WELLSTAR HEALTH SYSTEM, INC. AND AFFILIATES

Combined Financial Statements

June 30, 2019 and 2018

(With Independent Auditors' Report Thereon)

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

Independent Auditors' Report

The Board of Trustees
WellStar Health System, Inc.:

We have audited the accompanying combined financial statements of WellStar Health Systems, Inc., and affiliates (WellStar), which comprise the combined balance sheets as of June 30, 2019 and 2018, and the related combined statements of operations, changes in net assets, and cash flows for the years then ended, and the related notes to the combined financial statements.

Management's Responsibility for the Combined Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the combined financial statements referred to above present fairly, in all material respects, the financial position of WellStar Health System, Inc., and affiliates as of June 30, 2019 and 2018, and the results of their operations and their cash flows for the years then ended, in accordance with U.S. generally accepted accounting principles.

KPMG

Other Matter

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

Emphasis of Matter

As discussed in note 1(l) and (n) to the combined financial statements, in fiscal year 2019, WellStar adopted new accounting guidance in connection with its implementation of Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) No. 2014-09, *Revenue from Contracts with Customers, (Topic 606)* and FASB ASU No. 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities*. Our opinion is not modified with respect to this matter.

KPMG LLP

Atlanta, Georgia
October 22, 2019

WELLSTAR HEALTH SYSTEM, INC. AND AFFILIATES

Combined Balance Sheets

June 30, 2019 and 2018

(In thousands)

Assets		**2019**	**2018**
Current assets:			
Cash and cash equivalents	$	66,819	85,825
Patient accounts receivable, net		624,298	557,284
Assets limited as to use – required for current liabilities		4,928	102
Other current assets		140,100	110,875
Total current assets		836,145	754,086
Assets limited as to use		1,321,514	1,211,065
Property and equipment, net		1,758,273	1,679,427
Goodwill		415,174	415,039
Other assets		73,124	54,521
Total assets	$	4,404,230	4,114,138
Liabilities and Net Assets			
Current liabilities:			
Accounts payable	$	216,755	204,987
Accrued salaries, wages, and benefits		184,985	148,741
Other accrued expenses		53,272	47,808
Current installments of long-term debt and capital lease obligations		110,038	32,119
Total current liabilities		565,050	433,655
Long-term debt and capital lease obligations, excluding current installments		1,272,802	1,395,011
Self-insurance reserves		174,893	158,737
Accrued pension liability		539,320	398,848
Other long-term liabilities		61,039	56,066
Total liabilities		2,613,104	2,442,317
Net assets:			
Without donor restrictions		1,741,576	1,626,912
With donor restrictions		49,550	44,909
Total net assets		1,791,126	1,671,821
Total liabilities and net assets	$	4,404,230	4,114,138

See accompanying notes to combined financial statements.

WELLSTAR HEALTH SYSTEM, INC. AND AFFILIATES

Combined Statements of Operations

Years ended June 30, 2019 and 2018

(In thousands)

		2019	2018
Revenue, gains, and other support:			
Patient service revenue, net of contractual allowances and discounts	$	3,457,302	3,130,683
Other revenue		106,726	85,636
Total Revenue, gains, and other support		3,564,028	3,216,319
Expenses:			
Salaries and employee benefits		1,996,770	1,765,944
Supplies and other expenses		1,160,263	1,091,240
Depreciation and amortization		174,752	163,298
Interest		41,969	40,700
Total expenses		3,373,754	3,061,182
Operating income, before electronic medical records costs		190,274	155,137
Electronic medical records implementation costs		—	17,192
Operating income		190,274	137,945
Nonoperating gains (loss):			
Investment income, net		71,064	57,597
Change in fair value of interest rate swap		(5,559)	3,809
Gain on disposal of property and equipment		793	261
Loss on extinguishment of long-term debt		—	(5,568)
Revenue, gains, and other support in excess of expenses and losses		256,572	194,044
Accrued pension liability adjustments		(142,699)	19,664
Assets released from restriction used for the purchase of property and equipment		1,767	5,277
Other		(976)	(3,631)
Change in net assets without donor restrictions	$	114,664	215,354

See accompanying notes to combined financial statements.

WELLSTAR HEALTH SYSTEM, INC. AND AFFILIATES

Combined Statements of Changes in Net Assets

Years ended June 30, 2019 and 2018

(In thousands)

		2019	2018
Net assets with donor restrictions:			
Contributions	$	6,821	6,133
Investment return, net		1,464	1,636
Inflation adjustment to corpus as required by donor		14	15
Net assets released from restrictions		(3,658)	(7,424)
Increase in net assets with donor restrictions		4,641	360
Increase in net assets without donor restrictions		114,664	215,354
Increase in net assets		119,305	215,714
Net assets, beginning of period		1,671,821	1,456,107
Net assets, end of period	$	1,791,126	1,671,821

See accompanying notes to combined financial statements.

WELLSTAR HEALTH SYSTEM, INC. AND AFFILIATES

Combined Statements of Cash Flows

Years ended June 30, 2019 and 2018

(In thousands)

		2019	2018
Cash flows from operating activities:			
Change in net assets	$	119,305	215,714
Adjustments to reconcile change in net assets to cash provided by operating activities:			
Depreciation and amortization		174,752	163,298
Amortization of bond discount, premium, and issue costs		(1,961)	(2,012)
Gain on sale of property and equipment		(793)	(261)
Realized and unrealized gains on trading investments, net		(47,523)	(35,806)
Change in fair value of interest rate swap		5,559	(3,809)
Loss on extinguishment of debt		—	5,568
Restricted contributions and related investment income		(42)	(208)
Equity in earnings of joint ventures		(3,309)	(3,854)
Changes in operating assets and liabilities:			
Patient accounts receivable		(67,014)	(76,543)
Other current assets		(29,225)	(6,521)
Reserve for Inventory obsolescence		—	4,995
Other assets		(2,818)	(677)
Accounts payable, accrued salaries, wages and benefits, and other accrued expenses		51,299	47,423
Self-insurance reserves		16,156	31,383
Accrued pension liability		140,472	(20,928)
Other long-term liabilities		517	4,224
Net cash provided by operating activities		355,375	321,986
Cash flows from investing activities:			
Purchases of property and equipment		(314,855)	(338,601)
Proceeds from the sale of property and equipment		16	219
Purchase of assets limited as to use		(826,508)	(853,678)
Proceeds from the sale of assets limited as to use		758,756	737,216
(Contributions) distributions from joint ventures, net		(6,580)	6,689
Healthcare business acquisitions		(5,106)	—
Net cash used in investing activities		(394,277)	(448,155)
Cash flows from financing activities:			
Proceeds from borrowings		50,000	938,018
Principal repayments of long-term debt and capital lease obligations		(30,146)	(36,730)
Refunding of borrowings		—	(774,284)
Issue costs paid		—	(4,861)
Restricted contributions and related investment income		42	208
Net cash provided by financing activities		19,896	122,351
Net change in cash and cash equivalents		(19,006)	(3,818)
Cash and equivalents, beginning of year		85,825	89,643
Cash and equivalents, end of year	$	66,819	85,825

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. (CH)
- Douglas Hospital, Inc. (DH)
- Kennestone Hospital, Inc. (KH)
- Paulding Medical Center, Inc. (PMC)
- WellStar Atlanta Medical Center, Inc. (WAMC)
- WellStar Medical Group, LLC
- WellStar North Fulton Hospital, Inc. (WNFH)
- WellStar Spalding Regional Hospital, Inc. (WSRH)
- WellStar Sylvan Grove Hospital, Inc. (WSGH)
- WellStar West Georgia Medical Center, Inc. (WWGMC)
- Windy Hill Hospital

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

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

(b) Use of Estimates

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

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

(c) Cash Equivalents

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

(d) Investments and Investment Income

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

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

(e) Assets Limited as to Use

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

(f) Costs of Borrowing

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

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

(g) Property and Equipment

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

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

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

(h) Inventories

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

(i) Other Assets

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

(j) Impairment of Long-Lived Assets

Long-lived assets, such as property and equipment and purchased intangibles, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to estimated undiscounted future cash flows expected to be generated by the asset. If the carrying amount of an asset exceeds its estimated future cash flows, an impairment charge is recognized to the extent that the carrying amount of the asset exceeds its fair value.

(k) Goodwill

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

Goodwill is an asset representing the future economic benefits arising from other assets acquired in a business combination that are not individually identified and separately recognized. Goodwill is reviewed for impairment at least annually. The goodwill impairment test is a two-step test. Under the first step, the fair value of the reporting unit is compared to its carrying value (including goodwill). If the fair value of the reporting unit is less than its carrying value, an indication of goodwill impairment exists for the reporting unit and step two of the impairment test (measurement) must be performed. Under step two, an impairment loss is recognized for any excess of the carrying amount of the reporting unit's goodwill over the implied fair value of that goodwill. The implied fair value of goodwill is determined by allocating the fair value of the reporting unit in a manner similar to a purchase price allocation and the residual fair value after this allocation is the implied fair value of the reporting unit's goodwill. Fair value of the reporting unit is determined using the market approach. If the fair value of the reporting unit exceeds it's carrying value following step one, step two is not performed.

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

During the years ended June 30, 2019 and 2018, WellStar did not identify any material reporting unit at risk of failing step one of the goodwill impairment test. The fair value of all reporting units is

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substantially in excess of their carrying value and therefore no impairment loss was recorded for the years ended June 30, 2019 or 2018.

(l) Net Assets Classification

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

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

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

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

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

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

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

(n) Net Patient Service Revenue

Effective July 1, 2018, WellStar adopted FASB ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)*, using the full retrospective method of application, and our accounting policies related to revenues were revised accordingly effective July 1, 2018. The most significant impact of adopting the new standard is to the presentation of WellStar's combined statements of operations, where the provision for doubtful accounts is no longer a separate line item and net patient service revenue is presented net of estimated implicit price concessions. While the standard requires disclosure of the aggregate amount of transaction price allocated to performance obligations that are partially satisfied at the end of the reporting period and adjustments of expected consideration from patients and third party payors for the effects of any financing components, management elected not to disclose as the effects of both are not considered significant. The adoption of the new standard did not have an impact on WellStar's recognition of net revenues for any periods prior to adoption and eliminated the presentation of the allowance for doubtful accounts on the combined Balance Sheets.

(o) Charity Care

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

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

(p) Income Taxes

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

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

WellStar has evaluated its tax positions and does not believe there are any material unrecognized tax benefits or obligations as of June 30, 2019 or 2018.

(q) Contributions

Unconditional promises to give cash and other assets to WellStar are reported at estimated fair value at the date the promise is received. Conditional promises to give are recognized when the conditions are substantially met while indications of intentions to give are not recorded. Gifts are reported 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.

(r) Derivative Instruments and Hedging Activities

At the effective date of any hedge accounting election, WellStar designates the associated derivative as either (1) a hedge of the fair value of a recognized asset or liability or of an unrecognized firm commitment (fair value hedge) or (2) a hedge of a forecasted transaction or the variability of cash flows to be received or paid related to a recognized asset or liability (cash flow hedge). WellStar formally assesses, both at inception and on an ongoing basis, whether the derivatives that are used in hedging

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transactions are highly effective in offsetting changes in fair values or cash flows of hedged items. When it is determined that a derivative is not highly effective as a hedge or that it has ceased to be a highly effective hedge, WellStar discontinues hedge accounting prospectively. To the extent that hedge ineffectiveness is associated with these changes in fair value, it is recognized in revenue, gains, and other support in excess of expenses and losses. WellStar monitors the effectiveness of interest rate swaps designated as hedges on a quarterly basis.

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

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

(s) Asset Retirement Obligations

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

(t) Retirement Benefits

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

(u) Operating Cash Flows

Cash and cash equivalents, and assets limited as to use 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. WHS has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due. WellStar maintains immediate daily cash liquidity requirements that average between two and 10 days of operating expenses and invests cash in excess of daily requirements in liquid investments accessible within three to four days. To help manage unanticipated liquidity needs, WellStar maintains a line of credit facility as described in note 6.

(v) Recently Issued Accounting Standards

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

The FASB issued ASU 2016-02, *Leases (Topic 842)*, in February 2016, which supersedes FASB ASC Topic 840, *Leases*, and makes other conforming amendments to U.S. GAAP. ASU 2016-02 requires, among other changes to the lease accounting guidance, lessees to recognize most leases on the balance sheet through both a right-of-use asset and a corresponding lease obligation liability, and additional qualitative and quantitative disclosures. Early adoption is permitted and ASU 2016-02 mandates a modified retrospective transition method. Management plans to adopt the provisions of ASU 2016-02 in its fiscal year 2020. WellStar currently expects ASU 2016-02 to add a right-of-use asset and a related lease liability totaling approximately $130.0 million to the combined balance sheets if adopted as of June 30, 2019 based on its evaluation of the standard to-date. Management continues to evaluate the effects the standard will have on the combined financial statements and management's current estimate could materially change at time of adoption.

The FASB issued ASU 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities (ASC 958),* which amends the requirements for financial statements and notes in ASC 958, and changes how not-for-profit entities, including healthcare entities, report net asset classes, expenses, and liquidity in their financial statements. The ASU 2016-14 is effective for annual periods in fiscal years beginning after December 15, 2017 and for interim periods in fiscal years beginning after December 15, 2018. Early application is permitted. ASU 2016-14 must be initially adopted either for an annual fiscal period or for the first interim period within the fiscal year of adoption. Not-for-profits that present comparative financial statements may omit certain information for periods presented before the year of adoption, which are the analysis of expenses by functional and natural classification and disclosures about liquidity and availability of resources. The impact of adoption changes the classification of net assets on the combined balance sheets and combined statements of changes in net assets from three classes of net assets to two classes of net assets. WellStar also disaggregated functional expense classifications by their natural expense classification (note 14) and provided disclosure regarding liquidity and availability of resources (note 1(u)). The adoption of ASU 2016-14 had no impact to revenue gains and other support, revenue gains and other support in excess of expenses and losses or changes in net assets.

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

In November 2016, the FASB issued ASU 2016-18, *Statement of Cash Flows (Topic 230): Restricted Cash*, which requires companies to present amounts generally described as restricted cash and restricted cash equivalents in cash and cash equivalents on the statement of cash flows. ASU 2016-18 is effective for annual periods in fiscal years beginning after December 15, 2018 and requires retrospective application. WellStar expects an increase to beginning cash and cash equivalents on the combined statement of cash flows by approximately $36.4 million on adoption of the amendments in the ASU.

In March 2017, the FASB issued ASU 2017-07, *Compensation-Retirement Benefit (Topic 715)*, which requires companies to present the service cost component of net benefit cost in the income statement line items where they report compensation cost, and all other components of net benefit cost in the income statement separately from the service cost component and outside of operating income, if this subtotal is presented. Additionally, the service cost component will be the only component that can be capitalized. ASU 2017-07 is effective in annual periods in fiscal years beginning after December 15, 2018. The standard requires retrospective application for the amendments related to the presentation of the service cost component and other components of net benefit cost, and prospective application for the amendments related to the capitalization requirements for the service cost components of net benefit cost. WellStar plans to implement ASU 2017-07 for its fiscal year beginning July 1, 2019. WellStar estimates ASU 2017-07 to increase operating income by approximately $19.9 million on the combined financial statements.

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

In May 2019, the FASB issued ASU 2019-06, *Intangibles – Goodwill and Other (Topic 350), Business Combinations (Topic 805), and Not-for-Profit Entities (Topic 958) Extending the Private Company Accounting Alternatives on Goodwill and Certain Identifiable Intangible Assets to Not-for-Profit Entities*, provides not-for-profit entities an open-ended effective date and unconditional one-time election to adopt the private company alternatives from Topic 350 and Topic 805. Topic 350 provides that an entity should amortize goodwill on a straight-line basis over 10 years, or less, if applicable. 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 be amortized consistent with the period of goodwill amortization. The ASU requires election of Topic 350 if Topic 850 is elected. Topic 350 may be adopted without adoption of Topic 850. WellStar has not elected to apply the provisions of the ASU at this time.

(w) Reclassifications

Certain reclassifications have been made to the 2018 combined financial statements to conform to the current year presentation. These reclassifications have not changed the results of operations or cash flows of prior periods.

(2) Assets Limited as to Use

The composition of assets limited as to use follows:

		2019	2018
		(In thousands)	
By the Board for capital improvements and other system needs:			
Cash and cash equivalents	$	19,336	18,322
Asset backed securities		103,605	89,916
Mortgage backed securities		52,232	48,091
Obligations of the U.S. government and its agencies		105,270	91,498
Corporate debt securities – domestic		321,093	287,545
Corporate debt securities – international		22,789	1,855
Corporate equity securities – domestic		373,440	324,166
Corporate equity securities – international		82,000	84,013
Mutual funds		20,748	18,430
		1,100,513	963,836

		2019	2018
		(In thousands)	
Under self-insurance funding arrangements:			
Cash and cash equivalents	$	915	91,971
Asset backed securities		1,002	—
Obligations of the U.S. government and its agencies		61,056	—
Corporate debt securities – domestic		57,534	—
Corporate debt securities – international		1,201	—
Corporate equity securities – domestic		16,097	14,050
International investments		669	1,019
		138,474	107,040
By donor stipulation:			
Cash and cash equivalents		14,163	12,041
Foreign investment		744	492
Obligations of the U.S. government and its agencies		184	175
Corporate debt securities – domestic		8,367	6,756
Corporate debt securities – international		682	—
Corporate equity securities – domestic		12,058	13,501
Corporate equity securities International		3,489	3,490
Other		1,559	1,550
		41,246	38,005
Under bond indenture agreements – held by trustee:			
Cash and cash equivalents		210	102
Obligations of the U.S. government and its agencies		10,798	11,991
Asset backed securities		35,201	90,193
		46,209	102,286
		1,326,442	1,211,167
Less amounts classified as current assets		(4,928)	(102)
	$	1,321,514	1,211,065

The composition of net investment income follows:

		2019	2018
		(In thousands)	
Net investment income included in nonoperating gains:			
Net realized gains on investments	$	26,858	23,609
Interest and dividend income		22,586	15,332
Net unrealized gain on investments		20,665	12,196
Equity in earnings of joint ventures, net		955	6,460
		71,064	57,597
Restricted net investment income		1,478	1,651
	$	72,542	59,248

Interest and dividend income include management fees of $3.2 million and $3.0 million for fiscal years 2019 and 2018, respectively.

(3) Other Current Assets

The composition of other current assets follows:

		2019	2018
		(In thousands)	
Inventories	$	81,203	71,042
Prepaid expenses		35,368	24,488
Other receivables		23,529	15,345
	$	140,100	110,875

(4) Property and Equipment

A summary of property and equipment follows:

		2019	2018
		(In thousands)	
Land and land improvements	$	204,623	201,312
Buildings and fixtures		1,619,075	1,577,024
Equipment		1,332,843	1,185,444
		3,156,541	2,963,780
Less accumulated depreciation and amortization		1,578,044	1,410,198
		1,578,497	1,553,582
Construction in progress		179,776	125,845
	$	1,758,273	1,679,427

Construction in progress at June 30, 2019 is principally comprised of costs incurred to complete expansion and renovation projects at various affiliates' facilities. The estimated remaining cost to complete projects in progress through June 2020 is approximately $159.0 million at June 30, 2019. The 2020 and forward capital expenditures amounts does not include carryover dollars from 2019 and prior years of $357.0 million. WellStar's present capital improvements program provides for planned capital expenditures during fiscal years 2020 through 2024 as follows: 2020 – $290.7 million, 2021 – $162.5 million, 2022 – $186.9 million, 2023 – $227.6 million, and 2024 – $330.0 million.

(5) Other Assets

The composition of other assets follows:

		2019	2018
		(In thousands)	
Intangible assets	$	9,061	8,835
Other long-term receivables		23,085	19,319
Investments in joint ventures		35,215	19,656
Prepaid expenses and other long term assets		5,763	6,711
	$	73,124	54,521

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

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

(6) Long-term Debt and Capital Lease Obligations

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

		2019	2018
		(In thousands)	
Series 2004 hospital authority revenue anticipation certificates issued in April 2004. Variable weekly interest rates; interest payments due monthly; principal payments due annually April 1, 2032 through 2034	$	25,000	25,000
Series 2006 hospital authority revenue anticipation certificates issued in April 2006. Variable weekly interest rates; interest payments due monthly; principal payments due annually April 1, 2034 through 2036		25,000	25,000
Series 2011 hospital authority revenue anticipation refunding and improvement certificates issued in November 2011. Interest rates range from 3.00% to 5.25% per annum; interest payments due semiannually on April 1 and October 1; principal payments due annually April 1, 2012 through 2041		96,195	100,490
Series 2012A hospital authority revenue anticipation improvement certificates issued in June 2012. Interest rates range from 3.0% to 5.0% per annum; interest payments due semiannually on April 1 and October 1. Principal payments due annually April 1, 2017 through 2042		28,995	29,770
Series 2012B hospital authority revenue anticipation improvement certificates issued in June 2012. Variable weekly interest rates; interest payments due monthly; principal payments due April 1, 2041 through 2043		68,750	68,750
Series 2012 hospital authority revenue anticipation improvement certificates issued in November 2012. Interest rates range from 2.0% to 5.25% per annum; interest payments due annually April 1, 2014 through 2032. Principal payments due annually on April 1 through 2032		89,800	93,635
Series 2017A hospital authority revenue anticipation certificates issued August 2017. Interest rates range from 1% to 5% per annum; interest payments due semiannually on April 1 and October 1. Principal payments due annually April 1, 2018 through 2047		151,215	153,015

	2019	2018
	(In thousands)	
Series 2017A development authority hospital revenue bonds issued August 2017. Interest rates range from 1% to 5% per annum; interest payments due semiannually on April 1 and October 1. Principal payments due annually April 1, 2018 through 2047	174,610	176,200
Series 2017A hospital authority revenue anticipation certificates issued August 2017. Interest rates range from 1% to 5% per annum; interest payments due semiannually on April 1 and October 1. Principal payments due annually April 1, 2018 through 2047	168,315	169,305
Series 2017A hospital authority revenue anticipation certificates issued August 2017. Interest rates range from 1% to 5% per annum; interest payments due semiannually on April 1 and October 1. Principal payments due annually April 1, 2018 through 2047	59,700	60,820
Series 2017B hospital authority revenue anticipation certificates issued August 2017. Variable weekly interest rates; interest payments due monthly; principal payments due April 1, 2018 through April 1, 2047	57,210	58,505
Series 2017B development authority hospital revenue bonds issued August 2017. Variable weekly interest rates; interest payments due monthly; principal payments due April 1, 2018 through April 1, 2047	85,695	87,635
Series 2017B hospital authority revenue anticipation certificates issued August 2017. Variable weekly interest rates; interest payments due monthly; principal payments due April 1, 2018 through April 1, 2047	47,610	48,685
Series 2017C hospital authority revenue anticipation certificates issued December 2017. Variable weekly interest rates; interest payments due monthly; principal payments due April 1, 2018 through April 1, 2042	61,100	63,757
Series 2017C development authority hospital revenue bonds issued August 2017. Variable weekly interest rates; interest payments due monthly; principal payments due April 1, 2018 through April 1, 2047	28,565	29,210
Series 2017D development authority hospital revenue bonds issued August 2017. Variable weekly interest rates; interest payments due monthly; principal payments due April 1, 2018 through April 1, 2047	28,565	29,210
Bank of America, N.A. loan dated October 15, 2018. Variable LIBOR daily floating rate plus 0.24% per annum. Interest paid monthly maturing October 14, 2020.	50,000	—

		2019	2018
		(In thousands)	
HCP, Inc., lease agreement for WellStar North Fulton Hospital dated March 31, 2016. Lease payments are due monthly in arrears through the current term expiring February 19, 2020 with provisions for renewal.	$	86,144	92,552
Vinings Health Park, L.P., lease agreement beginning September 30, 2017. Lease payments are due monthly in arrears through September 30, 2037.		—	62,648
Various other notes payable and capital lease obligations, with interest rates ranging from 3.50% to 6.00%. Interest and principal paid monthly or annually, maturing through April 2029		4,217	4,832
Total revenue certificates, debt, and capital lease obligations		1,336,686	1,379,019
Plus unamortized premium		53,209	55,548
Less unamortized cost of issuance		(7,002)	(7,383)
Less unamortized discount		(53)	(54)
Total long-term debt and capital lease obligations		1,382,840	1,427,130
Less current installments		110,038	32,119
	$	1,272,802	1,395,011

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

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

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

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

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

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

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

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

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

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

WellStar recognized a loss on refunding, in its fiscal year 2018 combined statement of operations, related to the extinguishment of the Series 2005A Certificates, Series 2005B Certificates, Series 2008 Certificates, and Series 2014 Certificates totaling $5.6 million.

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

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

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

The 2004 and 2006 revenue certificates bear interest at variable rates and are secured by direct-pay letters of credit expiring August 12, 2020. Interest rates are set weekly by the remarketing agent based upon prevailing rates for the contract period related to the remarketed tranche. In the event a market for variable rate instruments is not sustained, the letter of credit agreements require the bank to purchase the certificates.

On October 15, 2018, WellStar Health System, Inc, and it’s Affiliates entered into a term loan agreement for $50.0 million to fund in part the purchase of Vinings Health Park by Cobb Hospital, Inc. in the amount of $69.9 million. The interest rate is LIBOR daily floating rate plus 0.24% per annum. The loan is due no later than October 14, 2020.

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

On March 31, 2016, WellStar as the acquirer of WNFH and guarantor entered into a Lessor Estopel Certificate with HCP, Inc. for WNFH’s interest in the leased premises of the WNFH and the assumption of the lease. The initial term of the lease expired February 19, 1999 and WNFH was granted the option to renew the term of the lease for up to eight extended terms. WNFH has invoked four extended terms and has the option to renew the lease for four additional extended terms of five years each. The current annual minimum payable under the lease is $7.0 million payable in equal monthly installments. In February 2019 WellStar provided notice to the lessor of its intent to exercise its option under the lease to purchase the building in February 2020 at the fixed purchase price totaling $82.0 million. WellStar anticipates, but has not yet consummated, issuing long-term bonds to refinance the existing capital lease obligation included in long-term debt and capital lease obligations, current portion in the accompanying 2019 combined balance sheet.

The average annual interest rate on WellStar’s variable rate obligations approximated 2.1% and 1.6% for the years ended June 30, 2019 and 2018, respectively.

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

WellStar has an unsecured revolving line of credit with a bank for $100 million. The facility is available until March 28, 2020. WellStar anticipates renewal of the facility at expiration under substantially the same terms and conditions as the existing facility. There were no amounts outstanding under the facility at June 30, 2019 or 2018.

WellStar paid interest of approximately $51.2 million and $45.0 million in 2019 and 2018, respectively.

Net interest capitalized on capital projects was approximately $5.5 million and $5.1 million, in 2019 and 2018, respectively.

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

2020	$	110,038
2021		74,736
2022		25,587
2023		26,547
2024		27,598
Thereafter		1,072,180
	$	1,336,686

(7) Derivative Instruments

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

WellStar's credit risk involves the possible default of the counterparty. Collateral may be required in the future based on WellStar's credit rating, the insurer's credit rating, or market valuations of the swaps. At June 30, 2019 and through the date these combined financial statements were issued, no such collateral was required.

The swap's fair value, if positive, is included in other assets in the accompanying combined balance sheets. If negative, the swap's fair value is included in other long-term liabilities in the accompanying combined balance sheets. The following is a summary of the derivative outstanding at June 30, 2019 and 2018 (in thousands):

2019

Notional amount	Maturity date	Average variable rate received	Fixed rate paid	Increase in interest expense	Swap fair value
$ 60,000	April 2040	1.70 %	3.45 %	$ 1,129	(19,110)

2018							
	Notional amount	Maturity date	Average variable rate received	Fixed rate paid		Increase in interest expense	Swap fair value
$	60,000	April 2040	1.01 %	3.45 %	$	1,324	(13,551)

(8) Net Patient Service Revenue and Patient Accounts Receivable

In May 2014, the Financial Accounting Standards Board (FASB) issued a new standard related to revenue recognition. WellStar adopted the new standard effective July 1, 2018, using the full retrospective method. The adoption of the new standard did not have an impact on the recognition of net revenues for any periods prior to adoption. The most significant impact of adopting the new standard is to the presentation of the consolidated income statement, which no longer presents the “Provision for doubtful accounts” as a separate line item and the “Revenues” are presented net of estimated implicit price concessions. WellStar has also eliminated the related presentation of “allowances for doubtful accounts” on the consolidated balance sheet as a result of the adoption of the new standard.

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

- *Medicare* – Inpatient and outpatient services rendered to Medicare program beneficiaries are generally paid at prospectively determined rates. These rates vary according to patient classification systems that are based on clinical, diagnostic, and other factors. Additionally, payments for certain other reimbursable items are made at tentative rates, with final settlements determined after submission of annual cost reports and audits by the Medicare fiscal intermediary. WellStar affiliate hospitals received Medicare Disproportionate Share payments totaling $49.3 million and $35.1 million during fiscal years 2019 and 2018, 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 cost report audits are currently in process for a number of hospitals. Net revenue from the Medicare program accounted for approximately 31.8% and 33.9% of WellStar’s net patient service revenue for the years ended June 30, 2019 and 2018, respectively.

WellStar, through one of its subsidiaries, participates in the Medicare Shared Saving Program (MSSP) "Track 1" involving upside only gain-sharing. The overall quality and savings benchmarks for its assigned patient population were met during fiscal year 2018. WellStar has not received final results of its participation in the fiscal 2019 program. Other revenue in the accompanying fiscal 2018 combined statements of operations includes shared savings payments totaling $7.9 million. The savings realized under the program were distributed, net of program operating costs, 50% to participating physicians (including both employee and nonemployee physicians) with the remaining 50% retained by WellStar. Continued participation provides for upside only gain-sharing and there can be no assurance the program will qualify for future shared savings payments under the program.

- *Medicaid* – Inpatient services rendered to Medicaid program beneficiaries are paid at prospectively determined rates per discharge. Outpatient services are generally paid based upon cost reimbursement methodologies. WellStar's Medicaid cost reports have been final settled through June 30, 2015 for all WellStar affiliates. Net revenue from the Medicaid program accounted for approximately 11.2% and 11.3% of WellStar's net patient service revenue for the years ended June 30, 2019 and 2018, respectively.

During fiscal 2019 and 2018, net patient service revenue decreased by approximately $9.3 million and $12.0 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, 2019 and 2018.

WellStar's affiliate hospitals and nursing facilities participate in the Georgia Medicaid Upper Payment Limit (UPL) program for providers participating in the State of Georgia (the State) Medicaid program. WellStar's net reimbursement benefit associated with the program, totaling approximately $18.8 million and $19.0 million in fiscal years 2019 and 2018, 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 $55.5 million and $49.3 million in fiscal years 2019 and 2018, respectively, is recognized as additional Medicaid reimbursement and, therefore, is reflected as a reduction in associated contractual adjustments in the accompanying combined statements of operations.

The State's determination related to WellStar's participation in the State's fiscal year 2020 plan is currently in process, and the terms of the fiscal year 2020 plan have not been finalized. Accordingly, contributions to the State's plan during 2020 and related amounts to be potentially received from Medicaid during 2020 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, 2019 and 2018 follow:

		2019	2018
		(In thousands)	
Medicare	$	982,192	899,306
Medicaid		350,322	310,710
Other third-party payors		1,984,667	1,769,102
Patients		140,121	151,565
Net patient service revenue	$	3,457,302	3,130,683

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, 2019 and 2018 follow:

Service lines		2019	2018
		(In thousands)	
Hospital services	$	2,944,152	2,663,612
Physician services		444,182	400,790
Other healthcare services		68,968	66,281
Net patient service revenue	$	3,457,302	3,130,683

(9) Community Benefits and Uncompensated Care

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

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

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

		2019	2018
		(In thousands)	
Cost of providing charity care	$	293,047	255,954
Unreimbursed cost of providing care to Medicaid beneficiaries		104,179	86,107
Unreimbursed cost of providing care to Medicare beneficiaries		237,145	206,724
Unreimbursed cost of providing care to other patients		135,375	127,756
Cost of other community programs		15,125	8,371
	$	784,871	684,912

The State of Georgia Provider Payment Agreement Act provides that each hospital shall be assessed a provider payment in the amount of 1.45% (1.40% for three WellStar affiliate hospitals [WAMC, WKH, WNFH] designated as Georgia Trauma Centers) of net patient service revenue of the hospital based on the annual financial survey filed with the State of Georgia Department of Community Health and such payments be recognized as a community benefit. In fiscal years 2019 and 2018, WellStar affiliate hospitals made $28.5 million and $32.6 million, respectively, in provider payments and recognized such payments as a reduction in net patient service revenue in the accompanying combined financial statements.

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

(10) Employee Benefit Plans

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

WellStar sponsors two defined benefit pension plans (the Active Plan and Inactive Plan) covering certain employees who have attained the age of 21 and completed one year of service as defined in the Active Plan and the Inactive Plan. WellStar contributes an amount sufficient to fund the plans as determined by consulting actuaries. The changes in the projected benefit obligations for the years ended June 30, 2019 and 2018 follow:

		2019	2018
		(In thousands)	
Projected benefit obligation, beginning of year	$	1,150,909	1,072,018
Service cost		64,838	47,492
Interest cost		46,919	38,641
Actuarial loss		146,917	22,704
Benefits paid		(30,715)	(29,946)
Projected benefit obligation, end of year	$	1,378,868	1,150,909

The accumulated benefit obligations at June 30, 2019 and 2018 totaled $1.3 billion and $1.1 billion, respectively.

The changes in the fair value of plan assets, funded status of the plan, and the status of amounts recognized in WellStar's combined balance sheets as of June 30, 2019 and 2018 follow:

		2019	2018
		(In thousands)	
Fair value of plan assets, beginning of year	$	808,381	720,333
Actual return on plan assets		57,642	65,147
Employer contributions		69,340	52,847
Benefits paid		(30,715)	(29,946)
Fair value of assets, end of year	$	904,648	808,381
Accrued pension liability – funded status	$	(474,220)	(342,527)

The components of net periodic pension cost for 2019 and 2018 follow:

		2019	2018
		(In thousands)	
Service cost	$	64,838	47,492
Interest cost		46,919	38,641
Expected return on plan assets		(57,997)	(51,211)
Amortization of prior service cost		(9,458)	(9,458)
Amortization of net loss		23,875	25,425
	$	68,177	50,889

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

		2019	2018
		(In thousands)	
Prior service cost	$	(20,952)	(30,410)
Actuarial loss		517,803	394,404
	$	496,851	363,994

WellStar is expected to amortize $25.4 million of net loss from net assets without donor restrictions into net periodic pension cost and $(9.5) million of prior service cost credit during fiscal year 2019.

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

	2019	2018
Discount rate – Active Plan	3.78 %	4.35 %
Discount rate – Inactive Plan	3.60	4.28
Rate of compensation increase	3.30	3.30

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

	2019	2018
Discount rate – Active Plan	4.35 %	4.18 %
Discount rate – service cost – Active Plan	4.38	4.33
Discount rate – interest cost – Active Plan	4.32	4.08
Discount rate – Inactive Plan	4.28	3.97
Discount rate – interest cost – Inactive Plan	4.01	3.41
Expected return on plan assets	7.00	7.00
Rate of compensation increase – Active Plan	3.30	3.30

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

(i) Plan Assets

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

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

	Target allocation	Plan assets at June 30 2019	Plan assets at June 30 2018
Plan assets:			
Cash and cash equivalents	— %	3 %	2 %
Equity securities – domestic	51	61	61
Debt securities – domestic	35	33	33
Equity securities – international	14	3	4
	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 $87.0 million to the Plans in fiscal year 2020.

(iii) Expected Future Benefit Payments

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

2020	$	38,651
2021		42,969
2022		47,128
2023		51,827
2024		56,063
2025–2029		345,598

(iv) Other Items

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

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

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

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

The funded status of the WWGMC Plan plus amounts due to the LT Authority related to the LT Authority Plan is recognized as an asset or liability in the combined balance sheets. Net pension liability recognized in the combined balance sheets consists of the following at June 30, 2019 and 2018:

(i) WWGMC Pension Plan

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

		June 30	
		2019	**2018**
		(In thousands)	
Projected benefit obligation, beginning of period	$	32,674	34,104
Service cost		1,188	1,664
Interest cost		1,342	1,269
Actuarial gain		4,389	(3,827)
Benefits paid		(661)	(536)
Projected benefit obligation, end of period		38,932	32,674
Fair value of plan assets, beginning of period		20,299	17,019
Actual return on plan assets		1,289	1,536
Contributions from the plan's sponsor		1,768	2,280
Benefits paid		(661)	(536)
Fair value of plan assets, end of period		22,695	20,299
Accrued pension liability – funded status	$	(16,237)	(12,375)

The accumulated benefit obligation at June 30, 2019 and 2018 totaled $31.2 million and $26.8 million, respectively.

The amounts accumulated in net assets without donor restrictions related to the plan in the combined balance sheets consist of the following at June 30, 2019 and 2018:

	June 30 2019	June 30 2018
	(In thousands)	
Net actuarial loss	$ 6,870	2,294
Transition obligation	2,919	3,475
	9,789	5,769
Deficit of cumulative employer contributions to net periodic pension cost	6,448	6,606
	$ 16,237	12,375

Net periodic pension cost and other amounts recognized in net assets without donor restrictions excluding amounts transitioned from the LT Authority effective October 1, 2009, consist of the following at June 30, 2019 and 2018:

	June 30 2019	June 30 2018
	(In thousands)	
Net periodic pension cost components:		
Service cost	$ 1,188	1,664
Interest cost	1,342	1,269
Expected return on plan assets	(1,477)	(1,254)
Amortization of net loss	—	604
Amortization of transition obligation	556	556
Net periodic pension cost	1,609	2,839
Other changes in net assets without donor restrictions:		
Amortization of transition obligation	(556)	(556)
Amortization of net gain	4,577	(4,108)
Net actuarial gain	—	(605)
Total gain recognized in net assets without donor restrictions	4,021	(5,269)
Total recognized in net periodic pension cost and net assets without donor restrictions	$ 5,630	(2,430)

The initial transition obligation was established on the effective date of the WWGMC Plan, October 1, 2009, and it represents the unfunded projected benefit obligation as of that date. The initial amount was $8.3 million and is being amortized over 15 years at $556 thousand per year. The amount of the transition obligation that will be amortized into net periodic pension cost in 2020 is $556 thousand.

The actuarial assumptions used for the plans as of June 30, 2019 and 2018 are as follows:

	June 30	
	2019	**2018**
Net periodic pension cost	4.15 %	3.75 %
Benefit obligations	4.15	4.15
Expected return on plan assets	7.00	7.00

WellStar expects to contribute approximately $2.3 million to the WWGMC Plan in fiscal year 2020.

The respective long-term rate of returns were developed using anticipated rates of return on each asset category. All of the plans' assets at June 30, 2019 and 2018 are invested in cash equivalents and mutual funds.

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

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

	WWGMC plan benefit payments (In thousands)
Year ending June 30:	
2020	$ 948
2021	1,121
2022	1,329
2023	1,553
2024	1,789
2025–2029	12,069

(ii) LaGrange-Troup County Hospital Authority Pension Plan

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

		June 30	
		2019	**2018**
		(In thousands)	
Projected benefit obligation, beginning of period	$	95,296	101,258
Interest cost		3,872	3,725
Actuarial gain		5,821	(5,898)
Benefits paid		(3,979)	(3,789)
Projected benefit obligation, end of period		101,010	95,296
Fair value of LT Authority Plan assets, beginning of period		51,350	50,252
Actual return on LT Authority Plan assets		2,823	3,327
Contributions from the LT Authority Plan's sponsor		1,953	1,560
Benefits paid		(3,979)	(3,789)
Fair value of LT Authority Plan assets, end of period		52,147	51,350
Accrued pension liability – funded status of the LT Authority Plan, end of period	$	(48,863)	(43,946)

The accumulated benefit obligations at June 30, 2019 and 2018 totaled $101.0 million and $95.3 million, respectively.

Amounts recognized in unrestricted net assets related to the LT Authority Plan consist of the following at June 30, 2019 and June 30, 2018:

		June 30	
		2019	**2018**
		(In thousands)	
Actuarial loss	$	20,702	14,881
Accrued pension cost		28,160	29,065
	$	48,862	43,946

(Continued)

Net periodic pension cost and other amounts recognized in net assets without donor restrictions consist of the following at June 30, 2019 and 2018:

		June 30	
		2019	**2018**
		(In thousands)	
Net periodic pension cost components:			
Interest cost	$	3,872	3,725
Amortization of net loss		692	1,411
Expected return on plan assets		(3,516)	(3,440)
Net periodic pension cost		1,048	1,696
Other changes in unrestricted net assets:			
Net (gain) in unrestricted net assets		6,513	(5,785)
Amortization of net loss		(692)	(1,411)
Total gain recognized in unrestricted net assets		5,821	(7,196)
Total recognized in net periodic pension cost and unrestricted net assets	$	6,869	(5,500)

The actuarial assumptions used for the plans as of June 30, 2019 and 2018 are as follows:

	June 30	
	2019	**2018**
Net periodic pension cost	4.15 %	3.75 %
Benefit obligations	4.15	4.15
Expected return on Plan assets	7.00	7.00

WWGMC expects to make contributions to the LT Authority Plan of approximately $1.9 million through June 30, 2020.

(iii) Plan Assets

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

	Target allocation	Plan assets at June 30 2019	2018
Cash and cash equivalents	0–10%	2 %	4 %
Fixed income	35–100	39	39
Equities	0–65	59	56

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

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

	Authority plan benefit payments (In thousands)
Year ending June 30:	
2020	$ 4,633
2021	4,854
2022	5,066
2023	5,282
2024	5,523
2025–2029	30,051

(c) Other Benefits

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

WellStar matches eligible employees of certain affiliates contributions at a rate equal to 50% of employees' contributions, not to exceed 2% of total compensation. Employees vest in WellStar contributions on a "cliff" basis after three years of service.

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

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

WellStar contributed approximately $17.6 million and $18.3 million to the plans during the years ended June 30, 2019 and 2018, respectively.

WGHP sponsors a defined contribution 401(k) plan for eligible participants. Effective on May 6, 2017, the WGHP 401(k) plan was terminated. All contributions to the Plan ceased as of the Plan termination date and participants became 100% vested as of the termination date. The Plan was liquidated October 19, 2018. Expenses incurred under the plan totaled approximately $216 thousand in 2018.

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 $22.3 million and $21.2 million as of June 30, 2019 and 2018, respectively.

WellStar also sponsors an unfunded postretirement medical plan covering members of the Board of Trustees and their dependents upon retirement from completion of 12 years of board service. The unfunded status of the plan at June 30, 2019 and 2018 is $2.0 million and $2.0 million, respectively, and is included in other long-term liabilities in the accompanying combined balance sheets. The plan is measured as of June 30 using a discount rate of 4.19% and 4.19% at June 30, 2019 and 2018, respectively. The assumed initial and ultimate healthcare trend rate is 0% in both 2019 and 2018.

(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:

	2019	2018
Managed Care	49 %	47 %
Medicare	24	24
Medicaid	12	13
Patients	2	2
Other third-party payors	13	14
	100 %	100 %

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

The estimates for implicit price concessions are based upon management's assessment of historical write-offs and expected net collections, business and economic conditions, trends in federal, state and private employer health care coverage and other collection indicators. Management relies on the results of detailed reviews of historical write-offs and collections at facilities that represent a majority of our revenues and accounts receivable (the hindsight analysis) as a primary source of information in estimating the collectability of accounts receivable. WellStar performs the hindsight analysis quarterly, utilizing rolling twelve-months accounts receivable collection and write-off data. WellStar believes quarterly updates to the estimated implicit price concession amounts at each of the hospital facilities provides reasonable estimates of revenues and valuation of accounts receivable. These routine, quarterly changes in estimates have not resulted in material adjustments to the valuation of accounts receivable or period-to-period comparisons of the results of operations. At June 30, 2019 and 2018, estimated implicit price concessions of $253.8 million and $269.1 million, respectively, had been recorded as reductions to accounts receivable balances to record revenues and accounts receivable at the estimated collectible amount.

(12) Self-Insurance Programs

WellStar has established a wholly owned captive insurance company (CAC) for the purpose of self-insuring first-dollar coverage related to general liability, professional liability, worker's compensation risks on a claims made basis. WellStar funds CAC in amounts as determined by consulting actuaries. General and professional liability risks are self-insured at an underlying annual coverage layer totaling $2.0 million and $7.0 million per individual loss, respectively, and $51.0 million for aggregate claims. Workers' compensation coverage is self-insured for individual claims up to $500 thousand.

CAC also provides first-dollar coverage for Directors and Officers ($150 thousand), property, automobile policies ($50 thousand) and cyber security ($250 thousand). In addition, WellStar is self-insured through other arrangements for employee group health insurance, generally up to $1.0 million of lifetime coverage per employee.

Losses for all self-insured coverages, except for employee group health insurance, are managed through the Risk Management and Claims Committee process. Identified and incurred-but-not-reported losses are accrued based on estimates that incorporate WellStar's past experience, as well as other considerations such as the nature of each claim or incident, relevant trend factors, and advice from consulting actuaries. The identified and estimated incurred-but-not-reported losses included in the accompanying combined balance sheets at both June 30, 2019 and 2018 have been discounted at 2.5%.

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

(13) Leases

WellStar leases certain property, buildings, and equipment under cancelable and noncancelable operating leases expiring through June 30, 2030. Future minimum rental payments required under noncancelable leases having an initial term of more than one year follow (in thousands):

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

Rental expense was approximately $50.4 million and $39.7 million for fiscal years 2019 and 2018, respectively.

(14) Functional Expenses

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

		2019		
		Healthcare services	General and administrative	Total
			(In thousands)	
Salaries and employee benefits	$	1,431,085	565,685	1,996,770
Supplies and other expenses		831,560	328,703	1,160,263
Depreciation and amortization		125,245	49,507	174,752
Interest		41,969	—	41,969
Total expenses	$	2,429,859	943,895	3,373,754

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

(Continued)

(15) Fair Value of Financial Instruments

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

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

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

	2019		
	Level 1	**Level 2**	**Total**
		(In thousands)	
By the Board for capital improvements and other system needs:			
Cash and cash equivalents	$ 14,832	—	14,832
Asset backed securities	—	103,605	103,605
Mortgage backed securities	—	52,232	52,232
Obligations of the U.S. government and its agencies	105,270	—	105,270
Corporate debt securities – domestic	281,523	39,570	321,093
Corporate debt securities – international	—	22,789	22,789
Corporate equity securities – domestic	373,440	—	373,440
Corporate equity securities – international	82,000	—	82,000
Mutual funds	20,748	—	20,748
	877,813	218,196	1,096,009

(Continued)

	2019		
	Level 1	Level 2	Total
		(In thousands)	
Under self-insurance funding arrangement:			
Cash and cash equivalents	915	—	915
Asset backed securities	—	1,002	1,002
Obligations of the U.S. government and its agencies	61,056	—	61,056
Corporate debt securities – domestic	—	57,534	57,534
Corporate debt securities – international	—	1,201	1,201
Corporate equity securities – domestic	16,097	—	16,097
Corporate equity securities – international	669	—	669
	78,737	59,737	138,474
By donor stipulation:			
Cash and cash equivalents	18,667	—	18,667
Foreign investments	—	744	744
Obligations of the U.S. government and its agencies	184	—	184
Corporate debt securities – domestic	4,932	3,435	8,367
Corporate debt securities – international	—	682	682
Corporate equity securities – domestic	12,058	—	12,058
Corporate equity securities – international	3,489	—	3,489
Other	—	1,559	1,559
	39,330	6,420	45,750
Under bond indenture agreements – held by trustee:			
Cash and cash equivalents	210	—	210
Obligations of the U.S. government and its agencies	10,798	—	10,798
Asset backed securities	—	35,201	35,201
	11,008	35,201	46,209
	$ 1,006,888	319,554	1,326,442

(Continued)

		2018	
	Level 1	Level 2	Total
		(In thousands)	
By the Board for capital improvements and other system needs:			
Cash and cash equivalents	$ 18,322	—	18,322
Asset backed securities	—	89,916	89,916
Mortgage backed securities	—	48,091	48,091
Obligations of the U.S. government and its agencies	91,498	—	91,498
Corporate debt securities – domestic	241,923	45,622	287,545
Corporate debt securities – international	—	1,855	1,855
Corporate equity securities – domestic	324,166	—	324,166
Corporate equity securities – international	84,013	—	84,013
Mutual funds	18,430	—	18,430
	778,352	185,484	963,836
Under self-insurance funding arrangement:			
Cash and cash equivalents	91,971	—	91,971
Corporate equity securities – domestic	14,050	—	14,050
Corporate equity securities – international	1,019	—	1,019
	107,040	—	107,040
By donor stipulation:			
Cash and cash equivalents	12,041	—	12,041
Foreign Investment	—	492	492
Obligations of the U.S. government and its agencies	175	—	175
Corporate debt securities – domestic	5,585	1,171	6,756
Corporate debt international	—	—	—
Corporate equity securities – domestic	13,501	—	13,501
Corporate equity securities – international	3,490	—	3,490
Other	—	1,550	1,550
	34,792	3,213	38,005
Under bond indenture agreements – held by trustee:			
Cash and cash equivalents	102	—	102
Obligations of the U.S. government and its agencies	11,991	—	11,991
Asset backed securities	—	90,193	90,193
	12,093	90,193	102,286
	$ 932,277	278,890	1,211,167

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, 2019 and 2018. Fair value of a financial instrument is defined as the amount which would be received to sell an asset or paid to transfer a liability in an orderly transaction between willing market participants at the measurement date.

The fair values of WellStar's various debt instruments have been estimated using Level 2 inputs, such as interest rates currently available to WellStar for borrowings having similar character, collateral, and duration. The aggregate fair value of such instruments approximates $1.4 billion at June 30, 2019 and $1.4 billion at June 30, 2018. No adjustment for such fair value measurements is reflected or required in the accompanying combined balance sheets.

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

The fair value hierarchy of the WellStar pension plan assets at June 30, 2019 and 2018 follows:

		2019	
	Level 1	**Level 2**	**Total**
		(In thousands)	
Cash and cash equivalents	$ 23,738	—	23,738
Mortgage – and other asset-backed securities	—	38,939	38,939
	—	998	998
Obligations of the U.S. government and its agencies	72,746	301	73,047
Corporate debt securities – domestic	—	142,809	142,809
Corporate debt securities – international	—	9,974	9,974
Corporate equity securities – domestic	552,741	—	552,741
Corporate equity securities – international	18,256	—	18,256
Open end mutual fund	44,146	—	44,146
	$ 711,627	193,021	904,648

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

The fair value hierarchy of the WWGMC and LT Authority pension plan at June 30, 2019 and 2018 follows:

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

(Continued)

	June 30, 2018	
	WWGMC Level 1 plan assets	**LT Authority Level 1 plan assets**
	(In thousands)	
Pension assets at fair value as of June 30, 2018:		
Cash and cash equivalents	$ 235	—
Money market funds	—	441
Domestic equity mutual funds:		
Technology	1,087	1,390
Large cap	7,761	16,937
Mid cap	765	1,576
Small cap	1,494	3,125
International equity mutual funds	1,905	4,815
Bond mutual funds:		
Long term	2,743	7,629
Intermediate term	1,415	6,013
Short term	1,880	6,559
Other	1,014	2,865
	$ 20,299	51,350

(16) Net Assets with donor restrictions

Restricted net assets as of June 30, 2019 and 2018 are available for the use of various WellStar programs and affiliates as follows:

	2019	2018
	(In thousands)	
Subject to spending policy and appropriation:		
Patient services:		
Hospice services	$ 7,665	7,266
Indigent care clinic support	185	186
Cancer services	1,371	1,324
Hospital general purpose:		
Trauma and emergency	4,079	3,008
Hospital enhancement and operations	17,906	14,543
Community services	58	51
Education and employee assistance:		
Scholarship	640	578
Employee assistance	423	546
Education	60	57
Any activities of the organization	1,909	1,747
	34,296	29,306
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	20	17
Not subject to appropriation or expenditure:		
Endowment established to provide support to hospice care patients and supporting functions	4,534	4,504
Endowment established to provide nursing scholarships	750	737
Endowment established to provide support to cancer services	912	912
Land and attached assets required to be used for hospital purposes	8,538	8,933
Total net assets with donor restrictions	$ 49,550	44,909

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 restriction 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 restriction 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, 2019 and 2018 follow (in thousands):

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

		2018		
		Without donor restriction	**With donor restriction**	**Total**
Donor-restricted endowment funds:				
Original donor-restricted gift amount and amounts required to be maintained in perpetuity by donor	$	—	15,086	15,086
Accumulated investment gains		—	2,906	2,906
Total	$	—	17,992	17,992

The change in endowment net assets and related income classifications for the years ended June 30, 2019 and 2018 follows (in thousands):

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

	2018		
	Without donor restrictions	**With donor restrictions**	**Total**
Beginning of year	$ —	19,205	19,205
Contributions	—	193	193
Other	—	(2,094)	(2,094)
Investment return:			
Interest and dividend income	—	247	247
Net appreciation	—	441	441
	—	688	688
End of year	$ —	17,992	17,992

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) Subsequent Events

WellStar has evaluated subsequent events through October 22, 2019, the date the combined financial statements were issued.

Schedule 1

WELLSTAR HEALTH SYSTEM, INC. AND AFFILIATES

Combining Balance Sheets

June 30, 2019

(In thousands)

Assets		Obligated group	Designated members	Eliminations	Total
Current assets:					
Cash and cash equivalents	$	64,196	2,623	—	66,819
Patient accounts receivable, net		620,888	3,410	—	624,298
Assets limited as to use – required for current liabilities		4,928	—	—	4,928
Other current assets		154,965	119	(14,984)	140,100
Total current assets		844,977	6,152	(14,984)	836,145
Assets limited as to use		1,136,384	185,130	—	1,321,514
Property and equipment, net		1,743,837	14,436	—	1,758,273
Goodwill		415,174	—	—	415,174
Other assets		73,124	—	—	73,124
Total assets	$	4,213,496	205,718	(14,984)	4,404,230
Liabilities and Net Assets					
Current liabilities:					
Accounts payable	$	210,821	7,857	(1,923)	216,755
Accrued salaries, wages, and benefits		184,164	821	—	184,985
Other accrued expenses		52,782	13,551	(13,061)	53,272
Current installments of long-term debt and capital lease obligations		110,038	—	—	110,038
Total current liabilities		557,805	22,229	(14,984)	565,050
Long-term debt and capital lease obligations, excluding current installments		1,272,802	—	—	1,272,802
Self-insurance reserves		50,739	124,154	—	174,893
Accrued pension liability		539,320	—	—	539,320
Other long-term liabilities		60,557	482	—	61,039
Total liabilities		2,481,223	146,865	(14,984)	2,613,104
Net assets:					
Without donor restrictions		1,727,093	14,483	—	1,741,576
With donor restrictions		5,180	44,370	—	49,550
Total net assets		1,732,273	58,853	—	1,791,126
Total liabilities and net assets	$	4,213,496	205,718	(14,984)	4,404,230

See accompanying independent auditors’ report.

Schedule 2

WELLSTAR HEALTH SYSTEM, INC. AND AFFILIATES

Combining Statements of Operations

For the year ending June 30, 2019

(In thousands)

		Obligated group	Designated members	Eliminations	Total
Revenues, gains, and other support:					
Patient service revenue, net of contractual allowances and discounts	$	3,429,706	27,596	—	3,457,302
Other revenue		88,675	67,907	(49,856)	106,726
Total revenue, gains, and other support		3,518,381	95,503	(49,856)	3,564,028
Expenses:					
Salaries and employee benefits		1,975,554	27,520	(6,304)	1,996,770
Supplies and other expenses		1,123,380	71,949	(35,066)	1,160,263
Depreciation and amortization		173,897	855	—	174,752
Interest		41,969	—	—	41,969
Total expenses		3,314,800	100,324	(41,370)	3,373,754
Operating income (loss)		203,581	(4,821)	(8,486)	190,274
Operating income (loss)		203,581	(4,821)	(8,486)	190,274
Nonoperating gains (loss):					
Investment income (loss), net		62,579	(1)	8,486	71,064
Change in fair value of interest rate swap		(5,559)	—	—	(5,559)
Gain on disposal of property and equipment		793	—	—	793
Loss on extinguishment of long-term debt		—	—	—	—
Revenues, gains, and other support in excess of (less than) expenses and losses		261,394	(4,822)	—	256,572
Accrued pension liability adjustments		(142,699)	—	—	(142,699)
Assets released from restriction used for the purchase of property and equipment		1,767	—	—	1,767
Other		(976)	—	—	(976)
Change in net assets without donor restrictions	$	119,486	(4,822)	—	114,664

See accompanying independent auditors' report.