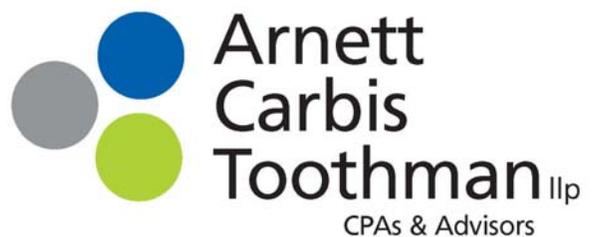


Consolidated Financial
Statements and Other
Financial Information

**Mary Washington
Healthcare and
Subsidiaries**

December 31, 2020 and 2019



Mary Washington Healthcare and Subsidiaries
Consolidated Financial Statements and Other Financial Information

December 31, 2020 and 2019

Contents

Independent Auditor’s Report	1
Consolidated Financial Statements:	
Consolidated Balance Sheets.....	3
Consolidated Statements of Operations and Changes in Net Assets	5
Consolidated Statements of Cash Flows.....	7
Notes to Consolidated Financial Statements	9
Other Financial Information:	
Consolidated Balance Sheet – Mary Washington Healthcare - Obligated Group	39
Consolidated Statement of Operations – Mary Washington Healthcare - Obligated Group	41
Consolidated Statement of Cash Flows – Mary Washington Healthcare - Obligated Group	42

INDEPENDENT AUDITOR'S REPORT

Board of Trustees
Mary Washington Healthcare and Subsidiaries
Fredericksburg, Virginia

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Mary Washington Healthcare and Subsidiaries (MWHC), which comprise the consolidated balance sheets as of December 31, 2020 and 2019, and the related consolidated statements of operations and changes in net assets and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entities' preparation and fair presentation of the consolidated 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 entities' 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 consolidated 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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of MWHC as of December 31, 2020 and 2019, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Other Financial Information

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying obligated group information as of and for the year ended December 31, 2020, is presented for purposes of additional analyses rather than to present the financial position, results of operations, and cash flows of the obligated group and is not a required part of the consolidated 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 consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated 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 consolidated financial statements as a whole.

Arnett Carbis Toothman LLP

New Castle, Pennsylvania
April 13, 2021

Mary Washington Healthcare and Subsidiaries

Consolidated Balance Sheets

	December 31	
	2020	2019
Assets		
Current assets:		
Cash and cash equivalents	\$ 158,635,366	\$ 63,561,906
Accounts receivable:		
Patient accounts receivable	71,485,041	77,470,245
Settlements due from third parties	9,025,889	5,117,147
Other	2,684,763	1,354,966
	<u>83,195,693</u>	<u>83,942,358</u>
Inventories	21,629,371	17,191,833
Prepaid expenses and other	12,401,566	10,768,679
Total current assets	<u>275,861,996</u>	<u>175,464,776</u>
Assets whose use is limited <i>(Note 2)</i> :		
Internally designated for healthcare programs and capital acquisitions	305,603,365	265,373,482
Internally restricted for insurance claims	22,200,144	20,007,191
Externally restricted by donors	19,659,563	17,347,453
	<u>347,463,072</u>	<u>302,728,126</u>
Property, plant, and equipment, less accumulated depreciation and amortization <i>(Note 4)</i>	319,858,536	318,392,396
Right of use assets - operating leases, net	36,539,953	35,451,018
Other non-current assets	<u>5,804,309</u>	4,569,164
Total assets	<u>\$ 985,527,866</u>	<u>\$ 836,605,480</u>

(continued)

See Notes to Consolidated Financial Statements

Mary Washington Healthcare and Subsidiaries
Consolidated Balance Sheets (continued)

	December 31	
	2020	2019
Liabilities and net assets		
Current liabilities:		
Accounts payable and accrued expenses	\$ 46,744,487	\$ 60,966,867
Employee compensation and professional fees	42,341,099	30,086,333
Current Medicare accelerated and advanced payments (Note 14)	44,462,093	-
Interest payable	437,394	469,385
Current maturities of long-term obligations (Notes 5)	11,102,442	11,087,578
Current operating lease obligations	4,294,137	3,057,058
Current maturities of long-term accounts payable	1,468,080	4,277,544
Deferred revenue (Note 14)	10,452,626	-
Total current liabilities	<u>161,302,358</u>	109,944,765
Long-term obligations, less current maturities (Notes 5)	230,182,845	237,234,236
Other liabilities:		
Long-term accounts payable, less current maturities	2,987,996	4,297,539
Long-term operating lease obligations	34,494,728	34,279,015
Long-term Medicare accelerated and advanced payments	48,023,997	-
Accrued losses on malpractice claims (Note 7)	11,235,216	11,021,735
Pension liability (Note 6)	57,485,707	51,764,694
Other	2,855,600	1,910,217
	<u>157,083,244</u>	103,273,200
Total liabilities	548,568,447	450,452,201
Net assets:		
Mary Washington Healthcare and Subsidiaries	411,879,188	363,765,604
Non-controlling interest	5,420,668	5,040,222
Net assets without donor restrictions	<u>417,299,856</u>	368,805,826
Net assets with donor restrictions (Note 3)	19,659,563	17,347,453
	<u>436,959,419</u>	386,153,279
Total liabilities and net assets	<u>\$ 985,527,866</u>	<u>\$ 836,605,480</u>

See Notes to Consolidated Financial Statements

Mary Washington Healthcare and Subsidiaries

Consolidated Statements of Operations and Changes in Net Assets

	Year ended December 31	
	2020	2019
Net assets without donor restrictions		
Revenues and other support:		
Net patient service revenue	\$ 710,686,375	\$ 726,273,120
Retail and pharmacy sales	4,698,300	4,589,326
Rental of facilities	3,409,881	3,289,503
Management and personnel services	5,488,782	7,630,415
Investment income <i>(Note 2)</i>	7,031,896	7,502,123
Unrestricted contributions	642,173	1,551,181
Insurance premiums	12,757,923	-
Other	33,666,654	13,623,596
	<u>778,381,984</u>	<u>764,459,264</u>
Expenses <i>(Note 9)</i>		
Salaries and wages	281,178,776	272,241,664
Employee benefits <i>(Note 6)</i>	51,739,066	53,497,651
Contract personnel	15,841,888	24,206,573
Professional fees	69,558,946	68,542,438
General and administrative	37,911,860	35,395,916
Provisions for depreciation and amortization	40,959,265	40,213,460
Interest <i>(Note 5)</i>	9,001,709	9,865,626
Cost of goods sold from retail operations	4,939,216	4,653,267
Contract services	73,830,286	69,574,561
Supplies	126,865,466	123,651,376
Medical insurance claims	8,078,259	-
Utilities	5,104,301	5,271,025
Insurance <i>(Note 7)</i>	2,002,560	1,247,045
Rent	12,596,412	10,463,603
Other	5,749,309	5,729,973
	<u>745,357,319</u>	<u>724,554,178</u>
Income from operations	33,024,665	39,905,086
Nonoperating gains (losses):		
Net appreciation of investments <i>(Note 2)</i>	37,153,812	45,662,408
Pension expense, non-service component <i>(Note 6)</i>	(1,250,441)	(3,474,971)
Gain (loss) on investments in partnerships and other	703,408	(48,839)
	<u>36,606,779</u>	<u>42,138,608</u>
Excess of revenues, gains, and other support over expenses and losses	69,631,444	82,043,684

(continued)

See Notes to Consolidated Financial Statements

Mary Washington Healthcare and Subsidiaries

Consolidated Statements of Operations and Changes in Net Assets (continued)

	Year ended December 31	
	2020	2019
Net assets without donor restrictions		
Excess of revenues, gains, and other support over expenses and losses	69,631,444	82,043,684
Other changes in net assets without donor restrictions:		
Noncontrolling interest	(8,052,796)	(8,259,560)
Adjustments to net pension liability exclusive of net periodic pension cost <i>(Note 6)</i>	(13,468,864)	2,963,901
Other	3,800	(2,510)
Increase in net assets without donor restrictions	<u>48,113,584</u>	<u>76,745,515</u>
Noncontrolling interest		
Contributions	798,100	-
Distributions	(8,453,840)	(9,037,171)
Change in ownership	(16,610)	(79,740)
Income	8,052,796	8,143,820
	<u>380,446</u>	<u>(973,091)</u>
Net assets with donor restrictions		
Contributions	458,671	482,578
Investment income <i>(Note 2)</i>	3,143,961	786,304
Net assets released from restrictions used in operations	(1,290,091)	(1,278,041)
Other	(431)	(8,053)
Increase (decrease) in net assets with donor restrictions	<u>2,312,110</u>	<u>(17,212)</u>
Increase in net assets	50,806,140	75,755,212
Net assets at beginning of year, as previously reported	386,153,279	311,890,150
Cumulative effect of change in accounting principle	-	(1,492,083)
Net assets at beginning of year, as restated	<u>386,153,279</u>	<u>310,398,067</u>
Net assets at end of year	<u>\$ 436,959,419</u>	<u>\$ 386,153,279</u>

See Notes to Consolidated Financial Statements

Mary Washington Healthcare and Subsidiaries

Consolidated Statements of Cash Flows

	Year ended December 31	
	2020	2019
Cash flows from operating activities and nonoperating gains (losses)		
Increase in net assets	\$ 50,806,140	\$ 75,755,212
Adjustments to reconcile increase in net assets to net cash provided by operating activities and nonoperating gains (losses):		
Net appreciation of investments	(37,153,812)	(45,662,408)
Other nonoperating (gains)	(703,408)	(229,000)
Loss on disposal of fixed assets	-	277,839
Provisions for depreciation and amortization	40,959,265	40,213,460
Accretion of original issue premium	(1,309,418)	(1,353,522)
Amortization of deferred financing costs	140,150	145,455
Operating leases	363,857	392,972
Change in pension obligation other than net periodic pension cost	13,468,864	(2,963,901)
(Increase) decrease in:		
Accounts receivable	4,655,407	2,545,706
Settlements due to/from third parties	(3,908,742)	795,666
Inventories	(4,437,538)	(2,753,290)
Prepaid expenses and other	(1,632,887)	(1,616,963)
Other	413,646	(888,580)
Increase (decrease) in:		
Accounts payable and accrued expenses	(14,222,380)	15,659,966
Employee compensation and professional fees	12,254,766	2,155,136
Interest payable	(31,991)	(24,438)
Deferred revenue	10,452,626	-
Accrued losses on malpractice claims	213,481	(1,744,799)
Pension liability	(7,747,851)	(208,392)
Net cash provided by operating activities and nonoperating gains (losses)	<u>62,580,175</u>	<u>80,496,119</u>

(continued)

See Notes to Consolidated Financial Statements

Mary Washington Healthcare and Subsidiaries
Consolidated Statements of Cash Flows (continued)

	Year ended December 31	
	2020	2019
Cash flows from investing activities		
Change in assets whose use is limited:		
Net (purchases) of investments	(10,075,972)	(3,072,056)
Net decrease in pledges receivable	2,494,838	85,462
Acquisition of property, plant, and equipment	(42,425,405)	(32,715,244)
Net cash (used in) investing activities	<u>(50,006,539)</u>	<u>(35,701,838)</u>
Cash flows from financing activities		
Repayment of long-term accounts payable	(4,119,007)	(3,579,505)
Proceeds from long-term obligations	3,886,993	8,500,000
Proceeds from Medicare accelerated and advanced payments	92,486,090	-
Repayment of long-term obligations	(9,754,252)	(18,079,496)
Net cash provided by (used in) financing activities	<u>82,499,824</u>	<u>(13,159,001)</u>
Net change in cash and cash equivalents	95,073,460	31,635,280
Cash and cash equivalents at beginning of year	<u>63,561,906</u>	<u>31,926,626</u>
Cash and cash equivalents at end of year	<u>\$ 158,635,366</u>	<u>\$ 63,561,906</u>
Non-cash Transactions:		
Property, plant, and equipment acquired through vendor financing	\$ -	\$ 2,184,560
Property, plant, and equipment acquired through accounts payable	\$ -	\$ 3,099,041

See Notes to Consolidated Financial Statements

Mary Washington Healthcare and Subsidiaries

Notes to Consolidated Financial Statements

1. Summary of Significant Accounting Policies

Organization

Mary Washington Healthcare is the parent corporation for Mary Washington Hospital, Inc. (Mary Washington), Stafford Hospital, LLC (Stafford), MediCorp Properties, Inc. (Properties), Mary Washington Healthcare Clinical Services, Inc. (Clinical Services), Mary Washington Healthcare Services, Inc. (Services), Fredericksburg Professional Risk Exchange (ProRex), MWHC SIR, LLC (SIR), Mary Washington Health Alliance, LLC (MWHHA), and Mary Washington Health Plan (MWHP). Mary Washington Healthcare is a nonstock, tax-exempt, not-for-profit organization. Mary Washington, Stafford, Properties, and Clinical Services are wholly-controlled, nonstock, tax-exempt, not-for-profit subsidiaries of Mary Washington Healthcare. Services and MWHP are wholly-owned, taxable subsidiaries of Mary Washington Healthcare. ProRex is a wholly-owned risk retention group and a taxable subsidiary of Mary Washington Healthcare. Mary Washington Healthcare is the sole member of both SIR and MWHHA, which were considered disregarded entities for tax purposes as of December 31, 2020.

Mission Statement

The primary purpose of Mary Washington Healthcare and its subsidiaries (collectively, MWHC) is to improve the health of the people within the communities that it serves. As a result, operating revenues include those generated from direct patient care and sundry revenues related to the operation of MWHC's programs and facilities.

Operating Indicators

MWHC's excess of revenues, gains, and other support over expenses and losses includes all unrestricted revenue, gains, expenses, and losses for the reporting period except for contributions of long-term assets, discontinued operations, additional adjustments to net pension liability exclusive of net periodic pension cost, and noncontrolling interest.

Other activities that result in gains or losses unrelated to MWHC's primary mission are considered to be nonoperating. Nonoperating gains and losses principally include income and expenses associated with investments in partnerships and joint ventures, the net appreciation of investments, and non-service component pension expense.

Basis for Consolidation

The consolidated financial statements include the accounts of Mary Washington Healthcare and its wholly controlled (tax-exempt) or owned (taxable) subsidiaries and majority-owned partnerships. Significant intercompany accounts and transactions are eliminated in consolidation.

Mary Washington Healthcare and Subsidiaries

Notes to Consolidated Financial Statements (continued)

1. Summary of Significant Accounting Policies (continued)

Service to the Community

MWHC provides medical services to the city of Fredericksburg and surrounding counties. Established in 1899 and 2009, respectively, Mary Washington (a 471 bed acute care facility) and Stafford (a 100 bed acute care facility) offer comprehensive healthcare and multiple clinical service lines including cardiology and cardiovascular surgery, psychiatry, and women and infant health. Mary Washington and Stafford (collectively, Hospitals) are accredited by the Joint Commission and licensed by the Virginia Department of Behavioral Health and Developmental Services. Mary Washington also provides advanced radiation therapy through the Cancer Center of Virginia and home health services through Mary Washington Home Health.

Uncompensated Care

MWHC provides a full spectrum of inpatient and outpatient services to members of their community and accepts all patients regardless of their ability to pay. Patients are classified as eligible for charity care according to MWHC's established policies. Amounts determined to qualify as charity care are not pursued for collections and, accordingly, are not reported as patient revenue. In assessing a patient's inability to pay, MWHC utilizes 200% of the poverty level established by the federal government. MWHC also provides additional discounts on a sliding scale up to 500% of the poverty level. Charges for charity care provided for the years ended December 31, 2020 and 2019, were approximately \$27,299,000 and \$22,309,000, respectively. The costs associated with this care equated to approximately \$7,570,000 in 2020 and \$6,420,000 in 2019. The increase in charges and costs for charity care provided is primarily attributed to the COVID-19 pandemic. The cost of uncompensated care includes both direct and indirect costs calculated on a ratio of cost to charges basis.

Support for Medical Education Programs

The Mary Washington Hospital Foundation and Stafford Hospital Foundation (collectively, Foundations) award educational scholarships to individuals enrolled in a nursing program or who wish to pursue a career in a healthcare field. MWHC encourages and provides financial support for certain employees who wish to increase their healthcare knowledge. MWHC also provides financial assistance to employees to attend training to acquire skills and knowledge that will assist in providing healthcare education and/or conduct health fairs that will improve the health status of the community. Mary Washington serves as a clinical training site for undergraduate students enrolled in various healthcare programs with colleges and universities throughout Virginia.

Other Community Services

MWHC also provides:

- funding to community organizations that are health-focused, such as the Lloyd Moss Free Clinic,
- clinical programs that assist many people who would not otherwise be able to access care,
- health promotion programs and services, such as smoking cessation, blood pressure screenings, and wellness programs, and
- social services to assist patients in arranging for non-hospital healthcare services.

Mary Washington Healthcare and Subsidiaries

Notes to Consolidated Financial Statements (continued)

1. Summary of Significant Accounting Policies (continued)

Noncontrolling Interest

Noncontrolling interest represents the noncontrolling partners' proportionate share of Medical Imaging of Fredericksburg (MIF), owned 51% by Clinical Services; Fredericksburg Ambulatory Surgery Center, LLC (FASC), owned 55% (53% in 2019) by Clinical Services; and Endoscopy Holdings, owned 60% by MWHC.

Use of Estimates

The preparation of the consolidated financial statements in accordance with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements. Estimates also affect the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

Cash Equivalents

MWHC considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents. Cash and cash equivalents are maintained in commercial banks, for which the aggregate of \$250,000 per commercial bank is insured by the Federal Deposit Insurance Corporation (FDIC). MWHC's cash balance routinely exceeds the maximum amount insured by the FDIC. MWHC has not experienced any losses related to funds held in excess of the FDIC limit.

A reconciliation of cash and cash equivalents reported within the consolidated balance sheets that sum to the total of the same amounts shown in the consolidated statements of cash flows is not necessary as MWHC does not have any restricted cash and cash equivalents. As a matter of policy, MWHC does not consider investments that are temporarily in cash and cash equivalents form to be subject to this disclosure.

Accounts Receivable

Accounts receivable are reported at estimated net realizable value taking into account estimated implicit and explicit price concessions. The estimated implicit price concessions are based upon management's judgmental assessment of historical and expected net collections considering business and general economic conditions in its service area, trends in healthcare coverage, and other collection indicators. For receivables associated with services provided to patients who have third-party coverage (which includes patients with deductible and payment balances for which third-party coverage exists for part of the bill), MWHC analyzes contractually due amounts and provides an allowance for explicit price concessions, if necessary. Throughout the year, management assesses the adequacy of the estimated price concessions based upon its review of accounts receivable payor composition and aging, taking into consideration recent experience by payor category, payor agreement rate changes, and other factors. The results of these assessments are used to make modifications to patient service revenue and to establish an appropriate estimate for price concessions. MWHC follows established guidelines for placing certain past-due patient balances with external collection agencies.

Mary Washington Healthcare and Subsidiaries

Notes to Consolidated Financial Statements (continued)

1. Summary of Significant Accounting Policies (continued)

Inventories

Inventories of drugs, medical supplies, and retail goods are stated at the lower of cost (first-in, first-out) or net realizable value. Net realizable value is the estimated selling price used in the ordinary course of business, less reasonable predictable costs of completion, disposal, and transportation.

Assets Whose Use is Limited

Resources appropriated or designated by the Board of Trustees for long-term purposes are reported as assets whose use is limited. Such long-term purposes include acquisition of capital assets and a community service fund. Assets whose use is limited also includes resources restricted for malpractice claims and resources restricted by donors.

Assets whose use is limited are comprised of cash, investments, and pledges receivable and are carried at fair value in the accompanying consolidated financial statements. Realized and unrealized gains and losses are excluded from income from operations. Cost used in the determination of gains and losses on sales of investments is based on the specific cost of the investment sold.

Property, Plant, and Equipment

Property, plant, and equipment purchased are reported on the basis of cost. Donated items are recorded at fair market value at the date of contribution. Depreciation is computed using the straight-line method over the estimated useful lives of the related assets. The general range of useful lives estimated for buildings and building improvements is ten to forty years and for equipment is five to twenty-five years.

Deferred Financing Costs

Financing costs incurred in connection with issuance of long-term obligations are deferred and amortized using the effective interest method over the term of the related indebtedness. The deferred financing costs are included in long-term obligations on the accompanying consolidated balance sheets.

Net Patient Service Revenue

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

Mary Washington Healthcare and Subsidiaries

Notes to Consolidated Financial Statements (continued)

1. Summary of Significant Accounting Policies (continued)

Net Patient Service Revenue (continued)

Performance obligations associated with inpatient services are satisfied over time and are recognized based on actual charges incurred in relation to total expected charges. MWHC measures the performance obligation from admission into the hospital to the point when it is no longer required to provide services to that patient, which is generally at the time of discharge. Revenue for performance obligations satisfied at a point in time is recognized when goods or services are provided and MWHC does not believe it is required to provide additional goods or services to the patient. Performance obligations associated with outpatient services are satisfied at the time services are rendered.

MWHC determines the transaction price based on standard charges for goods and services provided, reduced by the explicit price concession provided to third-party payors, discounts provided to uninsured patients in accordance with MWHC's policy, and implicit price concessions provided to uninsured patients. MWHC determines its estimates of explicit price concessions based on contractual agreements, its discount policies, and historical experience. MWHC determines its estimate of implicit price concessions based on its historical collection experience with this class of patients.

MWHC has agreements with third-party payors that provide for reimbursement to MWHC at amounts different from its established rates. Contractual adjustments under third-party reimbursement programs represent the difference between MWHC billings at established rates for services and amounts reimbursed by third-party payors.

A summary of the payment arrangements with major third-party payors follows:

Medicare – MWHC is reimbursed by Medicare under a prospective payment system (PPS). Under this methodology, inpatient acute care services rendered to Medicare program beneficiaries are paid at prospectively determined rates per discharge. These rates vary according to a patient classification system that is based on clinical, diagnostic, and other factors. The majority of outpatient services are paid at prospectively determined rates per medical procedure. Classification of patients under the Medicare program and the appropriateness of their admission are subjected to an independent review by a peer review organization under contract. The Hospitals are reimbursed for certain indirect cost reimbursable items at a tentative rate with final settlement determined after submission of annual cost reports by the Hospitals and audits thereof by the Medicare Administrative Contractor.

Medicaid – Inpatient acute care services rendered to Medicaid program beneficiaries are paid at prospectively determined rates per discharge. The majority of outpatient services are paid at prospectively determined rates per medical procedure.

Mary Washington Healthcare and Subsidiaries

Notes to Consolidated Financial Statements (continued)

1. Summary of Significant Accounting Policies (continued)

Net Patient Service Revenue (continued)

The Virginia Medicaid program expanded coverage to residents of the Commonwealth at income levels previously not covered effective January 1, 2019, consistent with Medicaid expansion provisions included in the Patient Protection and Affordable Care Act passed by Congress in 2010. Most of the cost of expansion is borne by the federal government, with the balance of the cost funded by hospitals operating in the Commonwealth through an assessment program. The Medicaid program also implemented a payment improvement provision involving additional assessments from hospitals in the Commonwealth which are matched with federal funds and returned to the hospitals in the form of lump sum payments intended to improve compensation to the hospitals for the cost of caring for Medicaid patients. These changes impacted payor mix, net patient revenue, and operating expenses of the clinical divisions of MWHC.

Anthem – Inpatient services are reimbursed based on a prospectively determined rate per discharge. These rates vary according to a patient classification system that is based on clinical, diagnostic, and other factors. Outpatient services are reimbursed by percentage of charges or fee schedule based on diagnosis and are not subject to retroactive adjustment.

Managed Care and Commercial – MWHC has entered into payment agreements with certain commercial insurance carriers, health maintenance organizations, and preferred provider organizations. The basis for payment under these agreements includes prospectively determined rates per discharge, discounts from established charges, and prospectively determined daily rates.

Other – Payment agreements with certain commercial insurance carriers, health maintenance organizations, and preferred provider organizations provide for payment using prospectively determined rates per discharge, discounts from established charges, and prospectively determined daily rates.

Laws and regulations concerning government programs, including Medicare and Medicaid, are complex and subject to varying interpretation. As a result of investigations by governmental agencies, various healthcare organizations have received requests for information and notices regarding alleged noncompliance with those laws and regulations, which, in some instances, have resulted in organizations entering into significant settlement agreements. Compliance with such laws and regulations may also be subject to future government review and interpretation, as well as significant regulatory action, including fines, penalties, and potential exclusion from the related programs. There can be no assurance that regulatory authorities will not challenge MWHC's compliance with these laws and regulations, and it is not possible to determine the impact (if any) such claims or penalties would have upon MWHC. In addition, the contracts MWHC has with commercial payors also provide for retroactive audit and review of claims.

Mary Washington Healthcare and Subsidiaries

Notes to Consolidated Financial Statements (continued)

1. Summary of Significant Accounting Policies (continued)

Net Patient Service Revenue (continued)

Settlements with third-party payors for retroactive adjustments due to audits, review, or investigations are considered variable consideration and are included in the determination of estimated transaction price for providing patient care. These settlements are estimated based on the terms of the payment agreement with the payor, correspondence from the payor, and MWHC's historical settlement activity, including an assessment to ensure that it is probable that a significant reversal in the amount of cumulative revenue recognized will not occur when the uncertainty associated with the retroactive adjustment is subsequently resolved. Estimated settlements are adjusted in future periods as adjustments become known (that is, new information becomes available), or as years are settled or are no longer subject to such audits, reviews, and investigations. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term.

MWHC provides services to uninsured patients and offers those uninsured patients a discount from standard charges. Patients who are covered by third-party payors are responsible for related deductibles and coinsurance. MWHC estimates the transaction price for patients with deductibles and coinsurance and from those who are uninsured based on historical experience and current market conditions. Subsequent changes that are determined to be the result of an adverse change in the patient's ability to pay are recorded as bad debt expense. Bad debt expense for the years ended December 31, 2020 and 2019, were not considered material.

Because all of its performance obligations relate to contracts with a duration of less than one year, MWHC has elected to apply the optional exemption provided in the authoritative guidance and, therefore, is not required to disclose the aggregate amount of the transaction prices allocated to performance obligations that are unsatisfied or partially unsatisfied at the end of the reporting period. The unsatisfied or partially unsatisfied performance obligations referred to above are primarily related to inpatient acute care services at the end of the reporting period. The performance obligations for these contracts are generally completed when the patients are discharged, which generally occurs within days or weeks of the end of the reporting period. MWHC has applied the practical expedient and all incremental customer contract acquisition costs are expensed as they are incurred, as the amortization period of the asset that MWHC otherwise would have recognized is one year or less in duration.

MWHC has elected the practical expedient allowed under Financial Accounting Standards Board (FASB) Accounting Standard Codification (ASC) 606-10-32-18 and does not adjust the promised amount of consideration from patients and third-party payors for the effects of a significant financing component due to the MWHC's expectation that the period between the time the service is provided to a patient and the time that the patient or a third-party payor pays for that service will be one year or less. However, MWHC does, in rare instances, enter into payment agreements with patients that allow payments in excess of one year. For those cases, the financing component is not deemed to be significant to the contract.

Patients who meet MWHC's criteria for charity care are provided care without charge or at amounts less than established rates. Such amounts determined to qualify as charity care are not reported as revenue.

Mary Washington Healthcare and Subsidiaries

Notes to Consolidated Financial Statements (continued)

1. Summary of Significant Accounting Policies (continued)

Net Patient Service Revenue (continued)

MWHC has determined that the nature, amount, timing, and uncertainty of revenue and cash flows are primarily affected by the payor and service line. Because all of MWHC's revenues originate in the same general geographic area, it was not considered to be a factor. As participants in the Virginia Medicaid Program, Mary Washington and Stafford receive quarterly enhancement payments (Note 12). These payments are treated as Medicaid Inpatient revenues.

The following tables provide details of these factors.

MWHC's net patient service revenue by primary payor during the years ended December 31 are as follows:

	2020		2019	
Medicare	\$ 206,419,407	29%	\$ 215,721,225	30%
Anthem	147,384,478	21%	149,305,680	21%
Commercial	115,909,425	16%	124,482,119	17%
Managed Care	95,601,488	14%	86,701,269	12%
Medicaid	73,205,569	10%	68,794,523	9%
Other	42,693,739	6%	43,330,089	6%
Self-pay	29,472,269	4%	37,938,215	5%
	<u>\$ 710,686,375</u>	<u>100%</u>	<u>\$ 726,273,120</u>	<u>100%</u>

MWHC's net patient service revenue by service line during the years ended December 31 are as follows:

	2020		2019	
Hospital Inpatient	\$ 336,051,206	47%	\$ 327,049,024	45%
Hospital Outpatient	237,419,898	33%	270,752,090	37%
Hospice	10,052,568	2%	11,909,459	2%
Physician and Other Outpatient Services	127,162,703	18%	116,562,547	16%
	<u>\$ 710,686,375</u>	<u>100%</u>	<u>\$ 726,273,120</u>	<u>100%</u>

Net Assets

Net assets, revenues, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

Net Assets Without Donor Restrictions – net assets available for use in general operations and not subject to donor restrictions. All revenues not restricted by donors and donor restricted contributions whose restrictions are met in the same period in which they are received are accounted for in net assets without donor restrictions.

Mary Washington Healthcare and Subsidiaries

Notes to Consolidated Financial Statements (continued)

1. Summary of Significant Accounting Policies (continued)

Net Assets (continued)

Net Assets With Donor Restrictions – net assets subject to donor imposed restrictions. Some donor imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. All revenue restricted by donors as to either timing or purpose of the related expenditures or required to be maintained in perpetuity as a source of investment income are accounted for in net assets with donor restrictions. When the donor restriction expires, that is when the stipulated time restriction ends or purpose restriction is accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions. Net assets with restrictions are comprised primarily of endowment funds and the related net realized and unrealized gains and losses on those funds.

Current accounting standards require certain disclosures for donor-restricted endowment funds for a not-for-profit organization that is subject to an enacted version of the Uniform Prudent Management of Institutional Funds Act of 2006 (UPMIFA). The Commonwealth of Virginia has adopted UPMIFA. In management's opinion, the adoption of UPMIFA had no impact on the accounting of MWHC's endowments.

Leases

MWHC determines if an arrangement is a lease at inception. Operating leases are included in right of use assets - operating leases, net, current operating lease obligations, and long-term operating lease obligations on MWHC's consolidated balance sheets. Finance leases are included in property, plant, and equipment, current maturities of long-term obligations, and long-term obligations on the consolidated balance sheets.

Right of use assets - operating leases, net represent MWHC's right to use an underlying asset for the lease term and operating lease obligations represent MWHC's obligation to make lease payments arising from the lease. Right of use assets - operating leases, net and obligations are recognized at the commencement date based on the present value of lease payments over the lease term. When MWHC's leases do not provide an implicit rate, MWHC uses its incremental borrowing rate based on the information available at the commencement date in determining the present value of lease payments. The right of use lease asset also includes any lease payments made and excludes lease incentives. MWHC's lease terms may include options to extend or terminate the lease when it is reasonably certain that MWHC will exercise that option. Lease expense for lease payments is recognized on a straight-line basis over the lease term.

MWHC has lease agreements with lease and non-lease components, which are generally accounted for separately. For certain equipment leases, MWHC accounts for the lease and non-lease components as a single lease component. Additionally, for certain equipment leases, MWHC applies a portfolio approach to effectively account for the transaction.

Mary Washington Healthcare and Subsidiaries

Notes to Consolidated Financial Statements (continued)

1. Summary of Significant Accounting Policies (continued)

Functional Allocation of Expenses

The costs of program and supporting services activities have been summarized on a functional basis in Note 9. The consolidated tables of functional expenses present the natural classification detail of expenses by function. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Donor-Restricted Gifts

Unconditional promises to give cash and other assets to MWHC are reported at fair value at the date the promise is received.

The gifts are reported as net assets with donor restrictions if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, the net assets are reclassified as net assets without donor restrictions and reported on the consolidated statements of operations and changes in net assets as other revenue.

Income Taxes

MWHC was recognized as a public charity generally exempt from federal income taxation under 501(c)(3) of the Internal Revenue Code pursuant to a determination letter issued by the Internal Revenue Service (IRS) in March 1992. MWHC is entitled to rely on this determination as long as there are no substantial changes in its character, purposes, or methods of operation. Management has concluded that there have been no such changes and, therefore, MWHC's status as a public charity exempt from federal income taxation remains in effect. The state in which MWHC operates also provides general exemption from state income taxation for organizations that are exempt from federal income taxation.

However, MWHC is subject to both federal and state income taxation at corporate tax rates on its unrelated business income. Exemption from other state taxes, such as real and personal property taxes, is separately determined. Certain entities under MWHC are taxable entities.

MWHC had no unrecognized tax benefits or liabilities, or such amounts were immaterial during the periods presented. For tax periods with respect to which no unrelated business income was recognized, no tax return was required. Tax periods for which no return is filed remain open for examination indefinitely. Generally, tax returns for the years ended December 31, 2017, and thereafter remain subject to examination by federal and state tax authorities. All required tax filings have been filed on a timely basis.

Reclassifications

Certain reclassifications have been made to the 2019 consolidated financial statements in order to conform to the 2020 presentation.

Mary Washington Healthcare and Subsidiaries

Notes to Consolidated Financial Statements (continued)

1. Summary of Significant Accounting Policies (continued)

Subsequent Events

Management has evaluated subsequent events through April 13, 2021, which is the date the consolidated financial statements were issued.

Recent Accounting Pronouncements

Financial Instruments: In 2016, the FASB issued Accounting Standards Update (ASU) 2016-13, *Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*. This guidance introduced a new model for recognizing credit losses on financial instruments based on an estimate of current expected credit losses. Financial instruments that may be impacted include accounts receivable, trade receivables, other financial assets measured at amortized cost, and other off-balance-sheet credit exposures. Early adoption is permitted. MWHC is currently evaluating the impact, if any, that adoption will have on its December 31, 2023, consolidated financial statements.

Fair Value Measurement: In August 2018, the FASB issued ASU 2018-13, *Fair Value Measurement (Topic 820): Disclosure Framework - Changes to the Disclosure Requirements for Fair Value Measurement*. The amendments in this update modify the disclosure requirements on fair value measurements in *Topic 820, Fair Value Measurement*, including the consideration of costs and benefits. In addition, the amendments eliminate *at a minimum* from the phrase *an entity shall disclose at a minimum* to promote the appropriate exercise of discretion by entities when considering fair value measurement disclosures and to clarify that materiality is an appropriate consideration of entities and their auditors when evaluating disclosure requirements. An entity is permitted to early adopt any removed or modified disclosures upon issuance of this update and delay adoption of the additional disclosures until their effective date. MWHC adopted this guidance for the year ended December 31, 2020. Adoption of this guidance did not have a material impact on MWHC's consolidated financial statements.

Debt: In March 2020, the FASB issued ASU 2020-04, *Reference Rate Reform (Topic 848): Facilitation of the Effects of Reference Rate Reform on Financial Reporting*. This ASU provides temporary optional guidance to ease the potential burden in accounting for reference rate reform. The new guidance provides optional expedients and exceptions for applying generally accepted accounting principles to contract modifications and hedging relationships, subject to meeting certain criteria, that reference LIBOR or another reference rate expected to be discontinued. The ASU is intended to help stakeholders during the global market-wide reference rate transition period. Therefore, it will be in effect for a limited time through December 31, 2022. MWHC is currently evaluating the impact, if any, that adoption will have on its December 31, 2021, consolidated financial statements.

Not-for-Profit: In September 2020, the FASB issued ASU 2020-07, *Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets*. This ASU requires a not-for-profit organization to present contributed nonfinancial assets as a separate line item in the statement of activities, apart from contributions of cash or other financial assets. It also requires disclosure around the contributed nonfinancial assets recognized. This guidance is effective retrospectively for annual reporting periods beginning after June 15, 2021, and interim periods with annual reporting periods beginning after June 15, 2022. Early adoption is permitted. MWHC is currently evaluating the impact, if any, that adoption will have on its December 31, 2022, consolidated financial statements.

Mary Washington Healthcare and Subsidiaries

Notes to Consolidated Financial Statements (continued)

2. Assets Whose Use is Limited

The fair market values of assets whose use is limited as of December 31 are summarized as follows:

	<u>2020</u>	<u>2019</u>
Internally designated for healthcare programs and capital acquisitions:		
Cash and cash equivalents	\$ 757,110	\$ 467,336
Equity securities	304,153,740	263,834,722
Pledges receivable	2,286	3,294
Alternative investments	690,229	1,068,130
	<u>305,603,365</u>	<u>265,373,482</u>
Internally designated for insurance claims:		
Cash and cash equivalents	110,328	149,350
Equity securities	22,089,816	19,857,841
	<u>22,200,144</u>	<u>20,007,191</u>
Externally restricted by donors:		
Cash and cash equivalents	67,469	45,694
Pledges receivable	125,122	2,618,952
Equity securities	19,466,972	14,682,807
	<u>19,659,563</u>	<u>17,347,453</u>
	<u>\$ 347,463,072</u>	<u>\$ 302,728,126</u>

Investment income and gains (losses) on assets whose use is limited are comprised of the following for the years ended December 31:

	<u>2020</u>	<u>2019</u>
Revenue and other support:		
Interest and dividends	\$ 7,031,896	\$ 7,502,123
Nonoperating gains:		
Net appreciation of investments	37,153,812	45,662,408
	<u>44,185,708</u>	<u>53,164,531</u>
Changes in net assets with donor restrictions:		
Interest and dividends	3,143,961	786,304
	<u>\$ 47,329,669</u>	<u>\$ 53,950,835</u>

MWHC's investment portfolio is classified as "trading." As a result, all gains and losses on investments, including realized, unrealized, and impairment losses, are reported on the consolidated statements of operations and changes in net assets as nonoperating gains and losses. Net appreciation (depreciation) of investments includes realized and unrealized gains (losses) on investments.

Mary Washington Healthcare and Subsidiaries

Notes to Consolidated Financial Statements (continued)

2. Assets Whose Use is Limited (continued)

Current accounting standards define fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, and establish a framework for measuring fair value and establish a three-level hierarchy for fair value measurements based upon the transparency of inputs to the valuation of an asset or liability as of the measurement date, as follows:

Level 1: Observable inputs such as quoted prices in active markets

Level 2: Inputs other than quoted prices in active markets that are either directly or indirectly observable

Level 3: Unobservable inputs about which little or no market data exists, therefore requiring an entity to develop its own assumption

Assets and liabilities are classified in their entirety based on the level of input that is significant to the fair value measurement. MWHC's assessment of the significance of a particular input to the fair value measurement requires judgment and may affect the valuation of fair value assets and liabilities and their placement within the fair value hierarchy levels. There were no changes in valuation techniques during the current year.

Prices for certain money market funds, fixed income, mutual funds, exchange-traded funds, and managed futures that are readily available in the active markets in which those securities are traded and the resulting fair values are categorized as Level 1. Prices for certain commingled trust funds are determined on a recurring basis based on inputs that are readily available in public markets or can be derived from information available in publicly quoted markets and are categorized as Level 2. Prices for certain private equity funds, real estate funds, limited partnerships, and fund of funds are categorized as Level 3. Because of the inherent uncertainty of valuations of Level 3 investments, their estimated values may differ significantly from the values that would have been used had a ready market for the Level 3 investments existed, and the difference could be material.

The following discussion describes the valuation methodologies used for financial assets measured at fair value. The techniques utilized in estimating the fair values are affected by the assumptions used, including discount rates, and estimates of the amount and timing of future cash flows. Care should be exercised in deriving conclusions about MWHC's business, its value, or financial position based on the fair value information of financial assets presented below.

Fair value estimates are made at a specific point in time, based on available market information and judgments about the financial asset, including estimates of the timing, amount of expected future cash flows, and the credit standing of the issuer. In some cases, the fair value estimates cannot be substantiated by comparison to independent markets. In addition, the disclosed fair value may not be realized in the immediate settlement of the financial asset. Furthermore, the disclosed fair values do not reflect any premium or discount that could result from offering for sale at one time an entire holding of a particular financial asset. Potential taxes and other expenses that would be incurred in an actual sale or settlement are not reflected in the amounts disclosed.

Mary Washington Healthcare and Subsidiaries

Notes to Consolidated Financial Statements (continued)

2. Assets Whose Use is Limited (continued)

Fair values for MWHC's fixed maturity securities (corporate bonds, government debt securities, and government mortgage and asset backed securities) are based on prices provided by its investment managers, who use a variety of pricing sources to determine market valuations. Each designate specific pricing services or indexes for each sector of the market based upon the provider's experience.

Fair values of equity securities have been determined by MWHC from observable market quotations, when available. Private placement securities and other equity securities where a public quotation is not available are valued by using broker quotes.

Alternative investments are recorded under the equity method of accounting using net asset value (NAV). The NAV of alternative investments is based on valuations provided by the administrators of the specific financial instrument. The underlying investments in these financial instruments may include marketable debt and equity securities, commodities, foreign currencies, derivatives, and private equity investments. The underlying investments themselves are subject to various risks, including market, credit, liquidity, and foreign exchange risk. MWHC believes the NAV is a reasonable estimate of its ownership interest in the alternative investments. MWHC's risk of alternative investments is limited to its carrying value. Alternative investments can be divested only at specific times in accordance with terms of the subscription agreements. Because these financial instruments are not readily marketable, the estimated carrying value is subject to uncertainty, and, therefore, may differ from the value that would have been used had a market for such financial instruments existed. Under current accounting standards, investments using the NAV are to be excluded from the fair value hierarchy. In addition to exclusion from the fair value hierarchy, current accounting standards also provide for additional qualitative disclosures, which management has determined to be immaterial to the users of the financial statements.

In the absence of any independent quotations, securities will be valued by the fund managers on the basis of data obtained from the best available sources. Although the various fund managers use their professional judgment at estimating the fair value of the alternative investments, there are inherent limitations in any valuation technique. Therefore, the value determined by fund managers is not necessarily indicative of the amount that could be realized in a current transaction. Future events will also affect the estimates of fair value, and the effect of such events on the estimates of the fair value could be material.

Mary Washington Healthcare and Subsidiaries

Notes to Consolidated Financial Statements (continued)

2. Assets Whose Use is Limited (continued)

The following tables present MWHC's financial assets that are measured at fair value on a recurring basis as of December 31:

	Level 1	Level 2	Level 3	Total Fair Value
Cash and cash equivalents				
Cash	\$ 934,907	\$ -	\$ -	\$ 934,907
Equity securities				
Mutual funds				
Global stock	197,220,759	-	-	197,220,759
Intermediate term bond	62,650,773	-	-	62,650,773
Small cap	15,554,753	-	-	15,554,753
Large cap	15,525,190	-	-	15,525,190
Global developing market	9,815,553	-	-	9,815,553
Multi-sector bond	34,076,382	-	-	34,076,382
Multi-sector stock	6,375,405	-	-	6,375,405
US Treasury Notes	-	4,491,713	-	4,491,713
Alternative investments	-	-	-	690,229
	<u>\$ 342,153,722</u>	<u>\$ 4,491,713</u>	<u>\$ -</u>	<u>\$ 347,335,664</u>
2019				
	Level 1	Level 2	Level 3	Total Fair Value
Cash and cash equivalents				
Cash	\$ 647,581	\$ -	\$ -	\$ 647,581
Equity securities				
Mutual funds				
Global stock	65,329,391	-	-	65,329,391
Intermediate term bond	51,926,085	-	-	51,926,085
Small cap	13,200,377	-	-	13,200,377
Large cap	11,773,570	-	-	11,773,570
Global developing market	5,693,577	-	-	5,693,577
Multi-sector bond	24,220,205	-	-	24,220,205
Multi-sector stock	120,638,274	-	-	120,638,274
US Treasury Notes	-	5,608,690	-	5,608,690
Alternative investments	-	-	-	1,068,130
	<u>\$ 293,429,060</u>	<u>\$ 5,608,690</u>	<u>\$ -</u>	<u>\$ 300,105,880</u>

Pledges receivable of approximately \$127,000 and \$2,622,000 as of December 31, 2020 and 2019, respectively, represent financial assets that are classified as assets whose use is limited in the accompanying consolidated financial statements that are not measured at fair value on a recurring basis.

Mary Washington Healthcare and Subsidiaries

Notes to Consolidated Financial Statements (continued)

3. Net Assets with Donor Restrictions

Net assets with donor restrictions are restricted for the following purposes as of December 31:

	<u>2020</u>	<u>2019</u>
Healthcare programs and services	\$ 12,368,242	\$ 10,375,583
Acquisition of building and equipment	178,614	145,449
Educational seminars, scholarships, and other	<u>854,497</u>	<u>815,984</u>
Total subject to expenditure for specified purposes	13,401,353	11,337,016
Endowment funds - income expendable to support charitable purposes	<u>6,258,210</u>	<u>6,010,437</u>
Net assets with donor restrictions	<u>\$ 19,659,563</u>	<u>\$ 17,347,453</u>

Net assets released from donor restrictions by incurring expenses satisfying the restricted purposes or by occurrence of other events specified by donors is as follows for the years ended December 31:

	<u>2020</u>	<u>2019</u>
Healthcare programs and services	\$ 1,166,627	\$ 1,244,080
Educational seminars, scholarships, and other	<u>123,464</u>	<u>33,961</u>
Net assets released from restrictions	<u>\$ 1,290,091</u>	<u>\$ 1,278,041</u>

4. Property, Plant, and Equipment

Property, plant, and equipment as of December 31 consist of the following:

	<u>2020</u>	<u>2019</u>
Land and land improvements	\$ 63,756,833	\$ 60,904,629
Buildings	380,530,866	355,618,574
Fixed equipment	67,137,559	63,952,766
Movable equipment	383,626,863	361,783,806
Construction in progress	-	12,441,335
	<u>895,052,121</u>	<u>854,701,110</u>
Less accumulated depreciation and amortization	<u>575,193,585</u>	<u>536,308,714</u>
	<u>\$ 319,858,536</u>	<u>\$ 318,392,396</u>

Mary Washington Healthcare and Subsidiaries

Notes to Consolidated Financial Statements (continued)

4. Property, Plant, and Equipment (continued)

There were no significant additions to property, plant, and equipment that were included in accounts payable as of December 31, 2020. Approximately \$3,099,000 of additions to property, plant, and equipment were included in accounts payable as of December 31, 2019. During the years ended December 31, 2020 and 2019, MWHC recognized depreciation expense of approximately \$40,959,000 and \$40,213,000, respectively. During the years ended December 31, 2020 and 2019, MWHC disposed of approximately \$2,201,000 and \$4,805,000 of property, plant, and equipment, respectively, which was fully depreciated.

5. Long-Term Obligations

Long-term obligations as of December 31 consist of the following:

	<u>2020</u>	<u>2019</u>
Note payable issued in June 2007 to the Economic Development Authority of the City of Fredericksburg, Virginia, who in turn issued Hospital Facilities Revenue and Refunding Bonds (Series 2007). The bonds mature in graduated annual amounts ranging from \$660,000 in 2007 to \$7,600,000 in 2023 and bear interest at varying rates ranging from 5.00% to 5.25%.	\$ 21,660,000	\$ 28,155,000
Note payable issued in May 2014 to the Economic Development Authority of the City of Fredericksburg, Virginia, which in turn issued Hospital Facilities Revenue and Refunding Bonds (Series 2014). The bonds mature in graduated annual amounts ranging from \$4,375,000 in 2024 to \$6,920,000 in 2033 and bear interest at varying rates ranging from 4.00% to 5.00%.	56,210,000	56,210,000
Note payable issued in May 2016 to the Economic Development Authority of Stafford County, Virginia, which in turn issued Hospital Facilities and Refunding Bonds (Series 2016). The bonds mature in graduated annual amounts ranging from \$470,000 in 2017 to \$16,700,000 in 2037 and bear interest at varying rates ranging from 3.00% to 5.00%.	110,660,000	111,220,000
Note payable issued in November 2016 to the Economic Development Authority of the City of Fredericksburg, Virginia, which in turn issued Hospital Facilities Refunding Revenue Bonds (Series 2016A). The bonds mature in graduated annual amounts ranging from \$960,000 in 2017 to \$1,360,000 in 2038. The interest is adjustable monthly and is based on One-Month LIBOR. The interest rate averaged 1.07% and 2.42% during 2020 and 2019, respectively.	26,360,000	27,420,000
Note payable issued in May 2020 to Atlantic Union Bank. Payments including principal and interest are due through May 2027. The interest rate on this loan is 3.38%.	3,886,993	-

Mary Washington Healthcare and Subsidiaries

Notes to Consolidated Financial Statements (continued)

5. Long-Term Obligations (continued)

	<u>2020</u>	<u>2019</u>
Note payable issued in December 2019 to Atlantic Union Bank (Obligated Group Note 2019-1). Payments including principal and interest are due through January 2038. Interest rates are adjusted monthly and are based on One Month LIBOR. The interest rate averaged 1.21% and 2.42% during 2020 and 2019, respectively.	8,215,349	8,500,000
Finance leases	2,425,760	3,780,362
	<u>229,418,102</u>	<u>235,285,362</u>
Plus: Premium on Series 2007 Bonds	201,596	355,161
Plus: Premium on Series 2014 Bonds	1,699,495	1,903,626
Plus: Premium on Series 2016 Bonds	11,317,210	12,268,931
	<u>242,636,403</u>	<u>249,813,080</u>
Less: Deferred Financing Costs	(1,351,116)	(1,491,266)
Current maturities of long-term obligations	<u>(11,102,442)</u>	<u>(11,087,578)</u>
	<u>\$ 230,182,845</u>	<u>\$ 237,234,236</u>

The approximate aggregate maturities for long-term obligations as of December 31, 2020, are as follows:

Years Ending December 31:

2021	\$ 10,325,000
2022	10,935,000
2023	10,902,000
2024	6,333,000
2025	10,633,000
Thereafter	180,290,102

The Series 2016, 2016A, 2014, and 2007 bonds and the 2019 Note are secured by a pledge of the gross receipts of each member of the Obligated Group, which consists of MWHC, Mary Washington, Stafford, MWH Foundation, and Properties. The related master trust indenture contains certain restrictions, including an annual debt service coverage ratio requirement. In the opinion of management, the Obligated Group was in compliance with the provisions of the master trust indenture for the years ended December 31, 2020 and 2019. The 2020 note payable is secured by certain tangible and intangible assets held by Endoscopy Holdings.

During the years ended December 31, 2020 and 2019, MWHC paid approximately \$8,894,000 and \$9,678,000, respectively, for interest.

Mary Washington Healthcare and Subsidiaries

Notes to Consolidated Financial Statements (continued)

6. Retirement Plans

MWHC sponsors two retirement plans for its Associates. The first is a traditional, noncontributory, defined benefit retirement plan (Plan). The second is a supplemental, defined contribution retirement plan (Supplemental Plan). Both plans cover substantially all of MWHC's employees and are subject to provisions of the Employee Retirement Income Security Act of 1974 (ERISA). Further details are provided for each Plan.

Defined Benefit Plan

Effective December 31, 2003, the Plan was frozen relative to allowing new participants. Employees of record as of December 31, 2003, continued to be eligible for benefits under the Plan. Employees hired on or after January 1, 2004, are not eligible to participate in the Plan. Effective May 22, 2010, the Plan was frozen relative to all future benefit accruals.

Benefits to eligible participants, which are based upon fixed percentages of a participant's average earnings for credited years of services, are paid when an employee reaches retirement age (normally 65). MWHC funding policy is to contribute amounts to the Plan sufficient to meet the minimum funding requirements under the ERISA, plus such additional amounts as MWHC may determine to be appropriate from time to time.

The overall financial objectives of the Plan's asset accumulation strategy are to provide funds for the timely payment of Plan obligations and to produce an investment rate of return that minimizes MWHC contributions.

The following table sets forth the Plan's funded status as of the measurement date, December 31:

	2020	2019
Reconciliation of Benefit Obligation and Plan Assets as of December 31:		
Change in benefit obligation		
Benefit obligation at beginning of year	\$ 183,113,183	\$ 169,493,896
Interest cost	6,340,561	7,036,434
Actuarial (gain) loss	26,304,109	14,872,341
Benefits paid	(8,000,474)	(8,289,488)
Benefit obligation at end of year	<u>\$ 207,757,379</u>	<u>\$ 183,113,183</u>
Change in Plan assets		
Fair value of Plan assets at beginning of year	\$ 131,348,489	\$ 114,556,909
Return (loss) on Plan assets	17,925,365	21,397,705
Employer contributions	8,998,292	3,683,363
Benefits paid	(8,000,474)	(8,289,488)
Fair value of Plan assets at end of year	<u>\$ 150,271,672</u>	<u>\$ 131,348,489</u>

Mary Washington Healthcare and Subsidiaries

Notes to Consolidated Financial Statements (continued)

6. Retirement Plans (continued)

Defined Benefit Plan (continued)

	2020	2019
Funded Status Reconciliation and Key Assumptions as of December 31:		
Reconciliation of funded status		
Funded status of Plan at end of year	\$ (57,485,707)	\$ (51,764,694)
Net amount recognized	<u>\$ (57,485,707)</u>	<u>\$ (51,764,694)</u>
Amounts recognized on the consolidated balance sheets		
Noncurrent (liabilities)	\$ (57,485,707)	\$ (51,764,694)
	<u>\$ (57,485,707)</u>	<u>\$ (51,764,694)</u>
Cumulative amounts recognized in other changes in net assets without donor restrictions		
Accumulated loss	\$ 66,518,516	\$ 53,049,652
Accumulated other comprehensive income (AOCI)	<u>\$ 66,518,516</u>	<u>\$ 53,049,652</u>
The 2020 and 2019 benefit obligations presented above are based on the Pri-2012 (Mortality Table) projected generationally with Scale MP-2020 and MP-2019 (Mortality Improvement Scale), respectively.		
Weighted-average assumptions used to determine benefit obligation		
Measurement date	December 31, 2020	December 31, 2019
Discount rate	2.50%	3.50%
Rate of compensation increase	N/A	N/A
Components of net periodic benefit expense		
Interest cost	\$ 6,340,561	\$ 7,036,434
Expected rate of return on Plan assets	(9,829,344)	(8,443,371)
Amortization of net (gain)/loss	4,739,224	4,881,908
Net periodic benefit expense	<u>1,250,441</u>	<u>3,474,971</u>
Other changes in Plan assets and benefit obligations recognized in other comprehensive income		
Net actuarial (gain)/loss	18,209,382	1,918,007
Amortization of net (gain) or loss	(4,740,518)	(4,881,908)
Total recognized in other comprehensive income	<u>13,468,864</u>	<u>(2,963,901)</u>
Total recognized in net benefit cost and other comprehensive income	<u>\$ 14,719,305</u>	<u>\$ 511,070</u>

Mary Washington Healthcare and Subsidiaries

Notes to Consolidated Financial Statements (continued)

6. Retirement Plans (continued)

Defined Benefit Plan (continued)

Weighted-average assumptions used to determine net periodic benefit expense

	December 31, 2020	December 31, 2019
Measurement date		
Discount rate	3.50%	4.25%
Expected return on Plan assets	7.50%	7.50%
Rates of compensation increase	N/A	N/A

The Plan's weighted-average asset allocations by asset category at the Plan's measurement date of December 31 are as follows:

	2020	2019
Equity securities	63%	65%
Debt securities	36%	34%
Other (primarily cash and cash equivalents and fund of funds)	1%	1%
Total	100%	100%

The following benefit payments are expected to be paid during the years ending December 31:

2021	\$	8,784,538
2022		9,067,066
2023		9,300,973
2024		9,575,763
2025		9,825,061
Years 2026-2030		51,506,318

As disclosed in Note 2, generally accepted accounting principles establish a three-tier fair value hierarchy, which prioritizes the inputs used in measuring fair value. Prices for mutual funds are readily available in the active markets in which those securities are traded and the resulting fair values are categorized as Level 1. Alternative investments are recorded under the equity method of accounting using net asset value. Under current accounting standards, investments using net asset value are to be excluded from the fair value hierarchy.

The following tables set forth by level the fair value hierarchy the Plan's financial assets accounted for at fair value as of December 31. Investments are classified in their entirety based on the lowest level of input that is significant to the fair value measurement. MWHC's assessment of the significance of a particular input to the fair value measurement for Plan assets requires judgment and may affect the valuation of fair value of Plan investments and their placement within the fair value hierarchy levels.

Mary Washington Healthcare and Subsidiaries

Notes to Consolidated Financial Statements (continued)

6. Retirement Plans (continued)

Defined Benefit Plan (continued)

	2020			Total Fair Value
	Level 1	Level 2	Level 3	
Cash and cash equivalents				
Money market	\$ 1,101,317	\$ -	\$ -	\$ 1,101,317
Equity securities				
Mutual funds				
Multi sector bonds	17,510,741	-	-	17,510,741
Multi sector stock	-	-	-	-
Intermediate term bonds	36,577,874	-	-	36,577,874
Global stock	82,687,564	-	-	82,687,564
Other	12,375,307	-	-	12,375,307
Alternative investments	-	-	18,869	18,869
	<u>\$ 150,252,803</u>	<u>\$ -</u>	<u>\$ 18,869</u>	<u>\$ 150,271,672</u>
	2019			Total Fair Value
	Level 1	Level 2	Level 3	Total Fair Value
Cash and cash equivalents				
Money market	\$ 678,513	\$ -	\$ -	\$ 678,513
Equity securities				
Mutual funds				
Multi sector bonds	12,872,358	-	-	12,872,358
Multi sector stock	49,227,406	-	-	49,227,406
Intermediate term bonds	31,523,971	-	-	31,523,971
Global stock	30,121,962	-	-	30,121,962
Other	6,886,784	-	-	6,886,784
Alternative investments	-	-	37,495	37,495
	<u>\$ 131,310,994</u>	<u>\$ -</u>	<u>\$ 37,495</u>	<u>\$ 131,348,489</u>

Supplemental Plan

The Supplemental Plan covers substantially all employees who are age twenty-one or older. The Supplemental Plan was adopted January 1, 1992, and is subject to the provisions of the Employee Retirement Income Security Act of 1974. The Supplemental Plan has received a favorable determination letter from the Internal Revenue Service exempting it from federal income taxation under the Internal Revenue Code.

Mary Washington Healthcare and Subsidiaries

Notes to Consolidated Financial Statements (continued)

6. Retirement Plans (continued)

Supplemental Plan (continued)

Each year, MWHC contributes 50% of the first 6% of base compensation up to a maximum regular matching contribution of 3% of covered compensation for the payroll period that each participant contributes to the Supplemental Plan. In addition to the regular matching contribution, MWHC makes a transition matching contribution to certain predetermined participants based on the actuarial factors described in the Supplemental Plan agreement. At the Board of Trustees' discretion, additional amounts may be contributed. During 2020 and 2019, MWHC contributed approximately \$2,971,000 and \$4,571,000, respectively, to the Supplemental Plan.

Participants as of May 22, 2010, are 100% vested in all contributions plus actual earnings thereon. New participants after May 22, 2010, vest in the matching contributions and earnings thereon after three years of eligible service. MWHC can terminate the Supplemental Plan at any time. At such time, participants would be entitled to their vested benefits.

7. Malpractice Insurance

MWHC manages its professional and general liability through a controlled risk retention group and, effective for claims made January 1, 2011, forward, a Self-Insured Retention Group (SIR). Fredericksburg Professional Risk Exchange (ProRex), a subsidiary of MWHC, is a reciprocal insurance company licensed in the State of Vermont. For claims reported in 2020 and 2019, ProRex retained risk for MWHC and its subsidiaries of \$2,450,000 and \$2,400,000 per claim, respectively, and \$7,000,000 in the aggregate. Risks above those limits are covered by a commercial excess insurance policy with a \$20,000,000 aggregate limit. As noted above, MWHC formed SIR to manage the first \$500,000 of each claim made after January 1, 2011.

MWHC owns 100% of SIR and ProRex, and their assets, liabilities, and operations are consolidated in the accompanying MWHC consolidated financial statements. SIR has accrued approximately \$2,929,000 and \$2,707,000 related to its share of estimated payments to be made for claims filed from January 1, 2011, through December 31, 2020 and 2019, respectively, as well as for estimated losses on unfiled claims which relate to events occurring in those years. ProRex has accrued approximately \$4,681,000 and \$4,732,000 related to its share of estimated payments to be made under its professional liability insurance program for claims filed through December 31, 2020 and 2019, respectively, as well as for estimated losses on unfiled claims which relate to events occurring in 2013 and prior years. The amount of liability accrued is based on independent actuarial estimates calculated on a discounted basis using a 3.09% interest rate for both 2020 and 2019. Assets held by ProRex are restricted by statute from being transferred to another subsidiary or obligated for any other purpose and, accordingly, are included in assets whose use is limited. In addition, MWHC has accrued approximately \$3,626,000 and \$3,518,000 through December 31, 2020 and 2019, respectively, related to estimated payments to be made for claims incurred but not yet reported. MWHC has also accrued approximately \$65,000 through December 31, 2019, related to losses on individual claims in the excess layer provided under ProRex for claims reported between October 1, 2006, and December 31, 2010, during which period the exposures were 100% reinsured.

Mary Washington Healthcare and Subsidiaries

Notes to Consolidated Financial Statements (continued)

8. Long-Term Accounts Payable

Long-term accounts payable consist of a long-term payable to Epic Systems Corporation. The interest rate is a fixed 4.00% for the first five years. The interest rate is then based on the 30-Day LIBOR rate with monthly payments to include an additional time value of money adjustment. The balance of this obligation was approximately \$4,456,000 and \$8,575,000 as of December 31, 2020 and 2019, respectively.

9. Functional Expenses

MWHC provides healthcare and related services in its geographic location. Expenses related to providing these services for the years ended December 31 are as follows:

	2020					
	Healthcare Services	Fundraising	Property Management	Management and General	Insurance	Total
Salaries and wages	\$ 273,606,056	\$ 393,497	\$ 871,636	\$ 5,865,013	\$ 442,574	\$ 281,178,776
Employee benefits	49,411,421	81,920	161,447	2,015,662	68,616	51,739,066
Contract personnel	15,833,579	-	-	8,309	-	15,841,888
Professional fees	65,438,758	61,427	145,687	2,096,362	1,816,712	69,558,946
General and administrative	33,889,906	234,794	1,066,432	2,672,158	48,570	37,911,860
Provisions for depreciation and amortization	30,810,654	293	4,838,209	5,309,593	516	40,959,265
Interest	445,014	-	150,068	8,406,627	-	9,001,709
Cost of retail goods sold	4,939,216	-	-	-	-	4,939,216
Contract services	69,456,885	22,289	2,207,628	1,321,351	822,132	73,830,285
Supplies	125,311,938	6,653	264,929	1,278,792	3,154	126,865,466
Utilities	3,376,393	-	1,724,041	3,867	-	5,104,301
Medical insurance	-	-	-	-	8,078,259	8,078,259
Insurance	1,135,318	2,249	10,278	846,758	7,957	2,002,560
Rent	7,673,559	1,658	2,655,933	2,265,263	-	12,596,413
Other	4,978,293	-	696,374	74,642	-	5,749,309
	<u>\$ 686,306,990</u>	<u>\$ 804,780</u>	<u>\$ 14,792,662</u>	<u>\$ 32,164,397</u>	<u>\$ 11,288,490</u>	<u>\$ 745,357,319</u>

Mary Washington Healthcare and Subsidiaries

Notes to Consolidated Financial Statements (continued)

9. Functional Expenses (continued)

	2019					
	Healthcare Services	Fundraising	Property Management	Management and General	Insurance	Total
Salaries and wages	\$ 264,982,748	\$ 407,019	\$ 804,870	\$ 5,905,552	\$ 141,475	\$ 272,241,664
Employee benefits	52,215,896	89,566	167,799	996,547	27,843	53,497,651
Contract personnel	24,195,455	-	-	11,118	-	24,206,573
Professional fees	62,630,811	101,307	152,016	2,076,530	3,581,774	68,542,438
General and administrative	31,345,103	165,635	974,963	2,894,729	15,486	35,395,916
Provisions for depreciation and amortization	29,570,174	293	5,056,182	5,586,811	-	40,213,460
Interest	516,174	-	331,385	9,018,067	-	9,865,626
Cost of retail goods sold	4,653,267	-	-	-	-	4,653,267
Contract services	66,359,728	13,762	2,167,182	1,032,139	1,750	69,574,561
Supplies	122,635,504	34,720	303,391	675,460	2,301	123,651,376
Utilities	3,447,971	-	1,821,773	1,281	-	5,271,025
Insurance	483,891	2,229	9,648	744,018	7,259	1,247,045
Rent	6,799,311	-	2,320,072	1,344,220	-	10,463,603
Other	5,114,409	6,413	525,917	83,234	-	5,729,973
	<u>\$ 674,950,442</u>	<u>\$ 820,944</u>	<u>\$ 14,635,198</u>	<u>\$ 30,369,706</u>	<u>\$ 3,777,888</u>	<u>\$ 724,554,178</u>

The consolidated financial statements report certain expense categories that are attributable to more than one service or support function. Therefore, these expenses require an allocation on a reasonable basis that is consistently applied. Costs not directly attributable to a function, including depreciation and amortization, interest, and certain other costs are allocated to a function based on the originating department.

10. Concentration of Credit Risk

The Hospitals and Mary Washington Healthcare grant credit without collateral to their patients, most of whom are local residents and are insured under third-party payor agreements. The mix of net accounts receivable from patients and third-party payors as of December 31 was as follows:

	2020	2019
Medicare	21%	26%
Anthem	21%	20%
Managed Care	19%	10%
Commercial	17%	18%
Medicaid	12%	11%
Other	9%	14%
Self Pay	1%	1%
	<u>100%</u>	<u>100%</u>

Mary Washington Healthcare and Subsidiaries

Notes to Consolidated Financial Statements (continued)

11. Risks and Uncertainties

The U.S. healthcare industry continues to experience significant change. Today, the primary force for change is being created by a competitive marketplace resulting in rapid change in healthcare delivery and financing as well as significant regulatory change.

An increasing number of MWHC's third-party payors are adopting payment systems which shift financial risk from the payor/insurer to the healthcare provider. MWHC has signed provider contracts with several managed care organizations, which emphasize utilization control and cost containment. Managed care organizations either directly transfer risk to healthcare providers through capitation payment arrangements or pay for units of service on a steeply discounted basis.

The Joint Commission, a non-governmental privately owned entity, provides accreditation status to hospitals and other healthcare organizations in the United States. Such accreditation is based upon a number of requirements such as undergoing periodic surveys conducted by Joint Commission personnel. Certain managed care payors require hospitals to have appropriate Joint Commission accreditation in order to participate in those programs. In addition, the Centers for Medicare and Medicaid Services (CMS), the agency with oversight of the Medicare and Medicaid programs, provides "deemed status" for facilities having Joint Commission accreditation. By being Joint Commission accredited, facilities are "deemed" to be in compliance with the Medicare and Medicaid conditions of participation. Termination as a Medicare provider or exclusion from any or all of these programs/payors would have a materially negative impact on the future financial position, operating results, and cash flows of MWHC.

MWHC is involved in litigation arising in the ordinary course of business. In the opinion of management, after consultation with legal counsel, these matters will be resolved without material adverse effect on MWHC's consolidated financial position.

MWHC's investments are exposed to interest rate risk, market risk, performance risk, and liquidity risk. These conditions create uncertainty regarding the future valuation of MWHC's invested funds, its access to capital, and the resulting impact on the future financial position, operations, and cash flows of MWHC could be material.

The Commonwealth of Virginia must operate with balanced budgets and since the Medicaid program is one of the state's largest programs, it is possible that Virginia will enact or consider enacting legislation designed to reduce its Medicaid expenditures.

Mary Washington Healthcare and Subsidiaries

Notes to Consolidated Financial Statements (continued)

12. Liquidity and Availability

As of December 31, 2020, MWHC has working capital of approximately \$114,560,000 and approximately 241 days cash on hand.

Financial assets available for general expenditure within one year of the consolidated balance sheets dates consist of the following as of December 31:

	<u>2020</u>	<u>2019</u>
Cash and cash equivalents	\$ 158,635,366	\$ 63,561,906
Accounts receivable	71,485,041	77,470,245
Other accounts receivable	2,684,763	1,354,966
Assets limited as to use:		
Board designated funds	<u>305,603,365</u>	<u>265,373,482</u>
	<u>\$ 538,408,535</u>	<u>\$ 407,760,599</u>

MWHC estimates that the majority of Board designated funds are available for general expenditure within one year in the normal course of operations. MWHC has other assets whose use is limited for professional and general liability insurance and for donor-restricted purposes. These assets whose use is limited are not available for general expenditure within the next year and are not reflected in the amounts above.

13. Leases

MWHC leases office and medical space and equipment. Leases with an initial term of 12 months or less are not recorded on the consolidated balance sheet; MWHC recognizes lease expense for these leases on a straight-line basis over the lease term. For lease agreements entered into or reassessed after the adoption of Topic 842, MWHC combines lease and nonlease components.

Most leases include one or more options to renew, with renewal terms that can extend the lease term from 1 to 26 years or more. The exercise of lease renewal options is at management's sole discretion. Certain leases also include options to purchase the leased property. The depreciable life of assets and leasehold improvements are limited by the expected lease term, unless there is a transfer of title or purchase option reasonably certain of exercise. MWHC's lease agreements do not contain any material residual value guarantees or material restrictive covenants.

Mary Washington Healthcare and Subsidiaries

Notes to Consolidated Financial Statements (continued)

13. Leases (continued)

Maturities of lease liabilities were as follows as of December 31, 2020:

	Finance Lease	Operating Leases	Total
2021	\$ 1,062,577	\$ 5,636,277	\$ 6,698,854
2022	858,667	5,642,632	6,501,299
2023	315,216	5,425,508	5,740,724
2024	199,710	5,148,747	5,348,457
2025	6,938	4,111,135	4,118,073
Thereafter	-	21,611,865	21,611,865
Total lease payments	2,443,108	47,576,164	50,019,272
Less: Interest	(17,348)	(8,787,299)	(8,804,647)
Present value of lease liabilities	\$ 2,425,760	\$ 38,788,865	\$ 41,214,625

The components of lease expense were as follows for the years ended December 31:

	2020	2019
Lease cost		
Operating lease cost	\$ 4,934,432	\$ 4,216,920
Finance lease cost:		
Amortization of leased assets	1,250,776	1,077,588
Interest on lease liabilities	68,053	111,901
Total lease cost	\$ 6,253,261	\$ 5,406,409

Supplemental balance sheet information related to leases were as follows as of December 31:

Leases Classification		2020	2019
Asset			
Operating	Right of use assets – operating leases, net	\$ 36,539,953	\$ 35,451,018
Finance	Property and equipment, gross	5,633,371	6,292,421
Finance	Accumulated depreciation	(3,098,983)	(2,596,401)
Total lease assets		\$ 39,074,341	\$ 39,147,038
Liabilities			
Current			
Operating	Other current liabilities	\$ 4,294,137	\$ 3,057,058
Finance	Current maturities of long-term obligations	1,045,229	1,461,453
Noncurrent			
Operating	Operating leases payable	34,494,728	34,279,015
Finance	Long-term obligations	1,380,531	2,318,909
Total lease liabilities		\$ 41,214,625	\$ 41,116,435

Mary Washington Healthcare and Subsidiaries

Notes to Consolidated Financial Statements (continued)

13. Leases (continued)

	<u>2020</u>	<u>2019</u>
Lease Term and Discount Rate		
Weighted average remaining lease term (years)		
Operating leases	10.07	11.95
Finance leases	2.59	2.67
Weighted average discount rate		
Operating leases	4%	4%
Finance leases	8%	8%

Supplemental cash flow information related to leases was as follows for the years ended December 31:

	<u>2020</u>	<u>2019</u>
Other Information		
Cash paid for amounts included in the measurement of lease liabilities		
Operating cash flows - operating leases	\$ 5,047,233	\$ 4,217,115
Financing cash flows - finance leases	1,516,469	1,347,829
Right-of-use assets obtained in exchange for lease obligations:		
Operating leases	4,956,685	1,881,700
Finance leases	-	1,733,612

14. COVID-19 Pandemic

As a result of the COVID-19 pandemic, MWHC has experienced a decline in visits, patient days, and revenue which has contributed to decreases in total operating revenue and increases in expenses related to supplies such as personal protective equipment and other expenditures.

Federal and state governments have passed legislation, promulgated regulations, and taken other administrative actions intended to assist healthcare providers in providing care to COVID-19 and other patients during the public health emergency. Sources of relief include the federal Coronavirus Aid, Relief, and Economic Security (CARES) Act, which was enacted on March 27, 2020, which included, among other programs, the Provider Relief Fund (PRF) and Advance payments.

Mary Washington Healthcare and Subsidiaries

Notes to Consolidated Financial Statements (continued)

14. COVID-19 Pandemic (continued)

The material government funding received by the MWHC, and the corresponding accounting for the funding, is outlined below:

Department of Health and Human Services (HHS) Provider Relief Fund: During the year ended December 31, 2020, MWHC received approximately \$31,809,000 in funding through the HHS PRF program established by the CARES Act. According to guidance provided by HHS, these funds may only be used when healthcare providers experience a loss in revenue and/or incur expenses as a result of the COVID-19 pandemic. Additionally, healthcare providers must comply with certain terms and conditions, established by HHS, when spending the funds. If the healthcare provider is unable to justify utilization of the funds through lost revenues or COVID-19 expenses, the funds must be returned to HHS.

MWHC has accounted for the original receipt of PRF funds in current deferred revenue. Based on MWHC's calculations, it has recognized approximately \$21,356,000 as other support on the consolidated statement of operations and changes in net assets during the year ended December 31, 2020, while approximately \$10,453,000 remains in current deferred revenue and the respective assets remain in cash and cash equivalents on the consolidated balance sheet as of December 31, 2020. As it relates to the amount recognized as revenue, MWHC believes that the conditions for receipt and conditions for expenditure have both occurred during the year ended December 31, 2020.

While MWHC has utilized all available current information in determining the proper utilization and accounting for these funds, additional regulatory guidance is expected that could have a material impact on how MWHC has recognized PRF funds.

Advance payments: MWHC received approximately \$92,486,000 as a result of the COVID-19 pandemic from the Centers for Medicare & Medicaid Services (CMS) Medicare Advanced Payment Program. Amounts are recorded as payable under the terms set forth by the CMS Expanded Accelerated and Advance Payments (AAP) Program. Repayment of accelerated or advance payments begin one year from the issuance date of the payment. Thus, MWHC will begin repayment in April 2021. During the first eleven months after repayment begins, repayment will occur through an automatic recoupment of 25% of Medicare payments. During the succeeding six months, repayment will occur through an automatic recoupment of 50% of Medicare payments. At the conclusion of the succeeding six months, the outstanding balance of Medicare payments are due on demand, subject to a 4% interest rate. Advance payments due to CMS within one year are estimated to be approximately \$44,462,000 as of December 31, 2020, and recorded in current liabilities on the consolidated balance sheet. Long-term advance payments due to CMS amounted to approximately \$48,024,000 as of December 31, 2020, and recorded in long-term liabilities on the consolidated balance sheet.

Deferral of Employer's Share of Federal Payroll Taxes

The CARES Act also provided for a deferral of payments of the employer portion of payroll tax incurred during the pandemic, allowing half of such payroll taxes be deferred until December 2021 and the remaining half until December 2022. As of December 31, 2020, MWHC had deferred approximately \$9,666,000 of payroll taxes which are reported as employee compensation and professional fees on the consolidated balance sheet.

Other Financial Information

Mary Washington Healthcare – Obligated Group

Consolidated Balance Sheet

	<u>December 31</u> <u>2020</u>
Assets	
Current assets:	
Cash and cash equivalents	\$ 146,245,662
Accounts receivable:	
Patient accounts receivable	56,844,859
Settlements due from third parties	15,430,570
Due from affiliates	17,055,352
Other	<u>566,167</u>
	89,896,948
Inventories	20,025,685
Prepaid expenses and other	<u>11,829,484</u>
Total current assets	<u>267,997,779</u>
Assets whose use is limited:	
Internally designated for healthcare programs and capital acquisitions	299,882,598
Externally restricted by donors	<u>18,529,788</u>
	318,412,386
Property, plant, and equipment	305,459,436
Right of use assets - operating leases, net	30,058,641
Other assets:	
Other non-current assets	3,376,048
Equity in subsidiaries	<u>13,343,053</u>
Total assets	<u>\$ 938,647,343</u>

(continued)

See Independent Auditor's Report

Mary Washington Healthcare – Obligated Group

Consolidated Balance Sheet (continued)

	<u>December 31</u> <u>2020</u>
Liabilities and net assets	
Current liabilities:	
Accounts payable and accrued expenses	\$ 39,764,693
Employee compensation and professional fees	36,353,710
Current Medicare accelerated and advanced payments <i>(Note 14)</i>	40,767,133
Interest payable	431,552
Current maturities of long-term obligations	10,039,864
Current operating lease obligations	3,567,240
Current maturities of long-term accounts payable	1,468,080
Deferred revenue <i>(Note 14)</i>	<u>10,452,226</u>
Total current liabilities	142,844,498
Long-term obligations, less current maturities	224,915,321
Other liabilities:	
Long-term accounts payable, less current maturities	2,987,996
Long-term operating lease obligations	28,352,879
Long-term Medicare accelerated and advanced payments	44,040,716
Accrued losses on malpractice claims	3,625,875
Pension liability	57,485,707
Other	<u>2,855,600</u>
Total liabilities	507,108,592
Net assets:	
Net assets without donor restrictions	411,879,188
Net assets with donor restrictions	<u>19,659,563</u>
	<u>431,538,751</u>
Total liabilities and net assets	<u>\$ 938,647,343</u>

See Independent Auditor's Report

Mary Washington Healthcare – Obligated Group

Consolidated Statement of Operations

	Year ended December 31 2020
Revenue and other support:	
Net patient service revenue	\$ 577,770,649
Rental of facilities	10,564,527
Management and personnel services	9,343,888
Investment income	6,432,102
Unrestricted contributions	765,088
Other	23,120,848
	<u>627,997,102</u>
Expenses:	
Salaries and wages	204,183,843
Employee benefits	40,519,112
Contract personnel	13,362,204
Professional fees	47,612,890
General and administrative	34,910,386
Provision for depreciation and amortization	38,041,177
Interest	8,803,994
Contract services	61,998,606
Supplies	114,267,676
Utilities	4,835,569
Insurance	2,131,347
Rent	10,661,493
Other	5,186,839
	<u>586,515,136</u>
Income from operations	41,481,966
Nonoperating gains (losses):	
Net appreciation of investments	34,257,721
Pension expense, non-service component	(1,250,441)
Gain on investments in partnerships and other	230,939
	<u>33,238,219</u>
Excess of revenues, gains, and other support over expenses and losses before equity in earnings of subsidiaries and noncontrolling interest	<u>\$ 74,720,185</u>

See Independent Auditor's Report

Mary Washington Healthcare – Obligated Group

Consolidated Statement of Cash Flows

	Year ended December 31 <u>2020</u>
Cash flows from operating activities and nonoperating gains (losses)	
Change in net assets	\$ 50,425,694
Adjustments to reconcile change in net assets to net cash provided by operating activities and nonoperating gains (losses):	
Net appreciation of investments	(34,257,721)
Operating leases	293,265
Other nonoperating (gains)	(142,110)
Provisions for depreciation and amortization	38,041,177
Amortization of original issue premiums	(1,309,418)
Amortization of deferred financing costs	140,150
Change in pension obligation other than net periodic pension cost	13,468,864
(Increase) decrease in:	
Accounts receivable	8,837,990
Inventories	(4,264,607)
Prepaid expenses and other	(1,876,376)
Settlement due from third parties	(3,913,423)
Due from non-obligated affiliates	(16,647,029)
Other	13,965,592
Increase (decrease) in:	
Accounts payable and accrued expenses	(12,534,311)
Employee compensation and professional fees	10,557,103
Interest payable	(37,833)
Accrued losses on malpractice claims	43,006
Deferred revenue	10,452,226
Pension liability	(7,747,851)
Net cash provided by operating activities and nonoperating gains (losses)	<u>63,494,388</u>

(continued)

See Independent Auditor's Report

Mary Washington Healthcare – Obligated Group
Consolidated Statement of Cash Flows (continued)

	Year ended December 31 2020
	<u>2020</u>
Cash flows from investing activities	
Change in assets whose use is limited:	
Net purchases (proceeds) of investments	(10,034,429)
Changes in pledges receivable	2,490,786
Acquisition of property, plant, and equipment	<u>(35,216,529)</u>
Net cash (used in) investing activities	(42,760,172)
 Cash flows from financing activities	
Repayment of long-term accounts payable	(4,119,007)
Repayment of long-term obligations	(8,693,362)
Proceeds from Medicare accelerated and advanced payments	<u>84,807,849</u>
Net cash provided by financing activities	71,995,480
 Net increase in cash and cash equivalents	 92,729,696
 Cash and cash equivalents at beginning of year	 <u>53,515,966</u>
 Cash and cash equivalents at end of year	 <u><u>\$ 146,245,662</u></u>

See Independent Auditor's Report