,620)	3,652,975
Operating income, before incremental COVID-19 expenses, Provider Relief Funds grant funding and impairment losses		134,797	(3,871)	(11,189)	119,737
Incremental COVID-19 expenses		(42,988)	(228)	—	(43,216)
Provider Relief Funds grant funding		119,986	678	—	120,664
Operating income before impairment losses		211,795	(3,421)	(11,189)	197,185
Impairment of long-lived assets		(54,656)	—	—	(54,656)
Operating income		157,139	(3,421)	(11,189)	142,529
Nonoperating gains (losses):					
Investment income (loss), net		47,590	(15)	11,189	58,764
Other components of net periodic pension cost		(19,196)	(274)	—	(19,470)
Change in fair value of interest rate swap		(9,371)	—	—	(9,371)
Gain on disposal of property and equipment		741	—	—	741
Loss on extinguishment of long-term debt		(27)	—	—	(27)
Revenues, gains, and other support in excess of (less than) expenses and losses		176,876	(3,710)	—	173,166
Accrued pension liability adjustments		(218,194)	—	—	(218,194)
Net assets released from restriction used for the purchase of property and equipment		2,331	—	—	2,331
Other		1,119	—	—	1,119
Change in net assets without donor restrictions	$	(37,868)	(3,710)	—	(41,578)

See accompanying independent auditors' report.