WELLSTAR HEALTH SYSTEM, INC. AND AFFILIATES

Combined Financial Statements

June 30, 2018 and 2017

(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 Systems, Inc., and affiliates, which comprise the combined balance sheets as of June 30, 2018 and 2017, and the related combined statements of operation, 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 Systems, Inc., and affiliates as of June 30, 2018 and 2017, and the results of their operations and their cash flows for the years then ended, in accordance with U.S. generally accepted accounting principles.

Other Matter

Our audits were conducted for the purpose of forming an opinion on the combined financial statements as a whole. Schedule 1 and Schedule 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.

KPMG LLP

Atlanta, Georgia
October 17, 2018

WELLSTAR HEALTH SYSTEM, INC. AND AFFILIATES

Combined Balance Sheets

June 30, 2018 and 2017

(In thousands)

Assets		**2018**	**2017**
Current assets:			
Cash and cash equivalents	$	85,825	89,643
Patient accounts receivable, net		557,284	480,741
Assets limited as to use – required for current liabilities		102	3,374
Other current assets		110,875	109,350
Total current assets		754,086	683,108
Assets limited as to use		1,211,065	1,055,525
Property and equipment, net		1,679,427	1,474,711
Goodwill		415,039	415,039
Other assets		54,521	56,991
Total assets	$	4,114,138	3,685,374
Liabilities and Net Assets			
Current liabilities:			
Accounts payable	$	204,987	191,789
Accrued salaries, wages, and benefits		148,741	127,595
Other accrued expenses		47,808	28,663
Current installments of long-term debt and capital lease obligations		32,119	22,529
Total current liabilities		433,655	370,576
Long-term debt and capital lease obligations, excluding current installments		1,395,011	1,255,910
Self-insurance reserves		158,737	127,354
Accrued pension liability		398,848	419,776
Other long-term liabilities		56,066	55,651
Total liabilities		2,442,317	2,229,267
Net assets:			
Unrestricted		1,626,912	1,411,558
Temporarily restricted		29,823	28,366
Permanently restricted		15,086	16,183
Total net assets		1,671,821	1,456,107
Total liabilities and net assets	$	4,114,138	3,685,374

See accompanying notes to combined financial statements.

WELLSTAR HEALTH SYSTEM, INC. AND AFFILIATES

Combined Statements of Operations

Years ended June 30, 2018 and 2017

(In thousands)

		2018	2017
Unrestricted revenue, gains, and other support:			
Patient service revenue, net of contractual allowances and discount	$	3,637,483	3,345,638
Provision for uncollectible accounts		(506,800)	(382,069)
Net patient service revenue		3,130,683	2,963,569
Other revenue		85,636	92,585
Total unrestricted revenue, gains, and other support		3,216,319	3,056,154
Expenses:			
Salaries and employee benefits		1,765,944	1,676,693
Supplies and other expenses		1,091,240	1,045,873
Depreciation and amortization		163,298	157,728
Interest		40,700	30,770
Total expenses		3,061,182	2,911,064
Operating income, before electronic medical records costs		155,137	145,090
Electronic medical records implementation costs		17,192	—
Operating income		137,945	145,090
Nonoperating gains (loss):			
Investment income, net		57,597	60,603
Change in fair value of interest rate swap		3,809	7,994
Gain on disposal of property and equipment		261	28
Loss on extinguishment of long-term debt		(5,568)	—
Unrestricted revenue, gains, and other support in excess of expenses and losses		194,044	213,715
Accrued pension liability adjustments		19,664	59,631
Assets released from restriction used for the purchase of property and equipment		5,277	3,199
Other		(3,631)	(702)
Change in unrestricted net assets	$	215,354	275,843

See accompanying notes to combined financial statements.

WELLSTAR HEALTH SYSTEM, INC. AND AFFILIATES

Combined Statements of Changes in Net Assets

Years ended June 30, 2018 and 2017

(In thousands)

		2018	2017
Permanently restricted net assets:			
Contributions	$	193	67
Inflation adjustment to corpus as required by donor		15	15
Net assets released from restrictions		(1,305)	(227)
Change in permanently restricted net assets		(1,097)	(145)
Temporarily restricted net assets:			
Contributions		5,940	3,618
Net assets released from restrictions		(6,119)	(4,402)
Investment income, net		1,636	2,151
Change in temporarily restricted net assets		1,457	1,367
Increase in unrestricted net assets		215,354	275,843
Change in net assets		215,714	277,065
Net assets, beginning of period		1,456,107	1,179,042
Net assets, end of period	$	1,671,821	1,456,107

See accompanying notes to combined financial statements.

WELLSTAR HEALTH SYSTEM, INC. AND AFFILIATES

Combined Statements of Cash Flows

Years ended June 30, 2018 and 2017

(In thousands)

		2018	2017
Cash flows from operating activities:			
Change in net assets	$	215,714	277,065
Adjustments to reconcile change in net assets to cash provided by operating activities:			
Depreciation and amortization		163,298	157,728
Amortization of bond discount, premium, and issue costs		(2,012)	(919)
Gain on sale of property and equipment		(261)	(28)
Realized and unrealized gains on trading investments, net		(35,806)	(48,696)
Change in fair value of interest rate swap		(3,809)	(7,994)
Loss on extinguishment of debt		5,568	—
Restricted contributions and related investment income		(208)	(82)
Equity in earnings of joint ventures		(3,854)	(569)
Changes in operating assets and liabilities:			
Patient accounts receivable		(76,543)	(19,392)
Other current assets		(6,521)	(14,558)
Reserve for Inventory obsolescence		4,995	—
Other assets		(677)	(2,930)
Accounts payable, accrued salaries, wages and benefits, and other accrued expenses		47,423	13,833
Self-insurance reserves		31,383	26,842
Accrued pension liability		(20,928)	(67,211)
Other long-term liabilities		4,224	3,578
Net cash provided by operating activities		321,986	316,667
Cash flows from investing activities:			
Purchases of property and equipment		(338,601)	(135,943)
Proceeds from the sale of property and equipment		219	1,472
Purchase of assets limited as to use		(853,678)	(655,496)
Proceeds from the sale of assets limited as to use		737,216	531,717
Distributions from joint ventures		6,689	1,053
Healthcare business acquisitions, net of cash received		—	(26)
Net cash used in investing activities		(448,155)	(257,223)
Cash flow from financing activities:			
Proceeds from borrowings		938,018	—
Principal repayments of long-term debt and capital lease obligations		(36,730)	(19,097)
Refunding of borrowings		(774,284)	—
Issue costs paid		(4,861)	(32)
Restricted contributions and related investment income		208	82
Net cash provided by (used in) financing activities		122,351	(19,047)
Net change in cash and cash equivalents		(3,818)	40,397
Cash and equivalents, beginning of year		89,643	49,246
Cash and equivalents, end of year	$	85,825	89,643

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 WellStar Cobb Hospital, Inc. (WCH), WellStar Douglas Hospital, Inc. (WDH), WellStar Kennestone Hospital, Inc. (WKH), WellStar Paulding Medical Center, Inc. (WPMC), WellStar Atlanta Medical Center, Inc. (WAMC), WellStar North Fulton Hospital, Inc. (WNFH), WellStar Spalding Regional Hospital, Inc. (WSRH), WellStar Sylvan Grove Hospital, Inc. (WSGH), WellStar West Georgia Health Services, Inc. (WWGHS), WellStar West Georgia Medical Center, Inc. (WWGMC), WellStar Foundation, Inc. (WellStar Foundation), WellStar West Georgia Foundation, Inc. (WF), West Georgia Health Physicians, Inc. (WGHP), West Georgia Physician Partners, LLC, Vernon Woods Retirement Community, Inc., West Georgia Health Information Network, LLC, CHS Foundation, Inc., Community Assurance Company, Ltd. (CAC), WellStar Health Ventures, LLC., (WHV), WellStar IPA, LLC, WellStar Clinical Partners, LLC., WellStar Clinical Partners-Atlanta, LLC, Center for Health Transformation, LLC, WellStar Medical Group, LLC, a multispecialty group of WellStar employee physician practices, WellStar Health Network, LLC. (WHN), a Medicare Accountable Care Organization (ACO), WellStar Home Health, LLC, WellStar Community Hospice LLC, and North Fulton Properties, LLC.

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.

(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 the allowances for uncollectible accounts and contractual adjustments, 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.

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(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 and discussed in note 15 to the combined financial statements.

Investment income items (including realized and unrealized gains and losses on investments, interest, dividends, and equity in earnings (losses) of joint ventures) are included in unrestricted 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 capital 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 combined financial statements.

Gifts of long-lived assets, such as land, buildings, or equipment, are reported as unrestricted support and are excluded from unrestricted 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 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 assets are placed into service. Contributions 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 unrestricted net assets in the combined financial statements.

(h) 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.

(i) Other Assets

Other assets include, among other things, investments in joint ventures 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.

(j) 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.

(k) Goodwill

WellStar applies the provisions of Accounting Standards Codification (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 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, 2018 and 2017, 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, 2018 or 2017.

(Continued)

(l) Temporarily and Permanently Restricted Net Assets

Temporarily restricted net assets are those whose use by WellStar is restricted by donors for a specific time period or purpose. Permanently restricted net assets 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 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 temporarily restricted net assets 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.

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

The combined statements of operations include unrestricted revenue, gains, and other support in excess of expenses and losses. Changes in unrestricted net assets, which are excluded from unrestricted revenue, gains, and other support in excess of expenses and losses, include assets released from restriction used for the purchase of property and equipment and the recognition of pension and postretirement liability adjustments arising during the current period.

(n) Net Patient Service Revenue

Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered, including estimated retroactive adjustments due to future audits, reviews, and investigations. Retroactive adjustments are considered in the recognition of revenue on an estimated basis in the period the related services are rendered, and such amounts are adjusted in future periods as adjustments become known or as years are no longer subject to such audits, reviews, and investigations.

WellStar classifies the provision for uncollectible accounts associated with patient service revenue as a deduction from patient service revenue (net of contractual allowances and discounts) rather than as an operating expense. WellStar also provides disclosure about its policies for recognizing revenue and assessing uncollectible accounts and disclosures of patient service revenue and qualitative and quantitative information about changes in the allowance for uncollectible accounts in note 8.

(o) 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.

(p) 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, except for CAC and WGHP.

CAC is a controlled foreign corporation not subject to federal tax.

WGHP was organized in the state of Georgia as a taxable nonprofit organization, and therefore accounts for income taxes in accordance with the liability method under which deferred tax assets and liabilities are determined based on the differences between the financial accounting and tax basis of assets and liabilities. Deferred tax assets or liabilities at the end of each period are determined using the currently enacted tax rate expected to apply to taxable income in the periods that the deferred tax asset or liability is expected to be realized or settled. At June 30, 2018 and June 30, 2017, WGHP had approximately $50.1 million and $49.6 million, respectively, in net operating loss carry forwards (NOLs). These NOLs result in approximately $17.5 million and $17.3 million in deferred tax assets at June 30, 2018 and June 30, 2017, respectively, which are offset by an equal amount of valuation allowance.

On December 22, 2017, the Tax Cuts and Jobs Act of 2017 (the Tax Act) was signed into law. The legislation significantly revises the U.S. corporate income tax system by, among other things, lower the corporate income tax rate from 35.0% to 21.0%, for tax years beginning after December 31, 2017. The Tax Action did not give rise to any material impact on WellStar's combined balance sheet and combined statement of operations.

As a result of the Tax Act there was also a change related to NOLs. Net operating losses incurred before December 31, 2017 can continue to be carried forward 20 years. Due to the Tax Act, for tax years beginning after December 31, 2017, net operating losses may offset 80% of taxable income incurred with an unlimited carryforward period.

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, 2018 or 2017.

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(q) 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 as either temporarily or permanently 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), temporarily restricted net assets are reclassified as unrestricted net assets and reported as net assets released from restrictions.

(r) 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 unrestricted 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 unrestricted revenue, gains, and other support in excess of expenses and losses. Gains and losses that were previously accumulated in unrestricted net assets are amortized on a straight-line basis over the remaining life of the derivative in the determination of unrestricted revenue, gains, and other support in excess of expenses and losses.

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

(s) 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.

(t) 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 (note 10).

(u) Recently Adopted 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 new standard is effective for annual reporting periods beginning after June 15, 2018 using a modified prospective basis, retrospective application is permitted. WellStar plans to adopt ASU 2018-08 as of its fiscal year beginning July 1, 2018. WellStar has not yet determined the impact ASU 2018-08 will have on the combined financial statements.

The FASB issued ASU 2014-09, *Revenue from Contracts with Customers*, in May 2014 as amended by ASU 2015-14, *Revenue from Contracts with Customers (Topic 606) Deferral of the Effective Date,* ASU 2014-09 requires an entity to recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. An entity should also disclose sufficient quantitative and qualitative information to enable users of financial statements to understand the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers. ASU 2015-14 amends the effective date for public business entities, certain not-for-profit entities, and certain employee benefit plans. WellStar has not yet determined the impact of the new standard on its current policies for revenue recognition. WellStar plans to implement ASU 2014-09 as of its fiscal year beginning July 1, 2018.

The FASB issued ASU 2015-11, *Inventory (Topic 330) Simplifying the Measurement of Inventory*, in July 2015, which changes the measurement principle for inventory from the lower of cost or market to the lower of cost or net realizable value. Management adopted ASU 2015-11 as of July 1, 2017. The adoption of ASU 2015-11 did not have a material impact on WellStar's financial position.

FASB issued ASU 2015-16, *Business Combinations (Topic 805): Simplifying the Accounting for Measurement-Period Adjustments*, in September 2015, which requires that an acquirer recognize adjustments to provisional amounts that are identified during the measurement period in the reporting period in which the adjustment amounts are determined. ASU 2015-16 also requires the acquirer to record, in the same period's financial statements, the effect on earnings of changes in depreciation, amortization, or other income effects, if any, as a result of the change to the provisional amounts, calculated as if the accounting had been completed at the acquisition date. Management applied the provisions consistent with the implementation guidance in its fiscal year 2017 combined financial statements (note 17).

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 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. Management plans to adopt the provisions of ASU 2016-02 in its fiscal year 2020. WellStar currently expects ASU 2016-02 to add a right-of-use asset and a related lease liability totaling approximately $140 million to the combined balance sheets, if adopted as of June 30, 2018 based on its evaluation of the standard to-date. Management continues to evaluate the effects the standard will have on the combined financial statements and management's current estimate could materially change at time of adoption.

The FASB issued ASU 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities (ASC 958),* which amends the requirements for financial statements and notes in ASC 958, and changes how not-for-profit entities, including healthcare entities, report net asset classes, expenses, and liquidity in their financial statements. The ASU 2016-14 is effective for annual periods in fiscal years beginning after December 15, 2017 and for interim periods in fiscal years beginning after December 15, 2018. Early application is permitted. ASU 2016-14 must be initially adopted either for an annual fiscal period or for the first interim period within the fiscal year of adoption. Not-for-profits that present comparative financial statements may omit certain information for periods presented before the year of adoption, which are the analysis of expenses by functional and natural classification and disclosures about liquidity and availability of resources. WellStar plans to implement ASU 2016-14 for its fiscal year beginning July 1, 2018. WellStar does not expect ASU 2016-14 to have a material effect on the combined financial statements.

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 plans to adopt ASU 2016-15 for its fiscal year beginning July 1, 2018. WellStar has not determined the impact of ASU 2016-15 on its combined financial statements.

In November 2016, the FASB issued ASU 2016-18, *Compensation – Retirement Benefits (Topic 715): 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, 2017 and requires retrospective application. WellStar plans to implement ASU 2016-18 for its fiscal year beginning July 1, 2018. WellStar does not expect ASU 2016-18 to have a material effect on the combined financial statements.

In March 2017, the FASB issued ASU 2017-07, *Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost*, 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 plans to implement ASU 2017-07 for its fiscal year beginning July 1, 2019. WellStar does not expect ASU 2017-07 to have a material effect on the combined financial statements.

(v) Reclassifications

Certain reclassifications have been made to the 2017 combined financial statements to conform to the current year presentation.

(2) Assets Limited as to Use

The composition of assets limited as to use follows:

		2018	2017
		(In thousands)	
By the Board for capital improvements and other system needs:			
Cash and cash equivalents	$	18,488	22,947
Asset backed securities		89,916	86,282
Mortgage backed securities		48,091	50,949
Obligations of the U.S. government and its agencies		97,289	79,583
Corporate debt securities – domestic		281,651	278,093
Corporate debt securities – international		1,855	—
Corporate equity securities – domestic		324,166	290,117
Corporate equity securities – international		84,013	97,113
Mutual funds		18,367	15,621
		963,836	920,705
Under self-insurance funding arrangements:			
Cash and cash equivalents		91,971	3,163
Mortgage backed securities		—	2,603
Obligations of the U.S. government and its agencies		—	72,579
Corporate debt securities – domestic		14,050	17,099
International investments		1,019	2,331
		107,040	97,775
By donor stipulation:			
Cash and cash equivalents		12,072	14,449
Obligations of the U.S. government and its agencies		786	—
Corporate debt securities – domestic		6,145	7,554

(Continued)

		2018	2017
		(In thousands)	
Corporate equity securities – domestic	$	13,501	13,046
International investments		1,409	1,413
Other		4,092	583
		38,005	37,045
Under bond indenture agreements – held by trustee:			
Cash and cash equivalents		102	3,374
Obligations of the U.S. government and its agencies		11,991	—
Asset backed securities		90,193	—
		102,286	3,374
		1,211,167	1,058,899
Less amounts classified as current assets		102	3,374
	$	1,211,065	1,055,525

The composition of net investment income follows:

		2018	2017
		(In thousands)	
Net investment income included in nonoperating gains:			
Net realized gains on investments	$	23,609	6,028
Interest and dividend income		15,332	11,338
Net unrealized gain on investments		12,196	42,668
Equity in earnings of joint ventures, net		6,460	569
		57,597	60,603
Temporarily and permanently restricted net investment income		1,653	2,166
	$	59,250	62,769

Interest and dividend income includes management fees of $3.0 and $2.6 million for fiscal years 2018 and 2017, respectively.

(Continued)

(3) Other Current Assets

The composition of other current assets follows:

		2018	2017
		(In thousands)	
Inventories	$	71,042	59,184
Prepaid expenses		24,134	25,630
Other receivables		15,699	24,536
	$	110,875	109,350

(4) Property and Equipment

A summary of property and equipment follows:

		2018	2017
		(In thousands)	
Land and land improvements	$	201,312	199,996
Buildings and fixtures		1,577,024	1,367,570
Equipment		1,185,444	1,062,322
		2,963,780	2,629,888
Less accumulated depreciation and amortization		1,410,198	1,249,640
		1,553,582	1,380,248
Construction in progress		125,845	94,463
	$	1,679,427	1,474,711

Construction in progress at June 30, 2018 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 through October 2018 is approximately $93 million at June 30, 2018. The 2019 and forward capital expenditures amounts does not include carryover dollars from 2018 and prior years of $411.2 million. WellStar's present capital improvements program provides for planned capital expenditures during fiscal years 2019 through 2023 as follows: 2019 – $268.7 million; 2020 – $290.7 million, 2021 – $162.5 million, 2022 – $186.9 million, and 2023 – $227.6 million.

The depreciation expense for 2018 and 2017 was $163 million and $157 million, respectively.

(5) Other Assets

The composition of other assets follows:

		2018	2017
		(In thousands)	
Intangible assets	$	8,835	9,789
Other long-term receivables		19,319	16,426
Investments in joint ventures		19,656	20,856
Prepaid expenses and other long term assets		6,711	9,920
	$	54,521	56,991

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.

On April 9, 2013, WellStar entered into an agreement to acquire an interest in a health insurance company. In September 2015, shareholders of the health insurance company, including WellStar, concluded to discontinue operations of the health insurance company over approximately the subsequent 24 months. This includes exiting the Medicare Advantage program effective January 1, 2016. The health insurance company ceased providing WellStar employee medical plan administrator services on January 1, 2016. WellStar will be required to provide additional capital contributions and fund its share of estimated losses, if any, through dissolution. WellStar expects to recoup the remaining $5.0 million investment, net of any future losses at final dissolution.

WellStar holds an ownership interest in Vinings Health Park, L.P. and such investment is accounted for on the equity method. WellStar's total investment in Vinings Health Park included in the combined balance sheets as of June 30, 2018 and 2017 totaled $5.0 million and $6.0 million, respectively. WellStar holds additional immaterial ownership interest in various other joint ventures which make up the remaining balance noted above.

(6) Long-Term Debt and Capital Lease Obligations

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

		2018	2017
		(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 2005A hospital authority revenue anticipation improvement certificates issued in October 2005. Variable weekly interest rates; interest payments due weekly; principal payments due annually April 1, 2037 through 2040		—	60,000

	2018	2017
	(In thousands)	
Series 2005B hospital authority revenue anticipation improvement certificates issued in October 2005. Interest rates range from 4.00% to 6.25% per annum; interest payments due semiannually on April 1 and October 1; principal payments due annually April 1, 2012 through 2037	—	51,400
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	100,490	104,600
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	29,770	30,520
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 3.0% to 5.25% per annum; interest payments due annually April 1, 2014 through 2032	93,635	97,280
Series 2008A revenue anticipation certificates issued in July 2008. interest rates range from 4.0% to 5.5% per annum; interest payments due semiannually on January 1 and July 1. Principal payments due annually July 1, 2008 through 2038	—	40,755
Series 2014 revenue anticipation certificates issued August 1, 2014. Interest fixed at 4.25% per annum. Interest and principal payments due monthly August 1, 2014 through 2019	—	20,550
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	153,015	—

	2018	2017
	(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	176,200	—
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	169,305	—
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	60,820	—
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	58,505	—
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	87,635	—
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	48,685	—
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	63,757	—
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	29,210	—
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	29,210	—

	2018	2017
	(In thousands)	
Bank of America, N.A. loan dated March 30, 2016. Variable LIBOR daily floating rate plus 0.65%. Interest paid monthly	—	600,000
HCP, Inc., lease agreement for WellStar North Fulton Hospital dated March 31, 2016. Lease payments are due monthly in arrears through the current term expiring February 19, 2020 with provisions for renewal.	92,552	98,672
Vinings Health Park, L.P., lease agreement beginning September 30, 2017. Lease payments are due monthly in arrears through September 30, 2037.	62,648	35,036
Various other notes payable and capital lease obligations, with interest rates ranging from 3.50% to 6.00%. Interest and principal paid monthly or annually, maturing through April 2029	4,832	7,846
Total revenue certificates, debt, and capital lease obligations	1,379,019	1,265,409
Plus unamortized premium	55,548	15,828
Less unamortized cost of issuance	(7,383)	(1,749)
Less unamortized discount	(54)	(1,049)
Total long-term debt and capital lease obligations	1,427,130	1,278,439
Less current installments	32,119	22,529
	$ 1,395,011	1,255,910

On August 3, 2017, WellStar issued Revenue Anticipation Certificates Series 2017A Cobb County Kennestone Authority (Series 2017A CCKA 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 WKH campus and to pay for certain costs of issuance. The proceeds of the Series 2017A CCKA 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 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 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 LTA 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 LTA 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 LTA 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 CCKA 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 CCKA Certificates were paid to bond holders to redeem the outstanding certificates. The Series 2017B CCKA 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 CCKA 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 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 CCKA 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.

WellStar recognized a loss on refunding, in its fiscal year 2018 combined statement of operations, related to the extinguishment of the Series 2005A Certificates, Series 2005B Certificates, Series 2008 Certificates, and Series 2014 Certificates totaling $5.6 million. No such loss was recognized in the 2017 combined financial statements.

On March 30, 2016, WellStar, WSRM, WSGH, WAMC, WNFH, WCH, WDH, WKH, CHS Foundation, Inc., and WPMC, known as the “Obligors,” entered into a loan agreement with Bank of America, in the amount of $600 million. The initial maturity date was July 1, 2017. The original agreement was amended and restated as of June 27, 2017, to modify the maturity date and the principal payment terms. As of each July 1 (renewal date), commencing July 1, 2018 and continuing to and including but not after July 1, 2020, the maturity date shall be automatically extended by one year unless the bank provides notice that the maturity date will no longer be extended. If the maturity date is extended, a payment equal to at least one fourth of the original principal is due at the renewal date or within 30 days. The Obligors may prepay the loan in full or in part at any time, without penalty. The loan was repaid effective August 3, 2017.

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.

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 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.

The Series 2005A Certificates in the original principal amount of $60.0 million bear interest at a variable rate and are supported by standby bond purchase agreements, bond insurance, and a direct-pay letter of credit facility expiring August 2020. 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. The Series 2005A Certificates in the original principal amount of $60.0 million bear interest at a fixed rate and are supported by bond insurance. The Series 2005A Certificates were refunded August 3, 2017.

The 2004 and 2006 revenue certificates bear interest at variable rates and are secured by direct-pay letters of credit expiring August 12, 2020. 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 April 1, 2016, WellStar's member substitution with WWGHS resulted in additional long-term debt as follows:

In June 2014, the LaGrange-Troup County Hospital Authority (LT Authority) issued $22.4 million in tax-exempt Revenue Anticipation Certificates (Series 2014 Certificates) to Columbus Bank and Trust, a division of Synovus Bank. The proceeds of the Series 2014 Certificates were loaned to WWGMC pursuant to a loan agreement dated as of August 1, 2014 between the LT Authority and WWGMC to refund the then-outstanding 2010 Certificates and pay all or a portion of the cost of issuing the 2014 Certificates. The Series 2014 Certificates may be redeemed prior to maturity at the option of WWGMC either in whole or in part at any time after August 15, 2014 at a predetermined redemption rate plus accrued interest. The Series 2014 Certificates are subject to mandatory sinking fund redemption beginning September 15, 2014 in accordance with the amounts provided in the loan agreement ranging from $49.5 thousand on September 15, 2014 to $63.8 thousand on July 15, 2019 with a balloon payment of $19.0 million due on August 15, 2019. The Series 2014 Certificates were refunded August 3, 2017.

In July 2008, the Authority issued $47.0 million in Revenue Anticipation Certificates, Series 2008A Certificates (Series 2008A Certificates), net of original issue discount of $1.2 million for the purpose of financing or refinancing the acquisition and construction of additional healthcare facilities, renovating existing facilities in Troup County, funding the interest on the Series 2008A Certificates during the construction period, and paying for the costs of issuance. The Series 2008A Certificates maturing July 1, 2038 may be redeemed prior to maturity at the option of the LT Authority either in whole or in part at any time after July 1, 2018 at par plus accrued interest. The Series 2008A Certificates maturing on July 1, 2018 are subject to mandatory sinking fund redemption beginning July 1, 2014 in amounts ranging from $0.9 million on July 1, 2014 to $1.1 million on July 1, 2018. The Series 2008A Certificates maturing between July 1, 2019 and July 1, 2038 range from $1.1 million to $3.1 million. The Series 2008A Certificates were refunded August 3, 2017.

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.

The average annual interest rate on WellStar's variable rate obligations approximated 1.61% and 0.68% for the years ended June 30, 2018 and 2017, 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 outlined above. Substantially all of WellStar's long-term debt agreements subject WellStar to certain debt covenants typical of such obligations.

WellStar consolidated the 2010 and 2013 revolving lines of credit into a single unsecured revolving line of credit effective February 15, 2017, among a bank and WellStar, WCH, WDH, WKH, WPMC, CHS Foundation, Inc., WAMC, WNFH, WSRH, and WSGH. The amount of the consolidated revolving line of credit is $100 million. The facility was amended and restated February 15, 2017 with an availability date of March 31, 2018. The renewed facility is available until March 29, 2019. 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 facilities at June 30, 2018 or 2017.

WellStar paid interest of approximately $45.0 million and $32.0 million in 2018 and 2017, respectively.

Interest capitalized on capital projects was approximately $5.1 million and $0.8 million in 2018 and 2017, respectively.

(Continued)

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

2019	$	32,119
2020		30,205
2021		109,489
2022		28,209
2023		31,556
Thereafter		1,147,442
	$	1,379,020

(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, 2018 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, 2018 and 2017 (in thousands):

2018

Notional amount	Maturity date	Average variable rate received	Fixed rate paid	Increase in interest expense	Swap fair value
$ 60,000	April 2040	1.01 %	3.45 %	$ 1,324	(13,551)

2017

Notional amount	Maturity date	Average variable rate received	Fixed rate paid	Increase in interest expense	Swap fair value
$ 60,000	April 2040	0.48 %	3.45 %	$ 1,754	(17,360)

(8) Net Patient Service Revenue and Patient Accounts Receivable

Certain affiliates of WellStar have agreements with governmental and other third-party payors that provide for reimbursement to such affiliates at amounts different from established rates. Contractual adjustments under third-party reimbursement programs represent the difference between billings at established rates for services and amounts reimbursed by third-party payors. A summary of the basis of reimbursement with major third-party payors follows:

- *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 $35.1 million and $33.8 million during fiscal years 2018 and 2017, respectively. The cost reports of all WellStar affiliates have been audited and final settled for all fiscal years through June 30, 2013 with the exception of one affiliate hospital that is final settled through June 30, 2012. Net revenue from the Medicare program accounted for approximately 33.9% and 34.2% of WellStar's net patient service revenue for the years ended June 30, 2018 and 2017, respectively.

  WellStar's subsidiary, WHN, participates in the Medicare Shared Saving Program (MSSP) "Track 1" involving upside only gain-sharing. WHN met the overall quality and savings benchmarks for its assigned patient population during fiscal years 2018 and 2017. Other revenue in the accompanying fiscal 2017 combined statements of operations includes shared savings payments totaling $5.2 million. Subsequent to the fiscal year end, $7.9 million was received for fiscal year 2018. The savings realized under the program were distributed, net of WHN program operating costs, 50% to participating ACO 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 that WHN 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, 2013 for all WellStar affiliates. Net revenue from the Medicaid program accounted for approximately 11.3% and 11.9% of WellStar's net patient service revenue for the years ended June 30, 2018 and 2017, respectively.

During 2018 and 2017, net patient service revenue decreased by approximately $12.0 million and increased by $4.2 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, 2018 and 2017.

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 $19.0 million and $11.6 million in fiscal years 2018 and 2017, 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 $49.3 million and $39.9 million in fiscal years 2018 and 2017, 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 2019 plan is currently in process, and the terms of the fiscal year 2019 plan have not been finalized. Accordingly, contributions to the State's plan during 2019 and related amounts to be potentially received from Medicaid during 2018 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.

The composition of net patient service revenue follows:

		2018	2017
		(In thousands)	
Gross patient service revenue, net of charity care charges foregone	$	12,693,983	11,805,054
Less provisions for contractual allowances and discounts		9,056,500	8,459,416
Less provision for uncollectible accounts		506,800	382,069
Net patient service revenue	$	3,130,683	2,963,569

WellStar recognizes patient service revenue associated with services provided to patients with third-party payor coverage on the basis of contractual rates for the services rendered. For uninsured patients that do not qualify for community financial aid, WellStar recognizes revenue on the basis of its discounted rates for services provided. On the basis of historical experience, a significant portion of WellStar's uninsured patients are unable or unwilling to pay for the services provided. Thus, WellStar records a significant provision for uncollectible accounts related to uninsured patients in the period the services are provided. Patient service revenue, net of contractual allowances and discounts (but before the provision for uncollectible accounts), recognized during the years ended June 30, 2018 and 2017 from these major payor sources is as follows:

		2018	2017
		(In thousands)	
Third-party payors	$	3,345,460	3,238,545
Self pay		292,023	107,093
Total	$	3,637,483	3,345,638

(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.

		2018	2017
		(In thousands)	
Cost of providing charity care	$	255,954	251,915
Unreimbursed cost of providing care to Medicaid beneficiaries		86,107	78,481
Unreimbursed cost of providing care to Medicare beneficiaries		206,724	190,855
Unreimbursed cost of providing care to other patients		127,756	117,119
Cost of other community programs		8,371	9,773
	$	684,912	648,143

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 three WellStar affiliate hospitals [WAMC, 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 2018 and 2017, WellStar affiliate hospitals made $32.6 million and $29.1 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 unrestricted 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 two defined benefit pension plans (the Active Plan and Inactive Plan) covering certain employees who have attained the age of 21 and completed one year of service as defined in the Active Plan and the Inactive Plan. WellStar contributes an amount sufficient to fund the plans as determined by consulting actuaries.

On June 4, 2015, prior to the separation of the Active and Inactive Plan on July 1, 2015, WellStar amended the prior pension plan (the Plan) to provide a disability benefit equivalent to the accrued benefit payable effective July 1, 2015. On June 4, 2015, WellStar also established the active employee defined benefit pension plan (Active Plan). Effective July 1, 2015, all then-active employees currently participating in the plan were transferred to the Active Plan and the Inactive Plan was closed to new entrants. Certain employees are eligible to participate in the Active Plan who have attained an age of 21 and completed one year of service, as defined in the Active Plan.

The Plan was amended during fiscal year 2015 to provide a lump-sum window offering to terminated vested participants resulting in a reduction of plan assets totaling $8.9 million and a reduction in the projected benefit obligation of $10.1 million.

The changes in the projected benefit obligations for the years ended June 30, 2018 and 2017 follow:

		2018	2017
		(In thousands)	
Projected benefit obligation, beginning of year	$	1,072,018	1,015,496
Service cost		47,492	43,267
Interest cost		38,641	33,545
Actuarial loss		22,704	3,892
Benefits paid		(29,946)	(24,182)
Projected benefit obligation, end of year	$	1,150,909	1,072,018

The accumulated benefit obligations at June 30, 2018 and 2017 totaled $1.1 billion and $1.0 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, 2018 and 2017 follow:

		2018	2017
		(In thousands)	
Fair value of plan assets, beginning of year	$	720,333	607,151
Actual return on plan assets		65,147	83,856
Employer contributions		52,847	53,508
Benefits paid		(29,946)	(24,182)
Fair value of assets, end of year	$	808,381	720,333
Accrued pension liability – funded status	$	(342,527)	(351,685)

The components of net periodic pension cost for 2018 and 2017 follow:

		2018	2017
		(In thousands)	
Service cost	$	47,492	43,267
Interest cost		38,641	33,545
Expected return on plan assets		(51,211)	(49,548)
Amortization of prior service cost		(9,458)	(9,458)
Amortization of net loss		25,425	30,050
Other adjustments		—	(4,428)
	$	50,889	43,428

The amounts accumulated in unrestricted net assets in the combined balance sheets follow:

		2018	2017
		(In thousands)	
Prior service cost	$	(30,410)	(39,868)
Actuarial loss		394,404	411,061
	$	363,994	371,193

WellStar is expected to amortize $25.4 million of net loss from unrestricted net assets into net periodic pension cost and $(9.5) million of prior service cost credit during fiscal year 2019.

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

	2018	2017
Discount rate – Active Plan	4.35 %	4.18 %
Discount rate – Inactive Plan	4.28	3.97
Rate of compensation increase	3.30	3.30

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

	2018	2017
Discount rate – Active Plan	4.18 %	4.16 %
Discount rate – service cost – Active Plan	4.33	4.38
Discount rate – interest cost – Active Plan	4.08	3.59
Discount rate – Inactive Plan	3.97	3.86
Discount rate – interest cost – Inactive Plan	3.41	3.09
Expected return on plan assets	7.00	8.00
Rate of compensation increase – Active Plan	3.30	3.30

Effective July 1, 2014, WellStar refined the computational means in estimating the rate to be used in determination of the interest cost component of net periodic pension cost by moving from a single interest rate to the specific spot rates across the yield curve corresponding to the varying cash flow duration groups to calculate the interest cost component of net periodic pension cost. The refinement reflects a more precise estimate of net periodic pension cost in the accompanying combined financial statements.

(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	Plan assets at June 30	
		2018	2017
Plan assets:			
Cash and cash equivalents	— %	2 %	2 %
Equity securities – domestic	51	61	59
Debt securities – domestic	35	33	33
Equity securities – international	14	4	6
	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 $69.0 million to the Active Plan in fiscal year 2019.

(Continued)

(iii) Expected Future Benefit Payments

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

2019	$	34,467
2020		38,675
2021		43,134
2022		47,414
2023		51,780
2024–2028		324,650

(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.

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 WWGHC 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, 2018 and 2017:

(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	
		2018	**2017**
		(In thousands)	
Projected benefit obligation, beginning of period	$	34,104	34,212
Service cost		1,664	1,747
Interest cost		1,269	1,190
Actuarial gain		(3,827)	(2,563)
Benefits paid		(536)	(482)
Projected benefit obligation, end of period		32,674	34,104
Fair value of plan assets, beginning of period		17,019	13,590
Actual return on plan assets		1,536	1,612
Contributions from the plan's sponsor		2,280	2,300
Benefits paid		(536)	(483)
Fair value of plan assets, end of period		20,299	17,019
Accrued pension liability – funded status	$	(12,375)	(17,085)

Gains or losses and prior service costs or credits not yet recognized as pension expense are recorded as a change in unrestricted net assets.

The amounts accumulated in unrestricted net assets related to the plan in the combined balance sheets consist of the following at June 30, 2018 and 2017:

	June 30 2018	June 30 2017
	(In thousands)	
Net actuarial loss	$ 2,294	7,006
Transition obligation	3,475	4,032
	5,769	11,038
Deficit of cumulative employer contributions to net periodic pension cost	6,606	6,047
	$ 12,375	17,085

Net periodic pension cost and other amounts recognized in unrestricted net assets excluding amounts transitioned from the LT Authority effective October 1, 2009, consist of the following at June 30, 2018 and 2017:

	June 30 2018	June 30 2017
	(In thousands)	
Net periodic pension cost components:		
Service cost	$ 1,664	1,749
Interest cost	1,269	1,190
Expected return on plan assets	(1,254)	(999)
Amortization of net loss	604	1,303
Amortization of transition obligation	556	556
Net periodic pension cost	2,839	3,799
Other changes in unrestricted net assets:		
Amortization of transition obligation	(556)	(556)
Amortization of net gain	(4,108)	(3,177)
Net actuarial gain	(605)	(1,303)
Total gain recognized in unrestricted net assets	(5,269)	(5,036)
Total recognized in net periodic pension cost and unrestricted net assets	$ (2,430)	(1,237)

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.

The amount of the transition obligation that will be amortized into net periodic pension cost in 2019 is $556 thousand. WWGMC expects to make contributions to the WWGMC Plan of approximately $2.3 million through June 30, 2019.

The actuarial assumptions used for the plans as of June 30, 2018 and 2017 are as follows:

	June 30	
	2018	**2017**
Net periodic pension cost	3.75 %	3.50 %
Benefit obligations	4.15	3.75
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, 2018 and 2017 are invested in cash equivalents and mutual funds.

WWGMC's Benefits Committee establishes investment policies and strategies and regularly monitors the performance of the funds. WWGMC's investment strategy with respect to pension assets is to invest the assets in accordance with ERISA and fiduciary standards. The long-term primary objectives for the plans are to (1) provide for a reasonable amount of long-term growth of capital, without undue exposure to risk; (2) protect the assets from erosion of purchasing power; and (3) provide investment results that meet or exceed the plans' actuarially assumed long-term rate of return.

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

	WWGMC plan benefit payments
	(In thousands)
Year ending June 30:	
2019	$ 672
2020	845
2021	1,043
2022	1,245
2023	1,451
2024–2028	10,496

(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	
		2018	**2017**
		(In thousands)	
Projected benefit obligation, beginning of period	$	101,258	105,385
Interest cost		3,725	3,628
Actuarial gain		(5,898)	(4,028)
Benefits paid		(3,789)	(3,727)
Projected benefit obligation, end of period		95,296	101,258
Fair value of LT Authority Plan assets, beginning of period		50,252	47,365
Actual return on LT Authority Plan assets		3,327	5,064
Contributions from the LT Authority Plan's sponsor		1,560	1,550
Benefits paid		(3,789)	(3,727)
Fair value of LT Authority Plan assets, end of period		51,350	50,252
Accrued pension liability – funded status of the LT Authority Plan, end of period	$	(43,946)	(51,006)

Amounts recognized in unrestricted net assets related to the LT Authority Plan consist of the following at June 30, 2018 and June 30, 2017:

		June 30	
		2018	**2017**
		(In thousands)	
Actuarial loss	$	14,881	22,077
Accrued pension cost		29,065	28,929
	$	43,946	51,006

(Continued)

Net periodic pension cost and other amounts recognized in unrestricted net assets consist of the following at June 30, 2018 and June 30, 2017:

		June 30	
		2018	2017
		(In thousands)	
Net periodic pension cost components:			
Interest cost	$	3,725	3,628
Amortization of net loss		1,411	2,284
Expected return on plan assets		(3,440)	(3,360)
Net periodic pension cost		1,696	2,552
Other changes in unrestricted net assets:			
Net (gain) in unrestricted net assets		(5,785)	(5,732)
Amortization of net loss		(1,411)	(2,284)
Total gain recognized in unrestricted net assets		(7,196)	(8,016)
Total recognized in net periodic pension cost and unrestricted net assets	$	(5,500)	(5,464)

The actuarial assumptions used for the plans as of June 30, 2018 and 2017 are as follows:

	June 30	
	2018	2017
Net periodic pension cost	3.75 %	3.50 %
Benefit obligations	4.15	3.75
Expected return on Plan assets	7.00	7.25

WWGMC expects to make contributions to the LT Authority Plan of approximately $1.9 million through June 30, 2019.

(iii) *Plan Assets*

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

	Target allocation	Plan assets at June 30	
		2018	2017
Cash and cash equivalents	0–10%	4 %	2 %
Fixed income	35–100	39	36
Equities	0–65	56	62

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:		
2019	$	4,158
2020		4,455
2021		4,737
2022		4,990
2023		5,230
2024–2028		29,333

(c) Other Benefits

WellStar sponsors a 403(b) defined contribution benefit plan (the WellStar 403[b] Plan), which covers substantially all employees. WellStar amended the Plan in 2017 to establish matching contribution schedules 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 contributions at a rate equal to 50% of employees' contributions, not to exceed 2% of total compensation. Employees vest in WellStar contributions on a "cliff" basis after three years of service.

WellStar matches eligible employees of certain affiliates at a rate of 50% of employees' contributions, not to exceed 3% of total compensation. Employees vest on a five-year graded basis and are fully vested after five years.

WellStar matches eligible employees of certain affiliates at a rate of 50% of employees' contributions, not to exceed 1.5% of total compensation. Employees vest on a five-year graded basis and are fully vested after five years.

WWGMC sponsors a 403(b) plan covering substantially all employees of WWGMC. WWGMC matches 100% of employees' contributions, not to exceed 4% of eligible compensation. Effective December 31, 2016, all participants in the WWGMC Plan and the related plan assets were transferred to the WellStar 403(b) Plan. The employee contributions and employer match criteria were unchanged on transfer.

(Continued)

WellStar contributed approximately $18.3 million and $18.8 million to the plans during the years ended June 30, 2018 and 2017, respectively.

WGHP sponsors a defined contribution 401(k) plan for eligible participants. Expenses incurred under this plan totaled approximately $216 thousand in 2018 and $512 thousand in 2017. Effective on May 6, 2017, the WGHP 401(k) plan was terminated. All contributions to the Plan ceased as of the Plan termination date and participants became 100% vested as of the termination date.

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 $21.2 million and $17.7 million as of June 30, 2018 and 2017, 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, 2018 and 2017 is $2.0 million and $3.2 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 4.19% and 3.98% at June 30, 2018 and 2017, respectively. The assumed initial and ultimate healthcare trend rate is 0% and 5.0% in 2018 and 2017, respectively.

(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:

	2018	2017
Managed Care	47 %	46 %
Medicare	24	25
Medicaid	13	15
Patients	2	3
Other third-party payors	14	11
	100 %	100 %

Patient accounts receivable are reduced by an allowance for uncollectible accounts. In evaluating the collectibility of accounts receivable, WellStar analyzes its past history and identifies trends for each of its major payor sources of revenue along with current economic factors to estimate the appropriate allowance for uncollectible accounts and provision for uncollectible accounts. Management routinely reviews data about these major payor sources of revenue in evaluating the sufficiency of the allowance for uncollectible accounts. For receivables associated with services provided to patients who have third-party coverage, WellStar analyzes contractually due amounts and provides an allowance for uncollectible accounts and a provision for uncollectible accounts, if necessary. For receivables associated with self-pay patients, WellStar records a significant provision for uncollectible accounts in the period of service on the basis of its past experience, which indicates that many patients are unable or unwilling to pay the portion of their bill for which they are financially responsible. The difference between the standard rates (or the discounted rates if negotiated) and the amounts actually collected after all reasonable collection efforts have been exhausted is charged off against the allowance for uncollectible accounts. WellStar did not change its community financial aid policy (which is inclusive of both charity care and discounts for qualifying patients) during fiscal year 2018. As part of the implementation of the Electronic Medical Records (EMR) over the past several years, WellStar is able to identify patients who qualify under its Community Financial Aid policy earlier in the process, thereby reducing the allowance for uncollectible accounts. WellStar does not maintain a material allowance for uncollectible accounts from third-party payors nor did it have material write-offs from third-party payors during 2018 or 2017.

(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, and workers' 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 $47.0 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, property, and automobile policies. WellStar is also 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, 2018 and 2017 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 cancelable and noncancelable operating leases expiring through June 30, 2030. Future minimum rental payments required under noncancelable leases having an initial term of more than one year follow (in thousands):

Fiscal year:		
2019	$	25,634
2020		23,788
2021		19,896
2022		17,273
2023		12,533
Thereafter		20,273
	$	119,397

Rental expense was approximately $39.7 million and $39.5 million for fiscal years 2018 and 2017, respectively.

(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:

		2018	2017
		(In thousands)	
Healthcare services	$	2,206,502	2,086,578
General and administrative		871,872	824,486
	$	3,078,374	2,911,064

(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:

	2018		
	Level 1	**Level 2**	**Total**
		(In thousands)	
By the Board for capital improvements and other system needs:			
Cash and cash equivalents	$ 18,488	—	18,488
Asset backed securities	—	89,916	89,916
Mortgage backed securities	—	48,091	48,091
Obligations of the U.S. government and its agencies	97,289	—	97,289
Corporate debt securities – domestic	39,728	241,923	281,651
Corporate debt securities – international	—	1,855	1,855
Corporate equity securities – domestic	324,166	—	324,166
Corporate equity securities – international	84,013	—	84,013
Mutual funds	18,367	—	18,367
	582,051	381,785	963,836
Under self-insurance funding arrangement:			
Cash and cash equivalents	91,971	—	91,971
Corporate equity securities – domestic	14,050	—	14,050
Corporate equity securities – international	1,019	—	1,019
	107,040	—	107,040
By donor stipulation:			
Cash and cash equivalents	12,072	—	12,072
Obligations of the U.S. government and its agencies	786	—	786
Corporate debt securities – domestic	4,974	1,171	6,145
Corporate equity securities – domestic	13,501	—	13,501
Corporate equity securities – international	917	—	917
International investments	—	492	492
Other	—	4,092	4,092
	32,250	5,755	38,005
Under bond indenture agreements – held by trustee:			
Cash and cash equivalents	102	—	102
Obligations of the U.S. government and its agencies	11,991	—	11,991
Asset backed securities	—	90,193	90,193
	$ 733,434	477,733	1,211,167

(Continued)

	2017			
		Level 1	**Level 2**	**Total**
			(In thousands)	
By the Board for capital improvements and other system needs:				
Cash and cash equivalents	$	22,947	—	22,947
Asset backed securities		—	86,282	86,282
Mortgage backed securities		—	50,949	50,949
Obligations of the U.S. government and its agencies		79,583	—	79,583
Corporate debt securities – domestic		38,390	239,703	278,093
Corporate equity securities – domestic		290,117	—	290,117
Corporate equity securities – international		97,113	—	97,113
Mutual funds		15,621	—	15,621
		543,771	376,934	920,705
Under self-insurance funding arrangement:				
Cash and cash equivalents		3,163	—	3,163
Mortgage backed securities		—	2,603	2,603
Obligations of the U.S. government and its agencies		72,579	—	72,579
Corporate debt securities – domestic		—	17,099	17,099
International investments		—	2,331	2,331
		75,742	22,033	97,775
By donor stipulation:				
Cash and cash equivalents		14,449	—	14,449
Corporate debt securities – domestic		5,321	2,233	7,554
Corporate equity securities – domestic		13,046	—	13,046
International investments		1,413	—	1,413
Other		—	582	582
		34,229	2,815	37,044
Under bond indenture agreements – held by trustee:				
Cash and cash equivalents		3,375	—	3,375
	$	657,117	401,782	1,058,899

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, 2018 and 2017. 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.

The fair values of WellStar's various debt instruments have been estimated using Level 2 inputs, such as interest rates currently available to WellStar for borrowings having similar character, collateral, and duration. The aggregate fair value of such instruments approximates $1.4 billion at June 30, 2018 and $1.2 billion at June 30, 2017. No adjustment for such fair value measurements is reflected or required in the accompanying combined balance sheets.

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, 2018 and 2017 follows:

	2018		
	Level 1	**Level 2**	**Total**
		(In thousands)	
Cash and cash equivalents	$ 14,676	—	14,676
Mortgage – and other asset-backed securities	—	36,946	36,946
Obligations of the U.S. government and its agencies	71,247	281	71,528
Corporate debt securities – domestic	—	120,530	120,530
Corporate debt securities – international	—	11,446	11,446
Corporate equity securities – domestic	529,721	—	529,721
Corporate equity securities – international	23,534	—	23,534
	$ 639,178	169,203	808,381

	2017		
	Level 1	**Level 2**	**Total**
		(In thousands)	
Cash and cash equivalents	$ 17,476	—	17,476
Asset backed securities	—	850	850
Mortgage – and other asset-backed securities	—	32,026	32,026
Obligations of the U.S. government and its agencies	54,236	294	54,530
Corporate debt securities – domestic	—	116,974	116,974
Corporate debt securities – international	—	15,033	15,033
Corporate equity securities – domestic	456,710	—	456,710
Corporate equity securities – international	26,734	—	26,734
	$ 555,156	165,177	720,333

The fair value hierarchy of the WWGMC and LT Authority pension plan at June 30, 2018 and 2017 follows:

		June 30, 2018	
		WWGMC Level 1 plan assets	**LT Authority Level 1 plan assets**
		(In thousands)	
Pension assets at fair value as of June 30, 2018:			
Money market funds	$	851	2,124
Domestic equity mutual funds:			
Large cap		7,035	13,992
Mid cap		1,656	3,340
Small cap		1,366	2,857
International equity mutual funds		2,845	7,135
Bond mutual funds:			
Intermediate term		4,422	14,650
Short term		1,880	6,559
Other		244	693
	$	20,299	51,350

		June 30, 2017	
		WWGMC Level 1 plan assets	**LT Authority Level 1 plan assets**
		(In thousands)	
Pension assets at fair value as of June 30, 2017:			
Money market funds	$	424	791
Domestic equity mutual funds:			
Large cap		8,110	20,322
Mid cap		611	1,637
Small cap		993	2,530
International equity mutual funds		1,744	6,040
Bond mutual funds:			
Intermediate term		1,832	9,072
Short term		903	4,447
Other		2,402	5,414
	$	17,019	50,253

(16) Temporary and Permanent Restricted Net Assets

Temporarily Restricted Net Assets

Temporarily restricted net assets as of June 30, 2018 and 2017 are available for the use of various WellStar programs and affiliates as follows:

	2018	2017
	(In thousands)	
Cancer services	$ 1,262	1,662
Cardiac services	43	263
Employee assistance fund	546	514
Education	—	470
Hospice services	8,435	9,022
Hospital property and equipment	14,058	13,623
Trauma and emergency services	2,154	—
Pledges	815	330
Reserved life estate gift	500	—
Other	2,010	2,880
	$ 29,823	28,764

Permanently Restricted Net Assets

Permanently restricted net assets as of June 30, 2018 and 2017 are available for use as follows:

	2018	2017
	(In thousands)	
Hodges Fund	$ 737	721
Cancer services	912	912
Collections	2,235	2,359
Pledges	—	2
Hospital property and improvements	3,255	4,580
Tranquility Angel Fund	4,504	4,310
Vernon Woods property and improvements	3,443	3,299
	$ 15,086	16,183

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 temporarily restricted 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 temporarily restricted net assets 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, 2018 and 2017 follow (in thousands):

		2018			
		Unrestricted	Temporarily restricted	Permanently restricted	Total
Donor-restricted net assets	$	—	2,469	15,086	17,555

		2017			
		Unrestricted	Temporarily restricted	Permanently restricted	Total
Donor-restricted net assets	$	—	2,652	16,183	18,835

The change in endowment net assets and related income classifications for the year ended June 30, 2018 and 2017 follows (in thousands):

		2018			
		Unrestricted	Temporarily restricted	Permanently restricted	Total
Beginning of year	$	—	2,652	16,183	18,835
Contributions		—	—	193	193
Other		—	(788)	(1,305)	(2,093)
Investment return:					
Interest and dividend income		—	218	—	218
Net appreciation		—	387	15	402
		—	605	15	620
End of year	$	—	2,469	15,086	17,555

(Continued)

	2017			
	Unrestricted	Temporarily restricted	Permanently restricted	Total
Beginning of year	$ —	1,881	16,328	18,209
Contributions	—	—	67	67
Other	—	(43)	(227)	(270)
Investment return:				
Interest and dividend income	—	162	—	162
Net appreciation	—	652	15	667
	—	814	15	829
End of year	$ —	2,652	16,183	18,835

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. Permanently restricted net assets 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) Business Combinations

(a) Acquisition of Tenet Healthcare Corporation Assets

On March 31, 2016, WellStar acquired the assets of five Tenet Healthcare Corporation Assets (Tenet) hospitals and other healthcare enterprises in Georgia for $575.0 million in cash, the assumption of $110.5 million in capital lease obligations and $9.7 million in accrued paid-time-off obligations. The acquired entities are Atlanta Medical Center and its South Campus, 762 beds, between both campuses, located in Atlanta; North Fulton Hospital, 202 beds, located in Roswell; Spalding Regional Hospital, 160 beds, located in Griffin; and Sylvan Grove Hospital, 25 beds, located in Jackson; Tenet Physician Hospital Alliance, Inc.; Griffin Imaging, LLC; Tenet EMS/Spalding 911, LLC; North Fulton Parking Deck, LP; Physician Performance Network of Georgia, LLC; and 26 physician clinics (collectively, the former Tenet facilities). This growth is part of WellStar's continuous journey to deliver world-class healthcare and to benefit from increased efficiencies and economies of scale with increased quality and access at a lower cost of care to achieve savings that can be directly reinvested into community facilities and community programs.

Total unrestricted revenue, gains and other support, and unrestricted revenue, gains and other support in excess of expense and losses in the accompanying 2016 combined statement of operations attributable to the former Tenet facilities are $167.1 million and $2.5 million, respectively.

The fair value of the assets and liabilities acquired in the acquisition resulting in goodwill totaling $355.2 million follows (in thousands):

Current assets	$	14,662
Property and equipment, net		325,081
Goodwill		355,195
Other assets		660
Total fair value of assets acquired	$	695,598
Current liabilities	$	9,676
Capital lease obligations		110,542
Total fair value of liabilities acquired	$	120,218

During fiscal year 2017, certain usual and customary purchase price adjustments resulted in a reduction of the allocation of purchase price to the fair value property and equipment, net and capital lease obligations. Such adjustments resulted in a net increase in the allocation to goodwill totaling $17.3 million. The pro forma effects on the statement of operations as if the adjustment had been made at acquisition totaled $8.2 million in fiscal year 2017.

(18) Subsequent Events

WellStar has evaluated subsequent events through October 17, 2018, the date the combined financial statements were issued. On October 1, 2018, WellStar acquired the remaining external ownership interest in a related party joint venture, medical office complex, where WellStar had previously master leased the entire complex from the joint venture and owned 42.3% of the joint venture. The acquisition cost was $70 million and was financed by a short-term bank borrowing. Upon this acquisition, WellStar removed $62 million in capital lease obligations.

On September 4, 2018, WellStar acquired, both directly and indirectly, an approximately 30% partnership interest in a chain of outpatient surgery centers, in exchange for $19 million.

Schedule 1

WELLSTAR HEALTH SYSTEM, INC. AND AFFILIATES

Combining Balance Sheets

For the year ending June 30, 2018

(In thousands)

Assets		Obligated group	Designated members	Eliminations	Total
Current assets:					
Cash and cash equivalents	$	84,296	1,529	—	85,825
Patient accounts receivable, net		553,090	4,194	—	557,284
Assets limited as to use – required for current liabilities		102	—	—	102
Other current assets		106,652	295	3,928	110,875
Total current assets		744,140	6,018	3,928	754,086
Assets limited as to use		1,061,812	149,253	—	1,211,065
Property and equipment, net		1,664,508	14,919	—	1,679,427
Goodwill		415,039	—	—	415,039
Other assets		54,521	—	—	54,521
Total assets	$	3,940,020	170,190	3,928	4,114,138
Liabilities and Net Assets					
Current liabilities:					
Accounts payable	$	199,610	6,661	(1,284)	204,987
Accrued salaries, wages, and benefits		147,914	827	—	148,741
Other accrued expenses		47,251	(4,655)	5,212	47,808
Current installments of long-term debt and capital lease obligations		32,119	—	—	32,119
Total current liabilities		426,894	2,833	3,928	433,655
Long-term debt and capital lease obligations, excluding current installments		1,395,011	—	—	1,395,011
Self-insurance reserves		47,563	111,174	—	158,737
Accrued pension liability		398,848	—	—	398,848
Other long-term liabilities		55,715	351	—	56,066
Total liabilities		2,324,031	114,358	3,928	2,442,317
Net assets:					
Unrestricted		1,610,499	16,413	—	1,626,912
Temporarily restricted		—	29,823	—	29,823
Permanently restricted		5,490	9,596	—	15,086
Total net assets		1,615,989	55,832	—	1,671,821
Total liabilities and net assets	$	3,940,020	170,190	3,928	4,114,138

See accompanying independent auditors' report.

Schedule 2

WELLSTAR HEALTH SYSTEM, INC. AND AFFILIATES

Combining Statements of Operations

For the year ending June 30, 2018

(In thousands)

		Obligated group	Designated members	Eliminations	Total
Unrestricted revenue, gains, and other support:					
Patient service revenue, net of contractual allowances and discounts	$	3,610,814	26,669	—	3,637,483
Provision for uncollectible accounts		(507,097)	297	—	(506,800)
Net patient service revenue		3,103,717	26,966	—	3,130,683
Other revenue		76,324	59,481	(50,169)	85,636
Total unrestricted revenue, gains, and other support		3,180,041	86,447	(50,169)	3,216,319
Expenses:					
Salaries and employee benefits		1,746,508	25,333	(5,897)	1,765,944
Supplies and other expenses		1,068,354	68,098	(45,212)	1,091,240
Depreciation and amortization		162,440	858	—	163,298
Interest		40,700	—	—	40,700
Total expenses		3,018,002	94,289	(51,109)	3,061,182
Operating income, before electronic medical records costs		162,039	(7,842)	940	155,137
Electronic medical records implementation costs		17,192	—	—	17,192
Operating income (loss)		144,847	(7,842)	940	137,945
Nonoperating gains (loss):					
Investment income (loss), net		58,545	(8)	(940)	57,597
Change in fair value of interest rate swap		3,809	—	—	3,809
Gain on disposal of property and equipment		261	—	—	261
Loss on extinguishment of long-term debt		(5,568)	—	—	(5,568)
Unrestricted revenue, gains, and other support in excess of expenses and losses		201,894	(7,850)	—	194,044
Accrued pension liability adjustments		19,664	—	—	19,664
Assets released from restriction used for the purchase of property and equipment		5,277	—	—	5,277
Other		(3,631)	—	—	(3,631)
Change in unrestricted net assets	$	223,204	(7,850)	—	215,354

See accompanying independent auditors’ report.