Consolidated Financial Statements

Capital Health System, Inc. and Subsidiaries
Years Ended December 31, 2024 and 2023
With Report of Independent Auditors

Capital Health System, Inc. and Subsidiaries

Consolidated Financial Statements

Years Ended December 31, 2024 and 2023

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, 2024 and 2023, 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 Baker Tilly (Cayman) Ltd., the accompanying financial statements present fairly, in all material respects, the financial position of Capital Health at December 31, 2024 and 2023, and the results of its operations, changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

We did not audit the financial statements of Capital Region Insurance Company, SPC (CRIC), a wholly owned subsidiary, whose statements reflect total assets constituting 3.7% and 3.6% and total liabilities constituting 4.2% and 3.6% of the related consolidated totals as of December 31, 2024 and 2023, respectively, and total revenues constituting 0.4% respectively of consolidated revenues for the years then ended. Those statements were audited by Baker Tilly (Cayman) Ltd., 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 Baker Tilly (Cayman) Ltd.

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 30, 2025

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INDEPENDENT AUDITOR'S REPORT
TO THE BOARD OF DIRECTORS OF CAPITAL REGION INSURANCE COMPANY SPC

Opinion

We have audited the financial statements of Capital Region Insurance Company SPC (the "Company") consisting of the General Company, Capital Asset Insurance SP ("Capital Asset SP") and Integrated Quality Insurance SP ("Integrated Quality SP") which comprise the balance sheet as at December 31, 2024 and the related statements of comprehensive income/(loss), changes in shareholder's equity and cash flows for the year then ended, and the related notes to the financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2024, and the results of its operations and its cash flows for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America ("U.S. 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 the Company and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Required Supplementary Information

Accounting Standards Update 2015-09 *Disclosure about Short-Duration Contracts*, requires certain information to be disclosed by insurance companies issuing short duration contracts. Such information, although not a part of the basic financial statements, is required by the U.S. Financial Accounting Standards Board who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information presented in Schedule 1, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the financial statements, and other knowledge we obtained during our audit of the financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Matter

The financial statements of the Company for the year ended December 31, 2023, were audited by another auditor who expressed an unmodified opinion on those financial statements on April 12, 2024.

Responsibility of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of these 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 from material misstatement, whether due to fraud or error.

INDEPENDENT AUDITOR'S REPORT
TO THE BOARD OF DIRECTORS OF CAPITAL REGION INSURANCE COMPANY SPC
(Continued)

Responsibility of Management for the Financial Statements (Continued)

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 the Company's ability to continue as a going concern within 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 from 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 U.S. 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 U.S. GAAS, we:

- Exercise professional judgement and maintain professional scepticism 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 Company'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 the Company'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.

Distribution and Use of the Report

This report, including the opinion, has been prepared for and only for the Company's Board of Directors, as a body, and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Baker Tilly (Cayman) Ltd.

Baker Tilly (Cayman) Ltd.
Grand Cayman, Cayman Island
April 17, 2025

Capital Health System, Inc. and Subsidiaries

Consolidated Balance Sheets

	December 31	
	2024	**2023**
Assets	*(In Thousands)*	
Current assets:		
Cash and cash equivalents	**$ 47,729**	$ 76,915
Short-term investments	**52,561**	25,536
Assets whose use is limited – current portion	**2,292**	2,559
Patient accounts receivable, net	**212,858**	189,633
Supplies	**18,549**	15,589
Prepaid expenses and other current assets	**87,315**	85,759
Total current assets	**421,304**	395,991
Investments	**11,185**	9,355
Assets whose use is limited – noncurrent portion	**111,175**	137,405
Property, plant, and equipment, net	**493,834**	501,285
Operating lease assets, net	**88,107**	76,634
Other noncurrent assets	**18,991**	21,308
Total assets	**$ 1,144,596**	$ 1,141,978
Liabilities and net assets		
Current liabilities:		
Long-term debt – current portion	**$ 61,872**	$ 65,200
Operating lease liabilities – current portion	**11,766**	10,611
Accounts payable	**134,962**	123,453
Accrued expenses	**94,055**	107,003
Accrued interest	**2,109**	2,181
Estimated third-party payor settlements, net – current portion	**1,568**	826
Total current liabilities	**306,332**	309,274
Long-term debt – noncurrent portion	**505,836**	538,765
Operating lease liabilities – noncurrent portion	**78,867**	66,919
Estimated third-party payor settlements and other long-term liabilities, net – noncurrent portion	**59,401**	49,382
Total liabilities	**950,436**	964,340
Commitments and contingencies		
Net assets:		
Without donor restrictions	**177,699**	159,024
With donor restrictions	**15,839**	17,844
Total Capital Health System net assets	**193,538**	176,868
Non-controlling interest	**622**	770
Total net assets including non-controlling interest	**194,160**	177,638
Total liabilities and net assets	**$ 1,144,596**	$ 1,141,978

See accompanying notes.

Capital Health System, Inc. and Subsidiaries

Consolidated Statements of Operations

	Year Ended December 31	
	2024	**2023**
Net assets without donor restrictions:	*(In Thousands)*	
Revenue:		
Net patient service revenue	**$ 1,247,481**	$ 1,139,991
Other revenue	**71,200**	33,630
Contributions	**2,076**	545
Total revenue	**1,320,757**	1,174,166
Expenses:		
Salaries and wages	**625,193**	579,167
Employee benefits	**87,950**	76,221
Supplies and other expenses	**522,433**	450,383
Interest	**31,366**	30,780
Depreciation and amortization	**47,851**	45,788
Total expenses	**1,314,793**	1,182,339
Gain (loss) from operations	**5,964**	(8,173)
Non-operating net periodic pension cost	**(13,796)**	(2,415)
Investment income and realized gains and losses, net	**3,310**	(1,208)
Net change in unrealized gains and losses on equity securities	**(2,415)**	1,510
Deficiency of revenue over expenses, before non-controlling interest	**(6,937)**	(10,286)
Less: gain attributable to non-controlling interest	**2,648**	2,912
Deficiency of revenue over expenses	**(9,585)**	(13,198)
Net change in unrealized gains and losses on fixed income securities	**4,273**	6,940
Grant contributions received and expended – capital portion	**14,984**	2,918
Pension-related changes other than net periodic pension cost	**8,873**	3,527
Net assets released from restrictions for equipment	**130**	102
Change in net assets without donor restrictions	**$ 18,675**	$ 289

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, 2022	$ 158,735	$ 17,478	$ 911	$ 177,124
(Deficiency) excess of revenue over expenses	(13,198)	–	2,912	(10,286)
Net change in unrealized gains and losses on fixed income securities	6,940	–	–	6,940
Grant contributions received and expended – capital portion	2,918	–	–	2,918
Pension-related changes other than net periodic pension cost	3,527	–	–	3,527
Member distributions, net	–	–	(3,053)	(3,053)
Donor restricted contributions	–	2,016	–	2,016
Net assets released from restrictions for equipment	102	(102)	–	–
Net assets released from restrictions for operations	–	(1,548)	–	(1,548)
Change in net assets	289	366	(141)	514
Net assets at December 31, 2023	159,024	17,844	770	177,638
(Deficiency) excess of revenue over expenses	**(9,585)**	**–**	**2,648**	**(6,937)**
Net change in unrealized gains and losses on fixed income securities	**4,273**	**–**	**–**	**4,273**
Grant contributions received and expended – capital portion	**14,984**	**–**	**–**	**14,984**
Pension-related changes other than net periodic pension cost	**8,873**	**–**	**–**	**8,873**
Member distributions, net	**–**	**–**	**(2,796)**	**(2,796)**
Donor restricted contributions	**–**	**1,864**	**–**	**1,864**
Net assets released from restrictions for equipment	**130**	**(130)**	**–**	**–**
Net assets released from restrictions for operations	**–**	**(3,739)**	**–**	**(3,739)**
Change in net assets	**18,675**	**(2,005)**	**(148)**	**16,522**
Net assets at December 31, 2024	**$ 177,699**	**$ 15,839**	**$ 622**	**$ 194,160**

See accompanying notes.

Capital Health System, Inc. and Subsidiaries

Consolidated Statements of Cash Flows

	Year Ended December 31	
	2024	**2023**
	(In Thousands)	
Operating activities		
Change in net assets	**$ 16,522**	$ 514
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	**47,851**	45,788
Amortization of deferred financing fees	**628**	657
Net change in unrealized gains and losses on investments	**(1,858)**	(8,450)
Grant contributions for capital	**(14,984)**	(2,918)
Pension-related changes other than net periodic pension cost	**(8,873)**	(3,527)
Member distributions, net, related to non-controlling interest	**2,796**	3,053
Changes in operating assets and liabilities:		
Patient accounts receivable, net	**(23,225)**	(49,832)
Supplies	**(2,960)**	(866)
Prepaid expenses and other current assets	**(1,556)**	(20,424)
Other noncurrent assets	**2,317**	6,415
Accounts payable	**11,509**	15,747
Accrued pension	**8,873**	3,527
Accrued expenses	**(12,948)**	8,754
Accrued interest	**(72)**	(83)
Estimated third-party payor settlements and other long-term liabilities	**10,761**	(12,195)
Net cash provided by (used in) provided by operating activities	**34,781**	(13,840)
Investing activities		
Purchases of assets whose use is limited and investments	**(406,283)**	12,729
Sales of assets whose use is limited and investments	**430,548**	43,620
Distribution to members	**(2,796)**	(3,053)
Purchases of property, plant and equipment, net	**(38,770)**	(38,914)
Net cash (used in) provided by investing activities	**(17,301)**	14,382
Financing activities		
Payments on finance leases	**(2,418)**	(2,393)
Grant contributions for capital	**14,984**	2,918
Repayment of long-term debt	**(38,321)**	(30,649)
Proceeds of long-term debt	**3,854**	41,402
Net cash (used in) provided by financing activities	**(21,901)**	11,278
Net (decrease) increase in cash and cash equivalents (unrestricted and restricted)	**(4,421)**	11,820
Cash and cash equivalents (unrestricted and restricted) at beginning of year	**93,746**	81,926
Cash and cash equivalents (unrestricted and restricted) at end of year	**$ 89,325**	$ 93,746
Supplemental disclosures of cash flow information		
Cash paid for interest expense	**$ 30,810**	$ 30,206

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 255 licensed beds, located in Trenton, New Jersey and operates a satellite emergency department, Capital Health at East Trenton, located in Trenton, New Jersey. Hopewell consists of a separately licensed acute care hospital with 238 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, Population Health Management Service LLC (PHM) and Capital Health Community Pharmacy, LLC (CHCP), which are disregarded entities for tax purposes. Capital Health is the sole member of Capital Health – East Trenton, Inc (CH – East Trenton, Inc.) and CH – East Trenton, Inc. is the sole member of Capital Health Life, Inc. (LIFE). 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 also the sole shareholder of Bifurcated System Resource Risk Retention Group, Inc. (BSR-RRG), as a risk retention group under the captive insurance laws of the State of South Carolina. 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 2024 or 2023.

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 2024 or 2023.

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; and Comprehensive Imaging and Diagnostics LLC (CI), a for-profit company which provides radiology services. Mercer Holding has a 44.0% and 40.7% ownership interest at December 31, 2024 and 2023, respectively, in Hamilton Surgery Center, LLC (Hamilton Surgery Center) and has 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

The Coronavirus Disease 2019 (COVID-19) has materially adversely affected the state and national economies and, accordingly, negatively impacted Capital Health's operations and financial results. The impact of COVID-19 continues to affect patient service patterns, revenue and the costs of providing health care services.

In response to COVID-19, the Coronavirus Aid, Relief and Economic Security Act (the CARES Act) was signed into law on March 27, 2020. 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. The remaining balance of $7,096 was paid in during 2023 in accordance with the terms of the program.

Capital Health has applied for reimbursement for qualifying expenses under the Federal Emergency Management Agency (FEMA) Disaster Relief Fund. During the year December 31, 2023, Capital Health received $1,501 in FEMA reimbursement payments and recognized the full amount within other revenue on the consolidated statement of operations (none in 2024).

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, CHCP, CRIC, BSR-RRG and CH – East Trenton, Inc. All intercompany balances and transactions have been eliminated in consolidation.

(Dollars In Thousands)

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

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.

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, 2024 and 2023:

	2024	2023
Cash and cash equivalents	**$ 47,729**	$ 76,915
Investments: cash and cash equivalents	**39,304**	14,181
Assets whose use is limited: cash and cash equivalents	**2,292**	2,650
Total cash and cash equivalents (unrestricted and restricted)	**$ 89,325**	$ 93,746

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).

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

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 fixed income securities are measured at fair value in the accompanying consolidated balance sheets. Investment income or loss (including realized gains and losses on investments, credit losses on investments, and interest and dividends) and unrealized gains and losses on equity securities are included in the 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 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.

Assets Whose Use is Limited

Assets whose use is limited include 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 $4,389 and $5,017 at December 31, 2024 and 2023, respectively, have been reported as a direct reduction from long-term debt in the accompanying consolidated balance sheets. Deferred financing fees are reported net of accumulated amortization of $12,300 and $11,672 at December 31, 2024 and 2023, respectively.

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

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.

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.

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

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 accompanying consolidated statements of operations as other revenue if intended for operations, or below deficiency of revenue over expenses, if intended for capital purposes, and on the accompanying 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 and losses, 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.

Advertising Costs

Capital Health expenses advertising costs as incurred. Total amounts charged to advertising expense during the years ended December 31, 2024 and 2023 are $3,550 and $5,005, respectively, and are recorded within supplies and other expenses on the accompanying consolidated statements of operations.

Deficiency of Revenue Over Expenses

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

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

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

Income Taxes

The majority of the consolidated entities of Capital Health 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. The effects of income taxes are not material to the consolidated financial statements.

Pension Plan

Capital Health operates the plan in accordance with the requirements of the Employee Retirement Income Security Act of 1974 (ERISA). Capital Health recognizes in its accompanying 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.

In March 2023, the Board of Trustees of Capital Health adopted a resolution to terminate the Plan effective November 30, 2023. During 2024, plan assets were distributed by lump sum payments to eligible participants and annuity placements to a commercial insurer; the commercial insurer retains the future benefit obligation for those participants (see Note 9).

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.

2. Charity Care (continued)

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 2024 and 2023 totaled approximately $68,082 and $60,198, respectively.

Capital Health receives payments from the New Jersey Health Care Subsidy Funds for charity care and such amounts totaled approximately $15,195 and $22,222 for the years ended December 31, 2024 and 2023, 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 include 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.

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.

3. Net Patient Service Revenue (continued)

For uninsured and underinsured 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 underinsured 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.

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.

(Dollars In Thousands)

3. Net Patient Service Revenue (continued)

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, 2024 and 2023, 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 based on current or future estimated credit losses (determined on a portfolio basis when applicable) are recorded as bad debt expense. Bad debt expense for the years ended December 31, 2024 and 2023 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, 2024 and 2023, based on primary insurance designation is as follows:

	2024	2023
Medicare and Medicaid	**$ 224,226**	$ 202,312
Managed Medicare, Managed Medicaid and Commercial	**964,799**	904,531
Self-pay and other	**58,456**	33,148
	$ 1,247,481	$ 1,139,991

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

Net patient service revenue for the years ended December 31, 2024 and 2023 by line of business is as follows:

	2024	2023
Hospital and physician services	**$ 1,203,625**	$ 1,092,088
Ambulatory services	**43,856**	47,903
	$ 1,247,481	$ 1,139,991

(Dollars In Thousands)

3. Net Patient Service Revenue (continued)

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.

At December 31, 2024 and 2023, patient accounts receivable, net, is comprised of the following components:

	2024	**2023**
Patient receivables	**$ 203,324**	$ 181,827
Contract assets	**9,534**	7,806
	$ 212,858	$ 189,633

Contract assets are related to in-house patients who were provided services during the reporting period but were not discharged as of the reporting date and for which the Capital Health may not have the right to bill.

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 2019 as of December 31, 2024.

3. Net Patient Service Revenue (continued)

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 2021 have been audited and settled as of December 31, 2024.

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, 2024 and 2023, 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.

(Dollars In Thousands)

3. Net Patient Service Revenue (continued)

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 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, 2024 and 2023 are as follows:

	2024	**2023**
Medicare	**15%**	14%
Medicaid	**6**	7
Commercial carriers, including Medicare and Medicaid managed care, worker's compensation and auto	**77**	78
Self-pay patients	**2**	1
	100%	100%

(Dollars In Thousands)

3. Net Patient Service Revenue (continued)

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:

	2024	**2023**
Charity care *(Note 2)*	**$ 15,195**	$ 22,222
Quality improvement program	**6,682**	6,219
New Jersey county option hospital fee program	**63,483**	57,911
Mental health	**1,257**	1,266
Medicaid Outpatient Hospital Supplemental State-Directed Payment program	**8,060**	–
	$ 94,677	$ 87,618

Capital Health received $15,195 and $22,061 in charity care subsidies during the year ended December 31, 2024 and 2023, respectively, of which $1,565 is recorded as a deferred liability at December 31, 2023, recorded in accrued expenses on the accompanying consolidated balance sheet, representing payments received for the subsequent fiscal year.

Subsidy funds are also paid under the Quality Improvement Program (QIP) for certain performance improvement activities. Payments received totaled $6,682 and $6,219 for the years ended December 31, 2024 and 2023, respectively.

Capital Health receives additional Medicaid funding under the New Jersey County Option Hospital Fee 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

(Dollars In Thousands)

3. Net Patient Service Revenue (continued)

Payments. The State Directed Payments are subject to annual settlement based on actual Medicaid utilization data and other factors. The program resulted in fees paid by Capital Health in 2024 and 2023 of $23,816 and $21,264, respectively, (included within supplies and other expense) and Medicaid State Directed Payments received of $63,483 and $57,911 in 2024 and 2023, respectively, (included within net patient service revenue).

Commencing July 1, 2024, the New Jersey Department of Human Services-Division of Medical Assistance and Health Services (DMAHS) redirected charity care subsidies towards a new Medicaid Outpatient Hospital Supplemental State-Directed Payment Program. Under the new program, hospitals receive quarterly payments through Medicaid managed care organizations. Capital Health recorded $8,060 within net patient service revenue under this program in 2024.

4. Assets Whose Use is Limited

Assets whose use is limited consist of the following:

	December 31	
	2024	**2023**
Restricted investments for collateral	**$ 9,189**	$ 8,556
Assets held under supplemental retirement plan	**5,853**	5,728
Assets held under debt agreement	**85,561**	113,902
Assets held by CRIC *(see Note 12)*	**12,864**	11,778
Total assets whose use is limited	**113,467**	139,964
Less: assets whose use is limited – current portion	**2,292**	2,559
	$ 111,175	$ 137,405

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

	December 31	
	2024	**2023**
Mortgage reserve fund	**$ 83,268**	$ 111,255
Accrued interest	**1**	88
Mortgage insurance premium	**2,292**	2,559
	$ 85,561	$ 113,902

(Dollars In Thousands)

4. Assets Whose Use is Limited (continued)

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, 2024 and 2023 are not significant. At December 31, 2024 and 2023, management considered the nature and number of investments in an unrealized loss position, the cause, the severity and duration of their impairment and other relevant information available and believes that there is no expected credit losses on investments held.

5. Investments

Investments consist of the following:

	December 31	
	2024	**2023**
Cash and cash equivalents	**$ 39,304**	$ 14,181
Mutual funds – fixed income securities	**11,058**	9,928
Mutual funds – equity securities	**13,248**	10,724
Accrued interest	**136**	58
Total investments	**63,746**	34,891
Less: short-term investments	**52,561**	25,536
	$ 11,185	$ 9,355

Amounts included within investment income and realized gains and losses, net, consist of the following:

	Year Ended December 31	
	2024	**2023**
Interest and dividend income	**$ 2,087**	$ 1,150
Net realized gains (losses)	**1,223**	(2,358)
Total investment income	**$ 3,310**	$ (1,208)

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 accompanying consolidated balance sheet based on the valuation hierarchy defined above:

	December 31, 2024			
	Level 1	Level 2	Level 3	Total
Assets				
Cash and cash equivalents	$ 47,729	$ –	$ –	$ 47,729
Assets whose use is limited:				
Assets held by CRIC *(see Note 12)*:				
Equity funds	–	5,954	–	5,954
Fixed income funds	–	6,910	–	6,910
Investments restricted for collateral:	9,189	–	–	9,189
Mutual funds – fixed income securities				
Assets held under supplemental retirement plan:				
Mutual funds – fixed income securities	1,328	–	–	1,328
Mutual funds – equity securities	2,465	–	–	2,465
Investment contract with insurance company	–	2,060	–	2,060
Assets held under debt agreement:				
Cash and cash equivalents	2,292	–	–	2,292
U.S. government securities	–	83,269	–	83,269
Total assets whose use is limited	15,274	98,193	–	113,467
Investments:				
Cash and cash equivalents	39,304	–	–	39,304
Mutual funds – fixed income securities	11,058	–	–	11,058
Mutual funds – equity securities	13,384	–	–	13,384
Total investments	63,746	–	–	63,746
Total assets at fair value	$ 126,749	$ 98,193	$ –	$ 224,942
Pension assets (*see Note 9*)				
Money market funds	2,006	–	–	2,006
Total pension assets	$ 2,006	$ –	$ –	$ 2,006

(Dollars In Thousands)

6. Fair Value Measurements (continued)

	December 31, 2023			
	Level 1	**Level 2**	**Level 3**	**Total**
Assets				
Cash and cash equivalents	$ 76,915	$ –	$ –	$ 76,915
Assets whose use is limited:				
Assets held by CRIC *(see Note 12)*:				
Equity funds	–	5,368	–	5,368
Fixed income funds	–	6,410	–	6,410
Investments restricted for collateral:				
Mutual funds – fixed income securities	8,556	–	–	8,556
Assets held under supplemental retirement plan:				
Mutual funds – fixed income securities	684	–	–	684
Mutual funds – equity securities	2,786	–	–	2,786
Investment contract with insurance company	–	2,258	–	2,258
Assets held under debt agreement:				
Cash and cash equivalents	2,650	–	–	2,650
U.S. government securities	–	111,252	–	111,252
Total assets whose use is limited	14,676	125,288	–	139,964
Investments:				
Cash and cash equivalents	14,181	–	–	14,181
Mutual funds – fixed income securities	9,928	–	–	9,928
Mutual funds – equity securities	10,782	–	–	10,782
Total investments	34,891	–	–	34,891
Total assets at fair value	$ 126,482	$ 125,288	$ –	$ 251,770
Pension assets (*see Note 9*)				
Mutual funds – fixed income securities	$ 36,741	$ –	$ –	$ 36,741
Money market funds	6,655	–	–	6,655
U.S. government securities	–	8,944	–	8,944
Total pension assets	$ 43,396	$ 8,944	$ –	$ 52,340

(Dollars In Thousands)

7. Property, Plant and Equipment

Property, plant and equipment consists of the following:

	December 31 2024	December 31 2023
Land	**$ 41,845**	$ 41,845
Land improvements	**37,772**	37,626
Buildings, leasehold improvements and fixed equipment	**801,384**	790,357
Major movable equipment/software	**398,294**	374,766
	1,279,295	1,244,594
Accumulated depreciation and amortization	**(825,009)**	(779,764)
	454,286	464,830
Construction in progress	**39,548**	36,455
Property, plant, and equipment, net	**$ 493,834**	$ 501,285

8. Long-Term Debt

Long-term debt consists of the following:

	December 31 2024	December 31 2023
FHA Taxable Insured Mortgage Loan	**$ 520,588**	$ 551,935
Finance lease obligations with interest rates ranging from 1.4% to 3.9% payable monthly and quarterly	**11,568**	13,986
Other loans	**15,441**	13,061
Line of credit	**24,500**	30,000
	572,097	608,982
Less: unamortized deferred financing costs	**4,389**	5,017
Less: current portion	**61,872**	65,200
	$ 505,836	$ 538,765

(Dollars In Thousands)

8. Long-Term Debt (continued)

On April 7, 2009, Capital Health closed on a $755,875 mortgage insured by the U.S. Department of Housing and Urban Development (HUD) through the Federal Housing Administration's (FHA's) Section 242 Hospital Mortgage Insurance Program. The interest rate on the mortgage note is 4.67% from January 1, 2021 through August 31, 2026 and 4.57% from September 1, 2026 through the maturity date of January 1, 2037. The following table outlines the 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 were capitalized accordingly.

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, 2024 and 2023, $9,189 and $8,556, 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, 2024 and 2023.

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. This compliance is necessary to enter into additional indebtedness or transfer funds to an affiliate without obtaining HUD approval. Capital Health did not meet all of these requirements during the years ended December 31, 2024 and 2023 and therefore obtained HUD approval for certain transactions as required.

In December 2023, Capital Health entered into a $30,000 line of credit with a bank. The agreement provides for variable interest at 1.25 percentage points above the applicable variable loan rate as defined in the agreement. The interest rate at December 31, 2024 and 2023 was 6.625%. At December 31, 2024 and 2023, there was $24,500 and $30,000 outstanding under this line of credit, respectively. The line of credit has no expiration date.

(Dollars In Thousands)

8. Long-Term Debt (continued)

Scheduled payments of long-term debt and finance lease obligations at December 31, 2024, net of interest, are as follows:

	FHA/ GNMA	Finance Leases	Other Loans	Line of Credit	Total
2025	$ 32,843	$ 2,462	$ 2,067	$ 24,500	$ 61,872
2026	34,458	2,423	2,121	–	39,002
2027	36,226	2,195	2,264	–	40,685
2028	37,916	2,280	2,416	–	42,612
2029	39,686	2,208	2,580	–	44,474
Thereafter	339,459	–	3,993	–	343,452
Total long-term debt	$ 520,588	$ 11,568	$ 15,441	$ 24,500	$ 572,097

As of December 31, 2024 and 2023, Capital Health had outstanding letters of credit totaling $7,770 and $5,205, respectively, related to vendor arrangements. No amounts were drawn on the letters of credit as of December 31, 2024 and 2023. The letters of credit expire in December 2025 and automatically renew for a term of one year.

9. Retirement Plans

Defined Contribution Plan

Capital Health has a defined contribution plan that operates under Section 403(b) of the Internal Revenue Code. In 2024 and 2023, Capital Health incurred $4,059 and $3,694, 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.

Defined Benefit Plan

Capital Health maintained a frozen non-contributory defined benefit pension plan which covered all employees who met certain criteria. Capital Health terminated the Plan effective November 30, 2023. During 2024, plan assets were distributed by lump sum payments to eligible participants and annuity placements to a commercial insurer; the commercial insurer retains the future benefit obligation for those participants.

There is a remaining benefit obligation of $1,056, for which assets and liabilities will transfer to the Pension Benefit Guarantee Corporation (PBGC) in 2025. Any remaining plan assets will revert back to Capital Health for operational use, net of any remaining administrative expenses.

As noted in Note 1, Capital Health recognizes in its accompanying 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.

Included in net assets without donor restrictions is unrecognized actuarial loss at December 31, 2024 and 2023 of $276 and $9,149, respectively, which has not yet been recognized in net periodic pension cost. At December 31, 2024 and 2023, Capital Health has a defined benefit asset of $950 and $3,963, respectively, which is reported within other noncurrent assets in the accompanying consolidated balance sheets.

(Dollars In Thousands)

9. Retirement Plans (continued)

The following table sets forth the funded status of the plan at December 31, 2024 and 2023 and the amounts recognized in the consolidated financial statements:

	2024	2023
Change in benefit obligation		
Benefit obligation, beginning of year	**$ 48,377**	$ 51,795
Interest cost	**1,702**	2,416
Actuarial gain	**3,591**	(1,030)
Benefits paid	**(1,962)**	(2,067)
Settlements	**(50,652)**	(2,737)
Benefit obligation, end of year	**1,056**	48,377
Change in plan assets		
Fair value of plan assets, beginning of year	**52,340**	54,646
Actual return on plan assets	**370**	2,498
Employer contribution to plan	**1,910**	–
Benefits paid and settlements	**(52,614)**	(4,804)
Fair value of plan assets, end of year	**2,006**	52,340
Funded status	**$ 950**	$ 3,963

The remaining benefit obligation of $1,056 as of December 31, 2024 is attributable to unlocatable participants and participants with small plan lump sum amounts who did not elect a lump sum under plan termination. These assets and liabilities will transfer to the PBGC during 2025.

(Dollars In Thousands)

9. Retirement Plans (continued)

The net periodic pension cost includes the following components:

	2024	2023
Interest cost	**$ 1,702**	$ 2,416
Expected return on plan assets	**(1,072)**	(1,423)
Recognized actuarial loss	**381**	904
Settlement loss	**12,785**	518
Net periodic pension cost	**$ 13,796**	$ 2,415

The benefit obligations represent the projected and accumulated benefit obligations.

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

	2024	2023
Weighted-average assumptions used to determine benefit obligations at December 31:		
Discount rate	**N/A**	4.87%
Cash balance interest credit rate	**1.65%**	1.65%
Weighted-average assumptions used to determine net periodic pension cost for the years ended December 31:		
Discount rate	**4.87%**	5.15%
Expected long-term rate of return on plan assets	**2.85%**	2.85%

The expected long-term rate of return on plan assets assumption of 2.85% 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 loss in 2023 primarily related 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, 2024 and 2023 by asset category are as follows:

	Plan Assets at December 31	
	2024	**2023**
U.S. government securities	–	17%
Mutual funds – fixed income securities	–	70
Money market funds	**100%**	13
	100%	100%

Capital Health expects to pay future benefits as follows:

2025	$ 1,056
2026	–
2027	–
2028	–
2029	–
2030-2034	–

Capital Health does not expect to contribute to its defined benefit pension plan in 2025 due to the plan termination described above.

10. Net Assets With Donor Restrictions

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

	December 31	
	2024	**2023**
Health care services	**$ 3,989**	$ 3,510
Education	**1,951**	1,196
Equipment	**3,844**	6,496
Charity care	**4,240**	3,769
Other	**1,815**	2,873
	$ 15,839	$ 17,844

(Dollars In Thousands)

10. Net Assets With Donor Restrictions (continued)

Net assets were released from restrictions for the following purposes:

	Year Ended December 31 2024	2023
Health care services	**$ 896**	$ 709
Education	**474**	284
Equipment	**130**	102
Charity Care	**20**	–
Other	**2,349**	555
	$ 3,869	$ 1,650

Changes in donor endowment funds for the years ended December 31, 2024 and 2023, consisted of the following:

	Without Donor Restrictions	With Donor Restrictions
Endowment funds at December 31, 2023	**$ 7,266**	**$ 5,118**
Investment return on endowments	**2,393**	**–**
Appropriations	**(7)**	**–**
Contributions	**–**	**8**
Endowment funds at December 31, 2024	**$ 9,652**	**$ 5,126**

	Without Donor Restrictions	With Donor Restrictions
Endowment funds at December 31, 2022	$ 5,641	$ 5,111
Investment return on endowments	1,650	–
Appropriations	(25)	–
Contributions	–	7
Endowment funds at December 31, 2023	$ 7,266	$ 5,118

10. Net Assets With Donor Restrictions (continued)

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, 2024 or 2023.

11. Leases and Other Commitments and Contingencies

Leases

Capital Health leases certain property and equipment under finance and operating leases. Leases are classified as either finance or operating leases based on the underlying terms of the agreement and certain criteria, such as the term of the lease relative to the useful life of the asset and the total lease payments to be made as compared to the fair value of the asset, among other criteria. Finance leases result in an accounting treatment similar to an acquisition of the asset.

For leases with initial terms greater than a year, Capital Health records the related right-of-use assets and liabilities at the present value of the lease payments to be paid over the life of the related lease. Capital Health’s leases may include variable lease payments and renewal options. Variable lease payments are excluded from the amounts used to determine the right-of-use assets and liabilities unless the variable lease payments depend on an index or rate or are, in substance, fixed payments. Lease payments related to periods subject to renewal options are also excluded from the amounts used to determine the right-of-use assets and liabilities unless Capital Health is reasonably certain to exercise the option to extend the lease. The present value of lease payments is calculated by utilizing the discount rate stated in the lease, when readily determinable. For leases for which this rate is not readily available, Capital Health has elected to use a risk-free discount rate determined using a period comparable to that of the lease term. Capital Health has elected not to separate lease components from non-lease components in contracts when determining its lease payments for its asset classes. As such, Capital Health accounts for the applicable non-lease components together with the related lease components when determining the right-of-use assets and liabilities.

Capital Health has elected not to record leases with an initial term of less than a year as right-of-use assets and liabilities.

(Dollars In Thousands)

11. Leases and Other Commitments and Contingencies (continued)

The following schedule summarizes information related to the lease assets and liabilities as of and for the year ended December 31, 2024 and 2023:

	December 31	
Lease cost:	**2024**	**2023**
Finance lease cost:		
Amortization of right-of-use asset	**$ 2,541**	$ 2,547
Interest on lease liabilities	**457**	539
Operating lease cost	**14,573**	13,952
Short-term lease cost	**149**	669
Variable lease cost	**4,103**	3,469
Sublease and lessor income	**(796)**	(1,338)
Total lease cost	**$ 21,027**	$ 19,838
Right-of-use assets and liabilities:		
Right-of-use assets – finance leases	**$ 11,180**	$ 13,751
Lease liability – finance leases	**11,568**	13,986
Right-of-use assets – operating leases	**88,107**	76,634
Lease liability – operating leases	**90,633**	77,530
Other information:		
Cash paid for amounts included in the measurement of lease liabilities:		
Operating cash flows from finance leases	**$ 457**	$ 539
Operating cash flows from operating leases	**13,777**	13,090
Financing cash flows from finance leases	**2,388**	2,314
Right-of-use assets obtained in exchange for new operating lease liabilities	**24,838**	13,881
Weighted-average remaining lease term – finance leases	**4.74**	5.68
Weighted-average remaining lease term – operating leases	**9.08**	9.09
Weighted-average discount rate – finance leases	**3.64%**	3.61%
Weighted-average discount rate – operating leases	**2.55%**	1.91%

(Dollars In Thousands)

11. Leases and Other Commitments and Contingencies (continued)

For finance leases, right-of-use assets are recorded in property, plant, and equipment, net, and lease liabilities are recorded in long-term debt in the accompanying consolidated balance sheets. For operating leases, right-of-use assets are recorded in operating lease assets, net, and lease liabilities are recorded in operating lease liabilities, both current and non-current, in the accompanying consolidated balance sheets.

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

	Finance Leases	Operating Leases
2025	$ 2,836	$ 13,852
2026	2,712	12,943
2027	2,402	11,557
2028	2,402	10,705
2029	2,243	9,620
Thereafter	–	43,309
Total lease payment	12,595	101,986
Less: imputed interest	1,027	11,353
Total lease obligation	11,568	90,633
Less: current portion	2,462	11,766
Long-term portion	$ 9,106	$ 78,867

Other Commitments and Contingencies

Various lawsuits and claims arising in the normal course of operations are pending or are on 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 potential loss arising from Capital Health's actions will not have a material adverse effect on the consolidated financial position or consolidated results of operations.

11. Leases and Other Commitments and Contingencies (continued)

In November 2023, Capital Health was affected by a cybersecurity incident. With the assistance of external cybersecurity experts, Capital Health investigated to determine the scope of the incident and restore its system operations. On or about December 1, 2023, Capital Health's investigation determined that the personal information of certain patients may have been subject to unauthorized access. In December 2023, Capital Health made notifications as required by federal and certain state data privacy and security laws to: (a) the Office of Civil Rights of the U.S. Department of Health & Human Services; (b) certain state attorney general and law enforcement agencies as required under state law; and (c) impacted individuals via a substitute notification on their website. Capital Health's investigation is ongoing, and the ultimate outcome of events related to the incident is unknown.

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 or claims reported during the policy period with a retroactive date of August 10, 1976.

For the insurance coverage year June 1, 2022 to May 31, 2023 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 $6,000 per claim and no aggregate. CRIC also retains $2,000 for each claim over $6,000 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)

For the insurance coverage year June 1, 2023 to May 31, 2024 CRIC insures Capital Health for its professional liability in the amount of $68,000 per claim and $68,000 in the annual aggregate. CRIC retains professional liability losses of $8,000 per claim and no aggregate. CRIC also retains $2,000 for each claim over $8,000 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.

For the insurance coverage year June 1, 2024 to May 31, 2025 CRIC insures Capital Health for its professional liability in the amount of $68,000 per claim and $68,000 in the annual aggregate. CRIC retains professional liability losses of $8,000 per claim and no aggregate. CRIC also retains $2,000 for each claim over $8,000 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.

At December 31, 2024 and 2023, CRIC has recorded an estimated reserve for claims of $34,613 and $31,328, 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 $11,653 and $11,570 at December 31, 2024 and 2023, 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, 2024 and 2023.

(Dollars In Thousands)

12. Professional Liability Insurance (continued)

BSR-RRG operates as a risk retention group under the Federal Liability Risk Retention Act of 1986 and was formed to provide medical professional liability coverage to practitioners who practice more than 50% of their time in the State of Pennsylvania. For insured physicians practicing in Pennsylvania, BSR-RRG limits of liability are $500 per claim with an annual aggregate of $1,500. For insured physicians practicing in New Jersey, limits of liability are $1,000 per claim with an annual aggregate of $3,000. For vicarious liability of insured entities, limits of liability are $1,000 per claim with a $3,000 annual aggregate. Coverage is provided on a claims-made basis. Policy limits include indemnity only and are unlimited with respect to claim adjustment expenses until the associated indemnity limit is exhausted.

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, 2024		
	Program Expenses	**General and Administrative Expenses**	**Total Expenses**
Salaries and wages	**$ 460,363**	**$ 164,830**	**$ 625,193**
Employee benefits	**62,967**	**24,983**	**87,950**
Supplies and other expenses	**402,000**	**120,433**	**522,433**
Interest	**27,890**	**3,476**	**31,366**
Depreciation and amortization	**37,169**	**10,682**	**47,851**
	$ 990,389	**$ 324,404**	**$ 1,314,793**

(Dollars In Thousands)

13. Functional Expenses (continued)

	Year Ended December 31, 2023		
	Program Expenses	**General and Administrative Expenses**	**Total Expenses**
Salaries and wages	$ 398,070	$ 181,097	$ 579,167
Employee benefits	52,205	24,016	76,221
Supplies and other expenses	397,419	52,964	450,383
Interest	27,339	3,441	30,780
Depreciation and amortization	37,704	8,084	45,788
	$ 912,737	$ 269,602	$ 1,182,339

14. Liquidity and Availability

Financial assets available for general expenditures within one year of December 31, 2024 and 2023, consist of the following:

	2024	**2023**
Cash and cash equivalents	**$ 47,729**	$ 76,915
Short-term investments	**52,561**	25,536
Patient accounts receivable, net	**212,858**	189,633
	$ 313,148	$ 292,084

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	
	2024	**2023**
FEMA Disaster Relief Fund	**$ –**	$ 1,501
Purchasing rebates and settlements	**21,034**	2,731
Grant revenue	**5,617**	5,071
Investment income	**4,070**	6,211
Food services	**885**	926
Rental income	**1,677**	1,162
Department of Corrections	**10,936**	7,254
Other	**26,981**	8,774
	$ 71,200	$ 33,630

16. Subsequent Events

Subsequent events have been evaluated through April 30, 2025 which is the date the accompanying consolidated financial statements were available to be issued. No subsequent events have occurred that require disclosure in or adjustment to the accompanying consolidated financial statements.

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