KPMG

WELLSTAR HEALTH SYSTEM, INC. AND AFFILIATES

Combined Financial Statements

June 30, 2023 and 2022

(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.:

Report on the Audit of the Combined Financial Statements

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, 2023 and 2022, 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 combined financial position of the System as of June 30, 2023 and 2022, and the results of its operations and its cash flows for the years then ended in accordance with U.S. generally accepted accounting principles.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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 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 and *Government Auditing Standards* 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 and *Government Auditing Standards*, 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.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 6, 2023 on our consideration of the System's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the System's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the System's internal control over financial reporting and compliance.

KPMG LLP

Atlanta, Georgia
October 6, 2023

WELLSTAR HEALTH SYSTEM, INC. AND AFFILIATES

Combined Balance Sheets

June 30, 2023 and 2022

(In thousands)

Assets		**2023**	**2022**
Current assets:			
Cash and cash equivalents	$	117,539	54,282
Patient accounts receivable, net		709,607	727,868
Assets limited as to use – required for current liabilities		10,043	962
Other current assets		185,425	211,451
Total current assets		1,022,614	994,563
Assets limited as to use		2,435,485	2,242,642
Property and equipment, net		1,944,685	1,782,252
Goodwill		415,821	416,430
Other assets		227,642	245,619
Total assets	$	6,046,247	5,681,506
Liabilities and Net Assets			
Current liabilities:			
Accounts payable	$	317,768	296,316
Accrued salaries, wages, and benefits		271,220	289,126
Other accrued expenses		177,762	182,622
Medicare accelerated and advanced payment liability		68	68,309
Current installments of long-term debt and finance lease obligations		32,336	29,556
Total current liabilities		799,154	865,929
Long-term debt and finance lease obligations, excluding current installments		1,559,207	1,526,910
Self-insurance reserves		289,725	286,086
Accrued pension liability		2,796	183,143
Long-term operating lease obligations		114,196	137,965
Other long-term liabilities		90,507	77,556
Total liabilities		2,855,585	3,077,589
Net assets:			
Without donor restrictions		3,133,958	2,555,552
With donor restrictions		56,704	48,365
Total net assets		3,190,662	2,603,917
Total liabilities and net assets	$	6,046,247	5,681,506

See accompanying notes to combined financial statements.

WELLSTAR HEALTH SYSTEM, INC. AND AFFILIATES

Combined Statements of Operations

Years ended June 30, 2023 and 2022

(In thousands)

		2023	2022
Revenue, gains, and other support:			
Patient service revenue, net of contractual allowances and discounts	$	4,652,446	4,393,727
Other revenue		208,711	176,660
Total revenue, gains, and other support		4,861,157	4,570,387
Expenses:			
Salaries and employee benefits		2,743,521	2,700,381
Supplies and other expenses		1,640,101	1,515,723
Depreciation and amortization		211,501	197,386
Interest		52,766	43,310
Total expenses		4,647,889	4,456,800
Operating income, before Provider Relief Fund grant funding, FEMA funding for operating expenses, State of Georgia funding and impairment losses		213,268	113,587
Provider Relief Fund grant funding		—	26,025
FEMA funding for operating expenses		(644)	(16,176)
State of Georgia funding		6	19,052
Operating income before impairment losses		212,630	142,488
Impairment of long-lived assets		(2,159)	(36,726)
Operating income		210,471	105,762
Nonoperating gains (losses):			
Investment income (loss), net		182,437	(289,595)
Other components of net periodic pension (cost) credit		(12,999)	25,953
Change in fair value of interest rate swap		3,591	10,790
Gain (loss) on disposal of property and equipment		3,891	(1,682)
(Loss) gain on extinguishment of long-term debt		(220)	102
Revenue, gains, and other support in excess of (less than) expenses and losses		387,171	(148,670)
Accrued pension liability adjustments		182,738	85,605
Net assets released from restrictions used for the purchase of property and equipment		3,932	731
FEMA funding for capital expenditures		—	(9,838)
State of Georgia funding for capital expenditures		4,279	—
Other		286	1,130
Change in net assets without donor restrictions	$	578,406	(71,042)

See accompanying notes to combined financial statements.

WELLSTAR HEALTH SYSTEM, INC. AND AFFILIATES

Combined Statements of Changes in Net Assets

Years ended June 30, 2023 and 2022

(In thousands)

		2023	2022
Net assets with donor restrictions:			
Contributions	$	12,382	8,557
Investment return, net		102	(2,437)
Net assets released from restrictions		(4,145)	(3,381)
Change in net assets with donor restrictions		8,339	2,739
Change in net assets without donor restrictions		578,406	(71,042)
Change in net assets		586,745	(68,303)
Net assets, beginning of period		2,603,917	2,672,220
Net assets, end of period	$	3,190,662	2,603,917

See accompanying notes to combined financial statements.

WELLSTAR HEALTH SYSTEM, INC. AND AFFILIATES

Combined Statements of Cash Flows

Years ended June 30, 2023 and 2022

(In thousands)

		2023	2022
Cash flows from operating activities:			
Change in net assets	$	586,745	(68,303)
Adjustments to reconcile change in net assets to net cash provided by operating activities:			
Depreciation and amortization		211,501	197,386
Amortization of bond discount, premium, and issue costs, net		(4,789)	(3,898)
(Gain) loss on disposal of property and equipment		(3,891)	1,682
Loss on impairment of long-lived assets		2,159	36,726
Realized and unrealized (gains) losses on trading investments, net		(147,221)	326,457
Change in fair value of interest rate swap		(3,591)	(10,790)
Loss (gain) on extinguishment of long-term debt		220	(102)
Restricted contributions and related investment income		(89)	(22)
Equity in earnings of joint ventures		(6,002)	(4,764)
Changes in operating assets and liabilities:			
Patient accounts receivable		18,261	(26,308)
Other current assets		26,026	4,812
Other assets		(8,924)	(22,661)
Accounts payable, accrued salaries, wages and benefits, and other accrued expenses		(742)	52,084
Medicare accelerated and advanced payment liability		(68,241)	(178,069)
Self-insurance reserves		3,639	26,695
Accrued pension liability		(180,347)	(119,826)
Other long-term liabilities		(1,099)	(2,472)
Net cash provided by operating activities		423,615	208,627
Cash flows from investing activities:			
Purchases of property and equipment		(340,009)	(191,923)
Proceeds from the sale of property and equipment		10,361	—
Purchase of assets limited as to use		(1,372,164)	(1,726,065)
Proceeds from the sale of assets limited as to use		1,308,732	1,519,607
Distributions from joint ventures, net		5,376	1,461
Net cash used in investing activities		(387,704)	(396,920)
Cash flows from financing activities:			
Proceeds from borrowings		124,530	350,285
Principal repayments of long-term debt and finance lease obligations		(109,916)	(175,324)
Issue costs paid		(78)	(1,974)
Restricted contributions and related investment income		89	22
Net cash provided by financing activities		14,625	173,009
Net change in cash and cash equivalents		50,536	(15,284)
Cash, cash equivalents and restricted cash, beginning of year		180,847	196,131
Cash, cash equivalents and restricted cash, end of year	$	231,383	180,847
Reconciliation of cash, cash equivalents and restricted cash:			
Cash and cash equivalents	$	117,539	54,282
Assets limited as to use – required for current liabilities		10,043	962
Assets limited as to use		103,801	125,603
Cash, cash equivalents and restricted cash, end of year	$	231,383	180,847

See accompanying notes to combined financial statements.

(1) Summary of Significant Accounting Policies

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

(a) Organization and Business

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

Cobb Hospital, Inc. (WCH)

Douglas Hospital, Inc. (WDH)

Kennestone Hospital, Inc. (WKH)

Paulding Medical Center, Inc. (WPMC)

Wellstar Atlanta Medical Center, Inc. (WAMC)

Wellstar Medical Group, LLC (WMG)

Wellstar North Fulton Hospital, Inc. (WNFH)

Wellstar Spalding Regional Hospital, Inc. (WSRH)

Wellstar Sylvan Grove Hospital, Inc. (WSGH)

Wellstar West Georgia Medical Center, Inc. (WWGMC)

Windy Hill Hospital

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.

As announced on August 31, 2022, WAMC closed as of November 1, 2022. For the years ended June 30, 2023 and 2022, WAMC reported fully allocated operating losses of $(64.9 million) and $(108.8 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 Atlanta Medical Center 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, WAMC, WMG, WNFH, WSRH, WSGH, and WWGMC are the members of the Obligated Group.

(b) Use of Estimates

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

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

(c) Cash Equivalents

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

(d) Investments and Investment Income

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

Investment income items (including realized and unrealized gains and losses on investments, interest, and dividends, and equity in earnings of joint ventures unrelated to healthcare operations) are included in revenue, gains, and other support in excess of (less than) 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 (less than) expenses and losses. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used, including gifts of cash or other assets that must be used to acquire long-lived assets are reported as donor-restricted support. Absent explicit donor stipulations about how long those long-lived assets must be maintained, expirations of donor restrictions are reported when the donated or acquired long-lived assets are placed into service. Contributions donor-restricted to the purchase of property and equipment or other restricted purposes, which restrictions are met within the same year as received, are reported as increases in net assets without donor restrictions in the combined financial statements.

(h) Leases

Transactions give rise to leases when Wellstar receives substantially all the economic benefits from and has the ability to direct the use of specified property and equipment. Wellstar accounts for leases in accordance with 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

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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 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 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, 2023 and 2022, the fair value of all reporting units is substantially in excess of their carrying value and therefore no impairment loss was recorded for the years ended June 30, 2023 or 2022.

(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.

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 (less than) Expenses and Losses

The combined statements of operations include revenue, gains, and other support in excess of (less than) 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 (less than) expenses and losses, include net assets released from restrictions used for the purchase of property and equipment and the recognition of pension and postretirement liability adjustments arising during the current period.

(o) Net Patient Service Revenue

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

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

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

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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 2023 or 2022.

(p) Charity Care

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

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

(q) Income Taxes

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

Wellstar applies FASB ASC 740, *Income Taxes*, which addresses accounting for uncertainties in income tax positions. It also provides guidance on when tax positions are recognized in an entity's

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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, 2023 or 2022.

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

(v) Liquidity and Availability of Resources

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

(w) Recently Issued Accounting Standards

In January 2017, the FASB issued ASU 2017-04, *Intangibles – Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment*, eliminating Step 2 from the impairment test and changed the requirement to perform its annual impairment test by comparing the fair value of a reporting unit with its carrying amount and recognize an impairment charge for the amount by which the carrying amount exceeds the fair value up to the amount of goodwill allocated to the reporting unit. The ASU also eliminates the requirements for any reporting unit with a zero or negative carrying amount to perform a qualitative assessment. Wellstar adopted the amendments in the ASU effective July 1, 2021, on a prospective basis. The adoption of the amendments did not have a material effect on the combined financial statements.

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

In January 2020, the FASB issued ASU 2020-01, *Investments – Equity Securities (Topic 321), Investments – Equity Method and Joint Ventures (Topic 323)*, *and Derivatives and Hedging*

(Continued)

(Topic 815): Clarifying Interactions between Topic 321, Topic 323, and Topic 815. ASU 2020-01 addresses accounting for the transition into and out of the equity method and provides guidance on whether equity method accounting would be applied to certain purchased options and forward contracts upon settlement. ASU 2020-01 is effective for annual periods beginning after December 15, 2021. ASU 2020-01 will be applied prospectively. Early adoption is permitted. The adoption of the amendments did not have a material effect on the combined financial statements.

In August 2018, the FASB issued ASU 2018-15, *Intangibles – Goodwill and Other – Internal-Use Software (Subtopic 350-40): Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract*. ASU 2018-15 clarifies that implementation costs incurred by customers in cloud computing arrangements are deferred if they would be capitalized by customers in software licensing arrangements under the internal-use software guidance. ASU 2018-15 requires entities in a service contract hosting arrangement to follow the guidance in Subtopic 350-40 to determine which implementation costs related to the service contract to either capitalize as an asset or expense. The capitalized implementation costs are expensed over the term of the service contract hosting arrangement. Wellstar adopted ASU 2018-15 effective July 1, 2021, prospectively. The adoption of the ASU did not have a material impact on its combined financial statements.

In September 2020, the FASB issued ASU 2020-07, *Not-for-Profit Entities (Topic 958): Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets*. This ASU changes the presentation and disclosure requirements for not-for-profit entities to increase transparency about contributed nonfinancial assets. Wellstar adopted the amendments in the ASU effective July 1, 2021 on a retrospective basis. 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.

(2) Assets Limited as to Use

The composition of assets limited as to use follows:

		2023	2022
		(In thousands)	
By the Board for capital improvements and other system needs:			
Cash and cash equivalents	$	43,951	94,744
Asset backed securities		41,122	69,091
Mortgage backed securities		212,366	148,750
Obligations of the U.S. government and its agencies		236,093	236,101
Corporate debt securities – domestic		491,913	519,765
Corporate debt securities – international		39,614	57,876
Corporate equity securities – domestic		704,303	507,648
Corporate equity securities – international		198,426	150,402
Mutual funds		33,036	26,547
		2,000,824	1,810,924
Under self-insurance funding arrangements:			
Cash and cash equivalents		9,727	5,454
Mortgage backed securities		10,654	15,392
Obligations of the U.S. government and its agencies		88,811	82,575
Corporate debt securities – domestic		88,331	72,678
Corporate debt securities – international		5,585	5,681
Corporate equity securities – domestic		26,320	20,234
Corporate equity securities – institutional		1,628	1,879
		231,056	203,893
By donor stipulation:			
Cash and cash equivalents		30,999	25,405
Corporate debt securities – domestic		2,402	3,569
Corporate equity securities – domestic		9,436	7,750
Corporate equity securities – international		2,251	3,263
Other		4,812	950
		49,900	40,937
Under bond indenture agreements – held by trustee:			
Cash and cash equivalents		29,168	962
Obligations of the U.S. Government and its agencies		134,580	186,888
		163,748	187,850
		2,445,528	2,243,604
Less amounts classified as current assets		(10,043)	(962)
	$	2,435,485	2,242,642

The composition of net investment income follows:

	2023	2022
	(In thousands)	
Net investment income included in nonoperating gains:		
Net realized gains (losses) on investments	$ (8,561)	66,713
Interest and dividend income	36,927	24,312
Net unrealized gain (loss) on investments	153,854	(380,828)
Equity in earnings of joint ventures unrelated to healthcare operations, net	217	208
	182,437	(289,595)
Restricted net investment income (loss)	102	(2,437)
	$ 182,539	(292,032)

Interest and dividend income include management fees of $5.8 million and $6.3 million for the years ended June 30, 2023 and 2022, respectively.

(3) Other Current Assets

The composition of other current assets follows:

	2023	2022
	(In thousands)	
Inventories	$ 116,054	121,222
Prepaid expenses	43,451	61,245
Other receivables	25,920	28,984
	$ 185,425	211,451

(4) Property and Equipment

A summary of property and equipment follows:

	2023	2022
	(In thousands)	
Land and land improvements	$ 205,086	196,054
Buildings and fixtures	2,078,441	1,963,171
Equipment	1,808,723	1,648,805
	4,092,250	3,808,030
Less accumulated depreciation and amortization	2,306,098	2,121,340
	1,786,152	1,686,690
Construction in progress	158,533	95,562
	$ 1,944,685	1,782,252

Construction in progress at June 30, 2023 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, 2023 is approximately $287 million. Wellstar's present capital improvements program provides for planned capital expenditures during fiscal years 2024 through 2028 as follows: 2024 – $485.4 million, 2025 – $415.6 million, 2026 – $466.3 million, 2027 – $446.9 million, and 2028 – $437.8 million. Total property and equipment, net includes accruals for capital purchases totaling $18.4 million and $18.9 million as of June 30, 2023 and 2022, respectively.

(5) Other Assets

The composition of other assets follows:

	2023	2022
	(In thousands)	
Right of use lease assets	$ 138,823	165,426
Investment in joint ventures	32,727	32,101
Other long-term receivables	27,269	18,809
Intangible assets	11,415	12,340
Other long-term assets	17,408	16,943
	$ 227,642	245,619

(6) Long-term Debt and Finance Lease Obligations

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

		2023	2022
		(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		72,230	77,305
Series 2017A CCKHA Certificates issued in August 2017		143,195	145,335
Series 2017A DAFC Bonds issued in August 2017		167,540	169,435
Series 2017A GSHA Certificates issued in August 2017		163,915	165,095
Series 2017A LTCHA Certificates issued in August 2017		54,780	56,100
Series 2017B CCKHA Certificates issued in August 2017		51,635	53,090
Series 2017B DAFC Certificates issued in August 2017		—	79,530
Series 2017B GSHA Certificates issued in August 2017		42,975	44,185
Series 2020A DAFC Bonds issued in August 2020.		70,165	70,165
Series 2020A CCKHA Certificates issued in August 2020		89,070	91,250
Series 2020B CCKHA Certificates issued in January 2021		67,240	71,985
Series 2022A PCHA Certificates issued in March 2022		79,275	79,890
Series 2022A CCKHA Certificates issued in March 2022		183,085	183,085
Bank of America, N.A. loan dated October 15, 2018 Facility No. 2		22,229	23,199
Wells Fargo Bank, National Association loan dated May 27, 2022.		51,570	53,020
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		77,350	—
Finance lease obligations		57,498	36,438
Total revenue certificates, debt, and finance lease obligations		1,488,752	1,449,107
Plus unamortized premium		110,583	115,735
Less unamortized cost of issuance		(7,747)	(8,329)
Less unamortized discount		(45)	(47)
Total long-term debt and finance lease obligations		1,591,543	1,556,466
Less current installments		32,336	29,556
	$	1,559,207	1,526,910

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.

(Continued)

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.

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 Bonds Series 2017B Development Authority of Fulton County (Series 2017B DAFC Bonds) in the original principal amount of $90.0 million to Banc of America Public Capital Corp. to provide funds to repay a portion of the $600.0 million outstanding bank loan with Bank of America and to pay for certain costs of issuance. The proceeds of the Series 2017B DAFC Bonds were paid to the bank under the loan agreement. The Series 2017B DAFC Bonds bear interest at a variable rate (67% of LIBOR plus the applicable spread of 0.55%) and are subject to an index put date on the seventh anniversary of issuance. The Series 2017B DAFC Bonds have mandatory redemptions under the agreement beginning April 1, 2018 and through April 1, 2047. Wellstar refinanced the Series 2017B DAFC Bonds with the Bank of America, N.A. Term Loan on February 1, 2023 as further described herein.

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 GSA Certificates bear interest at a variable rate (1-month SOFR plus the applicable spread of 0.67%) and are subject to an index put date on June 30, 2023. The Series 2017B GSA 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 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 Certificates were deposited in a defeasance trust for refunding the Series 2003 Certificates. The Series 2012 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.

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.

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 4.1% and 3.4% for the years ended June 30, 2023 and 2022, 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 28, 2024. 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, 2023 or 2022.

Wellstar paid interest of approximately $64.6 million and $46.4 million in 2023 and 2022, respectively.

Net interest capitalized on capital projects was approximately $7.7 million and $2.5 million, in 2023 and 2022, respectively.

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

2024	$ 32,336
2025	78,982
2026	54,476
2027	80,341
2028	99,627
Thereafter	1,142,990
	$ 1,488,752

(7) Derivative Instruments

Wellstar initially synthetically converted $60.0 million (the notional amount) of the then outstanding Series 2005 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 obligates 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 2005 Certificates and the swap matures April 1, 2040. On August 3, 2017, Wellstar advance refunded the related Series 2005 Certificates. Wellstar did not cancel the swap and uses it as an overall hedge to its total debt portfolio.

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

Wellstar's credit risk involves the possible default of the counterparty. Collateral may be required in the future based on Wellstar's credit rating, the insurer's credit rating, or market valuations of the swaps. Through the termination date no such collateral was required.

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 and 2022 (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	—

2022

Notional amount	Maturity date	Average variable rate received	Fixed rate paid	Increase in interest expense	Swap fair value
$ 60,000	April 2040	0.22 %	3.45 %	$ 1,940	(10,790)

(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 Disproportionate Share payments totaling

$59.4 million and $71.4 million during fiscal years 2023 and 2022, respectively. The cost reports of all Wellstar affiliates have been audited and final settled for all fiscal years through June 30, 2015. June 30, 2016 and 2017 cost report audits are currently in process for a number of hospitals. Net revenue from the Medicare program accounted for approximately 31.5% and 31.7% of Wellstar's net patient service revenue for the years ended June 30, 2023 and 2022, 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 2023 and 2022 combined statements of operations includes shared savings payments totaling $8.3 million and $7.0 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, 2015 for all Wellstar affiliates. Net revenue from the Medicaid program accounted for approximately 10.4% and 10.6% of Wellstar's net patient service revenue for the years ended June 30, 2023 and 2022, respectively.

During fiscal 2023 and 2022, net patient service revenue increased by approximately $9.6 million and decreased by approximately $11.3 million, respectively, due to changes in estimates for open Medicare and Medicaid cost reports and removal of allowances previously estimated that are no longer necessary as a result of final settlements. Wellstar has incorporated the most current and relevant data received from Medicare and Medicaid in the preparation of associated estimates at both June 30, 2023 and 2022.

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 $33.8 million and $56.2 million in fiscal years 2023 and 2022, 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 $62.0 million and $66.7 million in fiscal years 2023 and 2022, 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 WMG 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 $103.1 million and $15.0 million in fiscal years 2023 and 2022, respectively, is recognized as a reduction in related contractual adjustments in the accompanying

(Continued)

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 Strong program for providers participating in the State Medicaid program. Wellstar's net reimbursement benefit associated with the program, totaling approximately $40.2 million in fiscal year 2023, is recognized as a reduction in related contractual adjustments in the accompanying 2023 combined statement of operations.

The State's determination related to Wellstar's participation in the State's fiscal year 2024 plans is currently in process, and the terms of the fiscal year 2024 plan have not been finalized. Accordingly, contributions to the State's plan during 2024 and related amounts to be potentially received from Medicaid during 2024 have not been established. There can be no assurance that Wellstar will continue to qualify for future participation in this program or that the program will not ultimately be discontinued or materially modified.

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

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

The composition of net patient service revenue by primary payor for the years ended June 30, 2023 and 2022 follow:

		2023	2022
		(In thousands)	
Medicare	$	1,386,344	1,302,499
Medicaid		456,484	435,337
Other third-party payors		2,625,257	2,484,403
Patients		184,361	171,488
Net patient service revenue	$	4,652,446	4,393,727

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, 2023 and 2022 follow:

Service lines		2023	2022
		(In thousands)	
Hospital services	$	3,873,454	3,742,710
Physician services		708,306	581,611
Other healthcare services		70,686	69,406
Net patient service revenue	$	4,652,446	4,393,727

(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.

		2023	2022
		(In thousands)	
Cost of providing charity care	$	199,853	272,326
Unreimbursed cost of providing care to Medicaid beneficiaries		32,549	183,512
Unreimbursed cost of providing care to Medicare beneficiaries		505,873	377,247
Unreimbursed cost of providing care to other patients		140,298	158,846
Cost of other community programs		19,730	19,451
	$	898,303	1,011,382

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 and $178.4 million during fiscal 2022.

(Continued)

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 2023 and 2022, Wellstar affiliate hospitals made $40.5 million and $41.2 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 (less than) 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.

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

The changes in the projected benefit obligations for the Plans for the years ended June 30, 2023 and 2022 follow:

		2023	2022
		(In thousands)	
Projected benefit obligation, beginning of year	$	1,336,907	1,721,363
Interest cost		61,359	42,956
Actuarial gain		(62,864)	(383,819)
Benefits paid		(47,410)	(43,593)
Projected benefit obligation, end of year	$	1,287,992	1,336,907

The accumulated benefit obligation at both June 30, 2023 and 2022 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, 2023 and 2022 related to the Plans follow:

		2023	2022
		(In thousands)	
Fair value of plan assets, beginning of year	$	1,186,846	1,462,153
Actual return on plan assets		162,832	(237,914)
Employer contributions		9,000	6,200
Benefits paid		(47,410)	(43,593)
Fair value of assets, end of year	$	1,311,268	1,186,846
Accrued pension asset (liability) – funded status	$	23,276	(150,061)

The components of the Plans' periodic pension cost (credit) for 2023 and 2022 follow:

		2023	2022
		(In thousands)	
Interest cost	$	61,359	42,956
Expected return on plan assets		(56,360)	(78,113)
Amortization of net loss		7,674	10,305
Net periodic pension cost (credit)	$	12,673	(24,852)
Other changes in net assets without donor restrictions:			
Net gain in net assets without donor restrictions	$	(169,335)	(67,793)
Amortization of net loss		(7,674)	(10,304)
Total gain recognized in net assets without donor restrictions	$	(177,009)	(78,097)

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

		2023	2022
		(In thousands)	
Actuarial loss	$	222,577	399,586

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

	2023	2022
Discount rate – Active Plan A	5.36 %	4.93 %
Discount rate – Active Plan B	5.46	5.10

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

	2023	2022
Discount rate – Active Plan A	4.93 %	3.03 %
Discount rate – interest cost – Active Plan A	4.72	2.55
Discount rate – Active Plan B	4.99	3.40
Discount rate – interest cost – Active Plan B	4.99	3.40
Discount rate – Inactive Plan	N/A	2.89
Discount rate – interest cost – Inactive Plan	N/A	2.22
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.

(Continued)

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

	Target allocation	2023	2022
Plan assets:			
Cash and cash equivalents	— %	— %	— %
Domestic equities	51	58	56
Domestic bonds	35	31	30
High yield	—	—	4
Global value	6	6	5
International equity	8	5	5
	100 %	100 %	100 %

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

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

(ii) Cash Flows

Wellstar expects to contribute approximately $11.0 million to the Plans in fiscal year 2024.

(iii) Expected Future Benefit Payments

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

Year ending June 30:		
2024	$	60,297
2025		61,543
2026		65,737
2027		69,926
2028		73,469
2029–2033		405,761

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

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

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

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

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

		June 30	
		2023	**2022**
		(In thousands)	
Projected benefit obligation, beginning of period	$	83,106	106,167
Interest cost		3,649	2,271
Actuarial gain		(3,473)	(20,768)
Benefits paid		(4,841)	(4,564)
Projected benefit obligation, end of period		78,441	83,106
Fair value of LT Authority Plan assets, beginning of period		50,024	62,408
Actual return on LT Authority Plan assets		5,186	(9,754)
Contributions from the LT Authority Plan's sponsor		2,000	1,934
Benefits paid		(4,841)	(4,564)
Fair value of LT Authority Plan assets, end of period		52,369	50,024
Accrued pension liability – funded status of the LT Authority Plan, end of period	$	(26,072)	(33,082)

The accumulated benefit obligation at June 30, 2023 and 2022 totaled $78.4 million and $83.1 million, respectively.

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

	June 30	
	2023	2022
	(In thousands)	
Actuarial loss	$ 4,822	10,551

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

	June 30	
	2023	2022
	(In thousands)	
Net periodic pension cost components:		
Interest cost	$ 3,649	2,271
Amortization of net loss	93	301
Expected return on plan assets	(3,023)	(3,807)
Net periodic pension cost (credit)	$ 719	(1,235)
Other changes in net assets without donor restrictions:		
Net gain in net assets without donor restrictions	$ (5,636)	(7,207)
Amortization of net loss	(93)	(301)
Total gain recognized in net assets without donor restrictions	$ (5,729)	(7,508)

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

	2023	2022
Discount rate	5.34 %	4.84 %
Rate of compensation increase	N/A	N/A

(Continued)

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

	2023	2022
Discount rate	4.84 %	2.81 %
Discount rate – interest cost	4.55	2.20
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	
		2023	2022
Cash and cash equivalents	0–10%	10 %	3 %
Fixed income	35–100	28	30
Equities	0–65	62	67

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 Plans in fiscal year 2024.

(iii) Expected Future Benefit Payments

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

Year ending June 30:		
2024	$	5,588
2025		5,642
2026		5,816
2027		5,933
2028		5,993
2029–2033		29,716

(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 $26.1 million and $29.0 million to the Wellstar 403(b) Plan under the employee matching contribution during the years ended June 30, 2023 and 2022, 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. The accompanying combined balance sheets at June 30, 2023 and 2022 include an estimated contribution totaling $84.7 million and $80.5 million, respectively.

Wellstar sponsors a 457(f) plan for officers of the organization. Total liabilities under the plan included in other long-term liabilities in the accompanying combined balance sheets total $38.6 million and $31.2 million as of June 30, 2023 and 2022, respectively.

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, 2023 and 2022 is $2.0 million and $2.5 million, respectively, and is included in other long-term liabilities in the accompanying combined balance sheets. The plan is measured as of June 30 using a discount rate of 4.82% and 2.75% at June 30, 2023 and 2022, respectively. The assumed initial and ultimate healthcare trend rate is 4% at both June 30, 2023 and 2022.

(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:

	2023	2022
Managed Care	62 %	62 %
Medicare	25	24
Medicaid	5	6
Patients	1	1
Other third-party payors	7	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 \$8.0 million per claim for Professional Liability, with a shared \$64.0 million Aggregate. In addition, there is a one-time \$2.0 million per claim/\$2.0 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, 2023 and 2022 have been discounted at 4.13% and 2.5%, 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 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, 2023 and 2022 ranged from 1.00% to 4.55% and 1.00% to 3.21%, 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:

			Years ended June 30 2023	2022
			(In thousands)	
ROU assets:				
Operating	Other assets	$	138,823	165,426
Finance	Property and equipment, net		57,053	35,725
	Total	$	195,876	201,151
Lease liabilities:				
Current:				
Operating	Other accrued expenses	$	27,010	28,807
Finance	Current installments of long-term debt and finance lease obligations		5,361	3,751
Noncurrent:				
Operating	Long-term operating lease obligations		114,196	137,965
Finance	Long-term debt and finance lease obligations, excluding current installments		52,137	32,687
	Total	$	198,704	203,210

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

		Years ended June 30 2023	2022
		(In thousands)	
Supplies and other expenses:			
Operating lease expense	$	28,682	31,011
Short-term lease expense		16,041	14,919
Variable lease expense		114	644
Depreciation and amortization:			
Finance lease expense:			
Amortization of lease assets		3,003	2,152
Interest on lease liabilities		1,149	854
Total	$	48,989	49,580

The following table presents other supplemental quantitative disclosures as of and for the years ended June 30, 2023 and 2022 (dollars in thousands):

		June 30	
		2023	**2022**
Cash paid for amounts included in the measurement of lease liabilities:			
Operating cash flows used for operating leases	$	29,926	32,846
Financing cash flows used for finance leases		4,859	2,866
Additions to right-of-use assets obtained from operating leases	$	13,294	36,668
Additions to right-of-use assets obtained from finance leases		19,616	18,261
Weighted average remaining lease term (years):			
Operating leases		9.36	8.56
Finance leases		10.80	11.59
Weighted average discount rate:			
Operating leases		3.02 %	3.13 %
Finance leases		2.46	2.76

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):

		2023		
Lease maturity		**Operating leases**	**Finance leases**	**Total**
Year ending June 30:				
2024	$	27,158	7,221	34,379
2025		23,528	7,081	30,609
2026		19,641	6,991	26,632
2027		13,773	6,502	20,275
2028		9,593	6,031	15,624
Thereafter		85,163	33,794	118,957
Total lease payments		178,856	67,620	246,476
Less amount representing interest		(37,650)	(10,122)	(47,772)
Present value of undiscounted future cash flows	$	141,206	57,498	198,704

(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, 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

		Year ended June 30, 2022		
		Healthcare services	**General and administrative**	**Total**
			(In thousands)	
Salaries and employee benefits	$	2,337,418	362,963	2,700,381
Supplies and other expenses		1,320,544	195,179	1,515,723
Depreciation and amortization		144,420	52,966	197,386
Interest		43,108	202	43,310
Total expenses	$	3,845,490	611,310	4,456,800

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:

	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
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

	2023		
	Level 1	**Level 2**	**Total**
		(In thousands)	
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

	2022		
	Level 1	**Level 2**	**Total**
		(In thousands)	
By the Board for capital improvements and other system needs:			
Cash and cash equivalents	$ 94,744	—	94,744
Asset backed securities	—	69,091	69,091
Mortgage backed securities	—	148,750	148,750
Obligations of the U.S. government and its agencies	236,101	—	236,101
Corporate debt securities – domestic	—	519,765	519,765
Corporate debt securities – international	—	57,876	57,876
Corporate equity securities – domestic	507,648	—	507,648
Corporate equity securities – international	150,402	—	150,402
Mutual funds	26,547	—	26,547
	1,015,442	795,482	1,810,924
Under self-insurance funding arrangements:			
Cash and cash equivalents	5,454	—	5,454
Mortgage backed securities	—	15,392	15,392
Obligations of the U.S. government and its agencies	82,575	—	82,575
Corporate debt securities – domestic	—	72,678	72,678
Corporate debt securities – international	—	5,681	5,681
Corporate equity securities – domestic	20,234	—	20,234
Corporate equity securities – international	1,879	—	1,879
	110,142	93,751	203,893

(Continued)

	2022		
	Level 1	**Level 2**	**Total**
		(In thousands)	
By donor stipulation:			
Cash and cash equivalents	25,405	—	25,405
Corporate debt securities – domestic	2,028	1,541	3,569
Corporate equity securities – domestic	7,750	—	7,750
Corporate equity securities – international	3,263	—	3,263
Other	—	950	950
	38,446	2,491	40,937
Under bond indenture agreements – held by trustee:			
Cash and cash equivalents	962	—	962
Obligations of the U.S. government and its agencies	186,888	—	186,888
	187,850	—	187,850
	$ 1,351,880	891,724	2,243,604

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, 2023 and 2022. Fair value of a financial instrument is defined as the amount which would be received to sell an asset or paid to transfer a liability in an orderly transaction between willing market participants at the measurement date.

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

The fair value hierarchy of the Wellstar pension plan assets at June 30, 2023 and 2022 follows:

	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	840,664	—	840,664
Corporate equity securities – international	41,668	—	41,668
Open end mutual fund	54,029	—	54,029
	$ 1,073,275	237,993	1,311,268

	2022		
	Level 1	**Level 2**	**Total**
		(In thousands)	
Cash and cash equivalents	$ 26,687	—	26,687
Mortgage – and other asset-backed securities	—	62,541	62,541
Obligations of the U.S. government and its agencies	116,773	484	117,257
Corporate debt securities – domestic	—	154,667	154,667
Corporate debt securities – international	—	8,350	8,350
Corporate equity securities – domestic	732,193	—	732,193
Corporate equity securities – international	35,499	—	35,499
Open end mutual fund	49,652	—	49,652
	$ 960,804	226,042	1,186,846

(Continued)

The fair value hierarchy of the WWGMC and LT Authority pension plan at June 30, 2023 and 2022 follows:

	2023 LT Authority Level 1 plan assets	2022 LT Authority Level 1 plan assets
	(In thousands)	
Pension assets at fair value:		
Money market funds	$ 4,959	1,361
Domestic equity mutual funds:		
Large cap	25,816	21,668
Mid cap	1,339	2,021
Small cap	2,090	4,612
International equity mutual funds	3,530	5,099
Bond mutual funds:		
Long term	4,523	5,300
Intermediate term	4,433	1,401
Short term	5,679	8,562
	$ 52,369	50,024

(16) Net Assets with Donor Restrictions

Net assets with donor restrictions as of June 30, 2023 and 2022 are available for the use of various Wellstar programs and affiliates as follows:

	2023	2022
	(In thousands)	
Subject to spending policy and appropriation:		
Patient services:		
Hospice services	$ 8,188	7,721
Indigent care clinic support	55	141
Cancer services	971	752
Hospital general purpose:		
Trauma and emergency	8,377	5,165
Hospital enhancement and operations	17,594	15,151
Community services	23	142
Education and employee assistance:		
Scholarship	813	740
Employee assistance	145	—
Education	123	83
Any activities of the organization	6,555	4,115
	42,844	34,010

	2023	2022
	(In thousands)	
Subject to appropriation and expenditure when a specified event occurs:		
Land or proceeds from sale of land upon death of donor to support general activities	500	500
Net balance of original gift held under split-interest agreement upon death of donor to support general activities	50	50
Not subject to appropriation or expenditure:		
Endowment established to provide support to hospice care patients and supporting functions	4,777	4,688
Endowment established to provide nursing scholarships	779	779
Endowment established to provide support to cancer services	912	912
Land and attached assets required to be used for hospital purposes	6,842	7,426
Total net assets with donor restrictions	$ 56,704	48,365

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, 2023 and 2022 follow (in thousands):

	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

		2022		
		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	$	—	13,805	13,805
Accumulated investment gains		—	3,115	3,115
Total	$	—	16,920	16,920

The change in endowment net assets and related income classifications for the years ended June 30, 2023 and 2022 follows (in thousands):

		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

		2022		
		Without donor restrictions	With donor restrictions	Total
Beginning of year	$	—	18,737	18,737
Contributions		—	52	52
Other		—	(820)	(820)
Investment return:				
Interest and dividend income		—	208	208
Net appreciation		—	(1,257)	(1,257)
		—	(1,049)	(1,049)
End of year	$	—	16,920	16,920

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

(17) COVID-19 Pandemic

COVID-19, a respiratory disease caused by a novel strain of the coronavirus, has spread around the world, including the State of Georgia, where Wellstar's service areas are located. The Centers for Disease Control confirmed the spread of the disease to the United States in February 2020 and the World Health Organization declared the COVID-19 outbreak a pandemic. The Federal government and State of Georgia government both issued a public health state of emergency in March 2020. Wellstar patient volumes, operating revenues and expenses were materially impacted by the COVID-19 pandemic during fiscal years 2020, 2021, 2022, and 2023, and continue to be impacted subsequent to June 30, 2023.

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

Wellstar was eligible for and received $29.8 million CARES Act funding during the year ended June 30, 2022. Wellstar recognized CARES Act funding as other operating revenue, totaling $26.0 million for the year ended June 30, 2022 in the accompanying 2022 combined statement of operations. Cumulatively, from March 1, 2020 through June 30, 2023, Wellstar has calculated lost revenues of approximately $743.1 million due to the COVID-19 pandemic. Wellstar did not receive any CARES Act funding nor did it recognize any CARES Act funding as other operating revenue during the year ended June 30, 2023.

In response to the pandemic, Wellstar has incurred significant operating and administrative costs to organize, prepare for and respond to COVID-19. Incremental costs have been incurred for staffing, supplies, materials and equipment, temporary facilities, information technology, procurement, and other services throughout Wellstar and were necessary to lessen immediate and future threats to lives, public health and safety. Wellstar tracks and accumulates these costs and files for reimbursement under the Federal Emergency Management Act (FEMA) program. Wellstar has submitted to FEMA reimbursement requests totaling approximately $77.4 million as of June 30, 2023. Cumulatively, through June 30, 2023, Wellstar has not recognized revenue as the FEMA obligation process has not yet been completed and will recognize revenue in future periods when the FEMA obligation process is complete. Wellstar received $4.4 million in cash from FEMA during the year ended June 30, 2023 but since the FEMA Obligation is not yet complete such amounts are recorded as other accrued expenses in the accompanying 2023 combined balance sheet.

During the fiscal years ended June 30, 2023 and 2022, Wellstar received contributions in-kind from the Georgia Emergency Management Agency (GEMA), which consisted of the provision of certain contract agency nursing staff for Wellstar. The amount of contribution in-kind was approximately $6 thousand and $19.0 million for the years ended June 30, 2023 and 2022, respectively, which was recorded as other revenue and a corresponding cost included in salaries and employee benefits in the accompanying combined statements of operations.

The CARES Act provided for expansion by the Centers for Medicare & Medicaid Services (CMS) of the Accelerated and Advance Payment Program (MAPP) to a broader group of Medicare Part A providers and Part B suppliers. The program was expanded in order to increase the cash flow to providers of services and suppliers impacted by the COVID-19 pandemic. CMS is authorized to provide accelerated or advance payments during the period of the public health emergency to any Medicare provider/supplier who submits a request to the appropriate Medicare Administrative Contractor (MAC) and meets the required qualifications. Wellstar applied for and received $9.6 million and $264.6 million in MAPP funding during the years ended June 30, 2021 and 2020, respectively. No MAPP funding was received during the years ended June 30, 2023 or 2022. The funding is an advance of payment of future services provided to Medicare beneficiaries. The Continuing Appropriations Act, 2021 and Other Extensions Act require providers to begin repayment of MAPP funds one year from the date of receipt to be repaid at a rate of 25% for 11 months and at 50% for six additional months. After the repayment period ends, a letter for any remaining balance will be issued requiring repayment in full within 30 days. Repayments began during the year ended June 30, 2022 and Wellstar has repaid $274.1 million as of June 30, 2023 consistent with the Continuing Appropriations Act, 2021. The remaining amount due under the program at June 30, 2023 totals $68 thousand in the accompanying 2023 combined balance sheet and is expected to be fully repaid by December 31, 2023.

(18) Subsequent Events

Wellstar has evaluated subsequent events through October 6, 2023, the date the combined financial statements were issued.

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, RWSM 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 the 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.

Wellstar has not yet concluded its purchase price allocation associated with the acquisition. WMCG (f/k/a AUHS), in accordance with generally accepted accounting principles as issued by the Government Accounting Standards Board (GASB) reported in their June 30, 2023 audited financial statements total cash and short-term investments of $108.5 million, total assets of $719.2 million, total long term debt of $191.9 million, total liabilities of $501.7 million and total net position of $217.5 million.