

Consolidated Financial
Statements and Other
Financial Information

**Mary Washington
Healthcare and
Subsidiaries**

December 31, 2025 and 2024

Mary Washington Healthcare and Subsidiaries
Consolidated Financial Statements and Other Information
December 31, 2025 and 2024

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Independent Auditors' Report

To the Board of Trustees of
Mary Washington Healthcare and Subsidiaries

Opinion

We have audited the consolidated financial statements of Mary Washington Healthcare and Subsidiaries (MWHC), which comprise the consolidated balance sheets as of December 31, 2025 and 2024, 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.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of MWHC as of December 31, 2025 and 2024, and the results of its operations, changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America (GAAP).

Basis for Opinion

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

Responsibilities of Management for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with GAAP, and for 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.

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

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

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

In performing an audit in accordance with GAAS, we:

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

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

Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying other financial information listed in the table of contents is presented for purposes of additional analysis 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.

Baker Tilly US, LLP

New Castle, Pennsylvania
April 21, 2026

Mary Washington Healthcare and Subsidiaries

Consolidated Balance Sheets

	December 31,	
	2025	2024
Assets		
Current assets:		
Cash and cash equivalents	\$ 109,845,723	\$ 100,319,537
Accounts receivable:		
Patient accounts receivable	117,954,619	107,874,490
Settlements due from third parties	46,566,231	32,099,149
Other	575,140	3,446,304
	<u>165,095,990</u>	<u>143,419,943</u>
Inventories	24,085,786	20,871,345
Prepaid expenses and other	24,341,088	23,186,794
Total current assets	<u>323,368,587</u>	<u>287,797,619</u>
Assets whose use is limited (Note 2):		
Internally designated for healthcare programs and capital acquisitions	389,185,701	334,805,887
Internally restricted for malpractice claims	18,239,052	16,656,834
Externally restricted under bonds	24,090,571	-
Externally restricted by donors	16,945,020	16,976,742
	<u>448,460,344</u>	<u>368,439,463</u>
Property, plant, and equipment, less accumulated depreciation and amortization (Note 4)	427,322,935	366,636,994
Right of use assets - operating leases, net (Note 13)	37,841,710	43,604,569
Other assets:		
Pension asset (Note 6)	13,577,120	8,471,635
Other non-current assets	13,252,133	9,229,715
Total assets	<u>\$ 1,263,822,829</u>	<u>\$ 1,084,179,995</u>

(continued)

Mary Washington Healthcare and Subsidiaries

Consolidated Balance Sheets (continued)

	December 31,	
	2025	2024
Liabilities and net assets		
Current liabilities:		
Accounts payable and accrued expenses	\$ 99,315,207	\$ 85,723,238
Employee compensation and professional fees	38,086,851	39,756,034
Interest payable	236,773	589,894
Current maturities of long-term obligations <i>(Note 5)</i>	8,474,289	14,054,603
Current operating lease obligations <i>(Note 13)</i>	6,425,170	6,732,530
Total current liabilities	<u>152,538,290</u>	146,856,299
Long-term obligations, less current maturities <i>(Note 5)</i>	336,454,249	240,875,190
Other liabilities:		
Long-term operating lease obligations <i>(Note 13)</i>	34,101,479	39,319,210
Accrued losses on malpractice claims <i>(Note 7)</i>	16,600,196	13,701,450
Other	6,980,888	6,001,480
Total liabilities	546,675,102	446,753,629
Net assets:		
Mary Washington Healthcare and Subsidiaries	681,478,042	607,973,784
Non-controlling interest	18,724,665	12,475,840
Net assets without donor restrictions <i>(Note 3)</i>	<u>700,202,707</u>	620,449,624
Net assets with donor restrictions <i>(Note 3)</i>	16,945,020	16,976,742
	<u>717,147,727</u>	637,426,366
Total liabilities and net assets	<u>\$ 1,263,822,829</u>	<u>\$ 1,084,179,995</u>

Mary Washington Healthcare and Subsidiaries

Consolidated Statements of Operations and Changes in Net Assets

	Years ended December 31,	
	2025	2024
Net assets without donor restrictions		
Revenues and other support:		
Net patient service revenue	\$ 1,219,443,590	\$ 1,074,634,341
Investment income <i>(Note 2)</i>	11,630,752	10,999,384
Other	25,485,234	45,031,727
	<u>1,256,559,576</u>	<u>1,130,665,452</u>
Expenses <i>(Note 9)</i>		
Salaries and wages	452,256,757	411,494,049
Employee benefits <i>(Note 6)</i>	71,135,112	69,083,135
Contract personnel	47,806,198	42,972,741
Professional fees	119,127,266	91,947,069
General and administrative	97,345,693	71,368,745
Provisions for depreciation and amortization <i>(Note 4)</i>	43,397,903	43,892,375
Interest <i>(Note 5)</i>	13,384,352	11,404,309
Cost of goods sold from retail operations	7,254,479	6,944,075
Contract services	130,893,483	91,806,980
Supplies	201,978,351	180,567,246
Utilities	7,449,793	6,557,090
Insurance <i>(Note 7)</i>	7,112,404	4,470,784
Rent	21,780,977	18,662,474
Other	8,602,006	4,589,911
	<u>1,229,524,774</u>	<u>1,055,760,983</u>
Income from operations	27,034,802	74,904,469
Nonoperating gains (losses):		
Net appreciation of investments <i>(Note 2)</i>	48,983,504	28,315,270
Pension (expense) gain, non-service component <i>(Note 6)</i>	(1,292,702)	922,732
Gain on investments in partnerships and other	3,217,314	212,948
Excess of revenues, gains, and other support over expenses and losses,	<u>77,942,918</u>	<u>104,355,419</u>

(continued)

Mary Washington Healthcare and Subsidiaries

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

	Year ended December 31	
	2025	2024
Net assets without donor restrictions		
Excess of revenues, gains, and other support over expenses and losses	\$ 77,942,918	\$ 104,355,419
Other changes in net assets without donor restrictions:		
Adjustments to net pension asset exclusive of net periodic pension cost <i>(Note 6)</i>	6,398,187	11,107,694
Changes in noncontrolling interest	(4,584,852)	(8,790,735)
Other	(3,170)	(3,194)
Increase in net assets without donor restrictions	<u>79,753,083</u>	<u>106,669,184</u>
Net assets with donor restrictions		
Contributions	4,001,919	5,438,381
Investment income <i>(Note 2)</i>	207,656	2,638,225
Net assets released from restrictions used in operations	(1,573,340)	(9,038,085)
Net assets released from restrictions for capital	(2,661,583)	-
Other	(6,374)	(6,677)
Decrease in net assets with donor restrictions	<u>(31,722)</u>	<u>(968,156)</u>
Increase in net assets	79,721,361	105,701,028
Net assets at beginning of year	<u>637,426,366</u>	<u>531,725,338</u>
Net assets at end of year	<u>\$ 717,147,727</u>	<u>\$ 637,426,366</u>

Mary Washington Healthcare and Subsidiaries

Consolidated Statements of Cash Flows

	Years ended December 31,	
	2025	2024
Cash flows from operating activities and nonoperating gains (losses)		
Increase in net assets	\$ 79,721,361	\$ 105,701,028
Adjustments to reconcile increase in net assets to net cash provided by operating activities and nonoperating gains (losses):		
Net appreciation of investments	(48,983,504)	(28,315,270)
Other nonoperating gains	(2,954,319)	(374,594)
Loss (gain) on disposal of fixed assets	112,028	(1,932,994)
Provisions for depreciation and amortization	43,397,903	43,892,375
Accretion of original issue premium	(1,075,625)	(1,107,853)
Amortization of deferred financing costs	113,010	120,896
Gain on refunding of bonds	(375,023)	-
Amortization of right of use assets - operating leases	7,315,108	5,644,620
Change in pension asset other than net periodic pension cost	(6,398,187)	(11,107,694)
(Increase) decrease in:		
Accounts receivable	(7,208,965)	(3,796,290)
Settlements due to/from third parties	(14,467,082)	(610,699)
Inventories	(3,214,441)	517,746
Prepaid expenses and other	(1,154,294)	(4,106,918)
Other	(88,691)	5,031
Pension asset	1,292,702	(3,922,732)
Increase (decrease) in:		
Accounts payable and accrued expenses	7,084,969	8,465,656
Employee compensation and professional fees	(1,669,183)	(598,087)
Interest payable	(353,121)	(119,304)
Operating lease obligations	(7,077,340)	(5,292,166)
Accrued losses on malpractice claims	2,898,746	(179,984)
Net cash provided by operating activities and nonoperating gains (losses)	46,916,052	102,882,767

(continued)

Mary Washington Healthcare and Subsidiaries

Consolidated Statements of Cash Flows (continued)

	Years ended December 31,	
	2025	2024
Cash flows from investing activities		
Change in assets whose use is limited:		
Purchase of investments	\$ (94,782,229)	\$ (295,278,906)
Proceeds from sale of investments	71,405,392	292,913,811
Net decrease in pledges receivable	(1,274,413)	(3,806,107)
Acquisition of property, plant, and equipment	(99,301,062)	(72,211,258)
Net proceeds from sale of property, plant, and equipment	3,875,851	6,000,000
Net cash (used in) investing activities	<u>(120,076,461)</u>	<u>(72,382,460)</u>
Cash flows from financing activities		
Repayment of long-term accounts payable	-	(115,070)
Proceeds from long-term obligations	101,900,547	-
Payments of debt issuance cost	(1,302,648)	-
Repayment of long-term obligations	(11,525,177)	(13,469,178)
Net cash provided by (used in) financing activities	<u>89,072,722</u>	<u>(13,584,248)</u>
Net change in cash and cash equivalents	15,912,313	16,916,059
Cash, cash equivalents, and restricted cash at beginning of year	<u>100,319,537</u>	<u>83,403,478</u>
Cash, cash equivalents, and restricted cash at end of year	<u>\$ 116,231,850</u>	<u>\$ 100,319,537</u>
Cash and cash equivalents and restricted cash include		
Cash and cash equivalents	\$ 109,845,723	\$ 100,319,537
Assets limited as to use:		
Externally restricted under bonds	6,386,127	-
	<u>\$ 116,231,850</u>	<u>\$ 100,319,537</u>
Supplemental disclosure of cash flow information		
Cash paid for interest	\$ 13,576,253	\$ 11,320,665
Non-cash transactions		
Refinancing of long-term obligations through proceeds from long-term obligations	\$ 120,108,382	\$ -
Property, plant, and equipment acquired through vendor financing	\$ 2,263,661	\$ 4,830,245
Property, plant, and equipment acquired through accounts payable	\$ 6,507,000	\$ 6,651,012
Right-of-use assets acquired through operating lease obligations	\$ 1,552,249	\$ 5,608,870

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 is a wholly-owned, taxable subsidiary 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 are considered disregarded entities for tax purposes. MWHP is a joint venture owned 80% by Mary Washington Healthcare.

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 they serve. 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, losses, and change in noncontrolling interest for the reporting period except for additional adjustments to net pension liability exclusive of net periodic pension cost and other.

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 gains and losses 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 is made up of two hospitals, four emergency departments, and over 80 outpatient healthcare facilities and wellness services. It 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, behavioral health, and women and infant health. Mary Washington and Stafford (collectively, the 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, 2025 and 2024, were approximately \$24,574,000 and \$17,139,000, respectively. The costs associated with this care equated to approximately \$9,469,000 in 2025 and \$6,690,000 in 2024. 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

Mary Washington is an approved Accreditation Council for Graduate Medical Education (ACGME) Sponsoring Institution, currently with a total of four ACGME accredited programs: Family Medicine, Internal Medicine, Transitional Year, and General Surgery, as well as a Pharmacy Residency approved by the American Society of Hospital Pharmacist. Mary Washington currently has two Graduate Medical Education residency clinics, to train and retain a cohort of over 60 family practice and internal medicine physicians. These clinics can serve over 50,000 patients annually. These residency programs are an investment to permanently address the historic lack of primary care access within the service area.

The Mary Washington Hospital Foundation, Inc. and Stafford Hospital Foundation, Inc. (collectively, the 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.

Mary Washington Healthcare and Subsidiaries

Notes to Consolidated Financial Statements (continued)

1. Summary of Significant Accounting Policies (continued)

Service to the Community (continued)

Other Community Services

MWHC also provides:

- community benefit funding to six charitable safety net clinics and other community organizations that are health-focused,
- 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.

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 64% by Clinical Services; MWHP, owned 80% by MWHC, and Endoscopy Holdings, owned 55.4% (60% in 2024) by MWHC.

Changes in consolidated net assets without donor restrictions attributable to controlling and noncontrolling interests for the years ended December 31, 2025 and 2024 are as follows:

	Total	Controlling Interest	Noncontrolling Interest
Balance, December 31, 2023	\$ 513,780,440	\$ 505,544,524	\$ 8,235,916
Excess of revenues, gains, and other support over expenses and losses	104,355,419	91,324,760	13,030,659
Adjustments to net pension liability exclusive of net periodic pension cost	11,107,694	11,107,694	-
Other	(3,194)	(3,194)	-
Distributions to noncontrolling shareholders	(8,678,273)	-	(8,678,273)
Change in ownership	(112,462)	-	(112,462)
Increase in net assets without donor restrictions	106,669,184	102,429,260	4,239,924
Balance, December 31, 2024	\$ 620,449,624	\$ 607,973,784	\$ 12,475,840

(continued)

Mary Washington Healthcare and Subsidiaries

Notes to Consolidated Financial Statements (continued)

1. Summary of Significant Accounting Policies (continued)

Noncontrolling Interest (continued)

	Total	Controlling Interest	Noncontrolling Interest
Balance, December 31, 2024	\$ 620,449,624	\$ 607,973,784	\$ 12,475,840
Excess of revenues, gains, and other support over expenses and losses	77,942,918	67,109,241	10,833,677
Adjustments to net pension liability exclusive of net periodic pension cost	6,398,187	6,398,187	-
Other	(3,170)	(3,170)	-
Distributions to noncontrolling shareholders	(4,667,569)	-	(4,667,569)
Change in ownership	82,717	-	82,717
	<hr/>	<hr/>	<hr/>
Increase in net assets without donor restrictions	79,753,083	73,504,258	6,248,825
Balance, December 31, 2025	<u>\$ 700,202,707</u>	<u>\$ 681,478,042</u>	<u>\$ 18,724,665</u>

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 and 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.

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.

Mary Washington Healthcare and Subsidiaries

Notes to Consolidated Financial Statements (continued)

1. Summary of Significant Accounting Policies (continued)

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.

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 include resources restricted for malpractice claims, by bond indenture, and resources restricted by donors.

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

Mary Washington Healthcare and Subsidiaries

Notes to Consolidated Financial Statements (continued)

1. Summary of Significant Accounting Policies (continued)

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, for equipment is five to twenty-five years and for leasehold improvements is the shorter of the useful life of the asset or the lease term.

Property and equipment are evaluated for impairment whenever events or changes in circumstances indicate the carrying value of an asset may not be recoverable from the estimated future cash flows expected to result from its use and eventual disposition. If the expected cash flows are less than the carrying value, an impairment loss is recognized equal to an amount by which the carrying value exceeds the fair value of the assets. MWHC believes there were no event or changes in circumstances that would indicate impairment for 2025 or 2024.

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.

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. Explicit price concessions under third-party reimbursement programs represent the difference between MWHC billings at established rates for services and amounts reimbursed by third-party payors.

Mary Washington Healthcare and Subsidiaries

Notes to Consolidated Financial Statements (continued)

1. Summary of Significant Accounting Policies (continued)

Net Patient Service Revenue (continued)

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.

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.

Mary Washington Healthcare and Subsidiaries

Notes to Consolidated Financial Statements (continued)

1. Summary of Significant Accounting Policies (continued)

Net Patient Service Revenue (continued)

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.

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 a credit loss. Credit losses for the years ended December 31, 2025 and 2024, were not 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 Standards 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, under certain circumstances, 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.

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 11). 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:

	2025		2024	
Medicare	\$ 283,166,985	23%	\$ 241,506,079	22%
Anthem	246,916,465	20%	223,053,497	21%
Managed Care	240,529,345	20%	205,500,880	19%
Commercial	177,257,967	15%	154,017,018	14%
Medicaid	143,916,503	12%	135,468,068	13%
Other	91,680,863	8%	85,996,666	8%
Self Pay	35,975,462	2%	29,092,133	3%
	<u>\$ 1,219,443,590</u>	<u>100%</u>	<u>\$ 1,074,634,341</u>	<u>100%</u>

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

	2025		2024	
Hospital Inpatient	\$ 574,123,037	47%	\$ 455,774,893	42%
Hospital Outpatient	404,797,836	33%	389,481,384	36%
Hospice	7,861,429	1%	7,651,927	1%
Physician and Other Outpatient Services	232,661,288	19%	221,726,137	21%
	<u>\$ 1,219,443,590</u>	<u>100%</u>	<u>\$ 1,074,634,341</u>	<u>100%</u>

Mary Washington Healthcare and Subsidiaries

Notes to Consolidated Financial Statements (continued)

1. Summary of Significant Accounting Policies (continued)

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 are accounted for in net assets without donor restrictions.

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 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 utilizes its risk-free rate at the commencement date in determining the present value of lease payments. 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 (IRC) 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 year ended December 31, 2022, and thereafter remain subject to examination by federal and state tax authorities. All required tax filings have been filed on a timely basis.

Subsequent Events

Management has evaluated subsequent events through April 21, 2026, which is the date the consolidated financial statements were issued.

Mary Washington Healthcare and Subsidiaries

Notes to Consolidated Financial Statements (continued)

2. Assets Whose Use is Limited

Assets whose use is limited as of December 31 are summarized as follows:

	<u>2025</u>	<u>2024</u>
Internally designated for healthcare programs and capital acquisitions:		
Cash and cash equivalents	\$ 3,418,892	\$ 5,133,501
Equity securities	385,513,611	329,296,604
Alternative investments	248,894	368,312
Pledges receivable	4,304	7,470
	<u>389,185,701</u>	<u>334,805,887</u>
Internally designated for insurance claims:		
Cash and cash equivalents	2,844,258	1,695,650
Equity securities	14,011,523	12,572,224
U.S. Treasury notes	801,173	1,480,565
Corporate bonds	582,098	908,395
	<u>18,239,052</u>	<u>16,656,834</u>
Externally restricted under bond indenture agreement (held by trustee):		
Cash and cash equivalents	6,386,127	-
Corporate bonds	3,857,458	-
Municipal bonds	1,980,315	-
Federal Agency debt securities	11,866,671	-
	<u>24,090,571</u>	<u>-</u>
Externally restricted by donors:		
Equity securities	11,247,780	12,514,331
Pledges receivable	5,697,240	4,462,411
	<u>16,945,020</u>	<u>16,976,742</u>
	<u>\$ 448,460,344</u>	<u>\$ 368,439,463</u>

Mary Washington Healthcare and Subsidiaries

Notes to Consolidated Financial Statements (continued)

2. Assets Whose Use is Limited (continued)

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

	<u>2025</u>	<u>2024</u>
Revenue and other support:		
Interest and dividends	\$ 11,630,752	\$ 10,999,384
Nonoperating gains:		
Unrealized gains (losses)	51,452,666	(19,686,835)
Realized (losses) gains	<u>(2,469,162)</u>	<u>48,002,105</u>
	<u>60,614,256</u>	<u>39,314,654</u>
Changes in net assets with donor restrictions:		
Interest and dividends	207,656	2,638,225
	<u>\$ 60,821,912</u>	<u>\$ 41,952,879</u>

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 of investments includes realized and unrealized gains (losses) on investments.

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 U.S. treasury notes and corporate bonds 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.

Mary Washington Healthcare and Subsidiaries

Notes to Consolidated Financial Statements (continued)

2. Assets Whose Use is Limited (continued)

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.

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 the using net asset value (NAV) at a practical expedient. 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. The fair value amounts presented in the following tables are intended to permit reconciliation of the fair value hierarchy to the amounts presented in the consolidated balance sheet.

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:

	2025			Total Fair Value
	Level 1	Level 2	Level 3	
Cash equivalents	\$ 12,649,277	\$ -	\$ -	\$ 12,649,277
Equity securities				
Mutual funds	410,772,914	-	-	410,772,914
U.S. Treasury notes	-	801,173	-	801,173
Corporate bonds	-	4,439,556	-	4,439,556
Municipal bonds	-	1,980,315	-	1,980,315
Federal Agency debt securities	-	11,866,671	-	11,866,671
Alternative investments	-	-	-	248,894
	\$ 423,422,191	\$ 19,087,715	\$ -	\$ 442,758,800

	2024			Total Fair Value
	Level 1	Level 2	Level 3	
Cash equivalents	\$ 7,090,414	\$ -	\$ -	\$ 7,090,414
Equity securities				
Mutual funds	354,121,896	-	-	354,121,896
U.S. Treasury notes	-	1,480,565	-	1,480,565
Corporate bonds	-	908,395	-	908,395
Alternative investments	-	-	-	368,312
	\$ 361,212,310	\$ 2,388,960	\$ -	\$ 363,969,582

Pledges receivable, net of allowance and discount, of approximately \$5,702,000 and \$4,470,000 as of December 31, 2025 and 2024, 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>2025</u>	<u>2024</u>
Healthcare programs and services	\$ 8,999,339	\$ 9,020,333
Acquisition of building and equipment	55,175	51,078
Educational seminars, scholarships, and other	1,615,480	1,630,305
Total subject to expenditure for specified purposes	<u>10,669,994</u>	<u>10,701,716</u>
Endowment funds - income expendable to support charitable purposes	<u>6,275,026</u>	<u>6,275,026</u>
Net assets with donor restrictions	<u>\$ 16,945,020</u>	<u>\$ 16,976,742</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>2025</u>	<u>2024</u>
Healthcare programs and services	\$ 1,510,215	\$ 8,669,010
Acquisition of building and equipment	2,661,583	-
Educational seminars, scholarships, and other	63,125	369,075
Net assets released from restrictions	<u>\$ 4,234,923</u>	<u>\$ 9,038,085</u>

Mary Washington Healthcare and Subsidiaries

Notes to Consolidated Financial Statements (continued)

4. Property, Plant, and Equipment

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

	<u>2025</u>	<u>2024</u>
Land and land improvements	\$ 70,061,775	\$ 66,635,108
Buildings	464,640,039	460,205,070
Fixed equipment	65,991,016	75,337,091
Movable equipment	359,491,198	372,800,099
Construction in progress	40,849,939	28,467,862
	<u>1,001,033,967</u>	<u>1,003,445,230</u>
Less accumulated depreciation and amortization	573,711,032	636,808,236
	<u>\$ 427,322,935</u>	<u>\$ 366,636,994</u>

As of December 31, 2025 and 2024, finance leases in the amount of \$23,509,136 and \$21,151,504 and net of accumulated amortization of \$14,096,316 and 10,730,174 are located in movable equipment, and accumulated depreciation and amortization, respectively, above. Approximately \$6,507,000 and \$6,651,000 of additions to property, plant, and equipment were included in accounts payable as of December 31, 2025 and 2024, respectively. During the years ended December 31, 2025 and 2024, MWHC recognized depreciation and amortization expense of approximately \$43,398,000 and \$43,892,000, respectively. During the years ended December 31, 2025 and 2024, MWHC disposed of approximately \$96,808,000 and \$37,345,000 of property, plant, and equipment, respectively, for which MWHC recognized an immaterial gain and loss, respectively, on disposals.

As of December 31, 2025, MWHC had approximately \$14,800,000 commitments under construction contracts. In addition, MWHC had approximately \$10,600,000 outstanding purchase order commitments with outside vendors for equipment, materials and other capital expenditures.

Mary Washington Healthcare and Subsidiaries

Notes to Consolidated Financial Statements (continued)

5. Long-Term Obligations

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

	2025	2024
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) was refinanced in 2025. The outstanding principal balance was retired using proceeds from the Series 2025A-1 and Series 2025A-2 Bonds (Refer below). Prior to the refunding, the bonds bore interest at rates between 4.00% and 5.00%. As a result of this transaction, any remaining unamortized premiums and deferred financing costs associated with the Series 2014 bonds were written off.	\$ -	\$ 51,835,000
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%.	101,055,000	104,930,000
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) was refinanced in 2025. The outstanding principal balance was retired using proceeds from the Series 2025A-1 and Series 2025A-2 Bonds (Refer below). Prior to the refunding, the bonds bore interest at rates at 4.36%. As a result of this transaction, any remaining unamortized deferred financing costs associated with the Series 2016A bonds were written off.	-	21,720,000
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%.	1,199,396	2,011,693
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 SOFR. The interest rate averaged 5.45% and 6.34% during 2025 and 2024, respectively.	7,180,023	7,224,970

Mary Washington Healthcare and Subsidiaries

Notes to Consolidated Financial Statements (continued)

5. Long-Term Obligations (continued)

	<u>2025</u>	<u>2024</u>
Note payable issued in November 2023 to Banc of America Public Capital Corp, which in turn issued a Health Care Facilities Revenue Bond (Series 2023) was refinanced in 2025. The outstanding principal balance was retired using proceeds from the Series 2025A-1 and Series 2025A-2 Bonds (Refer below). Prior to the refunding, the bonds bore interest at rates at 4.45%. As a result of this transaction, any remaining unamortized deferred financing costs associated with the Series 2023 bonds were written off.	\$ -	\$ 50,000,000
Bonds payable issued in May 2025 to the Virginia Small Business Financing Authority, which in turn issued Health Care Facilities Revenue and Refunding Bonds (Series 2025A-1 and Series 2025A-2). The A-1 bonds include serial bonds which mature in graduated annual amounts from \$5,590,000 in 2038 to \$8,120,000 in 2045 and term bonds with maturities of \$47,590,000 in 2050 and \$61,875,000 in 2055. The A-2 bond of \$50,000,000 matures in 2060. The bonds bear interest rates of 5.00% to 5.25%	214,205,000	-
Finance leases	8,681,293	9,722,715
	332,320,712	247,444,378
Plus: Premium on Series 2014 Bonds	-	891,907
Plus: Premium on Series 2016 Bonds	6,705,785	7,583,341
Plus: Premium on Series 2025 Bonds	7,684,040	-
	346,710,537	255,919,626
Less: deferred financing costs	(1,781,999)	(989,833)
Current maturities of long-term obligations	(8,474,289)	(14,054,603)
	\$ 336,454,249	\$ 240,875,190

Mary Washington Healthcare and Subsidiaries

Notes to Consolidated Financial Statements (continued)

5. Long-Term Obligations (continued)

The approximate aggregate maturities for long-term obligations as of December 31, 2025, are as follows:

Years Ending December 31:

2026	\$	8,474,289
2027		7,392,313
2028		6,610,966
2029		5,399,386
2030		5,089,272
Thereafter		299,354,486
	\$	<u>332,320,712</u>

The Series 2016, 2023, and 2025 bonds and 2019 note are secured by a pledge of the gross receipts of each member of the Obligated Group, which consists of Mary Washington Healthcare, 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 year ended December 31, 2025. The 2020 note payable is secured by certain tangible and intangible assets held by Endoscopy Holdings.

During the years ended December 31, 2025 and 2024, MWHC paid approximately \$13,576,000 and \$11,321,000, respectively, for interest.

MWHC also has available a line of credit with a financial institution in the amount of \$30,000,000 that accrues interest at a variable rate based on the one month secured overnight financing rate (SOFR) and matures on February 28, 2026. There was no outstanding balance of this line of credit as of December 31, 2025 and 2024.

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.

Mary Washington Healthcare and Subsidiaries

Notes to Consolidated Financial Statements (continued)

6. Retirement Plans (continued)

Defined Benefit Plan (continued)

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's 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.

During the year ended December 31, 2025, MWHC purchased an annuity to cover the liability for a designated population of vested plan participants. The annuity purchase was approximately \$48,400,000 and MWHC recognized approximately \$3,501,000 as a settlement charge. Also, given the funded status of the plan, MWHC elected to transition the investment strategy which resulted in a mid-year change to the expected return on plan assets.

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

	2025	2024
Reconciliation of Benefit Obligation and Plan		
Assets as of December 31:		
Change in benefit obligation		
Benefit obligation at beginning of year	\$ 119,567,165	\$ 127,468,252
Interest cost	5,886,527	6,474,532
Benefits paid	(7,759,611)	(8,607,460)
Actuarial loss (gain)	2,079,728	(5,768,159)
Annuity purchase	(48,428,598)	-
Benefit obligation at end of year	<u>\$ 71,345,211</u>	<u>\$ 119,567,165</u>
Change in Plan assets		
Fair value of Plan assets at beginning of year	\$ 128,038,800	\$ 120,909,461
Return on Plan assets	13,071,740	12,736,799
Employer contributions	-	3,000,000
Benefits paid	(7,759,611)	(8,607,460)
Annuity Purchase	(48,428,598)	-
Fair value of Plan assets at end of year	<u>\$ 84,922,331</u>	<u>\$ 128,038,800</u>

Mary Washington Healthcare and Subsidiaries

Notes to Consolidated Financial Statements (continued)

6. Retirement Plans (continued)

Defined Benefit Plan (continued)

	<u>2025</u>	<u>2024</u>
Funded Status Reconciliation and Key Assumptions as of December 31:		
Reconciliation of funded status		
Funded status of Plan at end of year	\$ 13,577,120	\$ 8,471,635
Net amount recognized	<u>\$ 13,577,120</u>	<u>\$ 8,471,635</u>
Amounts recognized on the consolidated balance sheets		
Noncurrent assets	\$ 13,577,120	\$ 8,471,635
	<u>\$ 13,577,120</u>	<u>\$ 8,471,635</u>
Cumulative amounts recognized in other changes in net assets without donor restrictions		
Accumulated loss	\$ 6,346,294	\$ 12,734,651
Accumulated other comprehensive income (AOCI)	<u>\$ 6,346,294</u>	<u>\$ 12,734,651</u>

The significant changes in the benefit obligation for the periods ending December 31 were primarily due to the movement in the discount rate.

	<u>2025</u>	<u>2024</u>
Information for pension plans with an accumulated benefit obligation in excess of plan assets		
Projected benefit obligation	\$ 71,345,211	\$ 119,567,165
Accumulated benefit obligation	71,345,211	119,567,165
Fair value of plan assets	84,922,331	128,038,800

Mary Washington Healthcare and Subsidiaries

Notes to Consolidated Financial Statements (continued)

6. Retirement Plans (continued)

Defined Benefit Plan (continued)

The 2025 and 2024 benefit obligations presented above are based on the Pri-2012 (Mortality Table) projected generationally with Scale MP-2021 (Mortality Improvement Scale).

Weighted-average assumptions used to determine benefit obligation

	December 31, 2025	December 31, 2024
Measurement date		
Discount rate	5.50%	5.75%
Rate of compensation increase	N/A	N/A

Components of net periodic benefit expense

Interest cost	\$ 5,886,527	\$ 6,474,532
Expected rate of return on Plan assets	(8,095,217)	(8,927,629)
Amortization of net loss	-	1,530,365
Net periodic benefit income	<u>(2,208,690)</u>	<u>(922,732)</u>
Recognized settlement loss	<u>3,501,392</u>	-
Total one-time cost/(income)	<u>1,292,702</u>	<u>(922,732)</u>

Other changes in Plan assets and benefit obligations recognized in other comprehensive income

Net actuarial gain	(2,896,795)	(9,577,329)
Recognition of net actuarial loss due to settlement	(3,501,392)	-
Amortization of net gain	-	(1,530,365)
Total recognized in other comprehensive income	<u>(6,398,187)</u>	<u>(11,107,694)</u>

Total recognized in net benefit cost and other comprehensive income

	<u>\$ (5,105,485)</u>	<u>\$ (12,030,426)</u>
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Weighted-average assumptions used to determine net periodic benefit expense

	December 31, 2025	December 31, 2024
Measurement date		
Discount rate	5.75%	5.25%
Expected return on Plan assets	5.50%	7.50%
Rates of compensation increase	N/A	N/A

During the year ended December 31, 2025, there was a remeasurement performed as of September 30, 2025. At this time, MWHC elected to decrease the expected return on Plan assets to 5.50%. The expected return on Plan assets was 7.50% for the period January 1, 2025- September 30, 2025, and 5.50% for the period October 1, 2025 – December 31, 2025. Both rates were utilized to calculate the final expense for the year.

Mary Washington Healthcare and Subsidiaries

Notes to Consolidated Financial Statements (continued)

6. Retirement Plans (continued)

Defined Benefit Plan (continued)

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

	<u>2025</u>	<u>2024</u>
Equity securities	0%	59%
Debt securities	53%	40%
Other (primarily cash and cash equivalents and fund of funds)	47%	1%
Total	<u>100%</u>	<u>100%</u>

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

2026	\$	4,552,000
2027		4,742,000
2028		4,876,000
2029		4,970,000
2030		5,101,000
Years 2031-2035		26,270,000

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 the using net asset value (NAV) at a practical expedient. 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. The fair value amounts presented in the following tables are intended to permit reconciliation of the fair value hierarchy to the amounts presented in previous tables.

Mary Washington Healthcare and Subsidiaries

Notes to Consolidated Financial Statements (continued)

6. Retirement Plans (continued)

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.

	2025			Total Fair Value
	Level 1	Level 2	Level 3	
Cash and cash equivalents				
Money market	\$ 2,493,796	\$ -	\$ -	\$ 2,493,796
Mutual funds				
Corporate Bonds	45,070,762	-	-	45,070,762
Other	8,130	-	-	8,130
Alternative investments	-	-	-	37,349,643
	<u>\$ 47,572,688</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 84,922,331</u>

Alternative investments consist of an investment in a fund managed by Fidelity Institutional Asset Management Trust Company. As of December 31, 2025 and 2024, the fair value of the investment was \$37,349,643 and \$0, respectively. The fund utilizes a fund-of-funds investment strategy, allocating assets among a combination of collective investment trusts, mutual funds, and exchange-traded funds (ETFs) in order to achieve targeted liability-hedging and return-seeking objectives.

There were no unfunded commitments related to this investment as of December 31, 2025 and 2024. The investment may be redeemed daily with no advance notice required.

	2024			Total Fair Value
	Level 1	Level 2	Level 3	
Cash and cash equivalents				
Money market	\$ 1,413,564	\$ -	\$ -	\$ 1,413,564
Mutual funds				
Equity securities	49,617,239	-	-	49,617,239
Multi sector bonds	21,306,654	-	-	21,306,654
Multi sector stock	25,971,874	-	-	25,971,874
Intermediate term bonds	29,718,665	-	-	29,718,665
Other	5,972	-	-	5,972
Alternative investments	-	-	-	4,832
	<u>\$ 128,033,968</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 128,038,800</u>

Mary Washington Healthcare and Subsidiaries

Notes to Consolidated Financial Statements (continued)

6. Retirement Plans (continued)

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 ERISA. The Supplemental Plan has received a favorable determination letter from the IRS exempting it from federal income taxation under the IRC.

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. During 2025 and 2024, MWHC contributed approximately \$8,164,000 and \$7,261,000, 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). For claims reported in 2025 and 2024 the SIR retained the first \$500,000 of risk. Fredericksburg Professional Risk Exchange (ProRex), a subsidiary of MWHC, is a reciprocal insurance company licensed in the State of Vermont. For claims reported in 2025 and 2024, ProRex retained risk for MWHC and its subsidiaries of \$2,700,000 and \$2,650,000 per claim, respectively, and \$8,100,000 and \$7,950,000 in the aggregate, respectively. Risks above those limits are covered by a commercial excess insurance policy with a \$20,000,000 aggregate limit.

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 \$5,730,000 and \$4,775,000 related to its share of estimated payments to be made for claims filed from January 1, 2011, through December 31, 2025 and 2024, respectively. ProRex has accrued approximately \$4,950,000 and \$4,233,000 related to its share of estimated payments to be made under its professional liability insurance program for claims filed through December 31, 2025 and 2024, 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 3.21% and 2.92% interest rate for 2025 and 2024, respectively. 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 \$5,920,000 and \$4,694,000 through December 31, 2025 and 2024, respectively, related to estimated liabilities for claims incurred but not yet reported.

Mary Washington Healthcare and Subsidiaries

Notes to Consolidated Financial Statements (continued)

8. Other Revenue

Other revenue for the years ended December 31, 2025 and 2024 are as follows:

	2025	2024
Retail and pharmacy sales	\$ 11,192,953	\$ 8,800,453
Rental of facilities	2,754,250	2,604,146
Management and personnel services	211,079	4,693,863
Net assets released from restrictions	1,573,340	9,038,085
Grant revenue	2,417,445	2,362,650
Unrestricted contributions	463,807	434,004
Other	6,872,360	17,098,526
	<u>\$ 25,485,234</u>	<u>\$ 45,031,727</u>

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:

	2025				
	Healthcare Services	Fundraising	Property Management	Management and General	Total
Salaries and wages	\$ 443,538,953	\$ 500,886	\$ 3,072,167	\$ 5,144,751	\$ 452,256,757
Employee benefits	69,398,881	116,068	624,669	995,494	71,135,112
Contract personnel	46,580,024	-	-	1,226,174	47,806,198
Professional fees	116,698,270	131,006	2,669	2,295,321	119,127,266
General and administrative	93,347,364	401,301	899,405	2,697,623	97,345,693
Provisions for depreciation and amortization	33,772,931	293	5,333,487	4,291,192	43,397,903
Interest	615,984	-	433,917	12,334,451	13,384,352
Cost of retail goods sold from retail operations	7,083,571	170,888	-	20	7,254,479
Contract services	125,776,960	19,515	2,884,588	2,212,420	130,893,483
Supplies	201,450,783	18,667	219,361	289,540	201,978,351
Utilities	5,210,603	-	2,235,747	3,443	7,449,793
Insurance	4,805,931	3,542	76,771	2,226,160	7,112,404
Rent	13,525,942	1,656	4,328,267	3,925,112	21,780,977
Other	7,475,566	-	1,056,699	69,741	8,602,006
	<u>\$ 1,169,281,763</u>	<u>\$ 1,363,822</u>	<u>\$ 21,167,747</u>	<u>\$ 37,711,442</u>	<u>\$ 1,229,524,774</u>

Mary Washington Healthcare and Subsidiaries

Notes to Consolidated Financial Statements (continued)

9. Functional Expenses (continued)

	2024				
	Healthcare Services	Fundraising	Property Management	Management and General	Total
Salaries and wages	\$ 405,089,665	\$ 472,357	\$ 2,852,038	\$ 3,079,989	\$ 411,494,049
Employee benefits	67,075,675	105,078	593,768	1,308,614	69,083,135
Contract personnel	42,646,256	-	-	326,485	42,972,741
Professional fees	89,976,897	143,892	37,578	1,788,702	91,947,069
General and administrative	67,869,271	178,951	934,991	2,385,532	71,368,745
Provisions for depreciation and amortization	34,177,788	293	5,056,666	4,657,628	43,892,375
Interest	617,660	-	478,874	10,307,775	11,404,309
Cost of retail goods sold from retail operations	6,758,968	185,107	-	-	6,944,075
Contract services	88,385,691	26,333	2,149,077	1,245,879	91,806,980
Supplies	179,671,897	24,469	235,017	635,863	180,567,246
Utilities	4,663,489	-	1,893,601	-	6,557,090
Insurance	3,363,452	1,459	21,109	1,084,764	4,470,784
Rent	10,868,940	4,163	3,984,976	3,804,395	18,662,474
Other	3,912,626	990	624,650	51,645	4,589,911
	<u>\$ 1,005,078,275</u>	<u>\$ 1,143,092</u>	<u>\$ 18,862,345</u>	<u>\$ 30,677,271</u>	<u>\$ 1,055,760,983</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 varies metrics such as square footage or total payroll.

Mary Washington Healthcare and Subsidiaries

Notes to Consolidated Financial Statements (continued)

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:

	<u>2025</u>	<u>2024</u>
Managed Care	29%	29%
Medicare	18%	19%
Anthem	20%	20%
Commercial	17%	17%
Other	10%	11%
Medicaid	2%	2%
Self Pay	4%	2%
	<u>100%</u>	<u>100%</u>

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.

Mary Washington Healthcare and Subsidiaries

Notes to Consolidated Financial Statements (continued)

11. Risks and Uncertainties (continued)

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.

12. Liquidity and Availability

As of December 31, 2025, MWHC has working capital of approximately \$170,830,000 and approximately 154 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>2025</u>	<u>2024</u>
Cash and cash equivalents	\$ 109,845,723	\$ 100,319,537
Patient accounts receivable	117,954,619	107,874,490
Other accounts receivable	575,140	3,446,304
Assets limited as to use:		
Board designated funds	<u>389,185,701</u>	<u>334,805,887</u>
	<u>\$ 617,561,183</u>	<u>\$ 546,446,218</u>

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, bond indenture 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.

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, 2025:

Years Ending December 31	Finance Lease	Operating Leases	Total
2026	\$ 3,700,990	\$ 7,737,810	\$ 11,438,800
2027	2,736,835	6,008,257	8,745,092
2028	1,970,364	5,426,409	7,396,773
2029	542,965	5,180,679	5,723,644
2030	2,392	5,061,479	5,063,871
Thereafter	-	18,273,057	18,273,057
Total lease payments	8,953,546	47,687,691	56,641,237
Less: Interest	(272,253)	(7,161,042)	(7,433,295)
Present value of lease liabilities	<u>\$ 8,681,293</u>	<u>\$ 40,526,649</u>	<u>\$ 49,207,942</u>

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

Lease Cost	2025	2024
Operating lease cost	\$ 8,511,154	\$ 7,884,834
Short term lease cost	13,269,823	10,777,640
Finance lease cost:		
Amortization of leased assets	3,366,142	2,844,579
Interest on lease liabilities	472,951	449,581
Total lease cost	<u>\$ 25,620,070</u>	<u>\$ 21,956,634</u>

Mary Washington Healthcare and Subsidiaries

Notes to Consolidated Financial Statements (continued)

13. Leases (continued)

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

Leases Classification		2025	2024
Asset			
Operating	Right-of-use assets – operating leases, net	\$ 37,841,710	\$ 43,604,569
Finance	Property and equipment, gross	23,509,136	21,151,504
Finance	Accumulated amortization	(14,096,316)	(10,730,174)
Total lease assets		\$ 47,254,530	\$ 54,025,899
Liabilities			
Current			
Operating	Current operating lease obligations	\$ 6,425,170	\$ 6,732,530
Finance	Current maturities of long-term obligations	3,365,045	2,964,046
Noncurrent			
Operating	Operating leases payable	34,101,479	39,319,210
Finance	Long-term obligations	5,316,248	6,758,669
Total lease liabilities		\$ 49,207,942	\$ 55,774,455
Lease Term and Discount Rate			
Weighted average remaining lease term (years)			
Operating leases		7.96	8.50
Finance leases		2.61	3.31
Weighted average discount rate			
Operating leases		3.91%	3.92%
Finance leases		4.11%	4.00%

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

	2025	2024
Other Information		
Cash paid for amounts included in the measurement of lease liabilities		
Operating cash flows - operating leases	\$ 8,353,685	\$ 7,710,021
Financing cash flows - finance leases	3,712,206	3,453,858
Right-of-use assets obtained in exchange for lease obligations:		
Operating leases	1,552,249	5,608,870
Finance leases	2,263,661	4,830,245

Other Financial Information

Mary Washington Healthcare – Obligated Group

Combined Balance Sheets

	December 31,	
	2025	2024
Assets		
Current assets:		
Cash and cash equivalents	\$ 82,553,118	\$ 88,111,474
Accounts receivable:		
Patient accounts receivable	96,802,580	90,383,471
Settlements due from third parties	46,566,231	32,099,149
Due from affiliates	-	363,780
Other	142,624	2,588,467
	<u>143,511,435</u>	<u>125,434,867</u>
Inventories	22,655,801	19,439,368
Prepaid expenses and other	21,519,024	19,747,150
Total current assets	<u>270,239,378</u>	<u>252,732,859</u>
Assets whose use is limited:		
Internally designated for healthcare programs and capital acquisitions	381,241,831	327,818,033
Externally restricted under bonds	24,090,571	-
Externally restricted by donors	16,536,733	16,379,458
	<u>421,869,135</u>	<u>344,197,491</u>
Property, plant, and equipment	403,966,402	339,339,861
Right of use assets - operating leases, net	34,654,987	39,536,756
Other assets:		
Pension asset	13,577,120	8,471,635
Other non-current assets	9,107,173	7,113,158
Equity in subsidiaries	42,323,408	35,504,948
	<u>42,323,408</u>	<u>35,504,948</u>
Total assets	<u>\$ 1,195,737,603</u>	<u>\$ 1,026,896,708</u>

(continued)

Mary Washington Healthcare – Obligated Group

Combined Balance Sheets (continued)

	December 31,	
	2025	2024
Liabilities and net assets		
Current liabilities:		
Accounts payable and accrued expenses	\$ 73,372,413	\$ 68,847,070
Employee compensation and professional fees	33,576,624	35,650,837
Interest payable	234,971	545,373
Current maturities of long-term obligations	4,590,877	10,481,345
Current operating lease obligations	5,636,276	5,837,887
Due to affiliates	3,955,510	-
Total current liabilities	<u>121,366,671</u>	<u>121,362,512</u>
Long-term obligations, less current maturities	331,598,026	234,249,429
Other liabilities:		
Long-term operating lease obligations	31,449,011	35,638,906
Accrued losses on insurance claims	5,919,945	4,693,855
Other	6,980,888	6,001,480
Total liabilities	<u>497,314,541</u>	<u>401,946,182</u>
Net assets:		
Net assets without donor restrictions	681,478,042	607,973,784
Net assets with donor restrictions	16,945,020	16,976,742
	<u>698,423,062</u>	<u>624,950,526</u>
Total liabilities and net assets	<u>\$ 1,195,737,603</u>	<u>\$ 1,026,896,708</u>

Mary Washington Healthcare – Obligated Group

Combined Statements of Operations

	Years ended December 31,	
	2025	2024
Revenue and other support:		
Net patient service revenue	\$ 978,884,649	\$ 846,727,232
Investment income	10,330,784	9,942,340
Other	27,913,523	47,255,732
	1,017,128,956	903,925,304
Expenses:		
Salaries and wages	299,037,826	283,287,687
Employee benefits	49,906,278	50,096,932
Contract personnel	44,418,314	41,382,886
Professional fees	79,548,373	56,661,629
General and administrative	92,873,608	67,580,539
Provision for depreciation and amortization	37,473,834	38,324,485
Interest	12,819,578	10,823,080
Cost of goods sold from retail operations	406,395	-
Contract services	114,281,509	81,053,218
Supplies	179,930,935	146,222,445
Utilities	6,904,847	6,091,103
Insurance	4,232,560	3,569,482
Rent	18,846,152	15,723,826
Other	7,360,181	6,031,257
	948,040,390	806,848,569
Income from operations	69,088,566	97,076,735
Nonoperating gains (losses):		
Net appreciation of investments	47,063,175	27,393,027
Pension (expense) gain, non-service component	(1,292,702)	922,732
Gain on investments in partnerships and other	3,195,514	475,981
Excess of revenues, gains, and other support over expenses and losses	\$ 118,054,553	\$ 125,868,475

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Mary Washington Healthcare – Obligated Group

Combined Statements of Cash Flows

	Years ended December 31,	
	2025	2024
Cash flows from operating activities and nonoperating gains (losses)		
Change in net assets	\$ 73,472,536	\$ 101,461,104
Adjustments to reconcile change in net assets to net cash provided by operating activities and nonoperating gains (losses):		
Net appreciation of investments	(47,063,175)	(27,393,027)
Operating leases	490,263	335,739
Other nonoperating gains	(2,820,491)	(5,270,566)
Provisions for depreciation and amortization	37,473,834	38,324,485
Accretion of original issue premiums	(1,075,625)	(1,107,853)
Amortization of deferred financing costs	113,010	120,896
Gain on refunding of bonds	(375,023)	-
Change in equity in subsidiaries	(6,818,460)	(10,342,273)
Change in pension asset other than net periodic pension cost	(6,398,187)	(11,107,694)
(Increase) decrease in:		
Accounts receivable	(3,973,266)	(5,731,082)
Settlement due from third parties	(14,467,082)	(610,699)
Inventories	(3,216,433)	(416,059)
Prepaid expenses and other	(1,771,874)	(2,319,764)
Due from non-obligated affiliates	4,319,290	5,611,078
Other	1,910,501	315,425
Pension asset	1,292,702	(3,922,732)
Increase (decrease) in:		
Accounts payable and accrued expenses	(1,981,657)	11,668,396
Employee compensation and professional fees	(2,074,213)	(1,525,788)
Interest payable	(310,402)	(123,033)
Accrued losses on malpractice claims	1,226,090	68,634
Net cash provided by operating activities and nonoperating gains (losses)	27,952,338	88,035,187

(continued)

Mary Washington Healthcare – Obligated Group

Combined Statement of Cash Flows (continued)

	Years ended December 31,	
	2025	2024
Cash flows from investing activities		
Change in assets whose use is limited:		
Net (proceeds) of investments	\$ (22,945,708)	\$ (3,911,235)
Changes in pledges receivable	(1,276,634)	(3,811,282)
Acquisition of property, plant, and equipment	(99,573,843)	(64,670,764)
Net proceeds from sale of property, plant, and equipment	3,875,851	6,000,000
Net cash (used in) investing activities	<u>(119,920,334)</u>	<u>(66,393,281)</u>
Cash flows from financing activities		
Repayment of long-term accounts payable	-	(115,070)
Proceeds from long-term obligations	101,900,547	-
Payments of debt issuance cost	(1,302,648)	-
Repayment of long-term obligations	(7,802,132)	(9,945,678)
Net cash provided by financing activities	<u>92,795,767</u>	<u>(10,060,748)</u>
Net increase in cash and cash equivalents	827,771	11,581,158
Cash, cash equivalents, and restricted cash at beginning of year	<u>88,111,474</u>	<u>76,530,316</u>
Cash, cash equivalents, and restricted cash at end of year	<u>\$ 88,939,245</u>	<u>\$ 88,111,474</u>
Cash and cash equivalents and restricted cash include		
Cash and cash equivalents	\$ 82,553,118	\$ 88,111,474
Assets limited as to use:		
Externally restricted under bonds	6,386,127	-
	<u>\$ 88,939,245</u>	<u>\$ 88,111,474</u>
Supplemental disclosure of cash flow information		
Cash paid for interest	\$ 13,015,522	\$ 10,825,217
Non-cash Transactions:		
Refinancing of long-term obligations through proceeds from long-term obligations	\$ 120,108,382	\$ -
Property, plant, and equipment acquired through accounts payable	\$ 6,507,000	\$ 6,651,012

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