

CONSOLIDATED FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION

Mt. Washington Pediatric Hospital, Inc. and Subsidiaries
Years Ended June 30, 2020 and 2019
With Report of Independent Auditors

Ernst & Young LLP



Mt. Washington Pediatric Hospital, Inc. and Subsidiaries

Consolidated Financial Statements
and Supplementary Information

Years Ended June 30, 2020 and 2019

Contents

Report of Independent Auditors.....1

Consolidated Financial Statements

Consolidated Balance Sheets3

Consolidated Statements of Operations and Changes in Net Assets4

Consolidated Statements of Cash Flows.....5

Notes to Consolidated Financial Statements.....6

Supplementary Information

Consolidating Balance Sheet Information as of June 30, 202044

Consolidating Balance Sheet Information as of June 30, 201945

Consolidating Statement of Operations and Changes in Net Assets Information
for the Year Ended June 30, 2020.....46

Consolidating Statement of Operations and Changes in Net Assets Information
for the Year Ended June 30, 2019.....47



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Report of Independent Auditors

The Board of Trustees
Mt. Washington Pediatric Hospital, Inc. and Subsidiaries

We have audited the accompanying consolidated financial statements of Mt. Washington Pediatric Hospital, Inc. and Subsidiaries, which comprise the consolidated balance sheet as of June 30, 2020, and the related consolidated statement of operations and changes in net assets, and cash flows for the year then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Mt. Washington Pediatric Hospital, Inc. and Subsidiaries as of June 30, 2020, and the consolidated results of their operations, changes in net assets and their cash flows for the year then ended in conformity with U.S. generally accepted accounting principles.

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying supplementary consolidating and combining/combined information is presented for purposes of additional analysis and is not a required part of the 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 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 financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Report of Other Auditors on June 30, 2019 Financial Statements

The consolidated financial statements of Mt. Washington Pediatric Hospital, Inc. and Subsidiaries for the year ended June 30, 2019, were audited by other auditors who expressed an unmodified opinion on those statements on October 28, 2019.

Ernst + Young LLP

November 24, 2020

Mt. Washington Pediatric Hospital, Inc. and Subsidiaries

Consolidated Balance Sheets

June 30, 2020 and 2019

	2020	2019
Assets		
Current assets:		
Cash and cash equivalents	\$ 25,419,228	\$ 20,078,131
Current portion of assets limited as to use	118,920	116,019
Patient accounts receivable, net	6,689,684	8,662,971
Other accounts receivable	3,197,085	1,496,392
Inventories of supplies	106,935	201,505
Prepaid expenses and other current assets	568,822	218,614
Total current assets	36,100,674	30,773,632
Investments	37,613,733	40,376,210
Assets limited as to use, less current portion:		
Board-designated funds	4,000,000	4,022,446
Eliasberg construction fund	1,249,449	1,249,449
Funds restricted by donor	17,760,179	16,523,292
Self-insurance trust funds	6,506,001	6,687,405
	29,515,629	28,482,592
Property and equipment, net	38,459,256	37,014,692
Other assets	2,075,382	1,658,308
Total assets	\$ 143,764,674	\$ 138,305,434
Liabilities and net assets		
Current liabilities:		
Current portion of long-term debt	\$ 400,000	\$ 369,869
Trade accounts payable	2,975,587	4,379,788
Accrued payroll benefits	4,884,874	4,926,605
Advances from third-party payors	3,327,762	3,471,792
Current portion of malpractice liabilities	118,920	116,019
Due to affiliates	920,650	985,459
Other current liabilities	930,161	475,669
Total current liabilities	13,557,954	14,725,201
Malpractice liabilities	3,004,766	2,702,474
Accrued pension obligations	1,052,935	563,689
Long-term debt	3,538,954	3,938,954
Other long-term liabilities	378,163	-
Total liabilities	21,532,772	21,930,318
Net assets:		
Without donor restrictions	101,202,910	97,690,847
With donor restrictions	21,028,992	18,684,269
Total net assets	122,231,902	116,375,116
Total liabilities and net assets	\$ 143,764,674	\$ 138,305,434

See accompanying notes to consolidated financial statements.

Mt. Washington Pediatric Hospital, Inc. and Subsidiaries

Consolidated Statements of Operations and Changes in Net Assets

Years Ended June 30, 2020 and 2019

	<u>2020</u>	<u>2019</u>
Operating revenue, gains, and other support:		
Net patient service revenue	\$ 60,081,594	\$ 64,382,350
Other revenue	2,378,124	380,869
Total operating revenue, gains, and other support	<u>62,459,718</u>	<u>64,763,219</u>
Operating expenses:		
Salaries, wages, and benefits	41,784,333	41,785,847
Purchased services and supplies	15,694,394	16,076,595
Interest expense	104,033	135,060
Depreciation and amortization	4,331,707	3,695,634
Total operating expenses	<u>61,914,467</u>	<u>61,693,136</u>
Operating income	545,251	3,070,083
Nonoperating income and expenses, net:		
Contributions	724,603	733,578
Investment income, net	1,550,363	1,330,420
Other income, expenses, and Foundation contributions, net	(864,115)	51,635
Change in unrealized gains of trading securities	(23,683)	1,813,918
Excess of revenues over expenses	<u>1,932,419</u>	<u>6,999,634</u>
Net assets released from restrictions used for purchase of property and equipment	2,321,335	103,431
Change in funded status of defined benefit plan	<u>(741,642)</u>	<u>(411,718)</u>
Increase in net assets without donor restrictions	<u>3,512,112</u>	<u>6,691,347</u>
Changes in net assets with donor restriction:		
Contributions	3,452,643	987,763
Investment income, net	1,529,819	693,992
Net unrealized gains on donor restricted investments	329,971	1,086,086
Net assets released from restrictions used for operations	(646,424)	–
Net assets released from restrictions used for purchase of property and equipment	<u>(2,321,335)</u>	<u>(103,431)</u>
Increase in net assets with donor restrictions	<u>2,344,674</u>	<u>2,664,410</u>
Total increase in net assets	<u>5,856,786</u>	<u>9,355,757</u>
Net assets, beginning of year	<u>116,375,116</u>	<u>107,019,359</u>
Net assets, end of year	<u>\$ 122,231,902</u>	<u>\$ 116,375,116</u>

See accompanying notes to consolidated financial statements.

Mt. Washington Pediatric Hospital, Inc. and Subsidiaries

Consolidated Statements of Cash Flows

Years Ended June 30, 2020 and 2019

	<u>2020</u>	<u>2019</u>
Operating activities		
Increase in net assets	\$ 5,856,786	\$ 9,355,757
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Depreciation and amortization	4,331,707	3,695,634
Amortization of debt issue costs	5,131	5,131
Net realized gains and change in value of trading securities	(2,538,558)	(3,300,378)
Restricted contributions and investment income	(1,529,819)	(1,681,755)
Net unrealized gains on trading securities	(329,971)	(1,086,086)
Change in funded status of defined benefit plan	741,642	411,718
Changes in operating assets and liabilities:		
Net patient accounts receivable	1,973,287	(1,562,846)
Other accounts receivable	(1,700,693)	(80,873)
Inventories of supplies	94,570	(30,605)
Prepaid expenses and other current assets	(350,208)	47,218
Other long-term assets	(417,074)	(281,722)
Amounts due to affiliates	389,683	1,052,272
Trade accounts payable	(878,536)	(751,377)
Accrued payroll benefits	(41,731)	215,683
Advances from third-party payors	(144,030)	(102,241)
Other current and long-term liabilities	430,960	224,855
Net cash provided by operating activities	<u>5,893,146</u>	<u>6,130,385</u>
Investing activities		
Purchases of property and equipment	(6,301,936)	(4,988,844)
Purchases and sales of investments and assets limited to use, net (trading)	3,451,166	(3,215,104)
Net cash used in investing activities	<u>(2,850,770)</u>	<u>(8,203,948)</u>
Financing activities		
Repayment of long-term debt	(375,000)	(360,000)
Restricted contributions and investment income	1,529,819	1,681,755
Net cash provided by financing activities	<u>1,154,819</u>	<u>1,321,755</u>
Increase (decrease) in cash, cash equivalents and restricted cash	4,197,195	(751,808)
Cash and cash equivalents at beginning of year, including restricted cash	22,212,744	22,964,552
Cash and cash equivalents at end of year, including restricted cash	<u>\$ 26,409,939</u>	<u>\$ 22,212,744</u>
Cash and cash equivalents	\$ 25,419,228	\$ 20,078,131
Restricted cash, including assets limited as to use	990,711	2,134,613
Cash and cash equivalents at end of year, including restricted cash	<u>\$ 26,409,939</u>	<u>\$ 22,212,744</u>
Supplemental disclosure of cash flow information		
Cash paid during the year for interest	\$ 55,533	\$ 123,471
Construction in process in accounts payable	\$ 525,665	\$ 623,867

See accompanying notes to consolidated financial statements.

Mt. Washington Pediatric Hospital, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

June 30, 2020

(1) Organization

The consolidated financial statements of Mt. Washington Pediatric Hospital, Inc. and Subsidiaries (the Corporation) include the accounts of Mt. Washington Pediatric Hospital, Inc. (the Hospital) and its wholly owned subsidiaries; Mt. Washington Pediatric Foundation, Inc. (the Foundation); Mt. Washington Pediatric Community Health Services, LLC (Community Health); and Mt. Washington Community Behavioral Health Services, LLC (Behavioral Health). The Corporation is structured as a joint venture with a 50% ownership interest by the University of Maryland Medical System Corporation (UMMS) and a 50% ownership interest by Johns Hopkins Health System Corporation (JHHS).

The Hospital is a not-for-profit, nonstock corporation formed under the laws of the State of Maryland. Its purpose is to operate a pediatric rehabilitation and specialty hospital while providing the highest quality services and programs to meet the individualized needs of infants, children, and adolescents in a nurturing environment. The Hospital has 102 licensed beds. The Foundation uses its funds and investment income to solely support the Hospital and its programs. Community Health provides offsite rehabilitation and specialty healthcare services. Behavioral Health provides offsite behavioral healthcare services.

The Corporation incurred expenses of \$666,706 and \$425,694 for the years ended June 30, 2020 and 2019, respectively, for administrative services provided by UMMS. The Corporation is managed by UMMS, and accordingly, the results of the Corporation's operations and its financial condition could be different if it were autonomous.

(2) Summary of Significant Accounting Policies

(a) Basis of Presentation

The consolidated financial statements are prepared on the accrual basis of accounting in accordance with U.S. generally accepted accounting principles.

(b) Cash and Cash Equivalents

Cash and cash equivalents consist of cash and interest-bearing deposits with maturities of three months or less from date of purchase, excluding amounts presented within investments and assets limited as to use.

Mt. Washington Pediatric Hospital, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)

(2) Summary of Significant Accounting Policies (continued)

(c) Inventories

Inventories, consisting primarily of drugs and medical/surgical supplies, are carried at the lower of cost or market, on a first-in, first-out basis.

(d) Investments and Assets Limited as to Use

The Hospital participates in an investment pool of one of its owners, UMMS. The UMMS investment pool (investment pool) is classified as a trading portfolio. Each participating member of the investment pool has an undivided interest in the investment pool. The Hospital's percentage interest in the assets of the investment pool was approximately 4.12% and 4.11% at June 30, 2020 and 2019, respectively. Investment income and administrative expenses relating to the investment pool are allocated to the individual members based on this percentage.

The Hospital's investment portfolio is classified as trading, and is reported at fair value, based on quoted market prices, at June 30, 2020 and 2019. Unrealized holding gains and losses on trading securities with readily determinable market values are included in nonoperating income. Investment income, including realized gains and losses, is included in nonoperating income in the accompanying consolidated statements of operations and changes in net assets.

The Foundation's investment portfolio is classified as trading and is reported in the consolidated balance sheets at its fair value, based on quoted market prices, at June 30, 2020 and 2019. Unrealized holding gains and losses on trading securities without donor restrictions with readily determinable market values are included in nonoperating income. Investment income, including realized gains and losses, is included in nonoperating income in the accompanying consolidated statements of operations and changes in net assets.

Investment income is reported net of investment fees.

The Foundation does not have any alternative investments in its investment portfolio. However, the Hospital has alternative investments in assets limited as to use for self-insurance and the investment pool. Alternative investments are recorded under the equity method of accounting. Underlying securities of these alternative investments may include certain debt and equity securities that are not readily marketable. Because certain investments are not readily marketable, their fair value is subject to additional uncertainty, and therefore, values realized upon disposition may vary significantly from current reported values.

Mt. Washington Pediatric Hospital, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)

(2) Summary of Significant Accounting Policies (continued)

Assets limited as to use include investments set aside at the discretion of the board of trustees for the replacement or acquisition of property and equipment over which the board of trustees retains control and may at its discretion use for other purposes, self-insurance trust arrangements, and assets whose use is restricted by donors. Such investments are stated at fair value. Amounts required to meet current liabilities have been included in current assets in the consolidated balance sheets. Changes in fair values of donor-restricted investments are recorded in net assets unless without donor restriction otherwise required by the donor or state law to be included in net assets with donor restriction.

Investments are exposed to certain risks, such as interest rate, credit, and overall market volatility. Due to the level of risk associated with certain investment securities, changes in the value of investment securities could occur in the near term, and these changes could materially differ from amounts reported in the accompanying consolidated financial statements.

(e) Fair Value Measurements

The following methods and assumptions were used by the Corporation in estimating the fair value of its financial instruments:

Cash and cash equivalents, accounts receivable, assets limited as to use, investments, trade accounts payable, accrued payroll benefits, current and long-term debt, and advances from third-party payors – The carrying amounts reported in the consolidated balance sheets approximate the related fair values.

The Corporation has implemented the provisions of Accounting Standards Codification (ASC) Topic 820 in relation to fair value measurements of financial assets and financial liabilities and for fair value measurements of nonfinancial items that are recognized or disclosed at fair value in the consolidated financial statements on a recurring basis. This guidance established a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted market prices in active markets for identical assets or liabilities (Level I measurement) and the lowest priority to measurements involving significant unobservable inputs (Level III measurements). The three levels of the fair value hierarchy are as follows:

- Level I inputs are quoted market prices (unadjusted) in active markets for identical assets or liabilities that the Corporation has the ability to access at the measurement date.

Mt. Washington Pediatric Hospital, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)

(2) Summary of Significant Accounting Policies (continued)

- Level II inputs are inputs other than quoted market prices including within Level I that are observable for the asset or liability, either directly or indirectly. If the asset or liability has a specified (contractual) term, a Level II input must be observable for substantially the full term of the asset or liability.
- Level III inputs are unobservable inputs for the asset or liability.

Assets and liabilities classified as Level I are valued using unadjusted quoted market prices for identical assets or liabilities in active markets. The Corporation uses techniques consistent with the market approach and the income approach for measuring fair value of its Level II and Level III assets and liabilities. The market approach is a valuation technique that uses prices and other relevant information generated by market transactions involving identical or comparable assets or liabilities. The income approach generally converts future amounts (cash flows or earnings) to a single present value amount (discounted).

The level in the fair value hierarchy within which a fair value measurement in its entirety falls is based on the lowest level input that is significant to the fair value measurement in its entirety.

As of June 30, 2020 and 2019, the Level II assets and liabilities listed in the fair value hierarchy tables below utilize the following valuation techniques and inputs:

(i) Cash Equivalents

The fair value of investments in cash equivalent securities, with maturities within three months of the date of purchase, are determined using techniques that are consistent with the market approach. Significant observable inputs include reported trades and observable broker/dealer quotes.

(ii) U.S. Government and Agency Securities

The fair value of investments in U.S. government, state, and municipal obligations is primarily determined using techniques consistent with the market approach. Significant observable inputs include benchmark yields, reported trades, observable broker/dealer quotes, issuer spreads, and security specific characteristics.

Mt. Washington Pediatric Hospital, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)

(2) Summary of Significant Accounting Policies (continued)

(iii) Corporate Bonds

The fair value of investments in U.S. and international corporate bonds, including commingled funds that invest primarily in such bonds, and foreign government bonds is primarily determined using techniques that are consistent with the market approach. Significant observable inputs include benchmark yields, reported trades, observable broker/dealer quotes, issuer spreads, and security specific characteristics, such as early redemption options.

(iv) Collateralized Corporate Obligations

The fair value of collateralized corporate obligations is primarily determined using techniques consistent with the income approach, such as a discounted cash flow model. Significant observable inputs include prepayment speeds and spreads, benchmark yield curves, volatility measures, and quotes.

(f) Self-Insurance

Under the Corporation's self-insurance programs (general and professional liability and employee health benefits), claims are reflected as a present value liability based upon actuarial estimates, including both reported and incurred but not reported claims taking into consideration the severity of incidents and the expected timing of claim payments.

(g) Property and Equipment

Property and equipment are stated at cost or estimated fair value at date of contribution, less accumulated depreciation. Depreciation is computed using the straight-line method over the estimated useful lives of the related assets. The estimated useful lives of the assets are as follows:

Building and leasehold improvements	20 to 40 years
Land improvements	5 to 20 years
Equipment	3 to 15 years

Interest cost incurred on borrowed funds during the period of construction of capital assets is capitalized as a component of the cost of acquiring those assets.

Mt. Washington Pediatric Hospital, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)

(2) Summary of Significant Accounting Policies (continued)

(h) Deferred Financing Costs

Costs incurred related to the issuance of long-term debt are deferred and are amortized over the life of the related debt using the straight-line method, which approximates the effective-interest method. Accumulated amortization of such costs amounted to \$64,992 and \$59,861 for the years ended June 30, 2020 and 2019, respectively. Deferred financing costs are presented as a component of long-term debt in the accompanying consolidated balance sheets.

(i) Impairment of Long-Lived Assets

Management regularly evaluates whether events or changes in circumstances have occurred that could indicate impairment in the value of long-lived assets. In accordance with the provisions of ASC Topic 360, *Property, Plant, and Equipment*, if there is an indication that the carrying amount of an asset is not recoverable, management estimates the projected undiscounted cash flows, excluding interest, to determine if an impairment loss should be recognized. The amount of impairment loss is determined by comparing the historical carrying value of the asset to its estimated fair value. Estimated fair value is determined through an evaluation of recent and projected financial performance using standard industry valuation techniques.

In estimating the future cash flows for determining whether an asset is impaired, the Corporation groups its assets at the lowest level for which there are identifiable cash flows independent of other groups of assets. If such costs are impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the estimated fair value of the assets. There were no impairments in the years ended June 30, 2020 and 2019.

(j) Net Assets

The financial statements are presented in accordance with Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 958 dated August 2016, and the provisions of the American Institute of Certified Public Accountants (AICPA), *Audit and Accounting Guide for Not-for-Profit Organizations* (the Guide). ASC 958-205 was effective July 1, 2018.

Mt. Washington Pediatric Hospital, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)

(2) Summary of Significant Accounting Policies (continued)

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

Net assets without donor restrictions: Net assets that are not subject to donor-imposed restrictions and may be expended for any purpose in performing the primary objectives of the Corporation. The Corporation's board may designate assets without restrictions for specific operational purposes from time to time.

Net assets with donor restrictions: Net assets subject to stipulations imposed by donors, and grantors. Some donor restrictions are temporary in nature; those restrictions will be met by actions of the Corporation or by the passage of time. Other donor restrictions are perpetual in nature, where by the donor has stipulated the funds be maintained in perpetuity.

(k) Net Patient Service Revenue and Provision for Uncollectible Accounts

In accordance with ASC 606, *Revenue from Contracts with Customers*, net patient service revenue, which includes hospital inpatient services, hospital outpatient services, and other patient services revenue, is recorded at the transaction price estimated by the Corporation to reflect the total consideration due from patients and third-party payors (including commercial payers and government programs) and others. Revenue is recognized over time as performance obligations are satisfied in exchange for providing goods and services in patient care. Revenue is recorded as these goods and services are provided. The services provided to a patient during an inpatient stay or outpatient visit represent a bundle of goods and services that are distinct and accounted for as a single performance obligation.

The Corporation's estimate of the transaction price includes the Corporation's standard charges for the goods and services provided with a reduction recorded related to price concessions for such items as contractual allowances, charity care, potential adjustments that may arise from payment and other reviews, and uncollectible amounts. The price concessions are determined using the portfolio approach as a practical expedient to account for patient contracts as collective groups rather than individually. Estimates for uncollectible amounts are based on the aging of the accounts receivable, historical collections experience for similar payors and patients, current market conditions, and other relevant factors. The Corporation recognizes a significant amount of patient service revenue at the time the services are rendered even though they do not assess the patient's ability to pay. Based on historical experience, a significant portion of the self-pay population will

Mt. Washington Pediatric Hospital, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)

(2) Summary of Significant Accounting Policies (continued)

be unable or unwilling to pay for services which is estimated in the transaction price. Subsequent changes to the estimate of the transaction price are generally recorded as adjustment to net patient service revenue in the period of change. Subsequent changes that are determined to be the result of an adverse change in the payor's or patient's ability to pay are recorded as bad debt expense and recorded within operating expenses. Estimates for uncollectible amounts are based on the historical collections experience for similar payors and patients, current market conditions, and other relevant factors. The Corporation recognizes a significant amount of patient service revenue even though they do not assess the patient's ability to pay.

The standard charges for goods and services for the Corporation reflects actual charges to patients based on rates established by the State of Maryland Health Services Cost Review Commission (HSCRC) in effect during the period in which the services are rendered. See Note 8 for further discussion on the HSCRC and regulated rates.

Patient accounts are recorded at the net realizable value based on certain assumptions determined by each payor. For third-party payors including Medicare, Medicaid, and commercial insurance, the net realizable value is based on the estimated contractual adjustments which is based on approved discounts on charges as permitted by the HSCRC. For self-pay accounts, which includes patients who are uninsured and the patient responsibility portion for patients with insurance, the net realizable value is determined using estimates of historical collection experience.

The Corporation has elected to apply the optional exemption in ASC 606-10-50-14a as all performance obligations relate to contracts with duration of less than one year. Under this exemption the Corporation was not required to disclose the aggregate amount of the transaction price allocated to performance obligations that are unsatisfied or partially unsatisfied at the end of the reporting period. Any unsatisfied or partially unsatisfied performance obligations at the end of the year are completed within days or weeks of the end of the year.

Mt. Washington Pediatric Hospital, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)

(2) Summary of Significant Accounting Policies (continued)

Operating revenue by line of business are as follows for the years ended June 30:

	<u>2020</u>	<u>2019</u>
Hospital	\$ 57,542,587	\$ 61,775,036
Physicians	2,539,007	2,607,314
Total revenue from contracts with customers	<u>60,081,594</u>	64,382,350
CARES act funding	1,231,181	–
Other nonpatient care	1,146,943	380,869
Total operating revenue	<u>\$ 62,459,718</u>	<u>\$ 64,763,219</u>

(l) Charity Care

The Hospital provides charity care to patients who are unable to pay or who meet certain criteria under its charity care policy. Such patients are identified based on information obtained from the patient and subsequent analysis. Because the Hospital does not expect collection of amounts determined to qualify as charity care, such amounts are not reported as revenue. Costs incurred are estimated based on the cost-to-charge ratio for the hospital and applied to charity care charges. Since the Hospital does not pursue collection of amounts determined to meet the criteria under the charity care policy, such amounts are not reported as net patient service revenue. The amounts reported as charity care represent the cost of rendering such services. The Hospital estimates the total direct and indirect costs to provide charity care were \$65,146 and \$31,879 in the years ended June 30, 2020 and 2019, respectively.

(m) Nonoperating Income and Expenses, Net

Other activities that are largely unrelated to the Corporation's primary mission are recorded as nonoperating income and expenses, and include investment income, change in fair value of investments and general donations, and fund-raising activities.

Mt. Washington Pediatric Hospital, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)

(2) Summary of Significant Accounting Policies (continued)

(n) Excess of Revenues over Expenses

The consolidated statement of operations and changes in net assets includes a performance indicator, the excess of revenues over expenses. Changes in net assets without donor restriction that are excluded from the excess of revenues over expenses, consistent with industry practice, include contributions of long-lived assets (including assets acquired using contributions, which by donor restriction were to be used for the purposes of acquiring such assets), pension-related changes other than net periodic pension costs and other items which are required by generally accepted accounting principles to be reported separately.

(o) Income Tax Status

The Hospital is a not-for-profit corporation as described under Section 501(c)(3) of the Internal Revenue Code (the Code) and is exempt from federal income taxes on related income pursuant to Section 501(a) of the Code. The Foundation is a not-for-profit corporation formed under the laws of the State of Maryland, organized for charitable purposes and recognized by the Internal Revenue Service as a tax-exempt organization under Section 501(c)(3) of the Code.

The Corporation follows a threshold of more likely than not for recognition and derecognition of tax positions taken or expected to be taken in a tax return. Management does not believe that there are any unrecognized tax benefits that should be recognized.

(p) Donor-Restricted Gifts

Unconditional promises to give cash and other assets to the Corporation are reported at fair value at the date the promise is received. Conditional promises to give and indications of intentions to give are reported at fair value at the date the promise becomes unconditional. Contributions are reported as either net assets with donor restriction if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction is satisfied, net assets with donor restriction are reclassified as net assets without donor restriction and either reported in the consolidated statements of operations and changes in net assets as net assets released from restrictions for operations or net assets released from restrictions for property and equipment. Donor-restricted contributions for operations whose restrictions are met within the same year as received are reported as contributions without donor restriction in the accompanying consolidated financial statements. Revenue earned from contributed assets is considered unrestricted unless

Mt. Washington Pediatric Hospital, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)

(2) Summary of Significant Accounting Policies (continued)

specifically restricted by the donor. Contributions restricted for the acquisition of land, buildings, and equipment are reported as net assets without donor restriction upon acquisition of the assets and the assets are placed in service. The Corporation recognizes contributions made from the Foundation to the Hospital to be used for operations within other revenue on the consolidated statement of operations and changes in net assets. Foundation contributions to the Hospital to be used for the acquisition of land, buildings and equipment are reported as assets without donor restriction upon the acquisition of the assets upon their release to service. During 2020, the Corporation recognized Foundation contributions used for operations of \$646,424 and assets used for the acquisition of land, buildings, and equipment of \$143,158.

Contributions to be received after one year are discounted at an appropriate discount rate commensurate with the risks involved. An allowance for uncollectible contributions receivable is provided based upon management's judgment including such factors as prior collection history, type of contributions, and nature of fund-raising activity.

The Corporation follows accounting guidance for classifying the net assets associated with donor-restricted endowment funds held by organizations that are subject to an enacted version of the Uniform Prudent Management Institutional Funds Act of 2006 (UPMIFA).

(q) New Accounting Pronouncements

The Corporation adopted ASU 2016-02, *Leases* (ASC Topic 842), on July 1, 2019. ASC Topic 842 required the recognition of right-of-use assets (ROU) and lease liabilities on the accompanying consolidated balance sheet and the disclosure of qualitative and quantitative information about leasing arrangements. The guidance was adopted using a modified retrospective approach without restating prior comparative periods. The Corporation elected to utilize the transition practical expedient to not reassess whether a contract is or contains a lease, the lease classification and initial direct costs. Additionally, the Corporation also elected the practical expedient which allows the System to treat the lease and non-lease components of a contract as a single component and account for as a lease. The Corporation recognized operating ROU assets and corresponding operating lease liabilities of approximately \$188,262 in the accompanying consolidated balance sheet at July 1, 2019. See further discussion in Note 6.

Mt. Washington Pediatric Hospital, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)

(2) Summary of Significant Accounting Policies (continued)

Effective January 1, 2019, the Corporation adopted ASU 2016-18, *Statement of Cash Flows (Topic 320): Restricted Cash*, which requires that the statement of cash flows explain the change during the period in total cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. Therefore, amounts generally described as restricted cash and restricted cash equivalents should be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. From time to time, new accounting guidance is issued by the FASB or other standard setting bodies that is adopted by the Corporation as of the effective date or, in some cases where early adoption is permitted, in advance of the effective date. The Corporation has assessed the recently issued guidance that is not yet effective and, unless otherwise indicated above, believes the new guidance will not have a material impact on our consolidated financial position, results of operations, or cash flows.

(r) Going Concern

Management evaluates whether there are conditions or events, considered in aggregate, that raise substantial doubt about the Corporation's ability to continue as a going concern within one year after the date the financial statements are issued. As of the date of this report, there are no conditions or events that raise substantial doubt about the Corporation's ability to continue as a going concern.

(s) Use of Estimates

The preparation of consolidated financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

(t) COVID-19 Pandemic and the Coronavirus Aid, Relief, and Economic Security (CARES) Act of 2020

Maryland Governor Larry Hogan began preparing the State for the COVID-19 pandemic on January 29, 2020 by raising the State's emergency operations center threat to "enhanced." As a result of close monitoring of the pandemic's impact data, on March 5, 2020, Governor Hogan declared a State of Emergency in Maryland, an action that was succeeded by several others

Mt. Washington Pediatric Hospital, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)

(2) Summary of Significant Accounting Policies (continued)

intended to limit the spread of COVID-19 in Maryland and ensure residents who required medical care were able to obtain it safely and efficiently. Notably, Governor Hogan issued an executive order on March 16, 2020 restricting elective procedures. As a result, volume in the months of March and April declined significantly and based on the State of Maryland's phased resumption of certain elective procedures in May and June, volumes increased compared to April 2020.

In response to COVID-19, the Coronavirus Aid, Relief and Economic Security (CARES) Act, was signed into law on March 27, 2020. The CARES Act authorizes funding to hospitals and other healthcare providers to be distributed through the Public Health and Social Services Emergency Fund (Relief Fund). Payments from the Relief Fund are to be used to prevent, prepare for, and respond to coronavirus, and shall reimburse the recipient for health care related expenses or lost revenues attributable to coronavirus and not required to be repaid, provided the recipients attest to and comply with the terms and conditions.

The U.S. Department of Health and Human Services' distributions from the Relief Fund include general distribution and targeted distributions to support hospitals in high impact areas and rural providers. For the year ended June 30, 2020, the Corporation received and recognized as other operating revenue, approximately \$1,231,181 in relief funding. Amounts recognized as revenue could change in the future based on evolving compliance guidance provided by HHS, among other factors, as discussed further in Note 17.

The CARES Act provided for deferred payment of the employer portion of social security taxes through December 31, 2020, with 50% of the deferred amount to December 31, 2021 and the remaining 50% due December 31, 2022. As of June 30, 2020, the Corporation deferred \$284,083, which is recorded in other long-term liabilities in the accompanying consolidated balance sheet.

Mt. Washington Pediatric Hospital, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)

(3) Investments and Assets Limited as to Use

The carrying value of assets limited or restricted as to use is summarized as follows at June 30:

	<u>2020</u>	<u>2019</u>
Cash and cash equivalents	\$ 990,711	\$ 2,134,613
U.S. government and agency securities	542,370	617,386
Corporate obligations	3,607,387	3,970,207
Foreign bonds	–	346,663
Common stocks	13,869,160	10,726,318
UMMS investment pool	4,000,000	4,000,000
Self insurance trust funds – MMCIP	6,624,921	6,803,424
Total assets limited or restricted as to use	<u>29,634,549</u>	<u>28,598,611</u>
Less amounts available for current liabilities	<u>(118,920)</u>	<u>(116,019)</u>
Total assets limited as to use, less current portion	<u>\$ 29,515,629</u>	<u>\$ 28,482,592</u>

Board-designated assets represent assets designated by the Hospital’s board of trustees for future capital improvements and expansion. The board retains control of these assets and may, at its discretion, subsequently use them for other purposes. The assets consist primarily of cash and cash equivalents, fixed-income securities, equity instruments, and the Hospital’s allocation of the UMMS investment pool. As of June 30, 2020 and 2019, the board had designated \$4,000,000 and \$4,022,446, respectively.

The Corporation’s self-insurance trust funds are held by the Maryland Medicine Comprehensive Insurance Program (MMCIP) for payment of malpractice claims. These assets consist primarily of cash, stocks and fixed-income and corporate obligations. MMCIP is a funding mechanism for the Corporation’s malpractice insurance. As MMCIP is not an insurance provider, transactions with MMCIP are recorded under the deposit method of accounting. Accordingly, the Corporation accounts for its participation in MMCIP by carrying limited-use assets representing the amount of funds contributed to MMCIP and recording a liability for claims, which is included in malpractice liabilities in the accompanying consolidated balance sheets.

Mt. Washington Pediatric Hospital, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)

(3) Investments and Assets Limited as to Use (continued)

The composition and carrying value of investments were as follows at June 30:

	2020	2019
U.S. government and agency securities	\$ 112,832	\$ 273,527
Corporate obligations	750,464	1,759,878
Foreign bonds	–	153,425
Common stocks	2,885,273	4,755,488
UMMS investment pool	33,865,164	33,433,892
	<u>\$ 37,613,733</u>	<u>\$ 40,376,210</u>

The composition and carrying value of total cash and investments held in the UMMS investment pool as of June 30 are as follows:

	2020	2019
Cash and cash equivalents	\$ 16,426,955	\$ 14,987,641
Corporate bonds	116,964,909	183,587,949
Collateralized corporate obligations	21,535,675	23,963,755
U.S. government and agency securities	31,130,152	27,774,538
Common stocks	250,899,359	173,228,686
Alternative investments	475,752,440	479,714,505
	<u>\$ 912,709,490</u>	<u>\$ 903,257,074</u>
Hospital's allocation (investments)	\$ 33,865,164	\$ 33,433,892
Hospital's allocation (assets limited as to use)	4,000,000	4,000,000

Mt. Washington Pediatric Hospital, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)

(3) Investments and Assets Limited as to Use (continued)

Investment income and realized and unrealized gains (losses) for investments limited or restricted as to use and other long-term investments are summarized as follows for the years ended June 30:

	<u>2020</u>	<u>2019</u>
Interest and dividend income, net of fees	\$ 541,624	\$ 538,852
Net realized gains on investments and assets limited to use	2,538,558	985,341
Change in unrealized (losses) gains on trading securities	(23,683)	2,314,137
Net unrealized gains on net assets with donor restrictions	329,971	1,086,086
	<u>\$ 3,386,470</u>	<u>\$ 4,924,416</u>

Total investment return is classified in the consolidated statements of operations and changes in net assets, for the years ended June 30, as follows:

	<u>2020</u>	<u>2019</u>
Nonoperating investment income	\$ 1,550,363	\$ 830,201
Investment income on net assets with donor restriction	1,529,819	693,992
Net unrealized gains on net assets with donor restriction	329,971	1,086,086
Change in unrealized (losses) gains of trading securities	(23,683)	2,314,137
	<u>\$ 3,386,470</u>	<u>\$ 4,924,416</u>

Mt. Washington Pediatric Hospital, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)

(3) Investments and Assets Limited as to Use (continued)

The following table presents assets and liabilities that are measured at fair value on a recurring basis, excluding alternative investments in the amount of \$17,764,295 for investments in the UMMS investment pool and \$2,085,011 for assets limited as to use, which are accounted for under the equity method, as of June 30, 2020:

	Level I	Level II	Level III	Total
Investments:				
Bonds – government agency	\$ 112,832	\$ –	\$ –	\$ 112,832
Corporate obligations	–	750,464	–	750,464
Common stocks	2,885,273	–	–	2,885,273
UMMS investment pool	12,793,676	3,293,965	–	16,087,641
Subtotal	15,791,781	4,044,429	–	19,836,210
Assets limited as to use:				
Cash and cash equivalents	990,711	–	–	990,711
Bonds – government agency	542,124	–	–	542,124
Corporate obligations	–	3,607,173	–	3,607,173
Common stocks	13,869,619	–	–	13,869,619
UMMS investment pool	1,522,892	392,096	–	1,914,988
Self insurance trust funds – MMCIP	–	6,624,921	–	6,624,921
Subtotal	16,925,346	10,624,190	–	27,549,536
	\$ 32,717,127	\$ 14,668,619	\$ –	\$ 47,385,746

Mt. Washington Pediatric Hospital, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)

(3) Investments and Assets Limited as to Use (continued)

The following table presents assets and liabilities that are measured at fair value on a recurring basis, excluding alternative investments in the amount of \$17,901,916 for investments in the UMMS investment pool and \$2,124,376 for assets limited as to use, which are accounted for under the equity method, as of June 30, 2019:

	Level I	Level II	Level III	Total
Investments:				
Bonds – government agency	\$ 274,222	\$ –	\$ –	\$ 274,222
Corporate obligations	1,764,043	–	–	1,764,043
Common stocks	4,749,934	–	–	4,749,934
Foreign bonds	–	154,119	–	154,119
UMMS investment pool	12,789,624	2,742,352	–	15,531,976
Subtotal	19,577,823	2,896,471	–	22,474,294
Assets limited as to use:				
Cash and cash equivalents	2,134,613	–	–	2,134,613
Bonds – government agency	617,386	–	–	617,386
Corporate obligations	3,970,207	–	–	3,970,207
Common stocks	10,726,318	–	–	10,726,318
Foreign bonds	–	346,664	–	346,664
UMMS investment pool	1,544,460	331,163	–	1,875,623
Self insurance trust funds – MMCIP	–	6,803,424	–	6,803,424
Subtotal	18,992,984	7,481,251	–	26,474,235
	\$ 38,570,807	\$ 10,377,722	\$ –	\$ 48,948,529

Mt. Washington Pediatric Hospital, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)

(4) Property and Equipment

A summary of property and equipment and related accumulated depreciation is as follows at June 30:

	<u>2020</u>	<u>2019</u>
Land and land improvements	\$ 1,634,154	\$ 1,607,154
Buildings and fixed equipment	57,242,428	57,019,064
Leasehold improvements	548,204	548,204
Major moveable equipment	12,796,285	11,870,701
Minor equipment	12,693,168	5,862,357
Construction in progress	2,354,049	4,584,538
	<u>87,268,288</u>	<u>81,492,018</u>
Less accumulated depreciation	(48,809,032)	(44,477,326)
Property and equipment, net	<u>\$ 38,459,256</u>	<u>\$ 37,014,692</u>

Construction in progress includes building and renovation costs for assets that have not yet been placed into service. These costs relate to major construction projects as well as routine renovations under way at the Hospital's facilities.

(5) Retirement Plans

Employees of the Corporation became eligible to participate in the Baltimore Washington Medical System, Inc.'s (BWMS) noncontributory defined benefit pension plan (the Plan) effective July 1, 1997. In connection with BWMS' sale of 50% interest in the Hospital, this Plan was amended effective July 1, 2006 to become a multiple employer plan whereby the assets and liabilities of this Plan related to the Corporation's participants have been transferred to the Corporation. The Plan covers employees who have completed one year of eligibility service and have reached 21 years of age.

On June 30, 2015 the Baltimore Washington Medical Center Pension Plan was amended to merge two other pension plans into the Baltimore Washington Medical Center Pension Plan and to change the name of the newly consolidated plan to the University of Maryland Medical System Corporate Pension Plan (the Corporate Plan). All provisions of the respective previous plans shall continue to apply to the respective applicable participants. In addition, as of June 30, 2015 all of the assets of the three formerly separate plans that were previously available only to pay benefits for their

Mt. Washington Pediatric Hospital, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)

(5) Retirement Plans (continued)

separate plan participants are now available to pay benefits for all participants under the newly consolidated Corporate Plan.

Under the Plan, upon normal retirement, participants shall be eligible to receive benefits based on the value of their vested accrued benefit. Vested accrued benefits are calculated as the sum of: (a) the present value of a participant's accrued benefit under the previous plan as of June 30, 1989, plus (b) a percentage (3.0% for less than 15 years, 4.0% for years 15 to 19, 5.6% for years 20 to 24, and 7.2% for 25 years and higher) of the participant's annual compensation and compensation in excess of the Social Security Wage Base, as defined, plus (c) annual interest credited at a rate equal to the average yield of six-month U.S. Treasury Bills at the beginning of the plan year.

Vesting begins after three years of participation in the Plan. The funding policy is to make annual contributions to the Plan in amounts sufficient to satisfy the funding standards of the Employee Retirement Income Security Act of 1974. Pension expense for the defined benefit pension plan was approximately \$647,605 and \$598,703 for the years ended June 30, 2020 and 2019, respectively.

The following table sets forth the change in the benefit obligation and plan assets as of and for the years ended June 30, the measurement date:

	<u>2020</u>	<u>2019</u>
Change in projected benefit obligations		
Benefit obligations at beginning of year	\$ 11,760,822	\$ 10,262,759
Service cost	734,012	650,338
Interest cost	419,881	434,885
Actuarial loss	834,009	591,894
Benefits paid	(248,695)	(179,054)
Projected benefit obligations at end of year	<u>\$ 13,500,029</u>	<u>\$ 11,760,822</u>
Change in plan assets		
Fair value of plan assets at beginning of year	\$ 11,197,133	\$ 9,909,491
Actual return on plan assets	598,657	666,696
Employer contributions	900,000	800,000
Benefits paid	(248,695)	(179,054)
Fair value of plan assets at end of year	<u>\$ 12,447,095</u>	<u>\$ 11,197,133</u>
Accumulated benefit obligation at end of year	<u>\$ 13,173,525</u>	<u>\$ 11,457,133</u>

Mt. Washington Pediatric Hospital, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)

(5) Retirement Plans (continued)

The funded status of the Plan and amounts recognized as other long-term liabilities in the consolidated balance sheets are as follows:

	June 30	
	2020	2019
Funded status, end of period:		
Fair value of plan assets	\$ 12,447,095	\$ 11,197,133
Projected benefit obligations	13,500,029	11,760,822
Funded status	<u>\$ (1,052,934)</u>	<u>\$ (563,689)</u>
Amounts recognized in net assets without donor restriction as of June 30:		
Net actuarial loss	\$ (3,134,738)	\$ (2,390,856)
Unamortized prior service cost	(7,305)	(6,547)
	<u>\$ (3,142,043)</u>	<u>\$ (2,397,403)</u>

The estimated amounts that will be amortized from net assets with donor restriction into net periodic pension cost in fiscal 2020 are as follows:

Net actuarial loss	\$ 37,531
Prior service cost	2,242
	<u>\$ 39,773</u>

The components of net periodic pension cost for the years ended June 30 are as follows:

	2020	2019
Service cost	\$ 734,012	\$ 650,338
Interest cost	419,881	434,885
Expected return on plan assets	(679,308)	(627,644)
Amortization of prior service cost	2,242	2,242
Amortization of net actuarial loss	170,778	138,882
	<u>\$ 647,605</u>	<u>\$ 598,703</u>

Mt. Washington Pediatric Hospital, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)

(5) Retirement Plans (continued)

Components of net benefit cost other than the service cost of \$734,012 and \$650,338 were recorded in other nonoperating income and expenses, net in the consolidated statements of operations and changes in net assets for the year ended June 30, 2020 and 2019, respectively. Service cost is included as a component of fringe benefits, which is recorded as salaries, wages, and benefits in the accompanying consolidated statements of operations and changes in net assets.

The assumption information, below, relates to the entire Plan. Certain information related to the Corporation is not separately identifiable.

The following table presents the weighted average assumptions used to determine benefit obligations for the Plan at June 30:

	<u>2020</u>	<u>2019</u>
Discount rate	3.03%	3.70%
Rate of compensation increase	3.00	3.00

The following table presents the weighted average assumptions used to determine net periodic benefit cost for the Plan for the years ended June 30:

	<u>2020</u>	<u>2019</u>
Discount rate	3.70%	4.39%
Expected long-term return on plan assets	6.00	6.25
Rate of compensation increase	3.00	3.00

All of the Plan's assets are held in the UMMS Master Pension Trust (the Master Trust), which was established during the year ended June 30, 2012 for the investment assets of multiple-sponsored retirement plans. Each participating plan has an undivided interest in the Master Trust. The Plan's percentage interest in the net assets of the Master Trust was approximately 7.22% and 6.9% at June 30, 2020 and 2019, respectively. Investment income and administrative expenses relating to the Master Trust are allocated to the individual plans based on this percentage.

Mt. Washington Pediatric Hospital, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)

(5) Retirement Plans (continued)

The fair values of total cash and investments held in the Master Trust are as follows as of June 30:

	<u>2020</u>	<u>2019</u>
Cash and cash equivalents	\$ 22,644,730	\$ 5,034,652
Corporate obligations	7,677,193	6,956,332
Bonds – government and agency	4,338,691	4,153,678
Common and preferred stocks	14,993,237	12,106,868
Equity mutual funds	21,278,777	21,139,906
Fixed-income mutual funds	13,621,552	13,345,457
Other mutual funds	10,466,193	14,598,969
Alternative investments	77,372,370	85,912,562
Total Master Trust cash and investments	<u>\$ 172,392,743</u>	<u>\$ 163,248,424</u>
Plan’s interest in Master Trust	<u>\$ 12,447,095</u>	<u>\$ 11,197,133</u>

The investment policies of the Master Trust incorporate asset allocation and investment strategies designed to earn superior returns on plan assets consistent with reasonable and prudent levels of risk. Investments are diversified across classes, sectors, and manager style to minimize the risk of loss. The Master Trust uses investment managers specializing in each asset category, and regularly monitors performance and compliance with investment guidelines. In developing the expected long-term rate of return on assets assumption, the Master Trust considered the current level of expected returns on risk-free investments, the historical level of the risk premium associated with the other asset classes in which the portfolio is invested, and the expectations for future returns of each asset class. The expected return for each asset class was then weighted based on the target allocation to develop the expected long-term rate of return on assets assumption for the portfolio.

Mt. Washington Pediatric Hospital, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)

(5) Retirement Plans (continued)

The Plan's target allocation and weighted average asset allocations at the measurement date of June 30, by asset category, are as follows:

	Target Allocation	Percentage of Plan Assets as of June 30	
		2020	2019
Cash and cash equivalents	0%–10%	4%	4%
Equity securities	30%–50%	44	41
Fixed-income securities	25%–45%	27	28
Global asset allocation	10%–20%	15	17
Hedge funds	5%–15%	10	10
		100%	100%

Equity and fixed-income securities include investments in hedge fund of funds that are categorized in accordance with the fund's respective investment holdings.

The table below presents the Master Trust's and the Plan's allocated share of investments as of June 30, 2020 aggregated by the fair value hierarchies as described in Note 4:

	Level I	Level II	Level III	Investments Reported at NAV*	Total
Cash and cash equivalents	\$ 10,660,000	\$ 11,984,730	\$ –	\$ –	\$ 22,644,730
Corporate obligations	–	7,677,193	–	–	7,677,193
Bonds – government and agency	4,338,691	–	–	–	4,338,691
Common and preferred stocks	14,993,237	–	–	–	14,993,237
Equity mutual funds	21,278,777	–	–	–	21,278,777
Fixed-income mutual funds	–	–	–	13,621,552	13,621,552
Other mutual funds	10,466,193	–	–	–	10,466,193
Alternative investments	–	–	–	77,372,370	77,372,370
	\$ 61,736,898	\$ 19,661,923	\$ –	\$ 90,993,922	\$ 172,392,743
The Plan's allocation	\$ 6,629,353	\$ 3,539,506	\$ –	\$ 2,278,236	\$ 12,447,095

*Fund investments reported at NAV as practical expedient estimate

Mt. Washington Pediatric Hospital, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)

(5) Retirement Plans (continued)

The table below presents the Master Trust's and the Plan's allocated share of investments as of June 30, 2019 aggregated by the fair value hierarchies as described in Note 4:

	Level I	Level II	Level III	Investments Reported at NAV*	Total
Cash and cash equivalents	\$ 107,588	\$ 4,927,064	\$ –	\$ –	\$ 5,034,652
Bonds – corporate	6,956,332	–	–	–	6,956,332
Bonds – government and agency	4,153,678	–	–	–	4,153,678
Common and preferred stocks	12,106,868	–	–	–	12,106,868
Equity mutual funds	21,139,906	–	–	–	21,139,906
Fixed-income mutual funds	13,345,457	–	–	–	13,345,457
Other mutual funds	14,598,969	–	–	–	14,598,969
Alternative investments	8,132,473	32,525,218	–	45,254,871	85,912,562
	<u>\$ 80,541,271</u>	<u>\$ 37,452,282</u>	<u>\$ –</u>	<u>\$ 45,254,871</u>	<u>\$ 163,248,424</u>
The Plan's allocation	\$ 5,525,327	\$ 2,568,364	\$ –	\$ 3,103,442	\$ 11,197,133

*Fund investments reported at NAV as practical expedient estimate

Alternative investments include hedge funds and commingled investment funds. The majority of these alternative investments held as of June 30, 2020 are subject to notice requirements of 30 days or less and are available to be redeemed on at least a monthly basis. There are funds, totaling \$30,000,000 which are subject to notice requirements of 30-60 days and are available to be redeemed on a monthly or quarterly basis. Funds totaling \$13,000,000 are subject to notice requirements of 90 days and can be redeemed monthly or quarterly. Of these funds, one fund totaling \$1,900,000 is subject to a lock-up restriction of three years. The Corporation had no unfunded commitments as of June 30, 2020.

Alternative investments include hedge funds and commingled investment funds. The majority of these alternative investments held as of June 30, 2019 are subject to notice requirements of 30 days or less and are available to be redeemed on at least a monthly basis. There are funds, totaling \$56,000,000, which are subject to notice requirements of 30-60 days and are available to be redeemed on a monthly or quarterly basis. Funds totaling \$14,500,000 are subject to notice requirements of 90 days and can be redeemed monthly or quarterly. Of these funds, one fund totaling \$2,100,000 is subject to a lock-up restriction of three years. In addition, one fund totaling

Mt. Washington Pediatric Hospital, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)

(5) Retirement Plans (continued)

\$13,000 is subject to lockup restrictions and is not available to be redeemed until certain time restrictions are met, which range from one to three years. The Corporation had no unfunded commitments as of June 30, 2019.

The Corporation expects to contribute approximately \$900,000 to its defined benefit pension plans for the fiscal year ended June 30, 2021.

The following benefit payments, which reflect expected future employee service, as appropriate, are expected to be paid from plan assets in the following years ending June 30:

2020	\$ 825,351
2021	755,210
2022	749,884
2023	774,237
2024	672,232
2025–2028	<u>\$ 4,245,492</u>

The expected benefits to be paid are based on the same assumptions used to measure the Corporation's benefit obligation at June 30, 2020.

The Corporation also has a 403(b) retirement plan (Retirement Plan) covering substantially all employees. Employees are immediately eligible for elective deferrals of compensation as contributions to the Retirement Plan. The Retirement Plan currently has a discretionary provision for employer matching contributions.

(6) Leases

The Corporation determines if an arrangement is a lease at inception. Operating leases are included in other assets, other current liabilities, and other long-term liabilities on the consolidated balance sheet. The Corporation rents office and clinical space from Prince George's County Hospital and administrative space from an unrelated third party and determined this arrangement classifies as a lease.

Mt. Washington Pediatric Hospital, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)

(6) Leases (continued)

Lease liabilities are recognized based on the present value, net of the future minimum lease payments over the lease term using the Corporation's incremental borrowing rate based on the information available at commencement. The ROU asset is derived from the lease liability and also includes any lease payments made and excludes lease incentives and initial direct costs incurred. Certain lease agreements for real estate include payments based on actual common area maintenance expenses and others include rental payments adjusted periodically for inflation. These variable lease payments are recognized in other operating expenses, net, but are not included in the right-of-use asset or liability balances. Lease agreements may include one or more renewal options which are at the Corporation's sole discretion. The Corporation does not consider the renewal options to be reasonably likely to be exercised, therefore they are not included in ROU assets and lease liabilities. Lease expense for minimum lease payments is recognized on a straight-line basis over the lease term for operating leases.

In accordance with ASC 842, the Corporation has elected to not recognize ROU assets and lease liabilities for short-term leases with a lease term of 12 months or less. The Corporation recognizes the lease payments associated with its short-term leases as an expense on a straight-line basis over the lease term. Variable lease payments associated with these leases are recognized and presented in the same manner as all other leases.

The following table summarizes the components of operating and finance lease assets and liabilities classified as current and noncurrent on the accompanying consolidated balance sheet as of June 30, 2020:

<u>Operating Leases</u>	<u>Balance Sheet Classification</u>	<u>Amount</u>
Operating lease ROU asset	Other assets	\$ 188,262
Operating lease obligation – current	Other current liabilities	(45,533)
Operating lease obligation – long-term	Other long-term liabilities	(142,709)

The Corporation discounted the lease using a rate of 3.29%. This rate is based on the estimated borrowing rate the Corporation would incur if a loan was obtained to purchase the asset.

For the year ended June 30, 2020, the Corporation amortized \$47,370 in costs related to the right to use asset and incurred interest expense of \$1,817. Total rent expense for the lease was \$290,176, for the year ended June 30, 2020.

Mt. Washington Pediatric Hospital, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)

(6) Leases (continued)

Future noncancelable minimum lease payments under operating leases are as follows for the years ending June 30 (in thousands):

2021	\$ 52,331
2022	54,107
2023	46,211
	<u>\$ 152,649</u>

(7) Functional Expenses

The Corporation considers healthcare services and management and general to be its primary functional categories for purposes of expense classification. Accordingly, certain costs have been allocated among healthcare services and management and general. Depreciation is allocated based on square footage. The Hospital's operating expenses by functional classification is as follows:

	Healthcare Services	Management and General	Total
Year ended June 30, 2020			
Salaries, wages, and benefits	\$ 36,785,647	\$ 4,998,686	\$ 41,784,333
Purchased services	6,134,976	3,646,359	9,781,335
Expendable supplies	4,858,837	1,054,222	5,913,059
Depreciation and amortization	4,028,921	302,786	4,331,707
Interest expense	104,033	–	104,033
Total	<u>\$ 51,912,414</u>	<u>\$ 10,002,053</u>	<u>\$ 61,914,467</u>
Year ended June 30, 2019			
Salaries, wages, and benefits	\$ 36,895,149	\$ 4,890,695	\$ 41,785,844
Purchased services	6,037,421	2,955,633	8,993,054
Expendable supplies	6,151,610	931,933	7,083,543
Depreciation and amortization	3,437,310	258,325	3,695,635
Interest expense	135,060	–	135,060
Total	<u>\$ 52,656,550</u>	<u>\$ 9,036,586</u>	<u>\$ 61,693,136</u>

Mt. Washington Pediatric Hospital, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)

(8) Maryland Health Services Cost Review Commission (HSCRC)

Most of the Hospital's revenues are subject to review and approval by the Maryland Health Services Cost Review Commission (HSCRC). Hospital management has filed the required forms with the HSCRC and believes the Hospital to be in compliance with the HSCRC's requirements.

The current rate of reimbursement for services to patients under the Medicare and Medicaid programs is based on an agreement between the Center for Medicare and Medicaid Services (CMS) and the HSCRC. This agreement is based upon a waiver from Medicare reimbursement principles under Section 1814(b) of the Social Security Act and will continue as long as certain conditions are met. Management believes that this program will remain in effect at least through June 30, 2021.

Patient service revenue is recorded at established rates regulated by the HSCRC. Such rates are adjusted prospectively giving effect to, among other things, the projected impact of inflation, and variances between actual unit rates and previously approved unit rates (price variances) during the previous year.

The timing of the HSCRC's adjustment for the Hospital could result in an increase or reduction in rates (revenue) due to the variances described above in a year subsequent to the year in which the variances occur. The Hospital's policy is to accrue revenue based on actual charges for services to patients in the year in which the services are performed.

(9) Long-Term Debt

Long-term debt, including current maturities of Maryland Health and Higher Education Facilities Authority Series D Revenue Bonds, totaled \$3,938,954 and \$4,305,401 at June 30, 2020 and 2019, respectively. The bonds were issued on November 1, 2007, interest payable monthly at a variable rate payable in fiscal years 2010 through 2029. Interest rates during fiscal year 2020 ranged from 0.19% to 5.81%.

Mt. Washington Pediatric Hospital, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)

(9) Long-Term Debt (continued)

The annual future maturities of long-term debt according to the original terms of the Loan Agreement are as follows for the years ending June 30:

2021	\$ 400,000
2022	410,000
2023	425,000
2024	455,000
2025	470,000
Thereafter	<u>1,820,000</u>
Total debt	3,980,000
Unamortized deferred financing costs	<u>(41,046)</u>
	<u>\$ 3,938,954</u>

The Corporation's Series D Revenue Bonds are variable rate demand bonds requiring remarketing agents to purchase and remarket any bonds tendered before the stated maturity date. To provide liquidity support for the timely payment of any bonds that are not successfully remarketed, the Corporation has entered into a Security Agreement and obtained an irrevocable letter of credit for \$4,037,247. If the bonds are not successfully remarketed, the Corporation is required to pay an interest rate specified in the letter of credit agreement, and the principal repayment of bonds may be accelerated, at the sole discretion of the bank, to require full repayment of the outstanding balance on the mandatory prepayment date, which is on or after February 28, 2022, as defined in the Amendment to Loan Agreement. As of June 30, 2020 the Corporation did not have any amounts outstanding on the letter of credit.

The Loan Agreement contains certain restrictive covenants, including requirements that rates and charges be set at certain levels, that incurrence of additional debt be limited, and that compliance with certain operating ratios be maintained. As further security under the Loan Agreement, the Foundation has guaranteed the Corporation's repayment of principal and interest due on the bonds.

Mt. Washington Pediatric Hospital, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)

(10) Insurance

(a) Professional Liability Insurance

In connection with the affiliation agreement with UMMS and effective July 1, 2006, the Corporation became self-insured with respect to professional and general liability through its participation in the Maryland Medicine Comprehensive Insurance Program Self Insurance Trust (the Trust). The Corporation is self-insured for claims up to the limits of \$1,000,000 on individual claims and \$3,000,000 in the aggregate on an annual basis. For amounts in excess of these limits, the risk of loss has been transferred to the Terrapin Insurance Company (Terrapin), an unconsolidated joint venture of UMMS. For the year ended June 30, 2020, Terrapin provided insurance for claims related to UMMS and the Corporation for claims in excess of \$1,000,000 on individual claims and \$3,000,000 in the aggregate up to \$150,000,000 individually and \$150,000,000 in the aggregate under modified claims made policies between the aforementioned entities and Terrapin. For claims in excess of Terrapin's coverage limits, if any, the Corporation retains the risk of loss.

The Corporation provides for and funds the present value of the costs for professional and general liability claims and insurance coverage related to the projected liability from asserted and unasserted incidents, which the Corporation believes may ultimately result in a loss. These accrued malpractice losses are discounted using a discount rate of 2.5%. In management's opinion, these accruals provide an adequate and appropriate loss reserve. Malpractice liabilities include \$1,934,490 and \$1,658,308 as of June 30, 2020 and 2019, respectively, for which related reinsurance receivables have been recorded within other assets.

The Corporation may become involved in claims and litigation on malpractice matters that arise in the normal course of business, none of which, in the opinion of management, is expected to result in losses in excess of insurance limits or have a materially adverse effect on the Corporation's financial position.

Total malpractice insurance expense for the Corporation in 2020 and 2019 was \$713,692 and \$290,571, respectively.

(b) Workers' Compensation

The Corporation is insured against workers' compensation claims through membership in the Maryland Hospital Association Workers' Compensation Self-Insurance Group. Premiums are paid quarterly and adjusted yearly based on the group's actual experience.

Mt. Washington Pediatric Hospital, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)

(10) Insurance (continued)

(c) Health Insurance

The Corporation maintains a self-insurance plan for employee health insurance. The Corporation has accrued \$519,000 as of June 30, 2020 and 2019, for estimated claims incurred but not reported, which are included in accrued payroll benefits.

(11) Business and Credit Concentrations

The Corporation provides services to patients in the Baltimore Metropolitan area, the majority of whom are under the age of 18 and are covered by third-party health insurance or state Medicaid programs. Insurance coverage and credit information is obtained from patients upon admission when available. The Corporation bills the insurer directly for services provided. No collateral is obtained for accounts receivable.

The Corporation maintains cash accounts with highly rated financial institutions which generally exceed federally insured limits. The Corporation has not experienced any losses from maintaining cash accounts in excess of federally insured limits, and as such, management does not believe the Corporation is subject to any significant credit risks related to this practice.

Net receivables from patients and third-party payors consisted of the following at June 30:

	2020	2019
Medicaid	69%	74%
Blue Cross	12	10
Commercial insurance and HMO	8	9
Self-pay and others	11	7
	100%	100%

Mt. Washington Pediatric Hospital, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)

(11) Business and Credit Concentrations (continued)

Net patient service revenue, by payor class, consisted of the following at June 30:

	<u>2020</u>	<u>2019</u>
Medicaid	72%	76%
Blue Cross	17	13
Commercial insurance and HMO	9	10
Self-pay and others	2	1
	<u>100%</u>	<u>100%</u>

(12) Endowment

The Corporation's endowment consists of four individual funds established based on donor-imposed restrictions. Net assets associated with endowment funds are classified and reported based on the existence of donor-imposed restrictions.

(a) Interpretation of Relevant Law

The board of trustees has interpreted UPMIFA as requiring that donor-restricted endowment funds be managed with the long-term objective of at least maintaining the real value (after inflation) of the funds. The Corporation classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the directions of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund are classified in restricted net assets until those amounts are appropriated for expenditure by the board of trustees in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, the Corporation considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

1. The duration and preservation of the fund
2. The purposes of the Corporation and the donor-restricted endowment fund
3. General economic conditions
4. The possible effect of inflation and deflation
5. The expected total return from income and the appreciation of investments

Mt. Washington Pediatric Hospital, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)

(12) Endowment (continued)

6. The other resources of the Corporation
7. The investment policies of the Corporation

Endowment net assets consist of the following as of June 30:

	<u>2020</u>	<u>2019</u>
Endowment net assets, without donor restrictions	\$ —	\$ —
With donor restrictions	16,769,466	14,866,164
Total	<u>\$ 16,769,466</u>	<u>\$ 14,866,164</u>

Changes in Endowment Net Assets for the year ended June 30, consist of the following:

	<u>Without Donor Restriction</u>	<u>With Donor Restriction</u>	<u>Total</u>
Endowment net assets, July 1, 2018	\$ —	\$ 14,089,888	\$ 14,089,888
Investment return, net	—	1,776,276	1,776,276
Amount appropriated for expenditures	—	(1,000,000)	(1,000,000)
Endowment net Assets, June 30, 2019	—	14,866,164	14,866,164
Investment return, net	—	1,855,734	1,855,734
Contributions	—	47,568	47,568
Endowment net Assets, June 30, 2020	<u>\$ —</u>	<u>\$ 16,769,466</u>	<u>\$ 16,769,466</u>

(b) Funds With Deficiencies

From time to time, the fair value of assets associated with an individual donor-restricted endowment fund may fall below the original value of the fund. As of June 30, 2020, there have been no deficiencies of this nature. Subsequent gains that restore the fair value of the assets of the endowment fund to the required level will be classified as an increase in net assets without donor restriction, as appropriate.

Mt. Washington Pediatric Hospital, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)

(12) Endowment (continued)

(c) Return Objectives and Risk Parameters

The Foundation has adopted investment and funding policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Under the investment policy, as approved by the board of trustees, the endowment assets are invested in a manner that is intended to produce results that exceed the price and yield results of a benchmark that includes the S&P 500, Barclays Government/Credit, and T-Bill Index while assuming a moderate level of investment risk. The Foundation expects its endowment funds, over three to five years, to provide an average annual real rate of return of at least 5%. Actual returns in any given year may vary from this amount.

(13) Net Assets – With Donor Restrictions

The Corporation classifies net assets based on the existence or absence of donor-imposed restrictions.

Donor restricted net assets consist for the following purposes at June 30:

	2020	2019
Subject to expenditure for specific purpose:		
Funds to be used for programs and capital projects	\$ 4,259,526	\$ 3,787,970
Callaway Fund	26,383	30,185
Endowment funds to be used for renovations	3,387,646	2,987,946
Endowment funds, other	12,530,266	11,053,047
Total	20,203,821	17,859,148
Investment in perpetuity:		
Endowment funds to be used for renovations	5,000	5,000
Endowment funds, other	820,171	820,171
Total	825,171	825,171
Total net assets – with donor restriction	\$ 21,028,992	\$ 18,684,319

Mt. Washington Pediatric Hospital, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)

(14) Liquidity and Availability of Resources

The Corporation had financial assets available to management for general expenditures within one year of the financial reporting date, or June 30, 2020 and 2019 as follows:

	<u>2020</u>	<u>2019</u>
Financial assets:		
Cash and cash equivalents	\$ 25,419,228	\$ 20,078,131
Accounts receivable, net	8,420,394	10,159,363
Investments	37,613,733	40,376,210
Total assets	<u>71,453,355</u>	<u>70,613,704</u>
Less alternative investments	<u>(17,764,295)</u>	<u>(17,901,916)</u>
Total resources	<u>\$ 53,689,060</u>	<u>\$ 52,711,788</u>

(15) Certain Significant Risks and Uncertainties

The Corporation provides pediatric rehabilitation and specialty services in the State of Maryland. The Corporation and other healthcare providers in Maryland are subject to certain inherent risks, including the following:

- Dependence on revenues derived from reimbursement by the state Medicaid programs;
- Regulation of hospital rates by the State of Maryland Health Services Cost Review Commission;
- Government regulation, government budgetary constraints, and proposed legislative and regulatory changes; and
- Lawsuits alleging malpractice and related claims.

Such inherent risks require the use of certain management estimates in the preparation of the Corporation's consolidated financial statements, and it is reasonably possible that a change in such estimates may occur.

Mt. Washington Pediatric Hospital, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)

(15) Certain Significant Risks and Uncertainties (continued)

The state Medicaid reimbursement programs represent a substantial portion of the Corporation's revenues and the Corporation's operations are subject to a variety of other federal, state, and local regulatory requirements. Failure to maintain required regulatory approvals and licenses and/or changes in such regulatory requirements could have a significant adverse effect on the Corporation.

Changes in federal and state reimbursement funding mechanisms and related government budgetary constraints could have a significant adverse effect on the Corporation.

The healthcare industry is subject to numerous laws and regulations from federal, state, and local governments. The Corporation's compliance with these laws and regulations can be subject to periodic governmental review and interpretation, which can result in regulatory action unknown or unasserted at this time. Management is aware of certain asserted and unasserted legal claims and regulatory matters arising in the ordinary course of business, none of which, in the opinion of management, is expected to result in losses in excess of insurance limits or have a materially adverse effect on the Corporation's financial position.

The federal government and many states have aggressively increased enforcement under Medicaid anti-fraud and abuse laws and physician self-referral laws (STARK law and regulation). Recent federal initiatives have prompted a national review of federally funded healthcare programs. In addition, the federal government and many states have implemented programs to audit and recover potential overpayments to providers from the Medicaid program. The Corporation has implemented a compliance program to monitor conformance with applicable laws and regulations, but the possibility of future government review and enforcement action exists.

(16) Related Party Events

The Hospital awarded a construction contract that supports a capital project valued at approximately \$4,750,000, and capital expenditures incurred for fiscal year 2020 approximated \$2,200,000. A director who serves on the Board of Directors of the Foundation is an executive of the construction company that was awarded the contract. The contract was competitively bid by the Hospital.

Mt. Washington Pediatric Hospital, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)

(17) Subsequent Events

The Corporation evaluated all events and transaction that occurred after June 30, 2020 and through November 24, 2020.

During the month of October 2020, the Corporation received additional CARES Act Relief Funds of approximately \$5,000,000.

On November 2, 2020, HHS released additional reporting requirements for health care entities that received distributions from the Provider Relief Fund. The Post-Payment Notice of Reporting Requirements (the Notice) supplements and amends the previous notices issued on October 22, 2020, September 19, 2020, August 13, 2020 and July 20, 2020. The Company considered the effects of the changes included in the Notice and concluded these changes represent non-recognized (i.e., Type II) subsequent events in accordance with ASC 855, Subsequent Events, since the reporting requirements included in the Notice provide evidence about conditions that did not exist at the balance sheet date. The Company will continue to monitor changes in reporting guidance or additional clarifications that may be issued by HHS which would affect the accounting for distributions from the Provider Relief Fund.

Supplementary Information

Mt. Washington Pediatric Hospital, Inc. and Subsidiaries

Consolidating Balance Sheet Information

June 30, 2020

	Mt. Washington					
	Mt. Washington	Mt. Washington	Pediatric	Community	Mt. Washington	
	Pediatric	Pediatric	Community	Behavioral	Pediatric	
	Hospital, Inc.	Foundation,	Health	Health	Elimination	Consolidated
	Hospital, Inc.	Inc.	Services, LLC	Services, LLC	Entries	Total
Assets						
Current assets:						
Cash and cash equivalents	\$ 20,820,555	\$ 3,977,703	\$ 620,970	\$ -	\$ -	\$ 25,419,228
Current portion of assets limited as to use	118,920	-	-	-	-	118,920
Patient accounts receivable, net	6,685,017	-	4,667	-	-	6,689,684
Other accounts receivable	3,610,848	-	2,957	12,445	(429,165)	3,197,085
Inventories of supplies	106,935	-	-	-	-	106,935
Prepaid expenses and other current assets	479,822	89,000	-	-	-	568,822
Total current assets	<u>31,822,097</u>	<u>4,066,703</u>	<u>628,594</u>	<u>12,445</u>	<u>(429,165)</u>	<u>36,100,674</u>
Investments	33,865,164	3,748,569	-	-	-	37,613,733
Assets limited as to use, less current portion:						
Board-designated funds	4,000,000	-	-	-	-	4,000,000
Eliasberg Construction Fund	-	1,249,449	-	-	-	1,249,449
Funds restricted by donor	990,712	16,769,467	-	-	-	17,760,179
Self-insurance trust funds	6,506,001	-	-	-	-	6,506,001
	<u>11,496,713</u>	<u>18,018,916</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>29,515,629</u>
Property and equipment, net	38,459,256	-	-	-	-	38,459,256
Economic interest in net assets of the Foundation	25,405,023	-	-	-	(25,405,023)	-
Other assets	2,075,382	-	-	-	-	2,075,382
Total assets	<u>\$ 143,123,635</u>	<u>\$ 25,834,188</u>	<u>\$ 628,594</u>	<u>\$ 12,445</u>	<u>\$ (25,834,188)</u>	<u>\$ 143,764,674</u>
Liabilities and net assets						
Current liabilities:						
Current portion of long-term debt	\$ 400,000	\$ -	\$ -	\$ -	\$ -	\$ 400,000
Trade accounts payable	2,974,314	429,165	1,273	-	(429,165)	2,975,587
Accrued payroll benefits	4,884,874	-	-	-	-	4,884,874
Advances from third-party payors	3,327,762	-	-	-	-	3,327,762
Current portion of malpractice liabilities	118,920	-	-	-	-	118,920
Due to affiliates	375,231	-	622,722	(77,303)	-	920,650
Other current liabilities	930,161	-	-	-	-	930,161
Total current liabilities	<u>13,011,262</u>	<u>429,165</u>	<u>623,995</u>	<u>(77,303)</u>	<u>(429,165)</u>	<u>13,557,954</u>
Malpractice liabilities	3,004,766	-	-	-	-	3,004,766
Accrued pension obligations	1,052,935	-	-	-	-	1,052,935
Long-term debt	3,538,954	-	-	-	-	3,538,954
Other long-term liabilities	378,163	-	-	-	-	378,163
Total liabilities	<u>20,986,080</u>	<u>429,165</u>	<u>623,995</u>	<u>(77,303)</u>	<u>(429,165)</u>	<u>21,532,772</u>
Net assets:						
Without donor restrictions	101,108,563	8,635,556	4,599	89,748	(8,635,556)	101,202,910
With donor restrictions	21,028,992	16,769,467	-	-	(16,769,467)	21,028,992
Total net assets	<u>122,137,555</u>	<u>25,405,023</u>	<u>4,599</u>	<u>89,748</u>	<u>(25,405,023)</u>	<u>122,231,902</u>
Total liabilities and net assets	<u>\$ 143,123,635</u>	<u>\$ 25,834,188</u>	<u>\$ 628,594</u>	<u>\$ 12,445</u>	<u>\$ (25,834,188)</u>	<u>\$ 143,764,674</u>

Mt. Washington Pediatric Hospital, Inc. and Subsidiaries

Consolidating Balance Sheet Information

June 30, 2019

	Mt. Washington Pediatric Hospital, Inc.	Mt. Washington Pediatric Foundation, Inc.	Pediatric Community Health Services, LLC	Mt. Washington Elimination Entries	Consolidated Total
Assets					
Current assets:					
Cash and cash equivalents	\$ 18,564,882	\$ 1,231,982	\$ 281,267	\$ -	\$ 20,078,131
Current portion of assets limited as to use	116,019	-	-	-	116,019
Patient accounts receivable, net	8,662,971	-	-	-	8,662,971
Other accounts receivable	1,952,836	-	43,556	(500,000)	1,496,392
Inventories of supplies	201,505	-	-	-	201,505
Prepaid expenses and other current assets	218,614	-	-	-	218,614
Total current assets	<u>29,716,827</u>	<u>1,231,982</u>	<u>324,823</u>	<u>(500,000)</u>	<u>30,773,632</u>
Investments	33,433,892	6,942,318	-	-	40,376,210
Assets limited as to use, less current portion:					
Board-designated funds	4,022,446	-	-	-	4,022,446
Eliasberg Construction Fund	-	1,249,449	-	-	1,249,449
Funds restricted by donor	2,112,167	14,411,125	-	-	16,523,292
Self-insurance trust funds	6,687,405	-	-	-	6,687,405
	<u>12,822,018</u>	<u>15,660,574</u>	<u>-</u>	<u>-</u>	<u>28,482,592</u>
Property and equipment, net	37,014,692	-	-	-	37,014,692
Economic interest in net assets of the Foundation	23,126,912	-	-	(23,126,912)	-
Other assets	1,658,308	-	-	-	1,658,308
Total assets	<u>\$ 137,772,649</u>	<u>\$ 23,834,874</u>	<u>\$ 324,823</u>	<u>\$ (23,626,912)</u>	<u>\$ 138,305,434</u>
Liabilities and net assets					
Current liabilities:					
Current portion of long-term debt	\$ 369,869	\$ -	\$ -	\$ -	\$ 369,869
Trade accounts payable	4,171,826	707,962	-	(500,000)	4,379,788
Accrued payroll benefits	4,926,605	-	-	-	4,926,605
Advances from third-party payors	3,471,792	-	-	-	3,471,792
Current portion of malpractice liabilities	116,019	-	-	-	116,019
Due to affiliates	703,071	-	282,388	-	985,459
Other current liabilities	475,669	-	-	-	475,669
Total current liabilities	<u>14,234,851</u>	<u>707,962</u>	<u>282,388</u>	<u>(500,000)</u>	<u>14,725,201</u>
Malpractice liabilities	2,702,474	-	-	-	2,702,474
Accrued pension obligations	563,689	-	-	-	563,689
Long-term debt	3,938,954	-	-	-	3,938,954
Total liabilities	<u>21,439,968</u>	<u>707,962</u>	<u>282,388</u>	<u>(500,000)</u>	<u>21,930,318</u>
Net assets:					
Without donor restrictions	97,648,412	8,230,563	42,435	(8,230,563)	97,690,847
With donor restrictions	18,684,269	14,896,349	-	(14,896,349)	18,684,269
Total net assets	<u>116,332,681</u>	<u>23,126,912</u>	<u>42,435</u>	<u>(23,126,912)</u>	<u>116,375,116</u>
Total liabilities and net assets	<u>\$ 137,772,649</u>	<u>\$ 23,834,874</u>	<u>\$ 324,823</u>	<u>\$ (23,626,912)</u>	<u>\$ 138,305,434</u>

Mt. Washington Pediatric Hospital, Inc. and Subsidiaries

Consolidating Statement of Operations and Changes in Net Assets Information

Year Ended June 30, 2020

	Mt. Washington					
	Mt. Washington Pediatric Hospital, Inc.	Mt. Washington Pediatric Foundation, Inc.	Mt. Washington Pediatric Community Health Services, LLC	Community Behavioral Health Services, LLC	Mt. Washington Pediatric Elimination Entries	Consolidated Total
Operating revenue, gains, and other support:						
Net patient service revenue	\$ 59,588,448	\$ -	\$ 379,965	\$ 113,181	\$ -	\$ 60,081,594
Other revenue	2,355,430	-	6,700	15,994	-	2,378,124
Total operating revenue, gains, and other support	<u>61,943,878</u>	<u>-</u>	<u>386,665</u>	<u>129,175</u>	<u>-</u>	<u>62,459,718</u>
Operating expenses:						
Salaries, wages, and benefits	41,384,015	-	368,452	31,866	-	41,784,333
Purchased services	15,630,784	-	56,049	7,561	-	15,694,394
Interest expense	104,033	-	-	-	-	104,033
Depreciation	4,331,707	-	-	-	-	4,331,707
Total operating expenses	<u>61,450,539</u>	<u>-</u>	<u>424,501</u>	<u>39,427</u>	<u>-</u>	<u>61,914,467</u>
Operating income	<u>493,339</u>	<u>-</u>	<u>(37,836)</u>	<u>89,748</u>	<u>-</u>	<u>545,251</u>
Nonoperating income and expenses, net:						
Contributions	635,098	89,505	-	-	-	724,603
Investment income, net	612,948	937,415	-	-	-	1,550,363
Change in unrealized gains	(204,928)	181,245	-	-	-	(23,683)
Other income, expenses, and Foundation contributions, net	(74,271)	(789,844)	-	-	-	(864,115)
Total nonoperating income and expense	<u>968,847</u>	<u>418,321</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,387,168</u>
Excess of revenues over expenses	<u>1,462,186</u>	<u>418,321</u>	<u>(37,836)</u>	<u>89,748</u>	<u>-</u>	<u>1,932,419</u>
Change in funded status of defined benefit plan	(741,642)	-	-	-	-	(741,642)
Change in economic interest in the Foundation	404,994	-	-	-	(404,994)	-
Net assets released from restrictions used for purchase of property and equipment	2,334,663	(13,328)	-	-	-	2,321,335
Increase in net assets without donor restrictions	<u>3,460,201</u>	<u>404,993</u>	<u>(37,836)</u>	<u>89,748</u>	<u>(404,994)</u>	<u>3,512,112</u>
Changes in net assets with donor restriction:						
Contributions	3,452,643	-	-	-	-	3,452,643
Investment income, net	-	1,529,819	-	-	-	1,529,819
Net unrealized gain on donor restricted investments	-	329,971	-	-	-	329,971
Change in economic interest in the Foundation	1,873,117	-	-	-	(1,873,117)	-
Net assets released from restrictions used for operations	(646,424)	-	-	-	-	(646,424)
Net assets released from restrictions used for purchase of property and equipment	(2,334,663)	13,328	-	-	-	(2,321,335)
Increase in net assets with donor restrictions	<u>2,344,673</u>	<u>1,873,118</u>	<u>-</u>	<u>-</u>	<u>(1,873,117)</u>	<u>2,344,674</u>
Total increase in net assets	<u>5,804,874</u>	<u>2,278,111</u>	<u>(37,836)</u>	<u>89,748</u>	<u>(2,278,111)</u>	<u>5,856,786</u>
Net assets, beginning of year	<u>116,332,681</u>	<u>23,126,912</u>	<u>42,435</u>	<u>-</u>	<u>(23,126,912)</u>	<u>116,375,116</u>
Net assets, end of year	<u>\$ 122,137,555</u>	<u>\$ 25,405,023</u>	<u>\$ 4,599</u>	<u>\$ 89,748</u>	<u>\$ (25,405,023)</u>	<u>\$ 122,231,902</u>

Mt. Washington Pediatric Hospital, Inc. and Subsidiaries

Consolidating Statement of Operations and Changes in Net Assets Information

Year Ended June 30, 2019

	Mt. Washington Pediatric Hospital, Inc.	Mt. Washington Pediatric Foundation, Inc.	Pediatric Community Health Services, LLC	Mt. Washington Elimination Entries	Consolidated Total
Operating revenue, gains, and other support:					
Net patient service revenue	\$ 64,166,358	\$ -	\$ 215,992	\$ -	\$ 64,382,350
Other revenue	914,703	-	20,700	(554,534)	380,869
Total operating revenue, gains, and other support	<u>65,081,061</u>	<u>-</u>	<u>236,692</u>	<u>(554,534)</u>	<u>64,763,219</u>
Operating expenses:					
Salaries, wages, and benefits	41,601,884	-	183,963	-	41,785,847
Purchased services	16,032,300	-	44,295	-	16,076,595
Interest expense	135,060	-	-	-	135,060
Depreciation	3,695,634	-	-	-	3,695,634
Total operating expenses	<u>61,464,878</u>	<u>-</u>	<u>228,258</u>	<u>-</u>	<u>61,693,136</u>
Operating income	<u>3,616,183</u>	<u>-</u>	<u>8,434</u>	<u>(554,534)</u>	<u>3,070,083</u>
Nonoperating income and expenses, net:					
Contributions	671,548	62,030	-	-	733,578
Investment income, net	903,263	427,156	-	-	1,330,419
Change in unrealized gains of trading securities	835,467	978,452	-	-	1,813,919
Other income and expenses, net	51,635	-	-	-	51,635
Support from Mt. Washington Pediatric Foundation, Inc.	-	(1,554,534)	-	1,554,534	-
Total nonoperating income and expense	<u>2,461,913</u>	<u>(86,896)</u>	<u>-</u>	<u>1,554,534</u>	<u>3,929,551</u>
Excess of revenues over expenses	<u>6,078,096</u>	<u>(86,896)</u>	<u>8,434</u>	<u>1,000,000</u>	<u>6,999,634</u>
Change in funded status of defined benefit plan	(411,718)	-	-	-	(411,718)
Change in economic interest in the Foundation	913,104	-	-	(913,104)	-
Net assets released from restrictions used for purchase of property and equipment	103,431	1,000,000	-	(1,000,000)	103,431
Increase in net assets without donor restrictions	<u>6,682,913</u>	<u>913,104</u>	<u>8,434</u>	<u>(913,104)</u>	<u>6,691,347</u>
Changes in net assets with donor restriction:					
Contributions	2,542,297	-	-	(1,554,534)	987,763
Investment income, net	-	693,992	-	-	693,992
Net unrealized gain on donor restricted investments	-	1,086,086	-	-	1,086,086
Change in economic interest in the Foundation	780,078	-	-	(780,078)	-
Net assets released from restrictions used for operations	(554,534)	-	-	554,534	-
Net assets released from restrictions used for purchase of property and equipment	(103,431)	(1,000,000)	-	1,000,000	(103,431)
Increase in net assets with donor restrictions	<u>2,664,410</u>	<u>780,078</u>	<u>-</u>	<u>(780,078)</u>	<u>2,664,410</u>
Total increase in net assets	<u>9,347,323</u>	<u>1,693,182</u>	<u>8,434</u>	<u>(1,693,182)</u>	<u>9,355,757</u>
Net assets, beginning of year	106,985,358	21,433,730	34,001	(21,433,730)	107,019,359
Net assets, end of year	<u>\$ 116,332,681</u>	<u>\$ 23,126,912</u>	<u>\$ 42,435</u>	<u>\$ (23,126,912)</u>	<u>\$ 116,375,116</u>

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