Consolidated Financial Statements

Capital Health System, Inc. and Subsidiaries
Years Ended December 31, 2021 and 2020
With Report of Independent Auditors

Ernst & Young LLP

Building a better
working world

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Consolidated Financial Statements

Years Ended December 31, 2021 and 2020

Contents

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Report of Independent Auditors

The Board of Directors
Capital Health System, Inc.

Opinion

We have audited the consolidated financial statements of Capital Health System, Inc. (Capital Health), which comprise the consolidated balance sheets as of December 31, 2021 and 2020, and the related consolidated statements of operations, changes in net assets and cash flows for the years then ended, and the related notes (collectively referred to as the "financial statements").

In our opinion, based on our audits and the report of the other auditors, the accompanying financial statements present fairly, in all material respects, the consolidated financial position of Capital Health at December 31, 2021 and 2020, and the consolidated results of its operations, changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

We did not audit the financial statements of Capital Region Insurance Company, SPC (CRIC), a wholly owned subsidiary, which statements reflect total assets of $68,316,000 and $56,747,000, as of December 31, 2021 and 2020, respectively and total revenues of $9,353,000 and $10,115,000 for the years then ended. Those statements were audited by other auditors, whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for CRIC, is based solely on the report of the other auditors.

Basis for Opinion

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

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Capital Health's internal control. Accordingly, no such opinion is expressed.

- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.

- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Capital Health's ability to continue as a going concern for a reasonable period of time.

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

Ernst & Young LLP

April 29, 2022

Capital Health System, Inc. and Subsidiaries

Consolidated Balance Sheets

	December 31 2021	2020
	(In Thousands)	
Assets		
Current assets:		
Cash and cash equivalents	**$ 42,389**	$ 32,964
Short-term investments	**97,178**	143,392
Assets whose use is limited – current portion	**2,823**	2,958
Patient accounts receivable, net	**113,422**	99,165
Supplies	**11,998**	10,425
Prepaid expenses and other current assets	**51,452**	27,807
Total current assets	**319,262**	316,711
Investments	**9,939**	9,033
Assets whose use is limited – noncurrent portion	**153,816**	132,650
Property, plant, and equipment, net	**505,573**	509,842
Other noncurrent assets	**42,362**	38,410
Total assets	**$ 1,030,952**	$ 1,006,646
Liabilities and net assets		
Current liabilities:		
Current portion of long-term debt	**$ 28,685**	$ 26,940
Accounts payable	**76,003**	56,938
Accrued expenses	**95,560**	83,588
Accrued interest	**2,376**	3,595
Estimated third-party payor settlements – current portion	**31,622**	22,452
Total current liabilities	**234,246**	193,513
Long-term debt, excluding current portion	**577,781**	603,389
Estimated third-party payor settlements and other long-term liabilities – noncurrent portion	**74,741**	101,320
Total liabilities	**886,768**	898,222
Commitments and contingencies		
Net assets:		
Without donor restrictions	**128,918**	97,904
With donor restrictions	**14,051**	9,491
Total Capital Health System net assets	**142,969**	107,395
Non-controlling interest	**1,215**	1,029
Total net assets including non-controlling interest	**144,184**	108,424
Total liabilities and net assets	**$ 1,030,952**	$ 1,006,646

See accompanying notes.

Capital Health System, Inc. and Subsidiaries

Consolidated Statements of Operations

	Year Ended December 31	
	2021	**2020**
	(In Thousands)	
Net assets without donor restrictions:		
Revenue:		
Net patient service revenue	**$ 911,038**	$ 710,383
Other revenue	**34,791**	78,116
Contributions	**443**	564
Total revenue	**946,272**	789,063
Expenses:		
Salaries and wages	**432,537**	389,524
Employee benefits	**64,811**	57,192
Supplies and other expenses	**349,954**	279,549
Interest	**36,586**	42,953
Depreciation and amortization	**40,094**	36,758
Total expenses	**923,982**	805,976
Gain (loss) from operations prior to items below	**22,290**	(16,913)
Investment income and realized gains, net	**9,498**	126
Net change in unrealized gains and losses on equity securities	**1,479**	6,404
Excess (deficiency) of revenue over expenses, before non-controlling interest	**33,267**	(10,383)
Less: gain attributable to non-controlling interest	**3,266**	3,073
Excess (deficiency) of revenue over expenses	**30,001**	(13,456)
Grant contributions received and expended – capital portion	**664**	–
Net change in unrealized gains and losses on fixed income securities	**2,670**	1,285
Net assets released from restrictions for equipment	**636**	245
Transfer to net assets with donor restrictions	**(2,000)**	–
Pension-related changes other than net periodic pension cost	**(957)**	956
Change in net assets without donor restrictions	**$ 31,014**	$ (10,970)

See accompanying notes.

Capital Health System, Inc. and Subsidiaries

Consolidated Statements of Changes in Net Assets

	Without Donor Restrictions	With Donor Restrictions	Non-controlling Interest	Total
	(In Thousands)			
Net assets at December 31, 2019	$ 108,874	$ 8,472	$ 630	$ 117,976
(Deficiency) excess of revenue over expenses	(13,456)	–	3,073	(10,383)
Net change in unrealized gains and losses on fixed income securities	1,285	–	–	1,285
Pension-related changes other than net periodic pension cost	956	–	–	956
Member distributions, net	–	–	(2,674)	(2,674)
Donor restricted contributions	–	1,663	–	1,663
Net assets released from restrictions for equipment	245	(245)	–	–
Net assets released from restrictions for operations	–	(399)	–	(399)
Change in net assets	(10,970)	1,019	399	(9,552)
Net assets at December 31, 2020	97,904	9,491	1,029	108,424
Excess of revenue over expenses	**30,001**	**–**	**3,266**	**33,267**
Net change in unrealized gains and losses on fixed income securities	**2,670**	**–**	**–**	**2,670**
Grant	**664**	**–**	**–**	**664**
Pension-related changes other than net periodic pension cost	**(957)**	**–**	**–**	**(957)**
Member distributions, net	**–**	**–**	**(3,080)**	**(3,080)**
Donor restricted contributions	**–**	**3,466**	**–**	**3,466**
Net assets released from restrictions for equipment	**636**	**(636)**	**–**	**–**
Net assets released from restrictions for operations	**–**	**(270)**	**–**	**(270)**
Net asset transfers	**(2,000)**	**2,000**	**–**	**–**
Change in net assets	**31,014**	**4,560**	**186**	**35,760**
Net assets at December 31, 2021	**$ 128,918**	**$ 14,051**	**$ 1,215**	**$ 144,184**

See accompanying notes.

Capital Health System, Inc. and Subsidiaries

Consolidated Statements of Cash Flows

	Year Ended December 31	
	2021	2020
	(In Thousands)	
Operating activities		
Change in net assets	**$ 35,760**	$ (9,552)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	**40,094**	36,758
Amortization of deferred financing fees	**709**	732
Net change in unrealized gains and losses on investments	**(4,149)**	(7,689)
Gain on disposal of fixed assets	**43**	(3)
Pension-related changes other than net periodic pension cost	**957**	(956)
Member distributions, net, related to non-controlling interest	**3,080**	2,674
Changes in operating assets and liabilities:		
Patient accounts receivable, net	**(14,257)**	6,318
Supplies	**(1,573)**	798
Prepaid expenses and other current assets	**(23,645)**	(4,657)
Other noncurrent assets	**(3,952)**	(16,441)
Accounts payable	**19,065**	5,805
Accrued pension	**(957)**	–
Accrued expenses	**11,972**	23,372
Accrued interest	**(1,219)**	(120)
Estimated third-party payor settlements and other long-term liabilities	**(17,409)**	73,743
Net cash provided by operating activities	**44,519**	110,782
Investing activities		
Net (purchases) sales of assets whose use is limited	**(19,870)**	13,137
Net purchases of investments	**(7,945)**	(4,771)
Distribution to members	**(3,080)**	(2,674)
Cash proceeds from sale of property and equipment	**66**	9
Purchases of property, plant and equipment, net	**(35,936)**	(19,975)
Net cash used in investing activities	**(66,765)**	(14,274)
Financing activities		
Payments of capital leases	**(74)**	(126)
Repayment of long-term debt	**(26,934)**	(21,207)
Proceeds of long-term debt	**2,437**	–
Net cash used in financing activities	**(24,571)**	(21,333)
Net (decrease) increase in cash and cash equivalents and restricted cash and restricted cash equivalents	**(46,817)**	75,175
Cash and cash equivalents and restricted cash and restricted cash equivalents at beginning of year	**99,861**	24,686
Cash and cash equivalents and restricted cash and restricted cash equivalents at end of year	**$ 53,044**	$ 99,861
Supplemental disclosures of cash flow information		
Cash paid for interest expense	**$ 37,096**	$ 42,341

See accompanying notes.

1. Organization and Summary of Significant Accounting Policies

Capital Health System, Inc. (Capital Health), a New Jersey nonprofit corporation, consists of two operating divisions: Capital Health Regional Medical Center (Regional) and Capital Health Medical Center – Hopewell (Hopewell). Regional is a separately licensed acute care hospital with 237 licensed beds, located in Trenton, New Jersey. Hopewell consists of a separately licensed acute care hospital with 226 licensed beds, located in Hopewell Township, New Jersey and an ambulatory care facility located in Hamilton, New Jersey. Hopewell also operates a satellite emergency department, Capital Health at Deborah – Emergency Services, located in Browns Mills, New Jersey. Capital Health is the sole member of Capital Health Foundation (the Foundation), a nonprofit corporation and Population Health Management Service LLC (PHM), which is a disregarded entity for tax purposes. Capital Health is also the sole shareholder of: Mercer Holding Corporation (Mercer Holding) and Capital Region Insurance Company SPC (CRIC), a wholly-owned captive insurance company domiciled in the Cayman Islands. Capital Health is the sole member of Capital Health Accountable Care Organization Limited Liability Company (ACO) and Capital Health Medical Group (CHMG), two limited liability companies, both disregarded entities for tax purposes, with no activity in 2021 or 2020.

Capital Healthcare, Inc. (CHI), a New Jersey nonprofit corporation, is the sole member of Capital Health. CHI is also the sole member of Leading Integrated Network of Clinicians, LLC (LINC), a limited liability company with no activity in 2021 or 2020

Mercer Holding owns 100% of the capital stock of Bellevue Avenue Management, Inc. (Bellevue), a for-profit company which provides management services; Oasis Spa at Hopewell, LLC (Oasis Spa), a for-profit company which provides spa services at Hopewell; Capital Pharmacy LLC (Capital Pharmacy), a for-profit company with no activity in 2021 or 2020; and Comprehensive Imaging and Diagnostics LLC (CI), a for-profit company which provides radiology services. Mercer Holding has a 41.1% ownership interest at both December 31, 2021 and 2020, in Hamilton Surgery Center, LLC (Hamilton Surgery Center) and majority control of the Board of Directors. Mercer Holding accounts for the non-controlling interest in Hamilton Surgery Center in accordance with Accounting Standards Codification (ASC) 810, *Consolidation*.

1. Organization and Summary of Significant Accounting Policies (continued)

CRIC is a captive insurance company formed under the laws of the Cayman Islands, which provides professional and general liability coverage for Capital Health and its employees.

Capital Health System Condominium Association, Inc. (the Association) is a nonprofit corporation that provides maintenance, preservation and control of the common areas within Hopewell. Capital Health is grantor of the Association and has majority control of its Board of Trustees. As such, the Association is consolidated in the accompanying consolidated financial statements.

COVID-19 Pandemic and CARES Act Funding

On March 11, 2020, the World Health Organization designated the Coronavirus Disease 2019 (COVID-19) outbreak as a global pandemic. Federal, state and local government policies resulted in a substantial portion of the population remaining at home and forced the closure of certain businesses, which had an impact on Capital Health's patient volumes and revenues for most services. Effective March 27, 2020, a New Jersey executive order was issued to suspend all non-essential elective surgeries or invasive procedures, which resumed at different dates during the year ended December 31, 2020. Capital Health's volume and operations were impacted to varying degrees throughout 2021, particularly as the pandemic entered waves two and three in early 2021 and in late 2021, respectively. Capital Health has also experienced significant price increases in, and utilization of, medical supplies, particularly personal protective equipment, as global supply lines were disrupted by the pandemic.

In response to COVID-19, the Coronavirus Aid, Relief and Economic Security Act (the CARES Act) was signed into law on March 27, 2020. The CARES Act authorized funding to hospitals and other healthcare providers to be distributed through the Public Health and Social Services Emergency Fund (Provider Relief Fund). Payments from the Provider Relief Fund are to be used to prevent, prepare for, and respond to COVID-19, and shall reimburse the recipient for health care related expenses and/or lost revenues attributable to COVID-19 and are not required to be repaid except where Provider Relief Funds received exceed the actual amounts of eligible health care related expenses and/or lost revenues as defined by the U.S. Department of Health and Human Services (HHS), provided the recipients attest to and comply with the terms and conditions. HHS has issued several Post-Payment Notices of Reporting Requirements and published responses to frequently asked questions (FAQs), most recently in September 2021, regarding the Provider Relief Fund distributions.

1. Organization and Summary of Significant Accounting Policies (continued)

On December 27, 2020, the Consolidated Appropriations Act, 2021 (CAA) was signed into law. The CAA appropriated additional funding for COVID-19 response and relief through the Provider Relief Fund and provided several changes to the administration of the Provider Relief Fund. The CAA clarified the methods available to calculate lost revenues and indicated that for any payment, including both general and targeted distributions, received by an eligible health care provider that is a subsidiary of a parent organization, the parent organization may allocate all or any portion of the distribution among any other eligible subsidiaries.

For the years ended December 31, 2021 and 2020, Capital Health received approximately $1,689 and $67,422 in funding which was recognized as revenue related to the Provider Relief Fund and is included in other revenue in the accompanying consolidated statements of operations. The recognized revenue has been determined based on applicable accounting guidance, Post-Payment Notices of Reporting Requirements and FAQs that Capital Health has interpreted as being applicable to the accompanying consolidated financial statements. Management will continue to monitor communications from HHS applicable to the Provider Relief Fund reporting and data submission requirements. Distributions from the Provider Relief Fund are available for specified service periods through December 31, 2022 with various required data submissions (data regarding activity for Provider Relief Fund receipts through June 30, 2020 and the use of such funds through June 30, 2021 was submitted to HHS on September 30, 2021; data for funds received from July 1, 2020 to December 31, 2020 and the use of such funds through December 31, 2021 was submitted to HHS on March 31, 2022).

To enhance liquidity, the Centers for Medicare & Medicaid Services (CMS) expanded and streamlined the process for its Accelerated and Advance Payment Program, pursuant to which providers could receive advance Medicare payments. This program allowed eligible health care facilities to request up to six months of advance Medicare payments for acute care hospitals or up to three months of advance Medicare payments for other health care providers. During April 2020, Capital Health received approximately $48,919 of expedited payments for future services. The advances are being recovered by Medicare through October 2022.

At December 31, 2021 and 2020, $28,589 and $18,765, respectively, are included as a contract liability in the current portion of estimated third-party payor settlements in the accompanying consolidated balance sheets. As of December 31, 2020, $30,154 was included as a contract liability in noncurrent estimated third-party payor settlements.

1. Organization and Summary of Significant Accounting Policies (continued)

Additional funding sources are available to pay providers for COVID-19 related treatment of uninsured patients under the CARES Act Uninsured Relief Fund and from CMS for certain Medicare patient diagnoses under which Capital Health recognized net patient service revenue of approximately $5,225 and $2,620 in 2021 and 2020, respectively.

Under the CARES Act, Capital Health had elected to defer the payment of the employer portion of social security taxes totaling approximately $13,400 that otherwise would have been due between March 27, 2020 and December 31, 2020. In December 2021 Capital Health repaid $6,309 of the deferred tax in accordance with the terms of the program. The remaining balance of $7,096 is expected to be paid in 2022 is included in accrued expenses on the accompanying consolidated balance sheets at December 31, 2021.

Capital Health has applied for reimbursement for qualifying expenses under the Federal Emergency Management Agency (FEMA) Disaster Relief Fund. Through December 31, 2021, Capital Health has received $9,032 in FEMA reimbursement payments, which are included in other revenue. Capital Health expects to apply for additional FEMA reimbursements for qualifying expenses associated with the pandemic.

During 2020, Hamilton Surgery Center applied for and received a Paycheck Protection Program loan of $1,048 which was forgiven in 2021 and reported in other revenue.

Under the CARES Act, Capital Health is eligible to receive an employee retention credit, which is a credit against the employer portion of Social Security taxes for certain wages between March 13, 2020 and December 31, 2020. The CAA extended the employee retention credit through June 30, 2021, while also modifying the provisions of the credit. Subsequent legislation extended the credit through September 30, 2021. Capital Health recognized $3,913 within other revenue during 2021.

Due to the evolving nature of the COVID-19 pandemic, the ultimate impact to Capital Health's operating results, including costs that may be incurred in the future and the level of utilization of Capital Health's services and resulting impact on net patient service revenue reported in the future, and its financial condition is presently unknown.

1. Organization and Summary of Significant Accounting Policies (continued)

Significant Accounting Policies

A summary of significant accounting policies of Capital Health follows:

Principles of Consolidation

The consolidated financial statements include the accounts of Capital Health, the Foundation, Mercer Holding, the Association, PHM, and CRIC. All intercompany balances and transactions have been eliminated in consolidation.

Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes, such as estimated allowances for accounts receivable for services to patients, estimated settlements with third-party payors, professional liability insurance, and disclosures of contingent assets and liabilities at the date of the consolidated financial statements. Estimates also affect the amounts of revenue and expenses reported during the period. There is at least a reasonable possibility that certain estimates will change by material amounts in the near term. Actual results could differ from those estimates and assumptions.

Cash and Cash Equivalents

Cash and cash equivalents include investments in highly-liquid instruments with a maturity of three months or less when purchased. Capital Health does not hold any money market funds with significant liquidity restrictions that would require the funds to be excluded from cash equivalents.

(Dollars In Thousands)

1. Organization and Summary of Significant Accounting Policies (continued)

Cash and cash equivalents (unrestricted and restricted), as reported in the accompanying consolidated statements of cash flows, are reported within the following categories in the accompanying consolidated balance sheets as of December 31, 2021 and 2020:

	2021	2020
Cash and cash equivalents	**$ 42,389**	$ 32,964
Investments: cash and cash equivalents	**4,407**	61,768
Assets whose use is limited: cash and cash equivalents	**6,248**	5,129
Total cash and cash equivalents and restricted cash and restricted cash equivalents	**$ 53,044**	$ 99,861

Patient Accounts Receivable and Net Patient Service Revenue

Patient accounts receivable for which Capital Health receives payment under prospective payment formulae, negotiated rates, or cost reimbursement, which cover the majority of patient services, are stated at the estimated net amount receivable from such payors, which are generally less than the established billing rates of Capital Health (see Note 3).

Investments

Short-term investments are readily marketable and not subject to donor restriction. Investments include amounts under donor restrictions.

Investments in equity securities (including mutual funds) with readily determinable fair values and all investments in debt securities (including mutual funds) are measured at fair value in the consolidated balance sheets. Investment income or loss (including realized gains and losses on investments, other than temporary impairments of investments, and interest and dividends) and unrealized gains and losses on equity securities are included in the excess (deficiency) of revenue over expenses, unless the income or loss is restricted by donor or law. Unrealized gains and losses on fixed income securities, except for those unrealized losses which are deemed to be other than temporary impairments, are excluded from the excess (deficiency) of revenue over expenses on the accompanying consolidated statements of operations. The fair value of marketable investments is determined by reference to quoted market prices.

1. Organization and Summary of Significant Accounting Policies (continued)

Assets Whose Use is Limited

Assets whose use is limited includes investments held by CRIC (see Note 4), restricted investments for collateral, assets held under the debt agreement and assets held under a supplemental retirement plan. Assets whose use is limited are recorded at fair value determined by reference to quoted market prices.

Supplies

Supplies are carried at the lower of cost or net realizable value. Supplies are used in the provision of patient care and are not held for sale.

Deferred Financing Costs

Deferred financing costs include the costs of obtaining financing and are amortized over the period the obligation is outstanding using the effective interest method. Unamortized deferred financing costs of $6,358 and $7,067 at December 31, 2021 and 2020, respectively, has been reported as a direct reduction from long-term debt in the consolidated balance sheets. Deferred financing fees are reported net of accumulated amortization of $10,331 and $9,622 at December 31, 2021 and 2020, respectively.

Property, Plant, and Equipment

Property, plant, and equipment are recorded at cost, except those acquired by gift or bequest which are recorded at their fair value established at the date of contribution.

Depreciation is provided over the estimated useful life of each class of depreciable asset and is computed on the straight-line method. The estimated lives range from three to fifty years.

Capital Health continually evaluates whether later events and circumstances have occurred that indicate that the remaining estimated useful life of long-lived assets may warrant revision or that the remaining balance may not be recoverable. When factors indicate that long-lived assets should be evaluated for possible impairment, Capital Health uses an estimate of the related undiscounted operating income over the remaining life of the long-lived asset, or determines the fair value of the long-lived asset in measuring whether the long-lived asset is recoverable.

1. Organization and Summary of Significant Accounting Policies (continued)

Estimated Professional Liabilities

Insurance reserves represent estimated unpaid losses and loss adjustment expenses. Such amounts are established using management's estimates on the basis of claims records and an independent actuarial review and include an amount for the adverse development of reported claims. Adjustments to the estimate of the liability for losses are reflected in earnings in the period in which the adjustment is determined. The insurance reserves are based on estimates and, while management believes that the amount is adequate, the ultimate liability may vary significantly from the amount provided. Amounts are recorded within other long-term liabilities within the accompanying consolidated balance sheets.

Classification of Net Assets

Capital Health separately accounts for and reports net assets without donor restrictions and net assets with donor restrictions. Net assets without donor restrictions are not externally restricted for identified purposes by donors. Net assets without donor restrictions include resources that the governing board may use for any designated purpose and resources whose use is limited by agreement between Capital Health and an outside party other than the donor.

Net assets with donor restrictions are those whose use by Capital Health has been limited by donors to a specific time period or purpose or have been restricted by donors as permanent endowments to be maintained in perpetuity. When the donors' intentions are met or a time restriction expires for net assets limited by donors to a specific time period or purpose, the net assets are reclassified to net assets without donor restriction and reported on the consolidated statements of operations as other revenue if intended for operations, or below excess (deficiency) of revenue over expenses, if intended for capital purposes, and on the consolidated statements of changes in net assets as net assets released from restrictions. Income earned from net assets with donor restrictions is included in investment income and realized gains, net, unless the income is restricted by the donor.

Capital Health follows the requirements of the Uniform Prudent Management of Institutional Funds Act (UPMIFA) as it relates to its net assets with donor restrictions to be maintained in perpetuity, as enacted by the State of New Jersey in 2009. Capital Health expends the income distributed from the related assets according to donor stipulations.

1. Organization and Summary of Significant Accounting Policies (continued)

Advertising Costs

Capital Health expenses advertising costs as incurred. Total amounts charged to advertising expense during the years ended December 31, 2021 and 2020 are $6,566 and $6,538, respectively.

Excess (Deficiency) of Revenue Over Expenses

The consolidated statements of operations include the excess (deficiency) of revenue over expenses as the performance indicator. Changes in net assets without donor restrictions which are excluded from the excess (deficiency) of revenue over expenses, include the net change in unrealized gains and losses on fixed income securities (excluding those considered to be other than temporary), net assets released from restrictions for equipment and pension-related changes other than net periodic pension cost.

Transactions deemed by management to be ongoing, major or central to the provision of health care services are reported within gain (loss) from operations.

Income Taxes

Capital Health and the Foundation are exempt from Federal income tax on related function income under Sections 501(a) and 501(c)(3) of the Internal Revenue Code as well as New Jersey State and local income taxes pursuant to the corresponding state exemption provisions. Mercer Holding is subject to corporate income taxes. The Association is a New Jersey nonprofit association, with no taxable income recorded during 2021 or 2020. CRIC is not subject to taxes on income or gains under Section 6 of the Cayman Islands Tax Concessions Law (Revised). The effects of income taxes are not material to the consolidated financial statements.

Pension Plan

Capital Health's policy is to fund amounts as necessary on an actuarial basis to provide assets sufficient to meet the benefits to be paid to plan members in accordance with the requirements of the Employee Retirement Income Security Act of 1974 (ERISA).

1. Organization and Summary of Significant Accounting Policies (continued)

Capital Health recognizes in its consolidated balance sheets an asset for its defined benefit pension plan's (the Plan) overfunded status or a liability for the Plan's underfunded status, measures the Plan's assets and obligations that determine its funded status as of the end of its fiscal year, and recognizes changes in the funded status of the Plan in changes in net assets without donor restrictions in the year in which the changes occur (see Note 9).

Recent Accounting Pronouncements:

Adopted in 2021

In August 2018, the FASB issued ASU 2018-15, *Intangibles – Goodwill and Other – Internal-Use Software (Subtopic 350-40): Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement that is a Service Contract*. The standard aligns the requirement for capitalizing implementation costs incurred in a hosting arrangement that is a service contract with the requirements for capitalizing implementation costs incurred to develop or obtain internal-use software (and hosting arrangements that include an internal use software license). The accounting for the service element of a hosting arrangement that is a service contract is not affected by this standard. The standard requires the customer in a hosting arrangement that is a service contract to follow the guidance in ASC Subtopic 350-40 to determine which implementation costs to capitalize as an asset related to the service contract and which costs to expense by determining which project stage an implementation activity relates to and the nature of the costs. The standard also requires the customer to expense the capitalized implementation costs of a hosting arrangement that is a service contract over the term of the hosting arrangement. ASU 2018-15 is effective for Capital Health for fiscal years beginning after December 15, 2020, and interim periods thereafter. Capital Health adopted ASU 2018-15 in 2021 with no material impact to its consolidated financial statements.

The FASB has amended certain guidance related to various disclosures in ASU 2018-14, *Compensation – Retirement Benefits – Defined Benefit Plans – General (Subtopic 715-20) – Disclosure Framework – Changes to the Disclosure Requirements for Defined Benefit Plans*. The guidance in ASU 2018-14 requires all sponsors of defined benefit plans to provide certain new disclosures: the weighted-average interest crediting rate for cash balance plans and other plans with promised interest crediting rates and an explanation of the reasons for significant gains and losses related to changes in the benefit obligation for the period. Among other changes, ASU 2018-14 eliminates the required disclosure for all sponsors of defined benefit

1. Organization and Summary of Significant Accounting Policies (continued)

plans to disclose the amounts in accumulated other comprehensive income expected to be recognized as components of net periodic benefit cost over the next fiscal year. ASU 2018-14 is effective for Capital Health for fiscal years ending after December 15, 2021. Capital Health adopted ASU 2018-14 in 2021 with no material impact to its consolidated financial statements (see Note 9).

Future Period Adoption

In February 2016, the FASB issued ASU 2016-02, *Leases* which will require lessees to report most leases on their balance sheets and recognize expenses on their income statement in a manner similar to current accounting. The guidance also eliminates current real estate-specific provisions. Lessors in operating leases continue to recognize the underlying asset and recognize lease income on either a straight-line basis or another systematic and rational basis. The provisions of ASU 2016-02 are effective for Capital Health for annual periods beginning after December 15, 2021. Capital Health is in the process of evaluating the impact of ASU 2016-02 on its consolidated financial statements. Assets and liabilities are expected to increase to reflect Capital Health's right to use certain assets and the corresponding liabilities associated with operating leases, with no significant impact to net assets or the performance indicator.

In June 2016, the FASB issued ASU 2016-13, *Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*. The main objective of ASU 2016-13 and related ASU updates is to provide financial statement users with more decision-useful information about the expected credit losses on financial instruments and other commitments to extend credit held by a reporting entity at each reporting date. The amendments affect loans, debt securities, trade receivables, net investments in leases, off balance sheet credit exposures, reinsurance receivables, and any other financial assets not excluded from the scope that have the contractual right to receive cash. The amendments in this Update are effective for Capital Health for fiscal years beginning after December 15, 2022. Capital Health is in the process of evaluating the impact of ASU 2018-15 on its consolidated financial statements.

2. Charity Care

Capital Health provides care to patients who meet certain criteria defined by the New Jersey Department of Health (DOH) without charge or at amounts less than established rates. Because Capital Health does not pursue collection of amounts determined to qualify as charity care, they are not reported as revenue. Capital Health's records identify and monitor the level of charity care it provides and include the amount of charges forgone for services and supplies furnished. DOH allows retroactive application for charity care up to two years from the date of service.

The cost of charity care is derived from both estimated and actual data. The estimated cost of charity care includes the direct and indirect cost of providing such services and is estimated utilizing Capital Health's ratio of cost to gross charges, which is then multiplied by the gross uncompensated charges associated with providing care to charity patients. Charity care provided, at cost, during 2021 and 2020 totaled approximately $44,626 and $43,306, respectively.

Capital Health receives payments from the New Jersey Health Care Subsidy Funds for charity care and such amounts totaled approximately $18,867 and $16,532 for the years ended December 31, 2021 and 2020, respectively (Note 3).

3. Net Patient Service Revenue

Patient Accounts Receivable and Net Patient Service Revenue

Net patient service revenue is reported at the amount that reflects the consideration to which Capital Health expects to be entitled in exchange for providing patient care. These amounts are due from patients, third-party payors (including health insurers and government programs), and others and includes variable consideration (reductions to revenue) in determining a transaction price.

Capital Health uses a portfolio approach to account for categories of patient contracts as a collective group rather than recognizing revenue on an individual contract basis. The portfolios consist of major payor classes for inpatient revenue and major payor classes and types of services provided for outpatient revenue. Based on historical collection trends and other analyses, Capital Health believes that revenue recognized by utilizing the portfolio approach approximates the revenue that would have been recognized if an individual contract approach were used.

3. Net Patient Service Revenue (continued)

Capital Health's initial estimate of the transaction price for services provided to patients subject to revenue recognition is determined by reducing the total standard charges related to the patient services provided by various elements of variable consideration, including contractual adjustments, discounts, implicit price concessions, and other reductions to Capital Health's standard charges. Capital Health determines the transaction price associated with services provided to patients who have third-party payor coverage on the basis of contractual or formula-driven rates for the services rendered (see description of third-party payor payment programs below). The estimates for contractual allowances and discounts are based on contractual agreements, Capital Health's discount policies and historical experience.

For uninsured and under-insured patients who do not qualify for charity care, Capital Health determines the transaction price associated with services on the basis of charges reduced by implicit price concessions. Implicit price concessions included in the estimate of the transaction price are based on Capital Health's historical collection experience for applicable patient portfolios. Under Capital Health's hospital collections and financial assistance policy, a patient who has no insurance or is under-insured and is ineligible for any government assistance program has his or her bill reduced to (1) the lesser of amounts generally billed or (2) 115% of the Medicare diagnostic-related group for inpatient or 115% of the Medicare fee-for-service rates for outpatient. Patients who meet Capital Health's criteria for charity care are provided care without charge; such amounts are not reported as revenue.

Generally, Capital Health bills patients and third-party payors several days after the services are performed and/or the patient is discharged. Net patient service revenue is recognized as performance obligations are satisfied. Performance obligations are determined based on the nature of the services provided by Capital Health. Net patient service revenue for performance obligations satisfied over time is recognized based on actual charges incurred in relation to total charges. Capital Health believes that this method provides a reasonable depiction of the transfer of services over the term of the performance obligation based on the services needed to satisfy the obligation. Generally, performance obligations satisfied over time relate to patients receiving inpatient acute care services or patients receiving services in Capital Health's outpatient and ambulatory care facilities. Capital Health measures the performance obligation from admission into the hospital or the commencement of an outpatient service to the point when it is no longer required to provide services to that patient, which is generally at the time of discharge or the completion of the outpatient visit.

(Dollars In Thousands)

3. Net Patient Service Revenue (continued)

Substantially all of its performance obligations relate to contracts with a duration of less than one year. The unsatisfied or partially unsatisfied performance obligations primarily relate to inpatient acute care services at the end of the reporting period for patients who remain admitted at that time (in-house patients). The performance obligations for in-house patients are generally completed when the patients are discharged, which for the majority of Capital Health's in-house patients occurs within days or weeks after the end of the reporting period.

Subsequent changes to the estimate of the transaction price (determined on a portfolio basis when applicable) are generally recorded as adjustments to patient service revenue in the period of the change. For the years ended December 31, 2021 and 2020, changes in Capital Health's estimates of implicit price concessions, discounts, contractual adjustments or other reductions to expected payments for performance obligations satisfied in prior periods were not significant. Portfolio collection estimates are updated quarterly based on collection trends. Subsequent changes that are determined to be the result of an adverse change in the patient's ability to pay (determined on a portfolio basis when applicable) are recorded as bad debt expense. Bad debt expense for the years ended December 31, 2021 and 2020 was not significant.

Capital Health has determined that the nature, amount, timing and uncertainty of revenue and cash flows are affected by the following factors: payors, lines of business and timing of when revenue is recognized. Tables providing details of these factors are presented below.

Net patient service revenue by major payor source for the years ended December 31, 2021 and 2020, based on primary insurance designation is as follows:

	2021	2020
Medicare and Medicaid	**$ 140,719**	$ 130,793
Managed Medicare and Managed Medicaid and Commercial	**747,872**	557,263
Subsidies, Self-pay, and Other	**22,447**	22,327
	$ 911,038	$ 710,383

Deductibles, copayments and coinsurance under third-party payment programs which are the patient's responsibility are included within the payors categories above.

(Dollars In Thousands)

3. Net Patient Service Revenue (continued)

Net patient service revenue for the years ended December 31, 2021 and 2020 by line of business is as follows:

	2021	2020
Hospital and Physician services	**$ 891,112**	$ 692,858
Ambulatory services	**19,926**	17,525
	$ 911,038	$ 710,383

Capital Health does not adjust the promised amount of consideration from patients and third-party payors for the effects of a significant financing component due to Capital Health's expectation that the period between the time the service is provided to a patient and the time that the patient or a third-party payor pays for that service will be one year or less.

Third-Party Payment Programs

Capital Health has agreements with third-party payors that provide for payment for services rendered at amounts different from its established rates. A summary of the payment arrangements with major third-party payors follows:

Medicare: Hospitals are paid for most Medicare inpatient and outpatient services under the national prospective payment system and other methodologies of the Medicare program for certain other services. Federal regulations provide for certain adjustments to current and prior years' payment rates, based on industry-wide and hospital-specific data. Medicare cost reports of Capital Health have been audited and settled for years through 2017 as of December 31, 2021.

Medicaid: Inpatient acute care services rendered to Medicaid program beneficiaries are paid at prospectively determined rates per discharge. Outpatient services rendered to Medicaid program beneficiaries are reimbursed under cost-based and fee schedule methodologies. Capital Health is reimbursed for outpatient services at a tentative rate with final settlement determined after submission of annual cost reports and audits thereof by the Medicaid fiscal intermediary. The Medicaid cost reports of Capital Health for years through 2018 have been audited and settled as of December 31, 2021.

3. Net Patient Service Revenue (continued)

Other Third Party Payors: Capital Health also has entered into payment agreements with certain commercial insurance carriers and health maintenance organizations. The basis for payment to Capital Health under these agreements includes prospectively determined rates per discharge or days of hospitalization and discounts from established charges.

Settlements with third-party payors for cost report filings and retroactive adjustments due to ongoing and future audits, reviews or investigations are considered variable consideration and are included in the determination of the estimated transaction price for providing patient care. These settlements are estimated based on the terms of the payment agreement with the payor, correspondence from the payor and Capital Health's historical settlement activity (for example, cost report final settlements or repayments related to recovery audits), including an assessment to ensure that it is probable that a significant reversal in the amount of cumulative revenue recognized will not occur when the uncertainty associated with the retroactive adjustment is subsequently resolved. Such estimates are determined through either a probability-weighted estimate or an estimate of the most likely amount, depending on the circumstances related to a given estimated settlement item. Estimated settlements are adjusted in future periods as adjustments become known (that is, new information becomes available), or as years are settled or are no longer subject to such audits, reviews, and investigations. For the years ended December 31, 2021 and 2020, adjustments arising from a change in the transaction price, were not significant.

Capital Health has appealed certain items in audited cost reports. The outcome of these appeals is uncertain and, therefore, potential revenue associated with these appeals is not included within the accompanying consolidated statements of operations as the most likely amount or expected value could not be determined.

There are various proposals at the federal and state levels that could, among other things, significantly reduce payment rates or modify payment methods. The ultimate outcome of these proposals and other market changes, including the potential effects of health care reform that has been enacted by the federal government, cannot presently be determined. Future changes in the Medicare and Medicaid programs and any reduction of funding could have an adverse impact on Capital Health.

Laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term. Capital Health believes that it is in compliance

(Dollars In Thousands)

3. Net Patient Service Revenue (continued)

with all applicable laws and regulations and is not aware of any pending or threatened investigations involving allegations of potential wrongdoing that could have a material adverse effect on its consolidated financial statements. Noncompliance with such laws and regulations could result in fines, penalties and exclusion from such programs.

Capital Health grants credit without collateral to its patients, most of whom are insured under third-party payor agreements. Significant concentrations of patient accounts receivable at December 31, 2021 and 2020 are as follows:

	2021	**2020**
Medicare	**28%**	32%
Medicaid	**8**	12
Commercial carriers, including worker's compensation and auto	**63**	55
Self-pay patients	**1**	1
	100%	100%

State Subsidy Funds

The New Jersey Health Care Subsidy Funds were established for various purposes, including the distribution of charity care payments to hospitals statewide.

The following is a summary of subsidy revenue included in net patient service revenue for the year ended December 31:

	2021	**2020**
Charity care *(Note 2)*	**$ 18,867**	$ 16,532
Quality Improvement Program	**6,225**	5,102
New Jersey county option hospital fee pilot program	**24,309**	–
Mental health	**958**	957
	$ 50,359	$ 22,591

3. Net Patient Service Revenue (continued)

The New Jersey Health Care Subsidy Funds were established for various purposes, including the distribution of charity care payments to hospitals statewide. In addition to charity care payments related to calendar year 2021 received during the year, in December 2021 the State paid advance payments related to the first six months of calendar year 2022 totaling $10,340. Capital Health received $29,207 and $16,532 in charity care subsidies during the year ended December 31, 2021 and 2020, respectively, of which $10,340 is recorded as a deferred liability at December 31, 2021.

Subsidy funds are also paid under the Quality Improvement Program (QIP) for certain performance improvement activities. The previous program, known as Delivery System Reform Incentive Payment (DSRIP) concluded June 30, 2020. The QIP program became effective July 1, 2020. Payments received related to these programs totaled $6,225 and $5,201 for the year ended December 31, 2021 and 2020, respectively.

During 2021, Capital Health received additional Medicaid funding under the New Jersey County Option Hospital Fee Pilot Program. This program is administered through the New Jersey Department of Human Services-Division of Medical Assistance and Health Services and began in 2021 in certain counties in New Jersey. The program requires that participating hospitals pay quarterly assessed fees based on estimated Medicaid utilization data within the county, and such payments are then pooled with federal Medicaid matching funds and redistributed to the participating hospitals as State Directed Payments. The State Directed Payments are subject to annual settlement based actual Medicaid utilization data and other factors. The program was in effect for Capital Health's third and fourth quarters of 2021 and resulted in fees paid by Capital Health of $9,676 (included within supplies and other expense) and Medicaid State Directed Payments received of $24,309 (included within net patient service revenue, net of variable consideration allowances of $14,633).

(Dollars In Thousands)

4. Assets Whose Use is Limited

Assets whose use is limited consist of the following:

	December 31 2021	2020
Restricted investments for collateral	**$ 8,129**	$ 8,109
Assets held under supplemental retirement plan	**7,320**	8,623
Assets held under debt agreement	**115,743**	105,025
Assets held by CRIC *(see Note 12)*	**25,447**	13,851
Total assets whose use is limited	**156,639**	135,608
Less: assets whose use is limited – current portion	**2,823**	2,958
	$ 153,816	$ 132,650

Assets held under debt agreements are maintained for the following purposes:

	December 31 2021	2020
Mortgage reserve fund	**$ 112,920**	$ 102,067
Mortgage insurance premium	**2,823**	2,958
	$ 115,743	$ 105,025

Capital Health's gross unrealized losses and fair value of individual fixed income securities, classified as assets whose use is limited, which have been in a continuous unrealized loss position less than 12 months and greater than 12 months at December 31, 2021 and 2020 are not significant. At December 31, 2021 and 2020, the unrealized losses were not deemed to be other than temporary based on Capital Health's ability and intent to hold the funds until recovery.

(Dollars In Thousands)

5. Investments

Investments consist of the following:

	December 31 2021	December 31 2020
Cash and cash equivalents	**$ 4,407**	$ 61,768
Mutual funds – fixed income securities	**41,194**	37,353
Mutual funds – equity securities	**61,473**	53,263
Accrued interest	**43**	41
Total investments	**107,117**	152,425
Less short-term investments	**97,178**	143,392
	$ 9,939	$ 9,033

Investment income, included within investment income and realized gains, net, consists of the following:

	Year Ended December 31 2021	Year Ended December 31 2020
Interest and dividend income	**$ 1,469**	$ 633
Net realized gains (losses)	**8,029**	(507)
Total investment income	**$ 9,498**	$ 126

(Dollars In Thousands)

5. Investments (continued)

For fixed income securities in 2021, Capital Health's gross unrealized losses and fair value of individual securities, classified as investments, aggregated by investment category, which have been in a continuous unrealized loss position less than 12 months and greater than 12 months at December 31, 2021 and 2020 are as follows:

	December 31, 2021					
	Less than Twelve Months		Twelve Months or Longer		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Mutual funds – fixed income securities (10 funds)	**$ 31,515**	**$ (593)**	**$ 13,835**	**$ (188)**	**$ 45,350**	**$ (781)**

	December 31, 2020					
	Less than Twelve Months		Twelve Months or Longer		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Mutual funds – fixed income securities (3 funds)	$ 12,531	$ (13)	$ –	$ –	$ 12,531	$ (13)

At December 31, 2021 and 2020, unrealized losses of approximately $781 and $13, respectively, were not deemed to be other than temporary based on Capital Health's ability and intent to hold the funds until recovery.

6. Fair Value Measurements

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. A three-level hierarchy for fair value measurements exists based upon the transparency of inputs to the valuation of an asset or liability as of the measurement date. The three levels are defined as follows:

- Level 1 – inputs to the valuation methodology are quoted prices (unadjusted) for identical assets or liabilities in active markets.

- Level 2 – inputs to the valuation methodology include quoted prices for similar assets or liabilities in active markets, and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument.

- Level 3 – inputs to the valuation methodology are unobservable and significant to the fair value measurement.

A financial instrument's categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement.

(Dollars In Thousands)

6. Fair Value Measurements (continued)

The following tables present the financial instruments carried at fair value by caption on the consolidated balance sheet based on the valuation hierarchy defined above:

	December 31, 2021			
	Level 1	Level 2	Level 3	Total
Assets				
Cash and cash equivalents	$ 42,389	$ –	$ –	$ 42,389
Assets whose use is limited:				
Assets held by CRIC *(see Note 12)*:				
Equity securities	–	11,796	–	11,796
Fixed income	–	13,651	–	13,651
Investments restricted for collateral:				
Cash and cash equivalents	–	–	–	–
Mutual funds – fixed income securities	8,129	–	–	8,129
Assets held under supplemental retirement plan:				
Mutual funds – fixed income securities	981	–	–	981
Mutual funds – equity securities	3,756	–	–	3,756
Investment contract with insurance company	–	2,583	–	2,583
Assets held under debt agreement:				
Cash and cash equivalents	6,248	–	–	6,248
U.S. government securities	–	109,495	–	109,495
Total assets whose use is limited	19,114	137,525	–	156,639
Investments:				
Cash and cash equivalents	4,407	–	–	4,407
Mutual funds – fixed income securities	41,194	–	–	41,194
Mutual funds – equity securities	61,516	–	–	61,516
Total investments	107,117	–	–	107,117
Total assets at fair value	$ 168,620	$ 137,525	$ –	$ 306,145
Pension assets (*See Note 9*)				
Mutual funds – fixed income securities	$ 45,525	$ –	$ –	$ 45,525
Mutual funds – equity securities	7,953	–	–	7,953
U.S. government securities	–	15,979	–	15,979
Total pension assets	$ 53,478	$ 15,979	$ –	$ 69,457

(Dollars In Thousands)

6. Fair Value Measurements (continued)

	December 31, 2020			
	Level 1	**Level 2**	**Level 3**	**Total**
Assets				
Cash and cash equivalents	$ 32,964	$ –	$ –	$ 32,964
Assets whose use is limited:				
Assets held by CRIC *(see Note 12)*:				
Equity securities	–	9,731	–	9,731
Fixed income	–	4,120	–	4,120
Investments restricted for collateral:				
Cash and cash equivalents	–	–	–	–
Mutual funds – fixed income securities	8,109	–	–	8,109
Assets held under supplemental retirement plan:				
Mutual funds – fixed income securities	1,981	–	–	1,981
Mutual funds – equity securities	3,397	–	–	3,397
Investment contract with insurance company	–	3,245	–	3,245
Assets held under debt agreement:				
Cash and cash equivalents	5,129	–	–	5,129
U.S. government securities	–	99,896	–	99,896
Total assets whose use is limited	18,616	116,992	–	135,608
Investments:				
Cash and cash equivalents	61,768	–	–	61,768
Mutual funds – fixed income securities	37,395	–	–	37,395
Mutual funds – equity securities	53,262	–	–	53,262
Total investments	152,425	–	–	152,425
Total assets at fair value	$ 204,005	$ 116,992	$ –	$ 320,997
Pension assets (*See Note 9*)				
Mutual funds – fixed income securities	$ 49,769	$ –	$ –	$ 49,769
Mutual funds – equity securities	11,013	–	–	11,013
U.S. government securities	–	16,620	–	16,620
Total pension assets	$ 60,782	$ 16,620	$ –	$ 77,402

(Dollars In Thousands)

7. Property, Plant and Equipment

Property, plant and equipment consists of the following:

	December 31	
	2021	**2020**
Land	**$ 42,218**	$ 42,172
Land improvements	**36,841**	36,112
Buildings, leasehold improvements and fixed equipment	**780,680**	769,072
Major movable equipment/software	**324,884**	292,382
	1,184,623	1,139,738
Accumulated depreciation and amortization	**(698,371)**	(658,306)
	486,252	481,432
Construction in progress	**19,321**	28,410
Property, plant, and equipment, net	**$ 505,573**	$ 509,842

Depreciation and amortization expense for the years ended December 31, 2021 and 2020 was $40,094 and $36,758, respectively.

Major moveable equipment includes assets held under capital lease obligations of $943 at December 31, 2021 and 2020, net of accumulated amortization of $843 and $751, respectively, as of those dates.

(Dollars In Thousands)

8. Long-Term Debt

Long-term debt consists of the following:

	December 31 2021	2020
FHA/GNMA Taxable Insured Mortgage Loan	**$ 610,412**	$ 637,279
Mercer Holding Bethpage Commercial LLC Mortgage Loan	**2,369**	–
Capital lease obligations of Mercer Holding with interest rates ranging from 4.3% to 6.0% payable monthly and quarterly	**43**	117
	612,824	637,396
Less unamortized deferred financing costs	**6,358**	7,067
Less current portion	**28,685**	26,940
	$ 577,781	$ 603,389

On April 7, 2009, Capital Health closed on a $755,875 mortgage insured by HUD through the Federal Housing Administration's (FHA's) Section 242 Hospital Mortgage Insurance Program. Interest rates on the mortgage note are 4.67% from January 1, 2021 through August 31, 2026 and 4.57% from September 1, 2026 through maturity date of January 1, 2037. The following table outlines the remaining principal and interest payments due and payable on the first day of each month:

February 1, 2021 – September 1, 2026	$ 4,705
October 1, 2026 – January 1, 2037	4,682

The mortgage note is collateralized by a security interest and a mortgage on substantially all of the property, plant and equipment at the Regional and Hopewell divisions. Interest costs resulting from the portion of debt related to construction was capitalized accordingly.

8. Long-Term Debt (continued)

As of December 31, 2021 and 2020, Capital Health had an outstanding letter of credit totaling $1,390, related to an aspect of the construction funded by the mortgage loan. No amounts have been drawn at December 31, 2021 and 2020. The letter of credit expires in June 2022 and automatically renews for a term of one year.

Also in connection with the construction funded by the mortgage loan, Capital Health was required to provide a security interest in and lien on certain of its investments as collateral. As of December 31, 2021 and 2020, $8,129 and $8,109, respectively, of investments were pledged as collateral for the outstanding letters of credit. These investments are included in assets whose use is limited as of December 31, 2021 and 2020.

As of December 31, 2021 and 2020, Capital Health had outstanding letters of credit totaling $4,585 and $5,026, respectively, related to vendor arrangements. No amounts have been drawn on the letters of credit at December 31, 2021 and 2020. The letters of credit expire throughout 2022 and automatically renew for a term of one year.

Under the terms of the mortgage loan, Capital Health is required to maintain certain financial ratios, mortgage reserve fund balances, and comply with other restrictive covenants as described in the respective agreements in order to enter into additional indebtedness or to transfer funds to an affiliate without HUD approval. Capital Health did not meet all of these requirements during the year ended December 31, 2021 and accordingly received approval from HUD to transfer $2,000 to the Foundation. The transfer was used for the Foundation's charitable mission and the Trenton initiative.

On January 26, 2021, Mercer Holding closed on a $2,437 mortgage with Bethpage Commercial LLC secured by a parcel of real property known as Condominium Unit A-1 at 1690 Big Oak Road, Yardley, Pennsylvania. The interest on the loan is 3.875% through January 31, 2031 and the greater of 3.875% or the then existing five-year Federal Home Loan Bank of New York Fixed Advanced Rate plus 2.25% from February 1, 2031 through maturity date of February 1, 2036. The mortgage specifies various defaults and events upon the happening of which all sums owing be declared immediately due and payable. At December 31, 2021 Mercer Holding is in compliance with such requirements.

(Dollars In Thousands)

8. Long-Term Debt (continued)

Scheduled payments of long-term debt and capital lease obligations at December 31, 2021, net of interest, are as follows:

	FHA/ GNMA	Mercer Holding	Capital Lease	Total
2022	$ 28,557	$ 85	$ 43	$ 28,685
2023	29,920	88	–	30,008
2024	31,348	91	–	31,439
2025	32,843	95	–	32,938
2026	21,932	99	–	22,031
Thereafter	465,812	1,911	–	467,723
Total long-term debt	$ 610,412	$ 2,369	$ 43	$ 612,824

9. Retirement Plans

Capital Health has a non-contributory defined benefit pension plan and a defined contribution plan that operates under Section 403(b) of the Internal Revenue Code. Both plans cover substantially all of its employees. The benefits are based on years of service and compensation. Capital Health's funding policy provides that payments to the defined benefit pension plan shall be equal to the minimum funding requirement of ERISA plus additional amounts, which may be approved by Capital Health. In 2021 and 2020, Capital Health incurred $2,931 and $2,548, respectively, in pension expense for employer contributions to the defined contribution plan, which is included in employee benefits expense in the accompanying consolidated statements of operations.

As noted in Note 1, Capital Health recognizes in its consolidated balance sheets an asset, for the defined benefit plan's overfunded status, or a liability, for the plan's underfunded status; measures the defined benefit plan's assets and obligations that determine funded status as of the end of its fiscal year; and recognizes the periodic change in the funded status of the defined benefit plan as a component of changes in net assets without donor restrictions in the year in which the change occurs. Amounts that are recognized as a component of other changes in net assets without donor restrictions will be subsequently recognized as a component of net periodic pension cost.

Capital Health froze its defined benefit pension plan as of December 31, 2007.

(Dollars In Thousands)

9. Retirement Plans (continued)

Included in net assets without donor restrictions is unrecognized actuarial loss at December 31, 2021 and 2020 of $8,612 and $7,655, respectively, which has not yet been recognized in net periodic pension cost. At December 31, 2021 and 2020, Capital Health has a defined benefit asset of $7,778 and $8,425, respectively, which is reported within other noncurrent assets in the accompanying consolidated balance sheets.

The following table sets forth the funded status of the plan at December 31, 2021 and 2020 and the amounts recognized in the consolidated financial statements:

	2021	2020
Change in benefit obligation		
Benefit obligation, beginning of year	**$ 68,977**	$ 69,745
Interest cost	**1,240**	1,880
Actuarial (gain) loss	**(1,430)**	2,511
Benefits paid	**(1,995)**	(2,131)
Settlements	**(5,113)**	(3,028)
Benefit obligation, end of year	**61,679**	68,977
Change in plan assets		
Fair value of plan assets, beginning of year	**77,402**	76,848
Actual return on plan assets	**(837)**	5,713
Benefits paid and settlements	**(7,108)**	(5,159)
Fair value of plan assets, end of year	**69,457**	77,402
Funded status	**$ 7,778**	$ 8,425

(Dollars In Thousands)

9. Retirement Plans (continued)

The net periodic pension cost includes the following components:

	2021	2020
Interest cost	**$ 1,240**	$ 1,880
Expected return on plan assets	**(2,351)**	(2,690)
Recognized actuarial loss	**88**	107
Settlement loss	**714**	336
Net periodic pension (benefit) cost	**$ (309)**	$ (367)

The benefit obligations represent the projected and accumulated benefit obligation.

The following assumptions were used in determining the benefit obligations and net periodic pension costs:

	2021	2020
Weighted-average assumptions used to determine benefit obligations at December 31:		
Discount rate	**2.47%**	1.91%
Cash balance interest credit rate	**2.70%**	N/A
Weighted-average assumptions used to determine net periodic pension cost for the years ended December 31:		
Discount rate	**1.91%**	2.91%
Expected long-term return on plan assets	**3.24%**	3.75%

The expected long-term rate of return on plan assets assumption of 3.24% was selected using the "building block" approach described by the Actuarial Standards Board in Actuarial Standards of Practice No. 27 – Selecting Economic Assumptions for Measuring Pension Obligations. Based on Capital Health's investment policy for the pension plan in effect as of the beginning of the fiscal year, a best estimate range was determined for both the real rate of return (net of inflation) and for inflation based on historical 30-year period rolling averages. An average inflation rate within the range equal to 4.0% was selected and added to the real rate of return range to arrive at a best estimate. The actuarial (gain) loss in 2021 and 2020 primarily relate to changes in discount rate and mortality assumptions used to measure the projected benefit obligation.

(Dollars In Thousands)

9. Retirement Plans (continued)

Capital Health's pension plan weighted-average asset allocations at December 31, 2021 and 2020 by asset category are as follows:

	Plan Assets at December 31	
	2021	**2020**
Mutual funds – equity securities	**23%**	15%
Mutual funds – fixed income securities	**66**	64
U.S. government securities	**11**	21
	100%	100%

Capital Health expects to pay future benefits as follows:

2022	$ 7,186
2023	5,706
2024	5,444
2025	5,184
2026	4,771
2027-2031	18,414

Capital Health's investment policies and strategies for plan assets include allocations of a diversified portfolio of equity investments, fixed income securities and cash equivalents. Though these assets are long-term in nature, a reasonable amount of liquidity should be maintained.

Capital Health does not expect to contribute to its defined benefit pension plan in 2022.

(Dollars In Thousands)

10. Net Assets With Donor Restrictions

Net assets with donor restrictions are available for the following purposes:

	December 31 2021	December 31 2020
Health care services	**$ 3,984**	$ 3,297
Education	**1,152**	686
Equipment	**3,744**	1,501
Charity care	**3,680**	3,682
Other	**1,491**	325
	$ 14,051	$ 9,491

Net assets were released from restrictions for the following purposes:

	Year Ended December 31 2021	Year Ended December 31 2020
Equipment	**$ 636**	$ 245
Health care services	**249**	355
Education	**5**	28
Charity care	**1**	1
Other	**15**	15
	$ 906	$ 644

(Dollars In Thousands)

10. Net Assets With Donor Restrictions (continued)

Changes in donor endowment funds for the years ended December 31, 2021 and 2020, consisted of the following:

	Without Donor Restrictions	With Donor Restrictions
Endowment funds at December 31, 2020	**$ 3,939**	**$ 5,094**
Investment return on endowments	**906**	–
Appropriations	**(7)**	–
Contributions	–	**8**
Endowment funds at December 31, 2021	**$ 4,838**	**$ 5,102**

	Without Donor Restrictions	With Donor Restrictions
Endowment funds at December 31, 2019	$ 2,736	$ 4,986
Investment return on endowments	1,206	–
Appropriations	(3)	–
Contributions	–	108
Endowment funds at December 31, 2020	$ 3,939	$ 5,094

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor requires Capital Health to retain as a fund of perpetual duration. Deficiencies of this nature are reported in net assets without donor restrictions. Individual donor-restricted endowment funds with deficiencies will retain future income and appreciation to restore the required fair value of the assets. There were no such deficiencies as of December 31, 2021 or 2020.

(Dollars In Thousands)

11. Operating Leases and Other Commitments and Contingencies

Rent expense under operating leases amounted to approximately $11,983 and $8,245 in 2021 and 2020, respectively, and is reported within supplies and other expenses on the accompanying consolidated statements of operations.

The future minimum rental payments required under the non-cancelable operating leases are as follows:

2022	$	13,036
2023		12,689
2024		11,000
2025		9,934
2026		9,343
Thereafter		59,413

Various lawsuits and claims arising in the normal course of operations are pending or are in appeal against Capital Health. Such lawsuits and claims are either specifically covered by insurance or are not material. While the outcome of these lawsuits cannot be determined at this time, management believes that any loss which may arise from Capital Health's actions will not have a material adverse effect on the consolidated financial position or consolidated results of operations.

12. Professional Liability Insurance

Capital Health purchased first dollar claims made insurance coverage prior to April 5, 2003 through a commercial carrier. Under this program, the professional and general liabilities were insured under two policies. A "package policy" covered those risks related to Capital Health's general and professional liability as well as certain employed physicians. A "master physician policy" covered all other physicians for whom Capital Health provided coverage. The master physician policy also included an automatic tail provision. In addition to the two primary policies mentioned above, Capital Health purchased umbrella and excess insurance on a claims-made basis.

As of April 5, 2003, Capital Health purchases coverage for its professional and general liability exposures through CRIC. The reinsurance purchased by CRIC covers, on a claims-made basis, any incidents reported during the policy period for incidents from the retroactive date of August 10, 1976 to the end of the policy period.

12. Professional Liability Insurance (continued)

For the insurance coverage years June 1, 2019 to May 31, 2020 CRIC insures Capital Health for its professional liability in the amount of $62,000 per claim and $68,000 in the annual aggregate. CRIC retains professional liability losses of $2,000 per claim and $8,000 in the annual aggregate (aggregate is shared with general liability). CRIC also retains $2,000 for the first claim paid over $2,000. CRIC, therefore, cedes $60,000 per claim and $60,000 in the annual aggregate to “A” rated reinsurers. During the same insurance coverage year, CRIC insures Capital Health for its general liability in the amount of $61,000 per claim and $68,000 in the annual aggregate, of which $60,000 per claim and $60,000 in the annual aggregate is ceded to “A” rated reinsurers. CRIC, therefore, retains general liability losses of $1,000 per claim and $8,000 in the annual aggregate (aggregate is shared with professional liability).

For the insurance coverage years June 1, 2020 to May 31, 2021 CRIC insures Capital Health for its professional liability in the amount of $62,000 per claim and $68,000 in the annual aggregate. CRIC retains professional liability losses of $5,000 per claim and no aggregate. CRIC also retains $2,000 for each claim over $5,000 with $2,000 aggregate. CRIC, therefore, cedes $60,000 per claim and $60,000 in the annual aggregate to “A” rated reinsurers. During the same insurance coverage year, CRIC insures Capital Health for its general liability in the amount of $61,000 per claim and $68,000 in the annual aggregate, of which $60,000 per claim and $60,000 in the annual aggregate is ceded to “A” rated reinsurers. CRIC, therefore, retains general liability losses of $1,000 per claim and no aggregate.

For the insurance coverage years June 1, 2021 to May 31, 2022 CRIC insures Capital Health for its professional liability in the amount of $67,000 per claim and $67,000 in the annual aggregate. CRIC retains professional liability losses of $5,000 per claim and no aggregate. CRIC also retains $2,000 for each claim over $5,000 with $2,000 aggregate. CRIC, therefore, cedes $60,000 per claim and $60,000 in the annual aggregate to “A” rated reinsurers. During the same insurance coverage year, CRIC insures Capital Health for its general liability in the amount of $61,000 per claim and $61,000 in the annual aggregate, of which $60,000 per claim and $60,000 in the annual aggregate is ceded to “A” rated reinsurers. CRIC, therefore, retains general liability losses of $1,000 per claim and no aggregate.

12. Professional Liability Insurance (continued)

At December 31, 2021 and 2020, CRIC has recorded an estimated reserve for claims of $53,382 and $45,487, respectively, included in other long-term liabilities within the accompanying consolidated balance sheets, which includes an estimate for claims incurred but not reported. These undiscounted reserves are not offset by estimates of reinsurance claims. Estimated receivables for reinsurance recoveries recorded by CRIC of $32,945 and $28,051 at December 31, 2021 and 2020, respectively, are included in other noncurrent assets within the accompanying consolidated balance sheets.

Liabilities arising from incidents which occurred prior to April 5, 2003 which were known to Capital Health are the responsibility of Capital Health. No estimates were required as of December 31, 2021 and 2020.

(Dollars In Thousands)

13. Functional Expenses

Capital Health provides health care services to residents within its geographic region. Expenses related to providing these services were as follows:

	Year Ended December 31, 2021		
	Program Expenses	**General and Administrative Expenses**	**Total Expenses**
Salaries and wages	**$ 300,010**	**$ 132,527**	**$ 432,537**
Employee benefits	**43,053**	**21,758**	**64,811**
Supplies and other expenses	**278,867**	**71,087**	**349,954**
Interest	**32,496**	**4,090**	**36,586**
Depreciation and amortization	**32,402**	**7,692**	**40,094**
	$ 686,828	**$ 237,154**	**$ 923,982**

	Year Ended December 31, 2020		
	Program Expenses	**General and Administrative Expenses**	**Total Expenses**
Salaries and wages	$ 270,670	$ 118,854	$ 389,524
Employee benefits	38,149	19,043	57,192
Supplies and other expenses	214,300	65,249	279,549
Interest	38,141	4,812	42,953
Depreciation and amortization	30,167	6,591	36,758
	$ 591,427	$ 214,549	$ 805,976

(Dollars In Thousands)

14. Liquidity and Availability

Financial assets available for general expenditures within one year of December 31, 2021 and 2020, consist of the following:

	2021	2020
Cash and cash equivalents	**$ 42,389**	$ 32,964
Short-term investments	**97,178**	143,392
Patient accounts receivable, net	**113,422**	99,165
	$ 252,989	$ 275,521

Capital Health has assets whose use is limited for collateral, held under supplemental retirement plan, held under debt agreement and held by CRIC. These assets whose use is limited, which are more fully described in Note 4, are not available for general expenditures within the next year and are not reflected in the amounts above.

As part of Capital Health's liquidity management plan, cash in excess of daily requirements are invested in cash equivalents and short-term investments.

(Dollars In Thousands)

15. Other Revenue

Other operating revenue consists of the following:

	Year Ended December 31	
	2021	**2020**
HHS Provider Relief Fund (S*ee Note 1*)	**$ 1,689**	$ 67,422
FEMA Disaster Relief Fund	**9,032**	–
Employee Retention Credit	**3,913**	–
Paycheck Protection Program Loan Forgiveness	**1,048**	–
Purchasing rebates and settlements	**3,599**	1,788
Grant revenue	**7,437**	4,654
Investment income	**1,558**	1,815
Food services	**1,009**	940
Rental income	**1,102**	913
Other	**4,404**	584
	$ 34,791	$ 78,116

16. Subsequent Events

Subsequent events have been evaluated through April 29, 2022 which is the date the accompanying consolidated financial statements were issued. Except as disclosed below, no subsequent events have occurred that require disclosure in or adjustment to the accompanying consolidated financial statements.

In January 2022, Capital Health and St. Francis Medical Center, a member of Trinity Health, entered into a definitive agreement to move forward with Capital Health's acquisition of St. Francis Medical Center. The addition of St. Francis Medical Center to the Capital Health network of health care services will result in an integrated, comprehensive, and sustainable non-profit health care system for communities in the greater Trenton area. The definitive agreement was reached after a non-binding letter of intent was signed in May 2021 and was followed by a subsequent due diligence period. The due diligence process evaluated how to best enhance capabilities and fulfill the organizations' shared mission to serve the City of Trenton, surrounding communities, and their residents. The agreement is now moving through required state and federal regulatory approvals; a review process that can take more than a year. The accompanying consolidated financial statements as of and for the year ended December 31, 2021 do not reflect the effects of these subsequent events.

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