KPMG

WELLSTAR HEALTH SYSTEM, INC. AND AFFILIATES

Combined Financial Statements and Schedules

June 30, 2021 and 2020

(With Independent Auditors' Report Thereon)

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

Independent Auditors' Report

The Board of Trustees
Wellstar Health System, Inc.:

We have audited the accompanying combined financial statements of Wellstar Health System, Inc. and Affiliates, which comprise the combined balance sheets as of June 30, 2021 and 2020, and the related combined statements of operations, changes in net assets, and cash flows for the years then ended, and the related notes to the combined financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the combined financial statements referred to above present fairly, in all material respects, the financial position of Wellstar Health System, Inc. and Affiliates as of June 30, 2021 and 2020, and the results of their operations and their cash flows for the years then ended in accordance with U.S. generally accepted accounting principles.

Other Matter

Our audit was conducted for the purpose of forming an opinion on the combined financial statements as a whole. Schedules 1 and 2 are presented for purposes of additional analysis and are not a required part of the combined financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the combined financial statements. The information has been subjected to the auditing procedures applied in the audit of the combined financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the combined financial statements or to the combined financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the combined financial statements as a whole.

KPMG LLP

Atlanta, Georgia
October 12, 2021

WELLSTAR HEALTH SYSTEM, INC. AND AFFILIATES

Combined Balance Sheets

June 30, 2021 and 2020

(In thousands)

Assets		**2021**	**2020**
Current assets:			
Cash and cash equivalents	$	128,017	545,334
Patient accounts receivable, net		701,560	590,580
Assets limited as to use – required for current liabilities		795	306
Other current assets		212,863	158,186
Total current assets		1,043,235	1,294,406
Assets limited as to use		2,299,857	1,304,237
Property and equipment, net		1,786,074	1,856,475
Goodwill		416,396	415,453
Other assets		243,910	238,667
Total assets	$	5,789,472	5,109,238
Liabilities and Net Assets			
Current liabilities:			
Accounts payable	$	258,058	200,003
Accrued salaries, wages, and benefits		300,335	192,527
Other accrued expenses		148,453	96,734
Provider Relief Fund – deferred grant funding		—	65,743
Medicare accelerated and advanced payment liability		246,378	264,581
Current installments of long-term debt and finance lease obligations		26,358	22,927
Total current liabilities		979,582	842,515
Long-term debt and finance lease obligations, excluding current installments		1,342,860	1,360,909
Self-insurance reserves		259,391	195,958
Accrued pension liability		302,969	739,272
Long-term operating lease obligations		150,619	142,278
Other long-term liabilities		81,831	76,437
Total liabilities		3,117,252	3,357,369
Net assets:			
Without donor restrictions		2,626,594	1,699,998
With donor restrictions		45,626	51,871
Total net assets		2,672,220	1,751,869
Total liabilities and net assets	$	5,789,472	5,109,238

See accompanying notes to combined financial statements.

WELLSTAR HEALTH SYSTEM, INC. AND AFFILIATES

Combined Statements of Operations

Years ended June 30, 2021 and 2020

(In thousands)

		2021	2020
Revenue, gains, and other support:			
Patient service revenue, net of contractual allowances and discounts	$	4,091,603	3,615,812
Other revenue		153,141	156,900
Total revenue, gains, and other support		4,244,744	3,772,712
Expenses:			
Salaries and employee benefits		2,379,172	2,141,172
Supplies and other expenses		1,432,548	1,327,516
Depreciation and amortization		190,627	187,903
Interest		42,605	39,600
Total expenses		4,044,952	3,696,191
Operating income, before Provider Relief Fund grant funding, FEMA funding for operating expenses, State of Georgia funding and impairment losses		199,792	76,521
Provider Relief Fund grant funding		140,737	120,664
FEMA funding for operating expenses		16,820	—
State of Georgia funding		41,621	—
Operating income before impairment losses		398,970	197,185
Impairment of long-lived assets		(21,862)	(54,656)
Operating income		377,108	142,529
Nonoperating gains (losses):			
Investment income, net		262,660	58,764
Other components of net periodic pension cost		(1,410)	(19,470)
Change in fair value of interest rate swap		6,898	(9,371)
Gain on disposal of property and equipment		2,968	741
Gain (loss) on extinguishment of long-term debt		338	(27)
Revenue, gains, and other support in excess of expenses and losses		648,562	173,166
Accrued pension liability adjustments		249,796	(218,194)
Net assets released from restrictions used for the purchase of property and equipment		17,068	2,331
FEMA funding for capital expenditures		9,838	—
Other		1,332	1,119
Change in net assets without donor restrictions	$	926,596	(41,578)

See accompanying notes to combined financial statements.

WELLSTAR HEALTH SYSTEM, INC. AND AFFILIATES

Combined Statements of Changes in Net Assets

Years ended June 30, 2021 and 2020

(In thousands)

		2021	2020
Net assets with donor restrictions:			
Contributions	$	7,064	5,621
Investment return, net		5,662	629
Net assets released from restrictions		(18,971)	(3,929)
Change in net assets with donor restrictions		(6,245)	2,321
Change in net assets without donor restrictions		926,596	(41,578)
Change in net assets		920,351	(39,257)
Net assets, beginning of period		1,751,869	1,791,126
Net assets, end of period	$	2,672,220	1,751,869

See accompanying notes to combined financial statements.

WELLSTAR HEALTH SYSTEM, INC. AND AFFILIATES

Combined Statements of Cash Flows

Years ended June 30, 2021 and 2020

(In thousands)

		2021	2020
Cash flows from operating activities:			
Change in net assets	$	920,351	(39,257)
Adjustments to reconcile change in net assets to cash provided by operating activities:			
Depreciation and amortization		190,627	187,897
Amortization of bond discount, premium, and issue costs		(3,264)	(2,084)
Gain on sale of property and equipment		(2,968)	(741)
Loss on impairment of long-lived asset		21,862	54,656
Realized and unrealized gains on trading investments, net		(243,603)	(33,800)
Change in fair value of interest rate swap		(6,898)	9,371
(Gain) loss on extinguishment of debt		(338)	27
Restricted contributions and related investment income		(74)	(60)
Equity in earnings of joint ventures		(6,769)	(4,163)
Changes in operating assets and liabilities:			
Patient accounts receivable		(110,980)	33,718
Other current assets		(54,677)	(18,086)
Other assets		9,868	9,931
Accounts payable, accrued salaries, wages and benefits, and other accrued expenses		228,005	8,010
Provider Relief Fund – deferred grant funding		(65,743)	65,743
Medicare accelerated and advanced payment liability		(18,203)	264,581
Self-insurance reserves		63,433	21,065
Accrued pension liability		(436,303)	199,952
Other long-term liabilities		12,583	5,289
Net cash provided by operating activities		496,909	762,049
Cash flows from investing activities:			
Purchases of property and equipment		(169,757)	(314,362)
Proceeds from the sale of property and equipment		5,354	547
Purchase of assets limited as to use		(1,818,858)	(843,720)
Proceeds from the sale of assets limited as to use		1,082,032	917,212
Distributions (contributions) from joint ventures, net		96	4,130
Net cash used in investing activities		(901,133)	(236,193)
Cash flows from financing activities:			
Proceeds from borrowings		303,744	221,425
Principal repayments of long-term debt and finance lease obligations		(300,135)	(250,865)
Issue costs paid		(1,079)	(168)
Restricted contributions and related investment income		74	60
Net cash provided by (used in) financing activities		2,604	(29,548)
Net change in cash and cash equivalents		(401,620)	496,308
Cash, cash equivalents and restricted cash, beginning of year		597,751	101,443
Cash, cash equivalents and restricted cash, end of year	$	196,131	597,751
Reconciliation of cash, cash equivalents and restricted cash:			
Cash and cash equivalents	$	128,017	545,334
Assets limited as to use – required for current liabilities		795	306
Assets limited as to use		67,319	52,111
Cash, cash equivalents and restricted cash, end of year	$	196,131	597,751

See accompanying notes to combined financial statements.

(1) Summary of Significant Accounting Policies

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

(a) Organization and Business

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

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

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

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

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

(b) Use of Estimates

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

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

(c) Cash Equivalents

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

(d) Investments and Investment Income

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

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

(e) Assets Limited as to Use

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

(f) Costs of Borrowing

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

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

(g) Property and Equipment

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

Gifts of long-lived assets, such as land, buildings, or equipment, are reported as support without donor restrictions and are excluded from revenue, gains, and other support in excess of expenses and losses. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used, including gifts of cash or other assets that must be used to acquire long-lived assets are reported as donor-restricted support. Absent explicit donor stipulations about how long those long-lived assets must be maintained, expirations of donor restrictions are reported when the donated or acquired long-lived assets are placed into service. Contributions donor-restricted to the purchase of property and equipment or other restricted purposes, which restrictions are met within the same year as received, are reported as increases in net assets without donor restrictions in the combined financial statements.

(h) Leases

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

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

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

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

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

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

(i) Inventories

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

(j) Other Assets

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

(k) Impairment of Long-Lived Assets

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

(l) Goodwill

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

Goodwill is an asset representing the future economic benefits arising from other assets acquired in a business combination that are not individually identified and separately recognized. Goodwill is reviewed for impairment at least annually. The goodwill impairment test is a two-step test. Under the first step, the fair value of the reporting unit is compared to its carrying value (including goodwill). If the fair value of the reporting unit is less than its carrying value, an indication of goodwill impairment exists for the reporting unit and step two of the impairment test (measurement) must be performed. Under step two, an impairment loss is recognized for any excess of the carrying amount of the reporting unit's 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, 2021 and 2020, Wellstar did not identify any material reporting units 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, 2021 or 2020.

(m) Net Assets Classification

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

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

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

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

Cash receipts from the sale of donated financial assets are classified consistently with cash donations received in the combined statements 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.

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

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

(o) Net Patient Service Revenue

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

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

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

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

(Continued)

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

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

Subsequent changes to the estimate of the transaction price are generally recorded as adjustments to patient service revenue in the period of the change. Adjustments arising from a change in the transaction price were not significant in 2021 or 2020.

(p) Charity Care

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

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

(q) Income Taxes

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

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

Wellstar has evaluated its tax positions and does not believe there are any material unrecognized tax benefits or obligations as of June 30, 2021 or 2020.

(Continued)

(r) Contributions

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

(s) Derivative Instruments and Hedging Activities

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

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

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

(t) Asset Retirement Obligations

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

(u) Retirement Benefits

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

(v) Liquidity and Availability of Resources

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

(w) Recently Issued Accounting Standards

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

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

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

In November 2016, the FASB issued ASU 2016-18, *Statement of Cash Flows (Topic 230): Restricted Cash*, which requires companies to present amounts generally described as restricted cash and restricted cash equivalents in cash and cash equivalents on the statement of cash flows. ASU 2016-18 is effective for annual periods in fiscal years beginning after December 15, 2018 and requires retrospective application. Wellstar adopted the provisions of the ASU effective July 1, 2019.

In March 2017, the FASB issued ASU 2017-07, *Compensation-Retirement Benefit (Topic 715)*, which requires companies to present the service cost component of net benefit cost in the income statement line items where they report compensation cost, and all other components of net benefit cost in the income statement separately from the service cost component and outside of operating income, if this subtotal is presented. Additionally, the service cost component will be the only component that can be capitalized. ASU 2017-07 is effective in annual periods in fiscal years beginning after December 15, 2018. The standard requires retrospective application for the amendments related to the presentation of the service cost component and other components of net benefit cost, and prospective application for the amendments related to the capitalization requirements for the service cost components of net benefit cost. Wellstar implemented ASU 2017-07 for its fiscal year beginning July 1, 2019.

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

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

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

In August 2018, the FASB issued ASU No. 2018-13, *Fair Value Measurement, Disclosure Framework – Changes to the Disclosure Requirements for Fair Value Measurement*. This ASU intends to improve the effectiveness of disclosures in the notes to financial statements by modifying disclosure requirements for fair value measurements. Wellstar's adoption of ASU 2018-13 effective July 1, 2020 did not have a material impact on its combined financial statements.

In August 2018, the FASB issued ASU 2018-14, *Compensation – Retirement Benefits – Defined Benefit Plans – General (Subtopic 715-20): Disclosure Framework – Changes to the Disclosure Requirements for Defined Benefit Plans*, which modifies the disclosure requirements for employers that sponsor defined benefit pension or other postretirement plans. Disclosure requirements removed from Subtopic 715-20 include: the amounts in accumulated other comprehensive income expected to be recognized as components of net periodic benefit cost over the next fiscal year and the amount and timing of plan assets expected to be returned to the employer. ASU 2018-14 also requires disclosure of the weighted average interest crediting rates for cash balance plans and other plans with promised interest crediting rates, and an explanation of the reasons for significant gains and losses related to changes in the benefit obligation for the period. Wellstar's adoption of ASU 2018-14 effective July 1, 2020 did not have a material impact on its combined financial statements.

In January 2020, the FASB issued ASU 2020-01, *Investments – Equity Securities (Topic 321), Investments – Equity Method and Joint Ventures (Topic 323), and Derivatives and Hedging (Topic 815): Clarifying Interactions between Topic 321, Topic 323, and Topic 815*. ASU 2020-01 addresses accounting for the transition into and out of the equity method and provides guidance on whether equity method accounting would be applied to certain purchased options and forward contracts upon settlement. ASU 2020-01 is effective for annual periods beginning after December 15, 2021. ASU 2020-01 will be applied prospectively. Early adoption is permitted. Wellstar is currently evaluating the effect the adoption of ASU 2020-01 will have on its combined financial statements.

In March 2020, the FASB issued ASU 2020-04, *Reference Rate Reform (Topic 848): Facilitation of the Effects of Reference Rate Reform on Financial Reporting*, which provides temporary optional guidance for a limited time to ease the potential accounting impacts associated with transitioning away from reference rates that are expected to be discontinued, such as the London Interbank Offered Rate (LIBOR). The ASU was effective upon issuance on March 12, 2020. No contract modifications have occurred related to the reference rate reform. If contract modifications occur prior to December 31, 2022, the time which the optional expedients in Topic 848 are generally available, they will not require reassessment or remeasurements by Wellstar and will be accounted for on a prospective basis. The adoption of ASU 2020-04 did not have a material effect on Wellstar's combined financial statements.

In August 2018, the FASB issued ASU 2018-15, *Intangibles – Goodwill and Other – Internal-Use Software (Subtopic 350-40): Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract*. ASU 2018-15 clarifies that implementation costs incurred by customers in cloud computing arrangements are deferred if they would be capitalized by customers in software licensing arrangements under the internal-use software guidance. ASU 2018-15 requires entities in a service contract hosting arrangement to follow the guidance in Subtopic 350-40 to determine which implementation costs related to the service contract to either capitalize as an asset or expense. The capitalized implementation costs are expensed over the term of the service contract hosting arrangement. The amendments in ASU 2018-15 are effective for annual reporting periods beginning after December 15, 2020, and interim periods thereafter. The amendments should be applied either retrospectively or prospectively to all implementation costs incurred after the date of adoption. Wellstar is currently assessing the impact that ASU 2018-05 will have on its combined financial statements and will adopt the provisions upon the effective date.

In September 2020, the FASB issued ASU 2020-07, *Not-for-Profit Entities (Topic 958): Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets*. This ASU changes the presentation and disclosure requirements for not-for-profit entities to increase transparency about contributed nonfinancial assets. The ASU is effective for annual periods beginning after June 15, 2021, and interim periods within annual periods beginning after June 15, 2022, with early adoption permitted. Wellstar is currently assessing the impact that ASU 2020-07 will have on its combined financial statements and will adopt the provisions upon the effective date.

(2) Assets Limited as to Use

The composition of assets limited as to use follows:

		2021	2020
		(In thousands)	
By the Board for capital improvements and other system needs:			
Cash and cash equivalents	$	43,759	28,615
Asset backed securities		138,737	103,347
Mortgage backed securities		170,649	31,633
Obligations of the U.S. government and its agencies		295,743	96,620
Corporate debt securities – domestic		480,010	325,174
Corporate debt securities – international		86,905	26,948
Corporate equity securities – domestic		661,319	398,766
Corporate equity securities – international		158,474	63,384
Mutual funds		30,437	23,001
		2,066,033	1,097,488
Under self-insurance funding arrangements:			
Cash and cash equivalents		4,018	6,448
Mortgage backed securities		5,981	—
Obligations of the U.S. government and its agencies		88,844	65,966
Corporate debt securities – domestic		65,131	66,225
Corporate debt securities – international		3,402	3,440
Corporate equity securities – domestic		27,163	19,065
Corporate equity securities – institutional		1,449	1,151
		195,988	162,295
By donor stipulation:			
Cash and cash equivalents		19,542	17,048
Foreign investment		722	555
Obligations of the U.S. government and its agencies		219	165
Corporate debt securities – domestic		4,236	9,171
Corporate debt securities – international		208	274
Corporate equity securities – domestic		7,440	11,689
Corporate equity securities International		4,099	3,125
Other		1,370	2,427
		37,836	44,454

		2021	2020
		(In thousands)	
Under bond indenture agreements – held by trustee:			
Cash and cash equivalents	$	795	306
		2,300,652	1,304,543
Less amounts classified as current assets		(795)	(306)
	$	2,299,857	1,304,237

The composition of net investment income follows:

		2021	2020
		(In thousands)	
Net investment income included in nonoperating gains:			
Net realized gains on investments	$	87,403	27,817
Interest and dividend income		18,516	24,211
Net unrealized gain on investments		156,200	5,983
Equity in earnings of joint ventures unrelated to healthcare operations, net		541	753
		262,660	58,764
Restricted net investment income		5,662	629
	$	268,322	59,393

Interest and dividend income include management fees of $5.9 million and $3.5 million for the years ended June 30, 2021 and 2020, respectively.

(3) Other Current Assets

The composition of other current assets follows:

		2021	2020
		(In thousands)	
Inventories	$	114,636	100,492
Prepaid expenses		47,023	32,370
FEMA receivable		26,658	—
Other receivables		24,546	25,324
	$	212,863	158,186

(4) Property and Equipment

A summary of property and equipment follows:

		2021	2020
		(In thousands)	
Land and land improvements	$	209,928	206,194
Buildings and fixtures		1,871,850	1,829,054
Equipment		1,558,123	1,443,892
		3,639,901	3,479,140
Less accumulated depreciation and amortization		1,904,626	1,758,753
		1,735,275	1,720,387
Construction in progress		50,799	136,088
	$	1,786,074	1,856,475

Construction in progress at June 30, 2021 is principally comprised of costs incurred to complete expansion and renovation projects at various affiliates' facilities. The estimated remaining cost to complete projects in progress as of June 2021 is approximately $131 million. Wellstar's present capital improvements program provides for planned capital expenditures during fiscal years 2022 through 2026 as follows: 2022 – $387.7 million, 2023 – $342.2 million, 2024 – $545 million, 2025 – $557.4 million, and 2026 – $425 million. The 2022 and forward capital expenditures amounts do not include carryover dollars from 2021 and prior years of $405 million. Total property and equipment, net includes accruals for capital purchases totaling $9.2 million and $19.7 million as of June 30, 2021 and 2020, respectively.

(5) Other Assets

The composition of other assets follows:

		2021	2020
		(In thousands)	
Right of use lease assets	$	177,778	171,478
Investment in joint venetures		38,798	32,125
Other long-term receivables		9,468	19,722
Intangible assets		8,756	8,669
Other long-term assets		9,110	6,673
	$	243,910	238,667

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.

(Continued)

(6) Long-term Debt and Finance Lease Obligations

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

		2021	2020
		(In thousands)	
Series 2004 hospital authority revenue anticipation certificates issued in April 2004. Variable weekly interest rates; interest payments due monthly; principal payments due annually April 1, 2032 through 2034	$	25,000	25,000
Series 2006 hospital authority revenue anticipation certificates issued in April 2006. Variable weekly interest rates; interest payments due monthly; principal payments due annually April 1, 2034 through 2036		25,000	25,000
Series 2011 hospital authority revenue anticipation refunding and improvement certificates issued in November 2011. Interest rates range from 3.00% to 5.25% per annum; interest payments due semiannually on April 1 and October 1; principal payments due annually April 1, 2012 through 2041		—	91,685
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		27,380	28,200
Series 2012B hospital authority revenue anticipation improvement certificates issued in June 2012. Variable weekly interest rates; interest payments due monthly; principal payments due April 1, 2041 through 2043		68,750	68,750
Series 2012 hospital authority revenue anticipation improvement certificates issued in November 2012. Interest rates range from 2.0% to 5.25% per annum; interest payments due annually April 1 through 2032. Principal payments due annually on April 1, 2014 through 2032		81,595	85,775
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		147,385	149,340

	2021	2020
	(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	171,240	172,960
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	166,220	167,290
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	57,360	58,560
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	54,505	55,875
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	81,645	83,700
Series 2017B hospital authority revenue anticipation certificates issued August 2017. Variable weekly interest rates; interest payments due monthly; principal payments due April 1, 2018 through April 1, 2047	45,360	46,500
Series 2017C development authority hospital revenue bonds issued August 2017. Variable weekly interest rates; interest payments due monthly; principal payments due April 1, 2018 through April 1, 2047	27,215	27,900
Series 2017D development authority hospital revenue bonds issued August 2017. Variable weekly interest rates; interest payments due monthly; principal payments due April 1, 2018 through April 1, 2047	27,215	27,900
Series 2020A development authority revenue bonds issued August 2020. Interest rate fixed at 4% per annum; interest payments due semiannually April 1 and October 1. Principal payment due at maturity April 1, 2050.	70,165	—

	2021	2020
	(In thousands)	
Series 2020A hospital authority revenue anticipation certificates issued August 2020. Interest rates range from 3% to 5% per annum; interest payments due semiannually on April 1 and October 1. Principal payments due annually April 1, 2022 through 2050.	93,340	—
Series 2020B hospital authority revenue anticipation certificates issued January 2021. Interest rates range from 4% to 5.25% per annum; interest payments due semiannually on April 1 and October 1. Principal payments due annually April 1, 2022 through 2041.	76,505	—
Bank of America, N.A. loan dated October 15, 2018, amended March 31, 2020 and May 13, 2021. Variable LIBOR daily floating rate plus 0.75% per annum. Interest paid monthly maturing May 12, 2026.	24,169	190,484
Finance lease obligations	20,126	35,016
Total revenue certificates, debt, and finance lease obligations	1,290,175	1,339,935
Plus unamortized premium	86,680	50,869
Less unamortized cost of issuance	(7,588)	(6,917)
Less unamortized discount	(49)	(51)
Total long-term debt and finance lease obligations	1,369,218	1,383,836
Less current installments	26,358	22,927
	$ 1,342,860	1,360,909

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

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

On January 4, 2021, Wellstar issued Series 2020B Cobb County Kennestone Hospital Authority Revenue Anticipation Certificates (Series 2020B CCKHA Certificates) in the original principal amount of $76.5 million

(Continued)

to refund the outstanding Series 2011 Cobb County Kennestone Hospital Authority Revenue Anticipation Certificates (Series 2011 Certificates) and to pay for certain costs of issuance with the Series 2020B CCKHA Certificates The proceeds of the Series 2020B CCKHA Certificates were deposited in a defeasance trust for the refunding of the Series 2011 Certificates. The Series 2020B CCKHA Certificates bear interest at fixed rates ranging from 4% to 5.25%.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

On May 13, 2021, Wellstar entered into Facility No. 2 under the term loan agreement with an original principal amount of $24,250,000 to finance the acquisition of a building previously under a finance lease obligation. The interest rate is LIBOR daily floating rate plus 0.75% per annum and includes hard wired fall back language of SOFR anticipated on LIBOR end date of June 30, 2023.

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

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

The average annual interest rate on Wellstar's variable rate obligations approximated 3.3% and 3.4% for the years ended June 30, 2021 and 2020, respectively.

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

Wellstar maintains an unsecured revolving line of credit with a bank for $150 million. The facility is available until March 29, 2022. Wellstar anticipates renewal of the facility at expiration under substantially the same terms and conditions as the existing facility. The line of credit agreement subjects Wellstar to certain debt covenants typical of such arrangements and similar to covenants in other long-term debt agreements. There were no amounts outstanding under the facility at June 30, 2021 or 2020.

Wellstar paid interest of approximately $45.1 million and $48.8 million in 2021 and 2020, respectively.

Net interest capitalized on capital projects was approximately $1.0 million and $5.7 million, in 2021 and 2020, respectively.

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

2022	$	26,358
2023		27,362
2024		28,482
2025		29,398
2026		49,803
Thereafter		1,128,772
	$	1,290,175

(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 1, 2040. 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, 2021 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, 2021 and 2020 (dollars in thousands):

2021

Notional amount	Maturity date	Average variable rate received	Fixed rate paid	Increase in interest expense	Swap fair value
$ 60,000	April 2040	0.09 %	3.45 %	$ 2,019	(21,583)

2020

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

(8) Net Patient Service Revenue and Patient Accounts Receivable

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

- *Medicare* – Inpatient and outpatient services rendered to Medicare program beneficiaries are generally paid at prospectively determined rates. These rates vary according to patient classification systems that are based on clinical, diagnostic, and other factors. Additionally, payments for certain other reimbursable items are made at tentative rates, with final settlements determined after submission of annual cost reports and audits by the Medicare fiscal intermediary. Wellstar affiliate hospitals received Medicare Disproportionate Share payments totaling $74.8 million and $68.8 million during fiscal years 2021 and 2020, respectively. The cost reports of all Wellstar affiliates have been audited and final settled for all fiscal years through June 30, 2015. June 30, 2016 and 2017 cost report audits are currently in process for a number of hospitals. Net revenue from the Medicare program accounted for approximately 32.3% and 33.7% of Wellstar's net patient service revenue for the years ended June 30, 2021 and 2020, respectively.

  Wellstar, through one of its subsidiaries, participates in the Medicare Shared Saving Program (MSSP) "Track 1" involving upside only gain-sharing. The overall quality and savings benchmarks for its assigned patient population were met during fiscal year 2020. Wellstar has not received final results of its participation in the fiscal 2021 program. Other revenue in the accompanying fiscal 2021 combined statement of operations includes shared savings payments totaling $5.2 million. The savings realized under the program were distributed, net of program operating costs, 50% to participating physicians (including both employee and nonemployee physicians) with the remaining 50% retained by Wellstar. Continued participation provides for upside only gain-sharing and there can be no assurance the program will qualify for future shared savings payments under the program.

- *Medicaid* – Inpatient services rendered to Medicaid program beneficiaries are paid at prospectively determined rates per discharge. Outpatient services are generally paid based upon cost reimbursement methodologies. Wellstar's Medicaid cost reports have been final settled through June 30, 2015 for all Wellstar affiliates. Net revenue from the Medicaid program accounted for approximately 9.7% and 10.7% of Wellstar's net patient service revenue for the years ended June 30, 2021 and 2020, respectively.

During fiscal 2021 and 2020, net patient service revenue decreased by approximately $9.0 million and $11.2 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, 2021 and 2020.

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 $37.0 million and $21.2 million in fiscal years 2021 and 2020, 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 $67.4 million and $66.6 million in fiscal years 2021 and 2020, 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 2022 plan is currently in process, and the terms of the fiscal year 2022 plan have not been finalized. Accordingly, contributions to the State's plan during 2022 and related amounts to be potentially received from Medicaid during 2022 have not been established. There can be no assurance that Wellstar will continue to qualify for future participation in this program or that the program will not ultimately be discontinued or materially modified.

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

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

The composition of net patient service revenue by primary payor for the years ended June 30, 2021 and 2020 follow:

		2021	2020
		(In thousands)	
Medicare	$	1,216,866	1,107,794
Medicaid		366,297	352,109
Other third-party payors		2,343,151	1,994,957
Patients		165,289	160,952
Net patient service revenue	$	4,091,603	3,615,812

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

The composition of net patient service revenue, based on Wellstar's primary lines of business for the years ended June 30, 2021 and 2020 follow:

Service lines		2021	2020
		(In thousands)	
Hospital services	$	3,512,519	3,089,014
Physician services		516,323	457,490
Other healthcare services		62,761	69,308
Net patient service revenue	$	4,091,603	3,615,812

(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.

		2021	2020
		(In thousands)	
Cost of providing charity care	$	309,795	329,120
Unreimbursed cost of providing care to Medicaid beneficiaries		164,541	126,326
Unreimbursed cost of providing care to Medicare beneficiaries		274,848	279,578
Unreimbursed cost of providing care to other patients		166,053	161,819
Cost of other community programs		24,022	25,141
	$	939,259	921,984

The State of Georgia Provider Payment Agreement Act provides that each hospital shall be assessed a provider payment in the amount of 1.45% (1.40% for four Wellstar affiliate hospitals [WAMC, WCH, WKH, WNFH] designated as Georgia Trauma Centers) of net patient service revenue of the hospital based on the annual financial survey filed with the State of Georgia Department of Community Health and such payments be recognized as a community benefit. In fiscal years 2021 and 2020, Wellstar affiliate hospitals made $37.1 million and $35.0 million, respectively, in provider payments and recognized such payments as a reduction in net patient service revenue in the accompanying combined financial statements.

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

(10) Employee Benefit Plans

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

Wellstar sponsors four defined benefit pension plans (the Plans) and is a guarantor of the Lagrange Troup County Authority Pension Plan (LT Authority Plan). Effective June 30, 2021, the two inactive plans were merged into one plan (the Inactive Plan).

Effective November 1, 2020, the two active plans were frozen to future participation and benefit accruals. The Plans were frozen on April 30, 2020 to future service credits accruals effective November 1, 2020 and a curtailment gain as of June 30, 2020 was recognized in the 2020 combined statement of operations totaling $9.1 million and a reduction in the projected benefit obligation totaling $59.4 million as a component of the change in net assets without donor restrictions. During fiscal 2021, the Inactive Plan offered a lump sum settlement for terminated, vested participants meeting certain criteria. As a result, a settlement loss totaling $7.7 million is included in the other components of net periodic service cost in the accompanying 2021 combined statement of operations.

The changes in the projected benefit obligations for the years ended June 30, 2021 and 2020 follow:

	2021	2020
	(In thousands)	
Projected benefit obligation, beginning of year	$ 1,714,149	1,378,868
Service cost	—	72,808
Interest cost	42,086	48,983
Actuarial loss	18,520	261,883
Plan combinations	—	45,078
Curtailments	—	(59,374)
Benefits paid	(45,685)	(34,097)
Settlements	(7,707)	—
Projected benefit obligation, end of year	$ 1,721,363	1,714,149

The accumulated benefit obligation at both June 30, 2021 and 2020 totaled $1.7 billion.

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, 2021 and 2020 follow:

		2021	2020
		(In thousands)	
Fair value of plan assets, beginning of year	$	1,030,604	904,648
Actual return on plan assets		297,063	37,420
Employer contributions		187,878	95,745
Benefits paid		(45,685)	(34,097)
Plan combinations		—	26,888
Settlements		(7,707)	—
Fair value of assets, end of year	$	1,462,153	1,030,604
Accrued pension liability – funded status	$	(259,210)	(683,545)

The components of net periodic pension cost for 2021 and 2020 follow:

		2021	2020
		(In thousands)	
Service cost	$	—	72,808
Interest cost		42,086	48,983
Expected return on plan assets		(60,682)	(56,660)
Amortization of prior service cost		—	(9,458)
Amortization of net loss		17,995	34,855
Settlement loss		2,406	—
Curtailments		—	(9,131)
	$	1,805	81,397

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

		2021	2020
		(In thousands)	
Actuarial loss	$	477,683	715,945

Wellstar is expected to amortize $10.3 million of net loss from net assets without donor restrictions into net periodic pension cost during fiscal year 2022.

(Continued)

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

	2021	2020
Discount rate – Active Plan A	3.03 %	2.94 %
Discount rate – Active Plan B	3.40	3.07
Discount rate – Inactive Plan A	N/A	2.83
Discount rate – Inactive Plan B	2.89	2.81
Rate of compensation increase Active Plan A	N/A	N/A
Rate of compensation increase Active Plan B	N/A	N/A

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

	2021	2020
Discount rate – Active Plan A	2.94 %	3.46 %
Discount rate – service cost – Active Plan A	—	3.82
Discount rate – interest cost – Active Plan A	—	3.63
Discount rate – Active Plan B	3.07	3.70
Discount rate – service cost – Active Plan B	—	3.93
Discount rate – interest cost – Active Plan B	—	3.80
Discount rate – Inactive Plan A	2.83	3.64
Discount rate – interest cost – Inactive Plan A	2.29	3.27
Discount rate – Inactive Plan B	2.81	3.65
Discount rate – interest cost – Inactive Plan B	2.17	3.19
Expected return on plan assets	7.00	7.00
Rate of compensation increase – Active Plan A	3.30	3.30
Rate of compensation increase – Active Plan B	3.30	3.30

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

(i) Plan Assets

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

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

	Target allocation	2021	2020
Plan assets:			
Cash and cash equivalents	— %	1 %	— %
Domestic equities	51	58	55
Domestic bonds	30	27	29
High yield	5	4	5
Global value	6	5	6
International equity	8	5	5
	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 $6.0 million to the Plans in fiscal year 2022.

(iii) Expected Future Benefit Payments

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

2022	$	49,228
2023		52,980
2024		57,860
2025		62,358
2026		66,296
2027–2031		375,698

(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. The WWGMC Plan was amended to split the plan into four segments, and each segment was transferred and merged into one of the four Wellstar pension plans effective December 31, 2019.

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

The funded status of the WWGMC Plan plus amounts due to the LT Authority related to the LT Authority Plan is recognized as an asset or liability in the combined balance sheets.

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	
	2021	**2020**
	(In thousands)	
Projected benefit obligation, beginning of period	$ 108,738	101,010
Interest cost	2,338	3,168
Actuarial (gain) loss	(527)	8,647
Benefits paid	(4,382)	(4,087)
Projected benefit obligation, end of period	106,167	108,738
Fair value of LT Authority Plan assets, beginning of period	53,011	52,147
Actual return on LT Authority Plan assets	13,779	1,996
Contributions from the LT Authority Plan's sponsor	—	2,955
Benefits paid	(4,382)	(4,087)
Fair value of LT Authority Plan assets, end of period	62,408	53,011
Accrued pension liability – funded status of the LT Authority Plan, end of period	$ (43,759)	(55,727)

The accumulated benefit obligation at June 30, 2021 and 2020 totaled $106.2 million and $108.7 million, respectively.

Amounts recognized in net assets without donor restrictions related to the LT Authority Plan consist of the following:

	June 30 2021	June 30 2020
	(In thousands)	
Actuarial loss	$ 18,059	29,593

Net periodic pension cost and other amounts recognized in net assets without donor restrictions consist of the following:

	June 30 2021	June 30 2020
	(In thousands)	
Net periodic pension cost components:		
Interest cost	$ 2,338	3,168
Amortization of net loss	808	1,322
Expected return on plan assets	(3,580)	(3,561)
Net periodic pension (credit) cost	(434)	929
Other changes in net assets without donor restrictions:		
Net (gain) loss in net assets without donor restrictions	(10,725)	10,212
Amortization of net loss	(809)	(1,322)
Total gain recognized in net assets without donor restrictions	$ (11,534)	8,890

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

	2021	2020
Discount rate	2.81 %	2.76 %
Rate of compensation increase	N/A	N/A

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

	2021	2020
Discount rate	2.76 %	3.59 %
Discount rate – interest cost	2.20	3.21
Expected return on plan assets	7.00	7.00
Rate of compensation increase	N/A	N/A

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

WWGMC expects to make contributions to the LT Authority Plan of approximately $2.1 million through June 30, 2022.

Plan Assets

The LT Authority Plan's target and weighted average asset allocations follow:

	Target allocation	Plan assets at June 30	
		2021	2020
Cash and cash equivalents	0–10%	3 %	2 %
Fixed income	35–100	29	34
Equities	0–65	68	65

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. The LT Authority utilizes an outside investment consultant to implement its investment strategy.

Benefit payments are projected to be paid as follows:

		Expected payments
		(In thousands)
Year ending June 30:		
2022	$	5,093
2023		5,204
2024		5,442
2025		5,676
2026		5,871
2027–2031		30,223

(c) Other Benefits

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

From June 1, 2019 through October 31, 2020, Wellstar matched eligible employees of certain affiliates at a rate equal to 25% of the first 8% of each participant's compensation that is contributed by the participant. Employees are immediately vested in their contributions and net value changes thereon and are cliff vested 100% in Wellstar's matching contributions after three years of service.

Wellstar contributed approximately $24.3 million and $20.4 million to the Wellstar 403(b) Plan under the employee matching contribution during the years ended June 30, 2021 and 2020, respectively.

Effective November 1, 2020, the Wellstar 403(b) Plan was amended to change the matching contribution to 50% of the first 4% of compensation contributed by the participant up to a maximum of 2% of total compensation for contributing team members.

Additionally, effective November 1, 2020 the Wellstar 403(b) Plan was amended to provide for a noncontributory employer discretionary contribution and a transitional contribution, to eligible participants, based on a percentage of eligible compensation defined by the Wellstar 403(b) Plan, regardless of whether an employee contributes to the Wellstar 403(b) Plan. The contribution is payable following the end of each fiscal year and is contingent on Wellstar achieving certain financial performance standards. The accompanying combined balance sheet at June 30, 2021 includes an estimated contribution totaling $55.7 million.

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 $33.8 million and $26.5 million as of June 30, 2021 and 2020, 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, 2021 and 2020 is $2.3 million and $2.2 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 2.58% and 3.47% at June 30, 2021 and 2020, respectively. The assumed initial and ultimate healthcare trend rate is 4.00% at June 30, 2021 and 5.00% at June 30, 2020.

(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:

	2021	2020
Managed Care	64 %	56 %
Medicare	22	24
Medicaid	5	9
Patients	1	2
Other third-party payors	8	9
	100 %	100 %

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

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

(12) Self-Insurance Programs

Wellstar has established a wholly owned captive insurance company (CAC) for the purpose of self-insuring first-dollar coverage related to general liability, professional liability, worker's compensation risks on a claims made basis. Wellstar funds CAC in amounts as determined by consulting actuaries. General and professional liability risks are self-insured at an underlying annual coverage layer totaling $2.0 million and $8.0 million per individual loss, respectively, and $64.0 million for aggregate claims. Workers' compensation coverage is self-insured for individual claims up to $500 thousand.

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

Losses for all self-insured coverages, except for employee group health insurance, are managed through the Risk Management and Claims Committee process. Identified and incurred-but-not-reported losses are accrued based on estimates that incorporate Wellstar's past experience, as well as other considerations such as the nature of each claim or incident, relevant trend factors, and advice from consulting actuaries. The identified and estimated incurred-but-not-reported losses included in the accompanying combined balance sheets at both June 30, 2021 and 2020 have been discounted at 2.5%.

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

(13) Leases

Wellstar leases certain property, buildings, and equipment under both operating and financing leases expiring through May 31, 2045. Leases with terms greater than 12 months are recorded with the related ROU assets and ROU obligations at the present value of lease payments over the term. Wellstar uses an incremental borrowing rate to discount lease payments based on information available at lease commencement, as most leases do not provide a readily determinable implicit interest rate. The incremental borrowing rate for the year ended June 30, 2021 ranged from 1.00% to 3.21%. Leases that include rental escalation clauses and renewal options are factored into the determination of lease payments when appropriate.

(Continued)

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

			June 30	
			2021	2020
			(In thousands)	
ROU assets:				
Operating	Other assets	$	177,778	171,478
Finance	Property and equipment, net		21,655	31,968
Total		$	199,433	203,446
Lease liabilities:				
Current:				
Operating	Other accrued expenses	$	29,573	29,636
Finance	Current installments of long-term debt and finance lease obligations		2,074	1,335
Noncurrent:				
Operating	Long-term operating lease obligations		150,619	142,278
Finance	Long-term debt		18,052	33,681
Total		$	200,318	206,930

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

		June 30	
		2021	2020
		(In thousands)	
Supplies and other expenses:			
Operating lease expense	$	34,017	33,386
Short-term lease expense		15,411	16,098
Variable lease expense		642	642
Depreciation and amortization:			
Finance lease expense:			
Amortization of lease assets		2,291	1,148
Interest on lease liabilities		1,149	533
Total	$	53,510	51,807

(Continued)

The following table presents other supplemental quantitative disclosures as of and for the years ended June 30, 2021 and 2020 (dollars in thousands):

		June 30	
		2021	**2020**
Cash paid for amounts included in the measurement of lease liabilities:			
Operating cash flows used for operating leases	$	33,386	28,348
Financing cash flows used for finance leases		2,494	1,298
Additions to right-of-use assets obtained from operating leases	$	40,497	17,768
Additions to right-of-use assets obtained from finance leases		15,794	27,197
Weighted average remaining lease term (years):			
Operating leases		7.95	7.58
Finance leases		15.62	21.32
Weighted average discount rate:			
Operating leases		3.08 %	3.25 %
Finance leases		3.72	3.28

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

		2021		
Lease maturity		**Operating leases**	**Finance leases**	**Total**
2022	$	30,931	1,993	32,924
2023		27,483	1,924	29,407
2024		24,345	1,869	26,214
2025		22,311	1,589	23,900
2026		15,606	1,609	17,215
Thereafter		94,749	17,548	112,297
Total lease payments		215,425	26,532	241,957
Less amount representing interest		(35,233)	(6,406)	(41,639)
Present value of undiscounted future cash flows	$	180,192	20,126	200,318

	2020		
Lease maturity	**Operating leases**	**Finance leases**	**Total**
2022	$ 31,895	2,475	34,370
2023	27,185	2,500	29,685
2024	23,172	2,402	25,574
2025	20,078	2,353	22,431
2026	16,975	2,080	19,055
Thereafter	71,495	36,685	108,180
Total lease payments	190,800	48,495	239,295
Less amount representing interest	(18,886)	(13,479)	(32,365)
Present value of undiscounted future cash flows	$ 171,914	35,016	206,930

(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:

	2021		
	Healthcare services	**General and administrative**	**Total**
		(In thousands)	
Salaries and employee benefits	$ 2,045,405	333,767	2,379,172
Supplies and other expenses	1,237,652	194,896	1,432,548
Depreciation and amortization	141,894	48,733	190,627
Interest	42,415	190	42,605
Total expenses	$ 3,467,366	577,586	4,044,952

	2020		
	Healthcare services	**General and administrative**	**Total**
		(In thousands)	
Salaries and employee benefits	$ 1,821,129	320,043	2,141,172
Supplies and other expenses	1,114,123	213,393	1,327,516
Depreciation and amortization	130,185	57,718	187,903
Interest	39,205	395	39,600
Total expenses	$ 3,104,642	591,549	3,696,191

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

(15) Fair Value of Financial Instruments

In accordance with FASB ASC 820, *Fair Value Measurement*, 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:

	2021		
	Level 1	**Level 2**	**Total**
		(In thousands)	
By the Board for capital improvements and other system needs:			
Cash and cash equivalents	$ 43,759	—	43,759
Asset backed securities	—	138,737	138,737
Mortgage backed securities	—	170,649	170,649
Obligations of the U.S. government and its agencies	295,743	—	295,743
Corporate debt securities – domestic	—	480,010	480,010
Corporate debt securities – international	—	86,905	86,905
Corporate equity securities – domestic	661,319	—	661,319
Corporate equity securities – international	158,474	—	158,474
Mutual funds	30,437	—	30,437
	1,189,732	876,301	2,066,033
Under self-insurance funding arrangements:			
Cash and cash equivalents	4,018	—	4,018
Mortgage backed securities	—	5,981	5,981
Obligations of the U.S. government and its agencies	88,844	—	88,844
Corporate debt securities – domestic	—	65,131	65,131
Corporate debt securities – international	—	3,402	3,402
Corporate equity securities – domestic	27,163	—	27,163
Corporate equity securities – international	1,449	—	1,449
	121,474	74,514	195,988

	2021		
	Level 1	**Level 2**	**Total**
		(In thousands)	
By donor stipulation:			
Cash and cash equivalents	19,542	—	19,542
Foreign investments	—	722	722
Obligations of the U.S. government and its agencies	219	—	219
Corporate debt securities – domestic	2,377	1,859	4,236
Corporate debt securities – international	—	208	208
Corporate equity securities – domestic	7,440	—	7,440
Corporate equity securities – international	4,099	—	4,099
Other	—	1,370	1,370
	33,677	4,159	37,836
Under bond indenture agreements – held by trustee:			
Cash and cash equivalents	795	—	795
	$ 1,345,678	954,974	2,300,652

(Continued)

	2020		
	Level 1	**Level 2**	**Total**
		(In thousands)	
By the Board for capital improvements and other system needs:			
Cash and cash equivalents	$ 28,615	—	28,615
Asset backed securities	—	47,196	47,196
Mortgage backed securities	—	87,784	87,784
Obligations of the U.S. government and its agencies	96,620	—	96,620
Corporate debt securities – domestic	—	289,085	289,085
Corporate debt securities – international	—	22,634	22,634
Corporate equity securities – domestic	434,855	—	434,855
Corporate equity securities – international	67,698	—	67,698
Mutual funds	23,001	—	23,001
	650,789	446,699	1,097,488
Under self-insurance funding arrangements:			
Cash and cash equivalents	6,448	—	6,448
Obligations of the U.S. government and its agencies	65,966	—	65,966
Corporate debt securities – domestic	—	66,225	66,225
Corporate debt securities – international	—	3,440	3,440
Corporate equity securities – domestic	19,065	—	19,065
Corporate equity securities – international	1,151	—	1,151
	92,630	69,665	162,295
By donor stipulation:			
Cash and cash equivalents	17,048	—	17,048
Foreign investments	—	555	555
Obligations of the U.S. government and its agencies	165	—	165
Corporate debt securities – domestic	7,243	1,928	9,171
Corporate debt securities – international	—	274	274
Corporate equity securities – domestic	11,689	—	11,689
Corporate equity securities – international	3,125	—	3,125
Other	—	2,427	2,427
	39,270	5,184	44,454

	2020		
	Level 1	**Level 2**	**Total**
		(In thousands)	
Under bond indenture agreements – held by trustee:			
Cash and cash equivalents	$ 306	—	306
	$ 782,995	521,548	1,304,543

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, 2021 and 2020. Fair value of a financial instrument is defined as the amount which would be received to sell an asset or paid to transfer a liability in an orderly transaction between willing market participants at the measurement date.

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

The fair value hierarchy of the Wellstar pension plan assets at June 30, 2021 and 2020 follows:

	2021		
	Level 1	**Level 2**	**Total**
		(In thousands)	
Cash and cash equivalents	$ 43,511	—	43,511
Mortgage – and other asset-backed securities	—	31,407	31,407
Obligations of the U.S. government and its agencies	183,191	601	183,792
Corporate debt securities – domestic	—	155,899	155,899
Corporate debt securities – international	—	9,486	9,486
Corporate equity securities – domestic	942,453	—	942,453
Corporate equity securities – international	39,446	—	39,446
Open end mutual fund	56,159	—	56,159
	$ 1,264,760	197,393	1,462,153

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

The fair value hierarchy of the WWGMC and LT Authority pension plan at June 30, 2021 and 2020 follows:

	2021	2020
	LT Authority Level 1 plan assets	**LT Authority Level 1 plan assets**
	(In thousands)	
Pension assets at fair value:		
Money market funds	$ 1,700	1,036
Domestic equity mutual funds:		
Technology	5,746	3,311
Large cap	20,676	18,929
Mid cap	2,856	2,099
Small cap	6,079	4,798
International equity mutual funds	7,249	5,071
Bond mutual funds:		
Long term	7,507	9,511
Intermediate term	1,556	2,366
Short term	9,039	5,890
	$ 62,408	53,011

(16) Net Assets with Donor Restrictions

Net assets with donor restrictions as of June 30, 2021 and 2020 are available for the use of various Wellstar programs and affiliates as follows:

	2021	2020
	(In thousands)	
Subject to spending policy and appropriation:		
Patient services:		
Hospice services	$ 10,167	7,573
Indigent care clinic support	157	177
Cancer services	871	1,320
Hospital general purpose:		
Trauma and emergency	5,055	4,774
Hospital enhancement and operations	9,928	19,384
Community services	126	152
Education and employee assistance:		
Scholarship	1,024	687
Employee assistance	75	277
Education	71	83
Any activities of the organization	3,482	2,484
	30,956	36,911
Subject to appropriation and expenditure when a specified event occurs:		
Land or proceeds from sale of land upon death of donor to support general activities	500	500
Net balance of original gift held under split-interest agreement upon death of donor to support general activities	50	53
Not subject to appropriation or expenditure:		
Endowment established to provide support to hospice care patients and supporting functions	4,639	4,576
Endowment established to provide nursing scholarships	779	768
Endowment established to provide support to cancer services	912	912
Land and attached assets required to be used for hospital purposes	7,790	8,151
Total net assets with donor restrictions	$ 45,626	51,871

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

Endowment net assets and classification of related unappropriated income at June 30, 2021 and 2020 follow (in thousands):

	2021		
	Without donor restrictions	**With donor restrictions**	**Total**
Donor-restricted endowment funds:			
Original donor-restricted gift amount and amounts required to be maintained in perpetuity by donor	$ —	14,119	14,119
Accumulated investment gains	—	4,618	4,618
Total	$ —	18,737	18,737

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

(Continued)

The change in endowment net assets and related income classifications for the years ended June 30, 2021 and 2020 follows (in thousands):

	2021		
	Without donor restrictions	With donor restrictions	Total
Beginning of year	$ —	17,339	17,339
Contributions	—	65	65
Other	—	(1,170)	(1,170)
Investment return:			
Interest and dividend income	—	169	169
Net appreciation	—	2,334	2,334
	—	2,503	2,503
End of year	$ —	18,737	18,737

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

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

(Continued)

(17) COVID-19 Pandemic

COVID-19, a respiratory disease caused by a novel strain of the coronavirus, has spread around the world, including the State of Georgia, where Wellstar's service areas are located. The Centers for Disease Control confirmed the spread of the disease to the United States in February 2020 and the World Health Organization declared the COVID-19 outbreak a pandemic. The Federal government and State of Georgia government both issued a public health state of emergency in March 2020. Wellstar patient volumes, operating revenues and expenses were materially impacted by the COVID-19 pandemic during fiscal 2020 and continued into fiscal 2021 and continue to be impacted subsequent to June 30, 2021.

The Federal Coronavirus Aid, Relief, and Economic Security (CARES) Act was signed into law on March 27, 2020 and is designed, among other things, to provide provider relief funds (PRF) to providers on a tax identification number (TIN) basis, for purposes of covering costs incurred, not reimbursable from another source, and lost revenues due to the pandemic. Subsequent to the passage of this legislation, the U.S. Department of Health and Human Services (HHS) has issued a litany of additional pronouncements, which provides guidance on how healthcare providers can apply, receive and recognize this funding, with the most recent guidance issued in September 2021. This guidance has included a confirmation that both general distributions and targeted distributions are transferrable among TINs under common control (Wellstar has multiple eligible TINs).

Wellstar was eligible for and received $186.3 million CARES Act funding during the year ended June 30, 2020 and was eligible for and received $75.1 million during the year ended June 30, 2021. Based upon the regulatory guidance at the time of the issuance of Wellstar's combined financial statements, Wellstar recognized CARES Act funding as other operating revenue, totaling $120.7 million and $140.7 million, for the years ended June 30, 2020 and 2021, respectively. Cumulatively, from March 1, 2020 through June 30, 2021, Wellstar has calculated lost revenues of approximately $436.6 million due to the COVID-19 pandemic.

In response to the pandemic, Wellstar has incurred significant operating and administrative costs to organize, prepare for and respond to COVID-19. Incremental costs have been incurred for staffing, supplies, materials and equipment, temporary facilities, information technology, procurement, and other services throughout Wellstar and were necessary to lessen immediate and future threats to lives, public health and safety. Wellstar tracks and accumulates these costs and files for reimbursement under the Federal Emergency Management Act (FEMA) program. Wellstar estimates amounts receivable from FEMA to be $26.7 million as of June 30, 2021.

Further, during the year ended June 30, 2021, Wellstar received contributions in-kind from the Georgia Emergency Management Agency (GEMA), which paid for certain contract agency nursing staff for Wellstar. The amount of contribution in-kind was approximately $41.6 million, which was recorded as other revenue and a corresponding cost included in supplies and other expenses.

The CARES Act provided for expansion by the Centers for Medicare & Medicaid Services (CMS) of the Accelerated and Advance Payment Program (MAPP) to a broader group of Medicare Part A providers and Part B suppliers. The program was expanded in order to increase the cash flow to providers of services and suppliers impacted by the COVID-19 pandemic. CMS is authorized to provide accelerated or advance payments during the period of the public health emergency to any Medicare provider/supplier who submits a request to the appropriate Medicare Administrative Contractor (MAC) and meets the required qualifications. WellStar applied for and received $9.6 million and $264.6 million in MAPP Funding during the years ended June 30, 2021 and 2020, respectively. The funding is an advance of payment of future services provided to Medicare beneficiaries. The Continuing Appropriations Act, 2021 and Other Extensions Act require providers to begin repayment of MAPP funds one year from the date of receipt to be repaid at a rate of 25% for 11 months and at 50% for six additional months. After the repayment period ends, a letter for any remaining balance will be issued requiring repayment in full within 30 days. Repayments began during the year ended June 30, 2021 and Wellstar has repaid $27.8 million as of June 30, 2021 consistent with the Continuing Appropriations Act, 2021.

(18) Subsequent Events

Wellstar has evaluated subsequent events through October 12, 2021, the date the combined financial statements were available to be issued.

Schedule 1

WELLSTAR HEALTH SYSTEM, INC. AND AFFILIATES

Combining Balance Sheets

June 30, 2021

(In thousands)

Assets		Obligated group	Designated members	Eliminations	Total
Current assets:					
Cash and cash equivalents	$	120,707	7,310	—	128,017
Patient accounts receivable, net		697,117	4,443	—	701,560
Assets limited as to use – required for current liabilities		795	—	—	795
Other current assets		228,793	15,370	(31,300)	212,863
Total current assets		1,047,412	27,123	(31,300)	1,043,235
Assets limited as to use		2,060,441	239,416	—	2,299,857
Property and equipment, net		1,772,859	13,215	—	1,786,074
Goodwill		416,396	—	—	416,396
Other assets		243,910	—	—	243,910
Total assets	$	5,541,018	279,754	(31,300)	5,789,472
Liabilities and Net Assets					
Current liabilities:					
Accounts payable	$	258,242	2,363	(2,547)	258,058
Accrued salaries, wages, and benefits		299,573	762	—	300,335
Other accrued expenses		161,949	15,257	(28,753)	148,453
Medicare accelerated and advanced payment liability		246,378	—	—	246,378
Current installments of long-term debt and finance lease obligations		26,358	—	—	26,358
Total current liabilities		992,500	18,382	(31,300)	979,582
Long-term debt and finance lease obligations, excluding current installments		1,342,860	—	—	1,342,860
Self-insurance reserves		62,717	196,674	—	259,391
Accrued pension liability		302,969	—	—	302,969
Long-term operating lease obligations		150,619	—	—	150,619
Other long-term liabilities		80,512	1,319	—	81,831
Total liabilities		2,932,177	216,375	(31,300)	3,117,252
Net assets:					
Without donor restrictions		2,604,245	22,349	—	2,626,594
With donor restrictions		4,596	41,030	—	45,626
Total net assets		2,608,841	63,379	—	2,672,220
Total liabilities and net assets	$	5,541,018	279,754	(31,300)	5,789,472

See accompanying independent auditors' report.

Schedule 2

WELLSTAR HEALTH SYSTEM, INC. AND AFFILIATES

Combining Statements of Operations

Year ended June 30, 2021

(In thousands)

	Obligated group	Designated members	Eliminations	Total
Revenues, gains, and other support:				
Patient service revenue, net of contractual allowances and discounts	$ 4,064,131	27,472	—	4,091,603
Other revenue	139,946	57,380	(44,185)	153,141
Total revenue, gains, and other support	4,204,077	84,852	(44,185)	4,244,744
Expenses:				
Salaries and employee benefits	2,356,932	28,957	(6,717)	2,379,172
Supplies and other expenses	1,389,292	80,724	(37,468)	1,432,548
Depreciation and amortization	189,768	859	—	190,627
Interest	42,605	—	—	42,605
Total expenses	3,978,597	110,540	(44,185)	4,044,952
Operating income, before Provider Relief Fund grant funding, FEMA funding for operating expenses, State of Georgia funding and impairment losses	225,480	(25,688)	—	199,792
Provider Relief Fund grant funding	139,560	1,177	—	140,737
FEMA funding for operating expenses	16,758	62	—	16,820
State of Georgia funding	41,621	—	—	41,621
Operating income before impairment losses	423,419	(24,449)	—	398,970
Impairment of long-lived assets	(21,862)	—	—	(21,862)
Operating income	401,557	(24,449)	—	377,108
Nonoperating gains (losses):				
Investment income, net	254,265	8,395	—	262,660
Other components of net periodic pension cost	(1,383)	(27)	—	(1,410)
Change in fair value of interest rate swap	6,898	—	—	6,898
Gain (loss) on disposal of property and equipment	2,971	(3)	—	2,968
Gain on extinguishment of long-term debt	338	—	—	338
Revenue, gains, and other support in excess of (less than) expenses and losses	664,646	(16,084)	—	648,562
Accrued pension liability adjustments	249,796	—	—	249,796
Net assets released from restrictions used for the purchase of property and equipment	17,068	—	—	17,068
FEMA funding for capital expenditures	9,838	—	—	9,838
Other	1,332	—	—	1,332
Change in net assets without donor restrictions	$ 942,680	(16,084)	—	926,596

See accompanying independent auditors' report.