KPMG

WELLSTAR HEALTH SYSTEM, INC. AND AFFILIATES

Combined Financial Statements and Schedules

June 30, 2024 and 2023

(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.:

Opinion

We have audited the combined financial statements of Wellstar Health System, Inc. and Affiliates (the System), which comprise the combined balance sheets as of June 30, 2024 and 2023, 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.

In our opinion, the accompanying combined financial statements present fairly, in all material respects, the financial position of the System as of June 30, 2024 and 2023, and the results of its operations and its cash flows for the years then ended in accordance with U.S. generally accepted accounting principles.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Combined Financial Statements section of our report. We are required to be independent of the System and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Combined Financial Statements

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

In preparing the combined financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the System's ability to continue as a going concern for one year after the date that the combined financial statements are issued.

Auditors' Responsibilities for the Audit of the Combined Financial Statements

Our objectives are to obtain reasonable assurance about whether the combined financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the combined financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the combined financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the combined financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the System's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the combined financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the System's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the combined financial statements as a whole. The accompanying Schedules 1 and 2 are presented for purposes of additional analysis and is 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 GAAS. 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 11, 2024

WELLSTAR HEALTH SYSTEM, INC. AND AFFILIATES

Combined Balance Sheets

June 30, 2024 and 2023

(In thousands)

Assets		2024	2023
Current assets:			
Cash and cash equivalents	$	479,837	117,539
Patient accounts receivable, net		963,794	709,607
Assets limited as to use – required for current liabilities		47,928	10,043
Other current assets		352,382	185,425
Total current assets		1,843,941	1,022,614
Assets limited as to use		2,765,675	2,435,485
Property and equipment, net		2,512,162	1,944,685
Goodwill		418,982	415,821
Other assets		246,628	227,642
Prepaid pension asset, net		134,203	—
Total assets	$	7,921,591	6,046,247
Liabilities and Net Assets			
Current liabilities:			
Accounts payable	$	469,294	317,768
Accrued salaries, wages, and benefits		430,267	271,220
Other accrued expenses		239,924	177,830
Current installments of long-term debt and finance lease obligations		45,029	32,336
Total current liabilities		1,184,514	799,154
Long-term debt and finance lease obligations, excluding current installments		2,062,745	1,559,207
Self-insurance reserves		368,969	289,725
Accrued pension liability		—	2,796
Long-term operating lease obligations		105,684	114,196
Other long-term liabilities		104,704	90,507
Total liabilities		3,826,616	2,855,585
Net assets:			
Without donor restrictions		4,015,090	3,133,958
With donor restrictions		79,885	56,704
Total net assets		4,094,975	3,190,662
Total liabilities and net assets	$	7,921,591	6,046,247

See accompanying notes to combined financial statements.

WELLSTAR HEALTH SYSTEM, INC. AND AFFILIATES

Combined Statements of Operations

Years ended June 30, 2024 and 2023

(In thousands)

		2024	2023
Revenue, gains, and other support:			
Patient service revenue, net of contractual allowances and discounts	$	6,111,851	4,652,446
Other revenue		434,950	208,711
Total revenue, gains, and other support		6,546,801	4,861,157
Expenses:			
Salaries and employee benefits		3,447,067	2,743,521
Supplies and other expenses		2,454,614	1,640,101
Depreciation and amortization		254,064	211,501
Interest		64,621	52,766
Total expenses		6,220,366	4,647,889
Operating income, before FEMA funding for operating expenses and unrestricted contribution received in business combination		326,435	213,268
FEMA and other funding for operating expenses		5,578	(638)
Unrestricted contribution received in business combination		163,125	—
Operating income before impairment losses		495,138	212,630
Impairment of long-lived assets		(4,495)	(2,159)
Operating income		490,643	210,471
Nonoperating gains (losses):			
Investment income net		223,531	182,437
Other components of net periodic pension cost		(5,127)	(12,999)
Change in fair value of interest rate swap		—	3,591
(Loss) gain on disposal of property and equipment		(1,071)	3,891
Gain (loss) on extinguishment of long-term debt		2,752	(220)
Revenue, gains, and other support in excess of expenses and losses		710,728	387,171
Accrued pension liability adjustments		125,970	182,738
Contributions and net assets released from restrictions used for the purchase of property and equipment		43,329	3,932
State of Georgia funding for capital expenditures		542	4,279
Other		563	286
Change in net assets without donor restrictions	$	881,132	578,406

See accompanying notes to combined financial statements.

WELLSTAR HEALTH SYSTEM, INC. AND AFFILIATES

Combined Statements of Changes in Net Assets

Years ended June 30, 2024 and 2023

(In thousands)

		2024	2023
Net assets with donor restrictions:			
Contributions	$	8,713	12,382
Investment return, net		2,252	102
Net assets released from restrictions		(3,326)	(4,145)
Increase in interest in net assets held by others		3,237	—
Contribution received in business combination		12,305	—
Change in net assets with donor restrictions		23,181	8,339
Change in net assets without donor restrictions		881,132	578,406
Change in net assets		904,313	586,745
Net assets, beginning of period		3,190,662	2,603,917
Net assets, end of period	$	4,094,975	3,190,662

See accompanying notes to combined financial statements.

WELLSTAR HEALTH SYSTEM, INC. AND AFFILIATES

Combined Statements of Cash Flows

Years ended June 30, 2024 and 2023

(In thousands)

		2024	2023
Cash flows from operating activities:			
Change in net assets	$	904,313	586,745
Adjustments to reconcile change in net assets to net cash provided by operating activities:			
Depreciation and amortization		254,064	211,501
Amortization of bond discount, premium, and issue costs, net		(4,450)	(4,789)
(Gain) loss on disposal of property and equipment		1,071	(3,891)
Loss on impairment of long-lived assets		4,495	2,159
Contribution received in business transaction		(175,430)	—
Realized and unrealized (gains) losses on trading investments, net		(175,689)	(147,221)
Change in fair value of interest rate swap		—	(3,591)
Change in beneficial interest of net assets held by others		(3,237)	—
Loss (gain) on extinguishment of long-term debt		(2,752)	220
Restricted contributions and related investment income		(318)	(89)
Equity in earnings of joint ventures		(6,553)	(6,002)
Changes in operating assets and liabilities:			
Patient accounts receivable		(128,660)	18,261
Other current assets		(73,287)	26,026
Other assets		7,986	(8,924)
Accounts payable, accrued salaries, wages and benefits, and other accrued expenses		105,371	(742)
Medicare accelerated and advanced payment liability		—	(68,241)
Self-insurance reserves		40,032	3,639
Accrued pension liability		(136,999)	(180,347)
Other long-term liabilities		(15,571)	(1,099)
Net cash provided by operating activities		594,386	423,615
Cash flows from investing activities:			
Purchases of property and equipment		(490,258)	(340,009)
Proceeds from the sale of property and equipment		3,569	10,361
Purchase of assets limited as to use		(794,691)	(1,372,164)
Proceeds from the sale of assets limited as to use		1,023,192	1,308,732
Distributions from joint ventures, net		(1,855)	5,376
Cash received in business combination		115,674	—
Net cash used in investing activities		(144,369)	(387,704)
Cash flows from financing activities:			
Proceeds from borrowings		498,565	124,530
Principal repayments of long-term debt and finance lease obligations		(206,655)	(109,916)
Issue costs paid		(4,439)	(78)
Restricted contributions and related investment income		(197)	89
Net cash provided by financing activities		287,274	14,625
Net change in cash and cash equivalents		737,291	50,536
Cash, cash equivalents and restricted cash, beginning of year		231,383	180,847
Cash, cash equivalents and restricted cash, end of year	$	968,674	231,383
Reconciliation of cash, cash equivalents and restricted cash:			
Cash and cash equivalents	$	479,837	117,539
Assets limited as to use – required for current liabilities		47,928	10,043
Assets limited as to use		440,909	103,801
Cash, cash equivalents and restricted cash, end of year	$	968,674	231,383

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, LaGrange, Georgia and Augusta, Georgia along with South Carolina residents in the greater Augusta metropolitan area. 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:

AU Medical Center, Inc. (WAUMC)

AU Medical Associates, Inc. (WAUMA)

Cobb Hospital, Inc. (WCH)

Douglas Hospital, Inc. (WDH)

Kennestone Hospital, Inc. (WKH)

Paulding Medical Center, Inc. (WPMC)

Wellstar Atlanta Medical Center, Inc. (WAMC)

Wellstar MCG Health, Inc. (WMCG)

Wellstar Medical Group, LLC (WMG)

Wellstar North Fulton Hospital, Inc. (WNFH)

Wellstar Spalding Regional Hospital, Inc. (WSRH)

Wellstar Sylvan Grove Hospital, Inc. (WSGH)

Wellstar MCG Health Warm Springs, Inc. (WMCGWS)

Wellstar West Georgia Medical Center, Inc. (WWGMC)

Windy Hill Hospital, Inc. (WWHH)

Community Assurance Company, LTD (CAC)

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.

On August 29, 2023, Wellstar and AU Health System, Inc., a Georgia nonprofit corporation (AUHS), consummated their affiliation pursuant to a Membership Substitution Agreement dated August 29, 2023 (discussed in Note 17).

As announced on August 31, 2022, WAMC closed as of November 1, 2022. For the years ended June 30, 2023, WAMC reported fully allocated operating losses of $(64.9 million) respectively, inclusive of the one-time non-recurring retention bonus, all of which is included in the accompanying combined statements of operations.

As previously reported by various media sources, a complaint was filed with the U.S. Department of Health and Human Services, Office of Civil Rights ("HHS-OCR") concerning the closure of WAMC last year. Consistent with its statutory obligations with respect to such complaints, HHS-OCR is conducting an investigation of the matter. Wellstar believes it has complied with applicable civil rights laws and is cooperating with the investigation.

Wellstar, WCH, WDH, WKH, WPMC, WMG, WNFH, WSRH, WSGH, WWGMC, WMCG, WAUMC, and WAUMA 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, the actuarially determined benefit liability related to Wellstar's pension plans, and the valuation of assets and liabilities acquired in a business combination. 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 in 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 trusteed 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.

Wellstar capitalizes implementation costs incurred related to cloud computing arrangements in accordance with Financial Accounting Standards Board (FASB) Accounting Standards Update (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.*

(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 Financial Accounting Standards Board (FASB) 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 Wellstar is not reasonably certain it will continue to use the asset and the contract includes a termination penalty), 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

(Continued)

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 FASB ASC 350, *Intangibles-Goodwill and Other,* 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 annual impairment test compares the fair value of the reporting unit to its carrying value (including goodwill) and an impairment charge is recognized for the amount by which the carrying amount exceeds the fair value up to the amount of goodwill allocated to the reporting unit. Fair value of the reporting unit is determined using the market approach. If the fair value of the reporting unit exceeds its carrying value no impairment charge is recognized.

Wellstar has not adopted the unconditional one-time election to apply private company alternatives described in ASC-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.*

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, 2024 and 2023, the fair value of Wellstar is substantially in excess of its carrying value and therefore no impairment loss was recorded for the years ended June 30, 2024 or 2023.

(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.

FASB ASC 958, *Not-for-Profit Entities* provides guidance 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.

Wellstar has recognized a beneficial interest in donor-restricted funds held by Augusta University Foundation and Medical College of Georgia Foundation, Inc. Net changes in the estimated fair value of beneficial interest in net assets held by others are reflected as increases or decreases to net assets with donor restrictions in the combined statement of changes in net assets.

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, State of Georgia funding, and the recognition of pension and postretirement liability adjustments arising during the current period.

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(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 or outpatient procedures. For patients in the hospital 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. For patients receiving outpatient services, Wellstar measures the performance obligation over the duration of the outpatient procedure. 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 FASB ASC 606 for contracts related to net patient service revenue. Wellstar accounts for the contracts within each portfolio as a collective group, rather than individual contracts, based on the payment pattern expected in each portfolio category and the similar nature and characteristics of the patients within each portfolio. The portfolios consist of major payor classes for inpatient revenue and outpatient revenue. Based on historical collection trends and other analyses, Wellstar has concluded that revenue for a given portfolio would not be materially different than if accounting for revenue on a contract-by-contract basis.

Wellstar has agreements with third-party payors that generally provide for payments to Wellstar at amounts different from its established rates. For uninsured patients who do not qualify for charity care, Wellstar recognizes revenue based on established rates, subject to certain discounts and implicit price concessions as determined by Wellstar. Wellstar determines the transaction price based on standard charges for services provided, reduced by explicit price concessions provided to third-party payors, discounts provided to uninsured patients in accordance with Wellstar’s policy, and implicit price concessions 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 2024 or 2023.

(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 estimates charity care using a cost-to-charge ratio as the measurement basis 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. Certain of Wellstar's affiliates are not exempt from federal or state income tax and such income tax expense is not material to Wellstar's combined financial statements.

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 FASB 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, 2024 or 2023.

(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 apply hedge accounting to its derivative instrument, which was terminated as of June 30, 2023.

(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 funded 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, net 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 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 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 is applied prospectively. Early adoption is permitted. The adoption of the amendments did not have a material effect on the combined financial statements.

In November 2021, the FASB issued ASU 2021-09, Leases (Topic 842): Discount Rate for Lessees That Are Not Public Entities, which allows non-public entities to make the risk-free rate election by class of underlying asset, rather than at the entity-wide level. An entity that makes the risk-free rate election is required to disclose the asset classes for which it has elected to apply a risk-free rate. The amendments further require that when the rate implicit in the lease is readily determinable for any individual lease, the lessee use that rate (rather than a risk-free rate or an incremental borrowing rate), regardless of whether it has made the risk-free rate election. Wellstar adopted ASU 2021-09 effective July 1, 2022 on a retrospective basis to leases that existed at the time of adoption. The adoption of ASU 2021-09 did not have a material effect on the combined financial statements.

In June 2016, the FASB issued ASU 2016-13, *Measurement of Credit Losses on Financial Instruments* which significantly changes the way entities recognize impairment of many financial assets by requiring immediate recognition of estimated credit losses expected to occur over their remaining life, instead of when incurred. In November 2018, the FASB issued ASU 2018-19, *Codification Improvements to Topic 326, Financial Instruments – Credit Losses*, which amends Subtopic 326-20 (created by ASU 2016-13) to explicitly state that operating lease receivables are not in the scope of Subtopic 326-20. Additionally, in April 2019, the FASB issued ASU 2019-04, *Codification Improvements to Topic 326, Financial Instruments – Credit Losses, Topic 815, Derivatives and Hedging, and Topic 825, Financial Instruments*; in May 2019, the FASB issued ASU 2019-05, *Financial Instruments – Credit Losses (Topic 326): Targeted Transition Relief*; in November 2019, the FASB issued ASU 2019-10, *Financial Instruments – Credit Losses (Topic 326), Derivatives and Hedging (Topic 815), and Leases (Topic 842): Effective Dates*, and ASU 2019-11, *Codification Improvements to Topic 326, Financial Instruments – Credit Losses*; and in March 2020, the FASB issued ASU 2020-03, *Codification Improvements to Financial Instruments*, to provide further clarifications on certain aspects of ASU 2016-13 and to extend the nonpublic entity effective date of ASU 2016-13. The changes (as amended) are effective for annual and interim periods in fiscal years beginning after December 15, 2022. The adoption of these amendments did not have a material effect on the combined financial statements.

(x) Reclassifications

Certain reclassifications have been made to the 2023 combined financial statements in order to conform to the 2024 presentation.

(2) Assets Limited as to Use

The composition of assets limited as to use follows:

		2024	2023
		(In thousands)	
By the Board for capital improvements and other system needs:			
Cash and cash equivalents	$	78,554	43,951
Asset backed securities		46,700	41,122
Mortgage backed securities		170,818	212,366
Obligations of the U.S. government and its agencies		241,944	236,093
Corporate debt securities – domestic		525,395	491,913
Corporate debt securities – international		27,251	39,614
Corporate equity securities – domestic		735,872	704,303
Corporate equity securities – international		210,888	198,426
Mutual funds		38,487	33,036
		2,075,909	2,000,824
Under self-insurance funding arrangements:			
Cash and cash equivalents		36,693	9,727
Mortgage backed securities		14,965	10,654
Obligations of the U.S. government and its agencies		80,351	88,811
Corporate debt securities – domestic		72,072	88,331
Corporate debt securities – international		817	5,585
Corporate equity securities – domestic		33,588	26,320
Corporate equity securities – institutional		4,220	1,628
Mutual funds		22,283	—
		264,989	231,056
By donor stipulation:			
Cash and cash equivalents		35,862	30,999
Corporate debt securities – domestic		2,076	2,402
Corporate equity securities – domestic		12,555	9,436
Corporate equity securities – international		2,035	2,251
Beneficial interest in net assets held by others		15,543	—
Other		5,325	4,812
		73,396	49,900
Under bond indenture agreements – held by trustee:			
Cash and cash equivalents		337,728	29,168
Obligations of the U.S. Government and its agencies		61,581	134,580
		399,309	163,748
		2,813,603	2,445,528
Less amounts classified as current assets		(47,928)	(10,043)
	$	2,765,675	2,435,485

The composition of net investment income follows:

		2024	2023
		(In thousands)	
Net investment income included in nonoperating gains (losses):			
Net realized gains (losses) on investments	$	57,261	(8,561)
Interest and dividend income		49,705	36,927
Net unrealized gain on investments		116,489	153,854
Equity in earnings of joint ventures unrelated to healthcare operations, net		76	217
		223,531	182,437
Restricted net investment income		2,252	102
	$	225,783	182,539

Interest and dividend income include management fees of $6.5 million and $5.8 million for the years ended June 30, 2024 and 2023, respectively.

(3) Other Current Assets

The composition of other current assets follows:

		2024	2023
		(In thousands)	
Inventories	$	160,468	116,054
Prepaid expenses		71,650	43,451
Other receivables		120,264	25,920
	$	352,382	185,425

(4) Property and Equipment

A summary of property and equipment follows:

		2024	2023
Land and land improvements	$	241,902	203,426
Buildings		2,268,223	1,819,502
Equipment – non-medical		1,108,024	1,191,712
Equipment – medical		913,953	620,419
Technology software and hardware		392,767	257,190
		4,924,869	4,092,249
Less accumulated depreciation and amortization		2,831,877	2,306,098
		2,092,992	1,786,151
Construction in progress		419,170	158,533
	$	2,512,162	1,944,684

Construction in progress at June 30, 2024 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 30, 2024 is approximately $568.9 million. Wellstar's present capital improvements program provides for planned capital expenditures during fiscal years 2025 through 2029 as follows: 2025 – $500.3 million, 2026 – $613.1 million, 2027 – $509.1 million, 2028 – $501.9 million, and 2029 – $571.2 million. Total property and equipment, net includes accruals for capital purchases totaling $69.1 million and $18.4 million as of June 30, 2024 and 2023, respectively.

(5) Other Assets

The composition of other assets follows:

		2024	2023
		(In thousands)	
Right of use lease assets	$	120,800	138,823
Investment in joint ventures		41,164	32,727
Other long-term receivables		53,243	27,269
Intangible assets		13,652	11,415
Other long-term assets		17,769	17,408
	$	246,628	227,642

(6) Long-term Debt and Finance Lease Obligations

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

		2024	2023
		(In thousands)	
Series 2004 CCHA Certificates issued in April 2004	$	25,000	25,000
Series 2006 CCHA Certificates issued in April 2006		25,000	25,000
Series 2012 CCKHA Certificates issued in November 2012		32,195	72,230
Series 2014A CRC Bonds issued October 2014		15,975	—
Series 2017A CCKHA Certificates issued in August 2017		140,945	143,195
Series 2017A DAFC Bonds issued in August 2017		165,555	167,540
Series 2017A GSHA Certificates issued in August 2017		162,685	163,915
Series 2017A LTCHA Certificates issued in August 2017		53,390	54,780
Series 2017B CCKHA Certificates issued in August 2017		50,135	51,635
Series 2017B GSHA Certificates issued in August 2017		41,725	42,975
Series 2018 DARC Bonds issued in October 2018		80,295	—
Series 2020A DAFC Bonds issued in August 2020.		70,165	70,165
Series 2020A CCKHA Certificates issued in August 2020		86,800	89,070
Series 2020B CCKHA Certificates issued in January 2021		62,250	67,240
Series 2022A PCHA Certificates issued in March 2022		78,560	79,275
Series 2022A CCKHA Certificates issued in March 2022		183,085	183,085
Series 2023A CCHA Certificates issued in November 2023		279,205	—
Series 2023B CCHA Certificates issued in November 2023		57,405	—
Series 2023A DAAG Bonds issued in November 2023		82,890	—
Series 2023A CCKHA Certificates issued in November 2023		80,500	—
Bank of America, N.A. loan dated October 15, 2018 Facility No. 2		21,259	22,229
Wells Fargo Bank, National Association loan dated May 27, 2022		50,070	51,570
Wells Fargo Bank, National Association loan dated August 11, 2022		—	45,000
Bank of America, N.A. loan dated October 15, 2018 Facility No. 3		75,105	77,350
Finance lease obligations		94,746	57,498
Total revenue certificates, debt, and finance lease obligations		2,014,940	1,488,752
Plus unamortized premium		108,836	110,583
Less unamortized cost of issuance		(4,230)	(7,747)
Less unamortized discount		(11,772)	(45)
Total long-term debt and finance lease obligations		2,107,774	1,591,543
Less current installments		45,029	32,336
	$	2,062,745	1,559,207

On November 2, 2023, the Columbia County Hospital Authority Revenue Anticipation Certificates (Wellstar Health System, Inc. Project), Series 2023A (Series 2023A CCHA Certificates) were issued for the benefit of Wellstar in the original principal amount of $279.2 million to provide funds to finance the construction of a new hospital and medical office building of WAUMC in Columbia County, GA, pay some or all of the costs of issuance and pay certain capitalized interest costs of the Series 2023A CCHA Certificates. The Series 2023A CCHA Certificates bear interest at fixed rates ranging from 5.00% to 5.75%. Certain tranches of the Series 2023A CCHA Certificates are insured by Assured Guaranty. Principal payments are due annually beginning April 1, 2048.

On November 2, 2023, the Columbia County Hospital Authority Revenue Anticipation Certificates (Wellstar Health System, Inc. Project), Series 2023B (Series 2023B CCHA Certificates) were issued for the benefit of Wellstar in the original principal amount of $57.4 million to provide funds to finance the construction of a new hospital and medical office building of WAUMC in Columbia County, GA, pay some or all of the costs of issuance and fund a debt service reserve fund for the Series 2023B CCHA Certificates. The Series 2023B CCHA Certificates bear interest at fixed rates of 5.00%. Principal payments are due annually beginning April 1, 2026.

On November 2, 2023, the Development Authority of Augusta, Georgia Revenue Bonds (Wellstar Health System, Inc.), Series 2023A (Series 2023A DAAG Bonds) were issued for the benefit of Wellstar in the original principal amount of $82.9 million to provide funds to refinance the 2021 DAAG Bonds and pay some or all of the costs of issuance of the Series 2023A DAAG Bonds. The Series 2023A DAAG Bonds bear interest at fixed rates of 5.125%. Certain tranches of the Series 2023A DAAG Bonds are insured by Assured Guaranty. Principal payment is due at maturity on April 1, 2053.

On November 2, 2023, the Cobb County Kennestone Hospital Authority Revenue Anticipation Certificates (Wellstar Health System, Inc.), Series 2023A (Series 2023A CCKHA Certificates) were issued for the benefit of Wellstar in the original principal amount of $80.5 million to provide funds to refinance a portion of the Series 2012 CCKHA Revenue Anticipation Certificates, to refinance the Wells Fargo Bank, NA Term Loan dated August 11, 2022, and pay some or all of the costs of issuance of the Series 2023A CCKHA Certificates. The Series 2023A CCKHA Certificates bear interest at fixed rates of 5.00%. Certain tranches of the Series 2023A CCKHA Certificates are insured by Assured Guaranty.

On October 23, 2018, AUHS. issued Revenue Bond Series 2018 Development Authority of Richmond County (Series 2018 DARC Bonds) in the original principal amount of $80.9 million to be used to finance and refinance certain renovation projects and to purchase new and replacement equipment. The Series 2018 DARC bonds bear interest at fixed rates ranging from 4% and 5%. Principal payments are due annually beginning in the fiscal year beginning July 2024 through 2039.

On October 30, 2014, the Augusta Authority issued its Revenue Refunding Bonds (Georgia Regents University Academic Research Center Project), Series 2014 (the Series 2014A CRC Bonds), in the original principal amount of $24.5 million, the proceeds of which were loaned to MCG-PPG Cancer Research, LLC, a Georgia limited liability company (CRC), the sole member of which is WMCG, and used to refinance bonds the proceeds of which were used to construct a portion of a cancer research center, now known as the Georgia Cancer Center (the CRC Project), To secure it’s obligation to repay the loan, CRC granted a leasehold deed to secure debt on the CRC Project and a security agreement granting a lien on certain personal property and revenues derived from the CRC Project in favor of the bond trustee of the Series 2014 CRC Bonds. The CRC Project is leased to the Board of Regents under an annual-appropriation rental agreement. Assuming the continued renewal of the rental agreement by the Board of Regents, the Board of Regents, as tenant, will make fixed rental payments that are estimated to be sufficient to pay the debt service on the Series 2014A CRC Bonds. Neither WAUMC nor any other member of the Obligated Group is obligated with respect to the Series 2014A CRC Bonds. The Series 2014A CRC Bonds bear interest at fixed rates ranging from 3% to 5%. Interest payments are due semi-annually. Principal payments are due annually through December 2034.

The Series 2018 DARC Bonds and the Series 2014A CRC Bonds were assumed by Wellstar in the business combination discussed in footnote 17.

On March 8, 2022, Wellstar issued Series 2022A Cobb County Kennestone Hospital Authority Revenue Anticipation Certificates (Wellstar Health System, Inc. Project), Series 2022A (Series 2022A CCKHA Certificates) in the original principal amount of $183.1 million to provide funds to finance the construction, fit-out, furnishing and equipping of a new, seven-story patient tower on the Wellstar Kennestone Hospital campus and to pay certain costs of issuance. The proceeds of the Series 2022A CCKHA Certificates were paid to the bank under the loan agreement. The Series 2022A CCKHA Certificates bear interest at a fixed rate of 4%. Interest payments are due semiannually on April 1 and October 1. Principal payment is due at maturity on April 1, 2052.

On March 8, 2022, Wellstar issued Series 2022A Paulding County Hospital Authority Revenue Anticipation Certificates (Series 2022A PCHA Certificates) in the original principal amount of $79.9 million to refund the outstanding Series 2012A Paulding County Hospital Authority Revenue Anticipation Certificates (Series 2012A PCHA Certificates) and the Series 2012B Paulding County Hospital Authority (Series 2012B PCHA Certificates) and to pay for certain costs of issuance. The proceeds of the Series 2022A PCHA Certificates were deposited in a defeasance trust for the refunding of the Series 2012A PCHA Certificates and the Series 2012B PCHA Certificates. The Series 2022A PCHA Certificates bear interest at fixed rates ranging from 3% to 5%. Principal payments are due annually beginning April 1, 2023 through 2043.

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 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 4.00% to 5.25%. Principal payments are due annually beginning April 1, 2022 through 2041.

On August 6, 2020, Wellstar issued Revenue Bonds Series 2020A Development Authority of Fulton County (Series 2020A DAFC Bonds) 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 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 Bonds were paid to Bank of America under the loan agreement. The Series 2020A DAFC Bonds bear interest at the fixed rate of 4%. Principal payment is due at maturity on April 1, 2050.

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 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 Bank of America under the loan agreement. The Series 2020A CCKHA Certificates bear interest at fixed rates ranging from 3% to 5%. Principal payments are due annually beginning April 1, 2022 through 2050.

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 Kennestone Hospital (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%. Interest payments are due semiannually on April 1 and October 1. Principal payments are due annually beginning April 1, 2018 through 2047.

On August 3, 2017, Wellstar issued Revenue Bonds Series 2017A Development Authority of Fulton County (Series 2017A DAFC Bonds) 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 and to pay for certain costs of issuance. The proceeds of the Series 2017A DAFC Bonds were paid to Bank of America under the loan agreement. The Series 2017A DAFC Bonds bear interest at fixed rates ranging from 1% to 5%. Interest payments are due semiannually on April 1 and October 1. Principal payments are due annually beginning April 1, 2018 through 2047.

On August 3, 2017, Wellstar issued Revenue Anticipation Certificates Series 2017A Griffin-Spalding Authority (Series 2017A GSHA 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 GSHA Certificates were paid to the Bank of America under the loan agreement. The Series 2017A GSHA Certificates bear interest at fixed rates ranging from 1% to 5%. Interest payments are due semiannually on April 1 and October 1. Principal payments are due annually beginning April 1, 2018 through 2047.

On August 3, 2017, Wellstar issued Revenue Anticipation Certificates Series 2017A LaGrange-Troup County Hospital 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%. Interest payments are due semiannually on April 1 and October 1. Principal payments are due annually beginning April 1, 2018 through 2047.

(Continued)

On August 3, 2017, Wellstar issued Revenue Anticipation Certificates Series 2017B Cobb County Kennestone Hospital 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 (1-month term SOFR plus the applicable spread of 0.67%) and are subject to an index put date on June 30, 2030. The Series 2017B CCKHA Certificates have mandatory redemptions under the agreement through April 1, 2047. Interest payments are due annually. Principal payments are due annually beginning April 1, 2018 through 2047.

On August 3, 2017, Wellstar issued Revenue Anticipation Certificates Series 2017B Griffin-Spalding Authority (Series 2017B GSHA 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 $600.0 million outstanding bank loan with Bank of America and to pay for certain costs of issuance. The proceeds of the Series 2017B GSHA Certificates were paid to Bank of America under the loan agreement. The Series 2017B GSHA Certificates bear interest at a variable rate (79% term SOFR plus the applicable spread of 0.65%) and are subject to an index put date on June 21, 2030. The Series 2017B GSHA Certificates have mandatory redemptions under the agreement through April 1, 2047. Interest payments are due annually. Principal payments are due annually beginning April 1, 2018 through 2030.

On November 15, 2012, Wellstar issued Revenue Anticipation Refunding Certificates Series 2012 (Series 2012 CCKHA 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 (Series 2003 Certificates) and to pay for certain costs of issuance. The proceeds of the Series 2012 CCKHA Certificates were deposited in a defeasance trust for refunding the Series 2003 Certificates. The Series 2012 CCKHA Certificates bear interest at fixed rates ranging from 2.0% to 5.0%. Interest payments are due annually. Principal payments are due annually beginning April 1, 2014 through 2032. Wellstar refinanced $35.4 million of the Series 2012 CCKHA Certificates with the Series 2023A CCKHA Certificates on November 2, 2023 as further described herein.

The 2004 and 2006 Cobb County Hospital Authority Revenue Certificates (Series 2004 CCHA Certificates and Series 2006 CCHA Certificates) bear interest at variable rates and are secured by direct-pay letters of credit expiring June 1, 2028. 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. Interest payments are due monthly. Principal payments are due annually beginning April 1, 2032 through 2034 and April 1, 2034 through 2036, respectively.

On February 1, 2023, Wellstar entered into Facility No. 3 under the term loan agreement with Bank of America, N.A. dated October 15, 2018 with an original principal amount of $79.5 million to refinance the Series 2017B DAFC Bonds. The interest rate is 1-month term SOFR plus 0.65% per annum and subject to an index rate put date on February 1, 2028. Interest is paid monthly. Principal is paid annually on April 1 through maturity on February 1, 2027.

On August 11, 2022, Wellstar entered into a term loan agreement with Wells Fargo Bank, National Association for $45.0 million to finance all or a portion of a capital acquisition. The interest rate is a fluctuating rate per annum determined by Wells Fargo Bank, National Association to be the sum of the daily Simple SOFR plus 0.45% per annum in effect from time to time through maturity on December 31, 2024. Interest payments are due monthly. Principal payments are due September 1, 2023 through August 9, 2024. Wellstar refinanced the term loan agreement with Wells Fargo Bank, National Association on November 2, 2023, using proceeds from the Series 2023A CCKHA Certificates as described herein.

On May 27, 2022, Wellstar entered into a term loan agreement with Wells Fargo Bank, National Association for $53 million to refinance the Revenue Bonds Series 2017C Development Authority of Fulton County (Series 2017C DAFC Bonds) and the Revenue Bonds Series 2017D Development Authority of Fulton County (Series 2017D DAFC Bonds). The proceeds were used to pay the redemption price of the Series 2017C DAFC Bonds and Series 2017D DAFC Bonds. The interest rate is based on the Daily Simple SOFR plus 0.50% per annum in effect from time to time through maturity on May 27, 2027. Interest payments are due monthly. Principal payments are due annually beginning April 1, 2023 through maturity.

On May 13, 2021, Wellstar entered into Facility No. 2 under the term loan agreement dated October 15, 2018 with Bank of America, N.A. with an original principal amount of $24.3 million to finance the acquisition of a building previously under a finance lease obligation. The interest rate is 1-month term SOFR plus 0.75% per annum and subject to an index put date on the fifth anniversary of the issue date. The term loan agreement has mandatory redemptions annually. Principal and interest are paid monthly, maturing on May 12, 2026.

The average annual interest rate on Wellstar’s variable rate obligations approximated 5.7% and 4.1% for the years ended June 30, 2024 and 2023, 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 26, 2025. 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. There were no amounts outstanding under the facility at June 30, 2024 or 2023.

Wellstar paid interest of approximately $75.1 million and $64.6 million in 2024 and 2023, respectively.

Net interest capitalized on capital projects was approximately $19.1 million and $7.7 million, in 2024 and 2023, respectively.

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

2025	$	45,029
2026		47,611
2027		65,986
2028		92,452
2029		114,656
Thereafter		1,649,206
	$	2,014,940

(7) Derivative Instruments

Wellstar initially synthetically converted $60.0 million (the notional amount) of the then outstanding Series 2005A Certificates as refunded by Series 2017B CCKHA 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 obligated Wellstar to pay interest at a fixed rate of 3.45% and receive interest at 67% of LIBOR. The notional amount amortized in the same fashion as the Series 2005A Certificates and the swap matured April 1, 2040. On August 3, 2017, Wellstar advance refunded the related Series 2005A Certificates.

Wellstar terminated the swap with the counter party effective June 30, 2023 for a total termination payment of $7.2 million.

The swap's fair value, if positive, was included in other assets in the accompanying combined balance sheets. If negative, the swap's fair value was included in other long-term liabilities in the accompanying combined balance sheets. The following is a summary of the derivative outstanding at June 30, 2023 (dollars in thousands):

2023						
	Notional amount	Maturity date	Average variable rate received	Fixed rate paid	Increase in interest expense	Swap fair value
$	60,000	April 2040	2.59 %	3.45 %	$ 474	—

(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 services provided to the related patients typically specify payments at amounts less than the standard charges. A summary of the basis of reimbursement with major third-party payors follows:

Medicare – Inpatient and outpatient services rendered to Medicare program beneficiaries are generally paid at prospectively determined rates. These rates vary according to patient classification systems that are based on clinical, diagnostic, and other factors. Additionally, payments for certain other reimbursable items are made at tentative rates, with final settlements determined after submission of annual cost reports and audits by the Medicare fiscal intermediary. Wellstar affiliate hospitals received Medicare fee for service Disproportionate Share payments totaling $76.9 million and $59.4 million during fiscal years 2024 and 2023, respectively. Wellstar affiliate hospitals received Medicare Advantage Disproportionate share payments totaling $76.2 million and $46.0 million during fiscal years 2024 and 2023, respectively. The cost reports of all Wellstar affiliates have been audited and final settled for all fiscal years through June 30, 2018. Net revenue from the Medicare program accounted for approximately 31.4% and 29.8% of Wellstar's net patient service revenue for the years ended June 30, 2024 and 2023, respectively.

Wellstar, through one of its subsidiaries, participates in the Medicare Shared Saving Program (MSSP) "Track 1" involving upside only gain-sharing. Other revenue in the accompanying fiscal 2024 and 2023 combined statements of operations includes shared savings payments totaling $6.3 million and $8.3 million, respectively.

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, 2018 for all Wellstar affiliates. Net revenue from the Medicaid program accounted for approximately 9.7% and 9.8% of Wellstar's net patient service revenue for the years ended June 30, 2024 and 2023, respectively.

During fiscal 2024 and 2023, net patient service revenue decreased by approximately $15.2 million and increased by approximately $9.6 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, 2024 and 2023.

Wellstar's affiliate hospitals, physicians, nursing facilities and ambulance service 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 $34.3 million and $33.8 million in fiscal years 2024 and 2023, 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 $92.8 million and $62.0 million in fiscal years 2024 and 2023, 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.

Wellstar affiliate hospitals and physicians participate in the Georgia Medicaid Directed Payment Program (the Medicaid DPP) for providers participating in the State Medicaid program. The Medicaid DPP plans for delivery system and provider payment initiatives under Medicaid managed care plan contracts and how payments should be distributed to providers. Wellstar's net reimbursement benefit associated with the program, totaling approximately $84.9 million and $103.1 million in fiscal years 2024 and 2023, 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 teaching hospitals participate in the Georgia Medicaid Directed Payment Program - Georgia Strong (GA Strong) and GeorgiaAide program for providers participating in the State Medicaid program. Wellstar's net reimbursement benefit associated with the program, totaling approximately $101.5 million and $40.2 million in fiscal years 2024 and 2023, respectively, as additional Medicaid reimbursement and therefore is recognized as a reduction in related contractual adjustments in the accompanying combined statements of operations.

The State's determination related to Wellstar's participation in the State's fiscal year 2025 plans is currently in process, and the terms of the fiscal year 2025 plan have not been finalized. Accordingly, contributions to the State's plan during 2025 and related amounts to be potentially received from Medicaid during 2025 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.

(Continued)

The composition of net patient service revenue by primary payor for the years ended June 30, 2024 and 2023 follow:

		2024	2023
		(In thousands)	
Medicare	$	1,920,222	1,386,344
Medicaid		591,715	456,484
Other third-party payors		3,401,397	2,625,257
Patients		198,517	184,361
Net patient service revenue	$	6,111,851	4,652,446

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, 2024 and 2023 follow:

Service lines		2024	2023
		(In thousands)	
Hospital services	$	5,106,949	3,873,454
Physician services		925,573	708,306
Other healthcare services		79,329	70,686
Net patient service revenue	$	6,111,851	4,652,446

(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, excluding Wellstar AMC. These costs are determined using a cost-to-charge ratio.

		2024	2023
		(In thousands)	
Cost of providing charity care	$	204,783	199,853
Unreimbursed cost of providing care to Medicaid beneficiaries		59,205	32,549
Unreimbursed cost of providing care to Medicare beneficiaries		733,422	505,873
Unreimbursed cost of providing care to other patients		262,212	140,298
Cost of other community programs		46,825	19,730
	$	1,306,447	898,303

In addition, the WAMC 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 totaled approximately $95.2 million during the four months it operated in fiscal 2023.

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 2024 and 2023, Wellstar affiliate hospitals made $56.2 million and $40.5 million, respectively, in provider payments and recognized such payments as a reduction in net patient service revenue in the accompanying combined financial statements.

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

(10) Employee Benefit Plans

Wellstar sponsors two defined benefit pension plans (the Plans) and is a guarantor of the LaGrange Troup County Authority Pension Plan (LT Authority Plan). Effective November 1, 2020, the Plans were frozen to future participation, service and benefit accruals.

Effective June 30, 2024, the Wellstar Health System, Inc. Active Employees Retirement Plan B merged into the Wellstar Health System, Inc. Active Employees Retirement Plan A.

(Continued)

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

The changes in the projected benefit obligations for the Plans for the years ended June 30, 2024 and 2023 follow:

		2024	2023
		(In thousands)	
Projected benefit obligation, beginning of year	$	1,287,992	1,336,907
Interest cost		67,602	61,359
Actuarial gain		(10,685)	(62,864)
Benefits paid		(57,034)	(47,410)
Settlements		(30,058)	—
Projected benefit obligation, end of year	$	1,257,817	1,287,992

The accumulated benefit obligation at both June 30, 2024 and 2023 totaled $1.3 billion.

The changes in the fair value of the Plans' assets, funded status of the Plans, and the status of amounts recognized in Wellstar's combined balance sheets as of June 30, 2024 and 2023 related to the Plans follow:

		2024	2023
		(In thousands)	
Fair value of plan assets, beginning of year	$	1,311,268	1,186,846
Actual return on plan assets		173,242	162,832
Employer contributions		14,200	9,000
Benefits paid		(57,034)	(47,410)
Settlements		(30,058)	—
Fair value of assets, end of year	$	1,411,618	1,311,268
Prepaid pension asset – funded status	$	153,801	23,276

The components of the Plans' net periodic pension cost for 2024 and 2023 follow:

		2024	2023
		(In thousands)	
Interest cost	$	67,602	61,359
Expected return on plan assets		(70,622)	(56,360)
Amortization of net loss		2,353	7,674
Settlement loss		4,930	—
Net periodic pension cost	$	4,263	12,673
Other changes in net assets without donor restrictions:			
Net gain in net assets without donor restrictions	$	(113,305)	(169,335)
Amortization of net loss		(2,353)	(7,674)
Net loss due to settlement		(4,930)	—
Total gain recognized in net assets without donor restrictions	$	(120,588)	(177,009)

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

		2024	2023
		(In thousands)	
Actuarial loss	$	101,989	222,577

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

	2024	2023
Discount rate – Active Plan A	5.59 %	5.36 %
Discount rate – Active Plan B	5.65	5.46

(Continued)

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

	2024	2023
Discount rate – Active Plan A	5.36 %	4.93 %
Discount rate – interest cost – Active Plan A	5.38	4.72
Discount rate – Active Plan B	5.46	4.99
Discount rate – interest cost – Active Plan B	5.40	4.67
Expected return on plan assets	6.25	6.25

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 Plans' 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	2024	2023
Plan assets:			
Cash and cash equivalents	— %	2 %	2 %
Equities	59	58	61
Domestic bonds	35	34	31
Global value	6	6	6
	100 %	100 %	100 %

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

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

(Continued)

(ii) Cash Flows

Wellstar does not expect to make any contributions to the Plans in fiscal year 2025.

(iii) Expected Future Benefit Payments

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

Year ending June 30:		
2025	$	66,052
2026		66,773
2027		70,901
2028		74,516
2029		77,425
2030–2034		419,433

(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. The WWGMC Plan merged into the Wellstar pension plans effective December 31, 2019.

Actuarial services for the LT Authority Plan is provided by an independent consulting firm. WWGMC is required to contribute the amounts necessary to fund the LT Authority Plan, using the actuarial basis specified by LT Authority Plan. The participants are fully vested in their benefits under the LT Authority Plan and LT Authority Plan is 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 Wellstar pension plans 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 for the years ended June 30:

		2024	2023
		(In thousands)	
Projected benefit obligation, beginning of period	$	78,441	83,106
Interest cost		4,069	3,649
Actuarial gain		(817)	(3,473)
Benefits paid		(4,998)	(4,841)
Projected benefit obligation, end of period		76,695	78,441
Fair value of LT Authority Plan assets, beginning of period		52,369	50,024
Actual return on LT Authority Plan assets		7,726	5,186
Contributions from the LT Authority Plan's sponsor		2,000	2,000
Benefits paid		(4,998)	(4,841)
Fair value of LT Authority Plan assets, end of period		57,097	52,369
Accrued pension liability – funded status of the LT Authority Plan, end of period	$	(19,598)	(26,072)

The accumulated benefit obligation at June 30, 2024 and 2023 totaled $76.7 million and $78.4 million, respectively.

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

		June 30	
		2024	2023
		(In thousands)	
Actuarial (gain) loss	$	(560)	4,822

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

		2024	2023
		(In thousands)	
Net periodic pension cost components:			
Interest cost	$	4,069	3,649
Amortization of net loss		—	93
Expected return on plan assets		(3,161)	(3,023)
Net periodic pension cost	$	908	719
Other changes in net assets without donor restrictions:			
Net gain in net assets without donor restrictions	$	(5,382)	(5,636)
Amortization of net loss		—	(93)
Total gain recognized in net assets without donor restrictions	$	(5,382)	(5,729)

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

	2024	2023
Discount rate	5.53 %	5.34 %
Rate of compensation increase	N/A	N/A

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

	2024	2023
Discount rate	5.34 %	4.84 %
Discount rate – interest cost	5.40	4.55
Expected return on plan assets	6.25	6.25
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.

(i) Plan Assets

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

	Target allocation	Plan assets at June 30 2024	Plan assets at June 30 2023
Cash and cash equivalents	0–10%	5 %	10 %
Fixed income	35–100	24	28
Equities	0–65	71	62

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

(ii) Cash Flows

Wellstar expects to contribute approximately $2.0 million to the Plan in fiscal year 2025.

(iii) Expected Future Benefit Payments

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

Year ending June 30:		
2025	$	6,116
2026		5,796
2027		5,929
2028		6,001
2029		6,034
2030–2034		29,649

(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.

The Wellstar 403(b) Plan provides employer matching contributions of 50% of the first 4% of compensation contributed by the participant up to a maximum of 2% of total compensation for contributing team members.

Wellstar contributed approximately $32.6 million and $26.1 million to the Wellstar 403(b) Plan under the employee matching contribution during the years ended June 30, 2024 and 2023, respectively.

The Wellstar 403(b) Plan also provides 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. Estimated contributions totaling $88.7 million and $84.7 million are included in accrued salaries, wages, and benefits in the accompanying combined balance sheets as of June 30, 2024 and 2023, respectively.

WMCG sponsors a 403(b) defined contribution benefit plan, which covers substantially all WMCG employees. WMCG matches 100% of participant contributions into their 403(b) plan up to 5% of compensation as defined by the plan. Employees vest immediately in employer contributions. WMCG contributed approximately $10.9 million to the WMCG Health Inc. 403(b) plan during the year ended June 30, 2024.

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 $43.0 million and $38.6 million as of June 30, 2024 and 2023, respectively.

WMCG sponsors a 457(f) plan for the officers of the organization. Total liabilities under the plan included in other long-term liabilities in the accompanying combined balance sheet total $2.4 million as of June 30, 2024.

Wellstar also sponsors an unfunded postretirement medical plan covering members of the Board and their dependents upon retirement from completion of 12 years of board service. The unfunded status of the plan at June 30, 2024 and 2023 is $1.9 million and $2.0 million, respectively, and is included in other long-term liabilities in the accompanying combined balance sheets. The plan is measured as of June 30 using a discount rate of 5.36% and 4.82% at June 30, 2024 and 2023, respectively. The assumed initial and ultimate healthcare trend rate is 5% and 4% at June 30, 2024 and 2023.

(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:

	2024	2023
Managed Care	60 %	62 %
Medicare	26	25
Medicaid	7	5
Patients	2	1
Other third-party payors	5	7
	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 and workers' compensation risks on a claims-made basis. Wellstar funds CAC in amounts as determined by consulting actuaries. General and professional liability risks are self-insured on a primary annual basis within the captive at $2.0 million per claim for General Liability and $10.0 million per claim for Professional Liability, with a shared $80.0 million Aggregate. In addition, there is a one-time $2.0 million per claim/$4.0 million aggregate Buffer Layer for Professional Liability claims. The Workers' Compensation self-insured retention within the captive is at $500,000 per claim.

CAC also provides first-dollar coverage for Directors and Officers Liability, Employment Practices Liability, Fiduciary Liability, Property Damage, Business Automobile Comprehensive and Collision coverage, Crime coverage, and Network Security & Privacy Liability ("Cyber") coverage. In addition, Wellstar is self-insured through other arrangements for employee group health insurance.

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 June 30, 2024 and 2023 have been discounted at 4.50% and 4.13%, respectively.

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 lease 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 years ended June 30, 2024 and 2023 ranged from 0.79% to 6.00% and 1.00% to 4.55%, respectively. Leases that include rental escalation clauses and renewal options are factored into the determination of lease payments when appropriate.

The following table presents ROU assets and lease liabilities included in the accompanying combined balance sheets for the years ended June 30:

			2024	2023
			(In thousands)	
ROU assets:				
Operating	Other assets	$	120,800	138,823
Finance	Property and equipment, net		91,124	57,053
	Total	$	211,924	195,876
Lease liabilities:				
Current:				
Operating	Other accrued expenses	$	17,730	27,010
Finance	Current installments of long-term debt and finance lease obligations		14,299	5,361
Noncurrent:				
Operating	Long-term operating lease obligations		105,684	114,196
Finance	Long-term debt and finance lease obligations, excluding current installments		80,447	52,137
	Total	$	218,160	198,704

Operating and financing lease expense included in the accompanying combined statements of operations follows for the years ended June 30:

		2024	2023
		(In thousands)	
Supplies and other expenses:			
Operating lease expense	$	31,167	28,682
Short-term lease expense		16,035	16,041
Variable lease expense		20	114
Depreciation and amortization:			
Finance lease expense:			
Amortization of lease assets		14,108	3,003
Interest on lease liabilities		2,357	1,149
Total	$	63,687	48,989

The following table presents other supplemental quantitative disclosures as of and for the years ended June 30, 2024 and 2023 (dollars in thousands):

		2024	2023
Cash paid for amounts included in the measurement of lease liabilities:			
Operating cash flows used for operating leases	$	31,217	29,926
Financing cash flows used for finance leases		14,170	4,859
Additions to right-of-use assets obtained from operating leases		11,855	13,294
Additions to right-of-use assets obtained from finance leases		16,574	19,616
Weighted average remaining lease term (years):			
Operating leases		9.66	9.36
Finance leases		8.94	10.80
Weighted average discount rate:			
Operating leases		3.04 %	3.02 %
Finance leases		3.18	2.46

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):

		2024		
Lease maturity		**Operating leases**	**Finance leases**	**Total**
Year ending June 30:				
2025	$	27,134	15,271	42,405
2026		24,126	14,224	38,350
2027		17,445	12,315	29,760
2028		13,329	11,421	24,750
2029		10,869	8,858	19,727
Thereafter		73,536	36,713	110,249
Total lease payments		166,439	98,802	265,241
Less amount representing interest		(43,025)	(4,056)	(47,081)
Present value of undiscounted future cash flows	$	123,414	94,746	218,160

(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:

		Year ended June 30, 2024		
		Healthcare services	General and administrative	Total
			(In thousands)	
Salaries and employee benefits	$	2,866,450	580,617	3,447,067
Supplies and other expenses		2,186,304	268,310	2,454,614
Depreciation and amortization		196,585	57,479	254,064
Interest		61,818	2,803	64,621
Total expenses	$	5,311,157	909,209	6,220,366

		Year ended June 30, 2023		
		Healthcare services	General and administrative	Total
			(In thousands)	
Salaries and employee benefits	$	2,354,844	388,677	2,743,521
Supplies and other expenses		1,377,486	262,615	1,640,101
Depreciation and amortization		154,872	56,629	211,501
Interest		50,652	2,114	52,766
Total expenses	$	3,937,854	710,035	4,647,889

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:

	2024		
	Level 1	**Level 2**	**Total**
		(In thousands)	
By the Board for capital improvements and other system needs:			
Cash and cash equivalents	$ 78,554	—	78,554
Asset backed securities	—	46,700	46,700
Mortgage backed securities	—	170,818	170,818
Obligations of the U.S. government and its agencies	241,944	—	241,944
Corporate debt securities – domestic	—	525,395	525,395
Corporate debt securities – international	—	27,251	27,251
Corporate equity securities – domestic	735,872	—	735,872
Corporate equity securities – international	210,888	—	210,888
Mutual funds	38,487	—	38,487
	1,305,745	770,164	2,075,909
Under self-insurance funding arrangements:			
Cash and cash equivalents	36,693	—	36,693
Mortgage backed securities	—	14,965	14,965
Obligations of the U.S. government and its agencies	80,351	—	80,351
Corporate debt securities – domestic	—	72,072	72,072
Corporate debt securities – international	—	817	817
Corporate equity securities – domestic	33,588	—	33,588
Corporate equity securities – international	4,220	—	4,220
Mutual funds	22,283	—	22,283
	177,135	87,854	264,989
By donor stipulation:			
Cash and cash equivalents	35,862	—	35,862
Corporate debt securities – domestic	1,424	652	2,076
Corporate equity securities – domestic	12,555	—	12,555
Corporate equity securities – international	2,035	—	2,035
Beneficial interest in net assets held by others	15,543	—	15,543
Other	—	5,325	5,325
	67,419	5,977	73,396

(Continued)

	2024		
	Level 1	**Level 2**	**Total**
		(In thousands)	
Under bond indenture agreements – held by trustee:			
Cash and cash equivalents	$ 337,728	—	337,728
Obligations of the U.S. government and its agencies	61,581	—	61,581
	399,309	—	399,309
	$ 1,949,608	863,995	2,813,603

	2023		
	Level 1	**Level 2**	**Total**
		(In thousands)	
By the Board for capital improvements and other system needs:			
Cash and cash equivalents	$ 43,951	—	43,951
Asset backed securities	—	41,122	41,122
Mortgage backed securities	—	212,366	212,366
Obligations of the U.S. government and its agencies	236,093	—	236,093
Corporate debt securities – domestic	—	491,913	491,913
Corporate debt securities – international	—	39,614	39,614
Corporate equity securities – domestic	704,303	—	704,303
Corporate equity securities – international	198,426	—	198,426
Mutual funds	33,036	—	33,036
	1,215,809	785,015	2,000,824
Under self-insurance funding arrangements:			
Cash and cash equivalents	9,727	—	9,727
Mortgage backed securities	—	10,654	10,654
Obligations of the U.S. government and its agencies	88,811	—	88,811
Corporate debt securities – domestic	—	88,331	88,331
Corporate debt securities – international	—	5,585	5,585
Corporate equity securities – domestic	26,320	—	26,320
Corporate equity securities – international	1,628	—	1,628
	126,486	104,570	231,056

(Continued)

	2023		
	Level 1	**Level 2**	**Total**
		(In thousands)	
By donor stipulation:			
Cash and cash equivalents	30,999	—	30,999
Corporate debt securities – domestic	1,176	1,226	2,402
Corporate equity securities – domestic	9,436	—	9,436
Corporate equity securities – international	2,251	—	2,251
Other	—	4,812	4,812
	43,862	6,038	49,900
Under bond indenture agreements – held by trustee:			
Cash and cash equivalents	29,168	—	29,168
Obligations of the U.S. government and its agencies	134,580	—	134,580
	163,748	—	163,748
	$ 1,549,905	895,623	2,445,528

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, 2024 and 2023. Fair value of a financial instrument is defined as the amount which would be received to sell an asset or paid to transfer a liability in an orderly transaction between willing market participants at the measurement date.

The fair value hierarchy of the Wellstar pension plan assets at June 30, 2024 and 2023 follows:

	2024		
	Level 1	**Level 2**	**Total**
		(In thousands)	
Cash and cash equivalents	$ 57,285	—	57,285
Mortgage – and other asset-backed securities	—	84,535	84,535
Obligations of the U.S. government and its agencies	124,919	914	125,833
Corporate debt securities – domestic	—	165,658	165,658
Corporate debt securities – international	—	5,756	5,756
Corporate equity securities – domestic	659,052	—	659,052
Corporate equity securities – international	48,416	—	48,416
Open end mutual fund – equity	195,632	—	195,632
Open end mutual fund – debt	69,451	—	69,451
	$ 1,154,755	256,863	1,411,618

	2023		
	Level 1	**Level 2**	**Total**
		(In thousands)	
Cash and cash equivalents	$ 28,625	—	28,625
Mortgage – and other asset-backed securities	—	75,167	75,167
Obligations of the U.S. government and its agencies	108,289	975	109,264
Corporate debt securities – domestic	—	155,987	155,987
Corporate debt securities – international	—	5,864	5,864
Corporate equity securities – domestic	699,115	—	699,115
Corporate equity securities – international	41,668	—	41,668
Open end mutual fund – equity	141,549	—	141,549
Open end mutual fund – debt	54,029	—	54,029
	$ 1,073,275	237,993	1,311,268

The fair value hierarchy of the LT Authority pension plan at June 30, 2024 and 2023 follows:

		2024	2023
		LT Authority Level 1 plan assets	**LT Authority Level 1 plan assets**
		(In thousands)	
Pension assets at fair value:			
Money market funds	$	2,850	4,959
Domestic equity mutual funds:			
Large cap		28,851	25,816
Mid cap		5,462	1,339
Small cap		1,378	2,090
International equity mutual funds		4,720	3,530
Bond mutual funds:			
Long term		5,139	4,523
Intermediate term		8,697	4,433
Short term		—	5,679
	$	57,097	52,369

(16) Net Assets with Donor Restrictions

Net assets with donor restrictions as of June 30, 2024 and 2023 are available for the use of various Wellstar programs and affiliates as follows:

		2024	2023
		(In thousands)	
Subject to spending policy and appropriation:			
Patient services:	$	11,988	9,214
Hospital general purpose:		28,073	25,971
Education and employee assistance:		1,066	1,081
Any activities of the organization		9,399	6,578
		50,526	42,844
Subject to appropriation and expenditure when a specified event occurs:		537	550
Not subject to appropriation or expenditure:		13,279	13,310
Beneficial interest in net assets held by others:			
Subject to spending policy and appropriation:		10,330	—
Not subject to appropriation or expenditure:		5,213	—
Total net assets with donor restrictions	$	79,885	56,704

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, 2024 and 2023 follow (in thousands):

	2024		
	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	$ —	13,279	13,279
Accumulated investment gains	—	4,039	4,039
Total	$ —	17,318	17,318

	2023		
	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	$ —	13,310	13,310
Accumulated investment gains	—	3,167	3,167
Total	$ —	16,477	16,477

(Continued)

The change in endowment net assets and related income classifications for the years ended June 30, 2024 and 2023 follows (in thousands):

	2024		
	Without donor restrictions	**With donor restrictions**	**Total**
Beginning of year	$ —	16,477	16,477
Contributions	—	292	292
Other	—	(782)	(782)
Investment return:			
Interest and dividend income	—	196	196
Net appreciation	—	1,135	1,135
	—	1,331	1,331
End of year	$ —	17,318	17,318

	2023		
	Without donor restrictions	**With donor restrictions**	**Total**
Beginning of year	$ —	16,920	16,920
Contributions	—	89	89
Other	—	(1,042)	(1,042)
Investment return:			
Interest and dividend income	—	190	190
Net appreciation	—	320	320
	—	510	510
End of year	$ —	16,477	16,477

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

(17) Business Combinations

On August 29, 2023, Wellstar and AU Health System, Inc., a Georgia nonprofit corporation (AUHS), consummated their affiliation (the Transaction) pursuant to a Membership Substitution Agreement dated August 29, 2023. As a result of the Transaction, Wellstar became the sole corporate member of AUHS,

AUHS changed its corporate legal name to Wellstar MCG Health, Inc. (WMCG), and the health system operated by AUHS became a part of the health system operated by Wellstar. By virtue of Wellstar becoming the sole corporate member of WMCG, Wellstar became the ultimate parent corporation of WMCG and its affiliates, AU Medical Center, Inc., a Georgia nonprofit corporation (AUMC), AU Medical Associates, Inc., a Georgia nonprofit corporation (AUMA), and Roosevelt Warm Springs Rehabilitation & Specialty Hospitals, Inc., a Georgia nonprofit corporation (RWSH), which as a result of the Transaction, changed its corporate legal name to Wellstar MCG Health Warm Springs, Inc (WMCGWS).

Certain financial and other terms of the Agreement are as follows:

i. AUMC, Children's Hospital of Georgia, Roosevelt Warm Springs Long Term Acute Care Hospital, RWSH and the yet to be built new Columbia County hospital, will be leased from the Board of Regents of the University System of Georgia (the Regents) under 40-year lease terms.

ii. There will be a 40-year affiliation agreement with the Medical College of Georgia whereby 600 faculty physicians will provide clinical services exclusively to WMCG in exchange for compensation to the Regents.

iii. Wellstar will fund approximately $800 million in capital improvements to WMCG over 10 years.

iv. Wellstar will construct a new hospital in Columbia County at an estimated cost of $350 million anticipated to be financed by the issuance of tax-exempt bonds.

AUHS, AUMC, AUMA and RWSH were members of an obligated group (collectively, the AUHS Obligated Group) created under an Amended and Restated Master Trust Indenture, dated as of October 1, 2017, as amended, supplemented and restated to date (the AUHS Master Indenture), among the members of the AUHS Obligated Group and The Bank of New York Mellon Trust Company, N.A., as master trustee. In connection with the Transaction and in furtherance of the integration of the health systems of Wellstar and WMCG (f/k/a AUHS), effective August 29, 2023:

i. the AUHS Master Indenture, pursuant to the provisions thereof, has been discharged and replaced by the Amended and Restated Master Trust Indenture, dated as of August 1, 2017, as amended, supplemented and restated from time to time (the Wellstar Master Indenture), by and among Wellstar, the other Members of the Obligated Group party thereto from time to time (together with Wellstar, the Wellstar Obligated Group), and U.S. Bank National Association, as trustee;

ii. WMCG (f/k/a AUHS), AUMC and AUMA have become members of the Wellstar Obligated Group and RWSH has been designated as a Designated Member, as defined in and pursuant to the Wellstar Master Indenture;

iii. the master note issued by the AUHS Obligated Group under the AUHS Master Indenture to evidence and secure the payment obligations of AUHS relating to the Development Authority of Augusta, Georgia Revenue Bonds (AU Health System, Inc. Project), Series 2018, has been discharged and substituted by a related debt obligation issued by Wellstar under the Wellstar Master Indenture; and

iv. the master note issued by the AUHS Obligated Group under the AUHS Master Indenture to evidence and secure the payment obligations of AUHS relating to the Development Authority of Augusta, Georgia Revenue Bonds, Series 2021A (AU Health System, Inc.), has been discharged and substituted by a related debt obligation issued by Wellstar under the Wellstar Master Indenture.

Total revenue in the 2024 combined statement of operations attributable to the acquired hospitals since acquisition is $1.1 billion. The change in net assets without donor restrictions attributable to the acquired hospitals since acquisition is $64.8 million. There is an increase in the beneficial interest of net assets held by others of $3.4 million. There was no goodwill recognized as part of the transaction.

The fair value of the assets and liabilities acquired in the business combination, resulting in a net contribution received totaling $175.4 million, follow (in thousands):

Cash	$	58,667
Patient accounts receivable		125,527
Other current assets		93,671
Assets limited as to use*		93,860
Property and equipment		280,119
Other assets		19,487
Total fair value of assets acquired	$	671,331
Accounts payable and accrued expenses	$	221,428
Long-term debt		219,294
Self-insurance reserves		39,212
Other long-term liabilities		15,967
Total fair value of liabilities acquired	$	495,901
Contribution received without donor restrictions	$	163,125
Contribution received with donor restrictions		12,305
Total contribution received	$	175,430

* Includes assets limited as to use is restricted cash totaling $57,007.

The pro forma operating income before acquisition costs and unrestricted contribution received in business combination for fiscal years 2024 and 2023 as if the acquisitions occurred on July 1, 2022 follow (in thousands):

	Year ended June 30, 2024		
	Legacy Wellstar	WMCG Health (Unaudited)	Pro-forma total
Total unrestricted revenue, gains, and other support	$ 5,363,954	1,375,699	6,739,653
Operating expenses:			
Operating expenses	4,785,576	1,331,604	6,117,180
Depreciation	219,148	43,891	263,039
Interest	56,288	10,228	66,516
Total expenses	5,061,012	1,385,723	6,446,735
Operating income (loss) before unrestricted contribution received in business combination	$ 302,942	(10,024)	292,918
Change in net assets without donor restrictions	$ 652,674	1,538	654,212
Change in net assets with donor restrictions	7,638	1,623	9,261

	Year ended June 30, 2023		
	Legacy Wellstar	WMCG Health (Unaudited)	Pro-forma total
Total unrestricted revenue, gains, and other support	$ 4,860,519	1,310,733	6,171,252
Operating expenses:			
Operating expenses	4,383,622	1,261,256	5,644,878
Depreciation	211,501	53,141	264,642
Interest	52,766	8,355	61,121
Total expenses	4,647,889	1,322,752	5,970,641
Operating income (loss) before unrestricted contribution received in business combination	$ 212,630	(12,019)	200,611

	Year ended June 30, 2023		
	Legacy Wellstar	WMCG Health	Pro-forma total
		(Unaudited)	
Change in net assets without donor restrictions	$ 578,406	(22,941)	555,465
Change in net assets with donor restrictions	8,339	—	8,339

(18) Subsequent Events

Wellstar has evaluated subsequent events through October 11, 2024, the date the combined financial statements were issued. There were no material subsequent events that required recognition or disclosure in Wellstar's June 30 2024 combined financial statements.

Schedule 1

WELLSTAR HEALTH SYSTEM, INC. AND AFFILIATES

Combining Balance Sheet

June 30, 2024

(In thousands)

Assets	Obligated group	Designated members	Eliminations	Combined Group Subtotal	Nonobligated	Eliminations	Total
Current assets:							
Cash and cash equivalents	$ 437,781	15,300	—	453,081	26,756	—	479,837
Patient accounts receivable, net	949,574	8,402	(39)	957,937	5,857	—	963,794
Assets limited as to use – required for current liabilities	45,286	—	—	45,286	2,642	—	47,928
Other current assets	353,619	41,458	(7,350)	387,727	2,953	(38,298)	352,382
Total current assets	1,786,260	65,160	(7,389)	1,844,031	38,208	(38,298)	1,843,941
Assets limited as to use	2,435,705	292,382	—	2,728,087	37,588	—	2,765,675
Property and equipment, net	2,480,201	17,893	—	2,498,094	14,068	—	2,512,162
Goodwill	418,982	—	—	418,982	—	—	418,982
Other assets	283,235	(27,388)	39	255,886	(4,725)	(4,533)	246,628
Prepaid pension asset	134,203	—	—	134,203	—	—	134,203
Total assets	$ 7,538,586	348,047	(7,350)	7,879,283	85,139	(42,831)	7,921,591
Liabilities and Net Assets							
Current liabilities:							
Accounts payable	$ 459,802	9,874	(3,707)	465,969	3,325	—	469,294
Accrued salaries, wages, and benefits	428,222	1,747	—	429,969	298	—	430,267
Other accrued expenses	238,007	3,683	(3,643)	238,047	38,767	(36,890)	239,924
Current installments of long-term debt and finance lease obligations	42,838	317	—	43,155	2,198	(324)	45,029
Total current liabilities	1,168,869	15,621	(7,350)	1,177,140	44,588	(37,214)	1,184,514
Long-term debt and finance lease obligations, excluding current installments	2,046,214	793	—	2,047,007	18,049	(2,311)	2,062,745
Self-insurance reserves	108,652	260,317	—	368,969	—	—	368,969
Long-term operating lease obligations	105,161	—	—	105,161	523	—	105,684
Other long-term liabilities	103,171	1,533	—	104,704	—	—	104,704
Total liabilities	3,532,067	278,264	(7,350)	3,802,981	63,160	(39,525)	3,826,616
Net assets:							
Without donor restrictions	3,987,217	9,200	—	3,996,417	21,979	(3,306)	4,015,090
With donor restrictions	19,302	60,583	—	79,885	—	—	79,885
Total net assets	4,006,519	69,783	—	4,076,302	21,979	(3,306)	4,094,975
Total liabilities and net assets	$ 7,538,586	348,047	(7,350)	7,879,283	85,139	(42,831)	7,921,591

See accompanying independent auditors' report.

Schedule 2

WELLSTAR HEALTH SYSTEM, INC. AND AFFILIATES

Combining Statement of Operations

Year ended June 30, 2024

(In thousands)

	Obligated group	Designated members	Eliminations	Combined group total	Nonobligated members	Eliminations	Total
Revenues, gains, and other support:							
Patient service revenue, net of contractual allowances and discounts	$ 6,052,048	43,787	(725)	6,095,110	18,550	(1,809)	6,111,851
Other revenue	424,468	79,761	(67,829)	436,400	19,826	(21,276)	434,950
Total revenue, gains, and other support	6,476,516	123,548	(68,554)	6,531,510	38,376	(23,085)	6,546,801
Expenses:							
Salaries and employee benefits	3,406,726	50,883	(9,415)	3,448,194	5,469	(6,596)	3,447,067
Supplies and other expenses	2,389,443	119,260	(68,369)	2,440,334	26,770	(12,490)	2,454,614
Depreciation and amortization	250,702	1,718	(7)	252,413	1,651	—	254,064
Interest	64,058	13	—	64,071	665	(115)	64,621
Total expenses	6,110,929	171,874	(77,791)	6,205,012	34,555	(19,201)	6,220,366
Operating income, before FEMA funding for operating expenses and unrestricted contribution received in business combination	365,587	(48,326)	9,237	326,498	3,821	(3,884)	326,435
FEMA funding for operating expenses	5,578	—	—	5,578	—	—	5,578
Unrestricted contribution received in business combination	163,125	—	—	163,125	—	—	163,125
Operating income (loss) before impairment losses	534,290	(48,326)	9,237	495,201	3,821	(3,884)	495,138
Impairment of long-lived assets	(4,495)	—	—	(4,495)	—	—	(4,495)
Operating income (loss)	529,795	(48,326)	9,237	490,706	3,821	(3,884)	490,643
Nonoperating gains (losses):							
Investment income, net	212,888	17,259	(8,172)	221,975	1,626	(70)	223,531
Other components of net periodic pension cost	(5,127)	—	—	(5,127)	—	—	(5,127)
Loss on disposal of property and equipment	(1,071)	—	—	(1,071)	—	—	(1,071)
Gain on extinguishment of long-term debt	2,752	—	—	2,752	—	—	2,752
Revenue, gains, and other support in excess of (less than) expenses and losses	739,237	(31,067)	1,065	709,235	5,447	(3,954)	710,728
Accrued pension liability adjustments	125,970	—		125,970	—	—	125,970
Contribution and net assets released from restrictions used for the purchase of property and equipment	43,259	70	—	43,329	—	—	43,329
State of Georgia funding for capital expenditures	542	—	—	542	—	—	542
Other	563	—	—	563	—	—	563
Change in net assets without donor restrictions	$ 909,571	(30,997)	1,065	879,639	5,447	(3,954)	881,132

See accompanying independent auditors' report.