



CONSOLIDATED FINANCIAL STATEMENTS

Capital Health System, Inc. and Subsidiaries
Years Ended December 31, 2025 and 2024
With Report of Independent Auditors



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Capital Health System, Inc. and Subsidiaries

Consolidated Financial Statements

Years Ended December 31, 2025 and 2024

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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. and Subsidiaries (Capital Health), which comprise the consolidated balance sheets as of December 31, 2025 and 2024, 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, 2025 and 2024, and the results of its operations, changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

We did not audit the financial statements of Capital Region Insurance Company SPC (CRIC), a wholly owned subsidiary, whose statements reflect total assets constituting 3.0% and 3.7% and total liabilities constituting 3.2% and 4.2% of the related consolidated totals as of December 31, 2025 and 2024, respectively, and total revenues constituting 0.4% of consolidated revenues for each of 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.



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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 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 27, 2026

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 ("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, 2025, and the related statements of operations, 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, 2025, and its financial performance 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 from the Company and meet our 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.

Required Supplementary Information

Accounting Standards Update 2015-09, *Disclosure about Short-Duration Contracts*, requires that the supplementary information on page 26-28 be presented to supplement the basic financial statements. Such information is the responsibility of management and, 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 basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, 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 basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide any assurance.

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 from 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 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.

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

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, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users made on the basis of these financial statements.

In performing an audit in accordance with U.S. GAAS, we:

- Exercise professional judgement 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 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.

Use of 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 except where expressly agreed by our prior consent in writing.

Baker Tilly (Cayman) Ltd.

Baker Tilly (Cayman) Ltd.
Grand Cayman, Cayman Islands
April 17, 2026

Capital Health System, Inc. and Subsidiaries

Consolidated Balance Sheets

	December 31	
	2025	2024
	<i>(In Thousands)</i>	
Assets		
Current assets:		
Cash and cash equivalents	\$ 69,215	\$ 47,729
Short-term investments	24,527	52,561
Assets whose use is limited – current portion	2,137	2,292
Patient accounts receivable, net	225,639	212,858
Supplies	25,364	18,549
Prepaid expenses and other current assets	112,707	87,315
Total current assets	459,589	421,304
Investments	12,960	11,185
Assets whose use is limited – noncurrent portion	115,421	111,175
Property, plant, and equipment, net	483,300	493,834
Operating lease assets, net	96,101	88,107
Other noncurrent assets	6,166	18,991
Total assets	\$ 1,173,537	\$ 1,144,596
Liabilities and net assets		
Current liabilities:		
Long-term debt – current portion	\$ 63,798	\$ 61,872
Operating lease liabilities – current portion	12,322	11,766
Accounts payable	148,389	134,962
Accrued expenses	111,314	94,055
Accrued interest	1,973	2,109
Estimated third-party payor settlements, net – current portion	4,199	1,568
Total current liabilities	341,995	306,332
Long-term debt – noncurrent portion	470,983	505,836
Operating lease liabilities – noncurrent portion	87,063	78,867
Estimated third-party payor settlements and other long-term liabilities, net – noncurrent portion	38,953	59,401
Total liabilities	938,994	950,436
Commitments and contingencies		
Net assets		
Without donor restrictions	220,305	177,699
With donor restrictions	14,238	15,839
Total Capital Health System net assets	234,543	193,538
Non-controlling interest	–	622
Total net assets including non-controlling interest	234,543	194,160
Total liabilities and net assets	\$ 1,173,537	\$ 1,144,596

See accompanying notes.

Capital Health System, Inc. and Subsidiaries

Consolidated Statements of Operations

	Year Ended December 31	
	2025	2024
	<i>(In Thousands)</i>	
Net assets without donor restrictions:		
Revenue:		
Net patient service revenue	\$ 1,362,633	\$ 1,247,481
Other revenue	39,497	71,200
Contributions	583	2,076
Total revenue	<u>1,402,713</u>	<u>1,320,757</u>
Expenses:		
Salaries and wages	658,785	625,193
Employee benefits	110,168	87,950
Supplies and other expenses	530,037	522,433
Interest	29,828	31,366
Depreciation and amortization	49,713	47,851
Total expenses	<u>1,378,531</u>	<u>1,314,793</u>
Income from operations	24,182	5,964
Non-operating net periodic pension cost	(1,227)	(13,796)
Loss on sale of Hamilton Surgery Center membership interest, net	(411)	–
Investment income and realized gains and losses, net	3,012	3,310
Net change in unrealized gains and losses on equity securities	4,342	(2,415)
Excess (deficiency) of revenue over expenses, before non-controlling interest	<u>29,898</u>	<u>(6,937)</u>
Less: gain attributable to non-controlling interest	2,173	2,648
Excess (deficiency) of revenue over expenses	<u>27,725</u>	<u>(9,585)</u>
Net change in unrealized gains and losses on fixed income other-than-trading securities	(453)	4,273
Grant contributions received and expended – capital portion	13,956	14,984
Pension-related changes other than net periodic pension cost	277	8,873
Net assets released from restrictions for equipment	1,101	130
Change in net assets without donor restrictions	<u>\$ 42,606</u>	<u>\$ 18,675</u>

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
	<i>(In Thousands)</i>			
Net assets at January 1, 2024	\$ 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 other-than-trading 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	<u>18,675</u>	<u>(2,005)</u>	<u>(148)</u>	<u>16,522</u>
Net assets at December 31, 2024	<u>177,699</u>	<u>15,839</u>	<u>622</u>	<u>194,160</u>
Excess of revenue over expenses	27,725	–	2,173	29,898
Net change in unrealized gains and losses on fixed income other-than-trading securities	(453)	–	–	(453)
Grant contributions received and expended – capital portion	13,956	–	–	13,956
Pension-related changes other than net periodic pension cost	277	–	–	277
Deconsolidation due to loss of control	–	–	1,096	1,096
Member distributions, net	–	–	(3,891)	(3,891)
Donor restricted contributions	–	1,437	–	1,437
Net assets released from restrictions for equipment	1,101	(1,101)	–	–
Net assets released from restrictions for operations	–	(1,937)	–	(1,937)
Change in net assets	<u>42,606</u>	<u>(1,601)</u>	<u>(622)</u>	<u>40,383</u>
Net assets at December 31, 2025	<u>\$ 220,305</u>	<u>\$ 14,238</u>	<u>\$ –</u>	<u>\$ 234,543</u>

See accompanying notes.

Capital Health System, Inc. and Subsidiaries

Consolidated Statements of Cash Flows

	Year Ended December 31	
	2025	2024
	<i>(In Thousands)</i>	
Operating activities		
Change in net assets	\$ 40,383	\$ 16,522
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	49,713	47,851
Amortization of deferred financing fees	597	628
Net change in unrealized gains and losses on investments	(3,889)	(1,858)
Gain on disposal of fixed assets	(50)	–
Grant contributions for capital	(13,956)	(14,984)
Pension-related changes other than net periodic pension cost	(277)	(8,873)
Member distributions, net, related to non-controlling interest	3,891	2,796
Loss on sale of Hamilton Surgery Center membership interest, net	411	–
Changes in operating assets and liabilities:		
Patient accounts receivable, net	(12,781)	(23,225)
Supplies	(6,815)	(2,960)
Prepaid expenses and other current assets	(25,392)	(1,556)
Other noncurrent assets	12,825	2,317
Accounts payable	13,427	11,509
Accrued pension	277	8,873
Accrued expenses	17,259	(12,948)
Accrued interest	(136)	(72)
Estimated third-party payor settlements and other long-term assets and liabilities	(17,817)	10,761
Net cash provided by operating activities	<u>57,670</u>	<u>34,781</u>
Investing activities		
Purchases of assets whose use is limited and investments	(521,636)	(406,283)
Sales of assets whose use is limited and investments	518,620	430,548
Distribution to members	(3,891)	(2,796)
Proceeds from sale of Hamilton Surgery Center membership interest	1,703	–
Cash deconsolidated with sale of Hamilton Surgery Center membership interest	(278)	–
Purchases of property, plant and equipment, net	(39,129)	(38,770)
Net cash used in investing activities	<u>(44,611)</u>	<u>(17,301)</u>
Financing activities		
Payments on finance leases	(2,462)	(2,418)
Grant contributions for capital	13,956	14,984
Repayment of long-term debt	(35,251)	(38,321)
Proceeds of long-term debt	4,189	3,854
Net cash used in financing activities	<u>(19,568)</u>	<u>(21,901)</u>
Net decrease in cash and cash equivalents (unrestricted and restricted)	(6,509)	(4,421)
Cash and cash equivalents (unrestricted and restricted) at beginning of year	89,325	93,746
Cash and cash equivalents (unrestricted and restricted) at end of year	<u>\$ 82,816</u>	<u>\$ 89,325</u>
Supplemental disclosure of cash flow information		
Cash paid for interest expense	<u>\$ 29,367</u>	<u>\$ 30,810</u>

See accompanying notes.

Capital Health System, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (Dollars In Thousands)

December 31, 2025

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 which previously operated a satellite emergency department, Capital Health at East Trenton, located in Trenton, New Jersey, that ceased operations in June 2025. 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, and Population Health Management Services 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), a nonprofit 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), a limited liability company and a disregarded entity for tax purpose, with no activity in 2025 or 2024. Capital Health Medical Group (CHMG) is a New Jersey professional services corporation with no members or shareholders. CHMG is affiliated with Capital Health through CHMG's incorporator and the sole member of CHMG's Board of Directors, who are both Capital Health employees. CHMG has had no activity since its formation on July 12, 2016.

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 2025 or 2024.

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. At December 31, 2024, Mercer Holding held a 44.0% ownership interest in Hamilton Surgery Center,

Capital Health System, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued) (Dollars In Thousands)

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

LLC (Hamilton Surgery Center) and exercised control through majority representation on the Board of Directors. Accordingly, Hamilton Surgery Center was included in the accompanying 2024 consolidated financial statements, and the related noncontrolling interest was accounted for in accordance with Accounting Standard Codification (ASC) 810, *Consolidation*. On December 19, 2025, Mercer Holding sold its ownership interest in Hamilton Surgery Center. Mercer Holding received proceeds of \$1,703 from the sale and disposed of a membership interest with a carrying amount of \$2,114. As a result, Mercer Holding recognized a loss on sale of \$411 in the accompanying 2025 consolidated statement of operations. Following this transaction, Mercer Holding no longer maintains any interest, and accordingly, Hamilton Surgery Center was deconsolidated.

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.

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.

Use of Estimates

The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America (GAAP) 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

Capital Health System, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued) (Dollars In Thousands)

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

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, 2025 and 2024:

	<u>2025</u>	<u>2024</u>
Cash and cash equivalents	\$ 69,215	\$ 47,729
Investments: cash and cash equivalents	11,464	39,304
Assets whose use is limited: cash and cash equivalents	2,137	2,292
Total cash and cash equivalents (unrestricted and restricted)	<u>\$ 82,816</u>	<u>\$ 89,325</u>

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.

Capital Health System, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued) (Dollars In Thousands)

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

Investments, including assets whose use is limited, are classified as other than trading securities. 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. The fair value of marketable investments is determined by reference to quoted market prices. Investment income or loss (including realized gains and losses on 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 impairments of such securities resulting from credit losses which are reported as non-operating losses when applicable, are excluded from the excess (deficiency) of revenue over expenses on the accompanying consolidated statements of operations.

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 \$3,792 and \$4,389 at December 31, 2025 and 2024, 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 \$12,897 and \$12,300 at December 31, 2025 and 2024, respectively.

Capital Health System, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued) *(Dollars In Thousands)*

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. No impairment of long-lived assets was noted for 2025 and 2024.

Estimated Professional Liabilities

Insurance reserves are recorded for 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. 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. Insurance reserves 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 or grantors. 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 a donor or grantor.

Capital Health System, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued) (Dollars In Thousands)

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 excess (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 recognizes government grants where commensurate value is not exchanged as contributions when conditions and restrictions are satisfied and reports such amounts within other revenue. Grants received for capital purposes are recorded as an increase in net assets when related conditions are met.

Advertising Costs

Capital Health expenses advertising costs as incurred. Total amounts charged to advertising expense during the years ended December 31, 2025 and 2024 are \$3,609 and \$3,550, respectively, and are recorded within supplies and other expenses on the accompanying consolidated statements of operations.

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 other-than-trading securities, grant contributions received and expended – capital portion, pension-related changes other than net periodic pension cost, and net assets released from restrictions for equipment.

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

Capital Health System, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued) *(Dollars In Thousands)*

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 operated a frozen, non-contributory defined benefit plan (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 Directors 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).

Reclassifications

Certain reclassifications were made to the amounts previously disclosed to conform with the 2025 presentation. These reclassifications have no effect on net assets or the excess (deficiency) of revenue over expenses as of and for the year ended December 31, 2024.

Capital Health System, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued) (Dollars In Thousands)

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

New Accounting Pronouncements

In September 2025, the Financial Accounting Standards Board issued Accounting Standards Update (ASU) No. 2025-06, *Intangibles – Goodwill and Other (Topic 350): Internal-Use Software* (ASU 2025-06). The main objective of ASU 2025-06 is to modernize the accounting for software costs that are accounted for under Subtopic 350-40, *Intangibles – Goodwill and Other – Internal-Use Software* (referred to as “internal-use software”). The amendments remove all references to prescriptive and sequential software development stages and now require entities to begin capitalizing software costs when both of the following occur: (1) management has authorized and committed to funding the software project, and (2) it is probable that the project will be completed and the software will be used to perform the function intended (referred to as the “probable-to complete recognition threshold”). Capital Health is currently evaluating ASU 2025-06 as it is effective for all entities for annual reporting period beginning after December 15, 2027.

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 2025 and 2024 totaled approximately \$88,887 and \$68,082, respectively.

Capital Health receives payments from the New Jersey Health Care Subsidy Funds for charity care and such amounts totaled approximately \$5,735 and \$15,195 for the years ended December 31, 2025 and 2024, respectively (Note 3).

Capital Health System, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued) *(Dollars In Thousands)*

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.

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.

Capital Health System, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued) (Dollars In Thousands)

3. Net Patient Service Revenue (continued)

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.

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, 2025 and 2024, 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, 2025 and 2024 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.

Capital Health System, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)
(Dollars In Thousands)

3. Net Patient Service Revenue (continued)

Net patient service revenue by major payor source for the years ended December 31, 2025 and 2024, based on primary insurance designation, is as follows:

	<u>2025</u>	<u>2024</u>
Medicare and Medicaid	\$ 252,670	\$ 224,226
Managed Medicare and Managed Medicaid	194,093	186,289
Commercial	838,608	778,510
Self-pay and other	77,262	58,456
	<u>\$ 1,362,633</u>	<u>\$ 1,247,481</u>

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, 2025 and 2024 by line of business is as follows:

	<u>2025</u>	<u>2024</u>
Hospital and physician services	\$ 1,318,305	\$ 1,203,625
Ambulatory services	44,328	43,856
	<u>\$ 1,362,633</u>	<u>\$ 1,247,481</u>

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, 2025 and 2024, patient accounts receivable, net, is comprised of the following components:

	<u>2025</u>	<u>2024</u>
Patient receivables	\$ 210,242	\$ 203,324
Contract assets	15,397	9,534
	<u>\$ 225,639</u>	<u>\$ 212,858</u>

Capital Health System, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued) (Dollars In Thousands)

3. Net Patient Service Revenue (continued)

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, 2025. Subsequent to settlement, the Medicare cost report for fiscal year 2013 was reopened by the Centers for Medicare & Medicaid Services.

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 2022 have been audited and settled as of December 31, 2025.

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.

Capital Health System, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued) *(Dollars In Thousands)*

3. Net Patient Service Revenue (continued)

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, 2025 and 2024, the net effect of Capital Health's revision to prior year settlements estimates 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 has been enacted legislation and various other proposals at the federal and state levels that could, among other things, significantly reduce payment and enrollment rates or modify payment methods. The ultimate outcome of these proposals and other market changes, including the effects of or potential revisions to legislation that has been or will be enacted by the federal and state governments, 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 System, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)
(Dollars In Thousands)

3. Net Patient Service Revenue (continued)

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, 2025 and 2024 are as follows:

	<u>2025</u>	<u>2024</u>
Medicare	16%	15%
Medicaid	7	6
Commercial carriers, including Medicare and Medicaid managed care, worker's compensation and auto	76	77
Self-pay patients	1	2
	<u>100%</u>	<u>100%</u>

State Subsidy Funds and Other Payments

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 and other payments included in net patient service revenue for the year ended December 31:

	<u>2025</u>	<u>2024</u>
Charity care subsidy (Note 2)	\$ 5,735	\$ 15,195
Quality improvement program	5,980	6,682
New Jersey County Option Hospital Fee Program	108,768	63,483
Mental health subsidy	1,257	1,257
Medicaid Outpatient Hospital Supplemental State-Directed Payment Program	17,320	8,060
	<u>\$ 139,060</u>	<u>\$ 94,677</u>

Capital Health System, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued) (Dollars In Thousands)

3. Net Patient Service Revenue (continued)

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 (DMAHS) 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 on actual Medicaid utilization data and other factors. The program resulted in expenses incurred by Capital Health of \$44,645 and \$23,816 in 2025 and 2024, respectively, (included within supplies and other expenses) and Medicaid State Directed Payments revenue of \$108,768 and \$63,483 in 2025 and 2024, respectively, (included within net patient service revenue).

Commencing July 1, 2024, the DMAHS redirected charity care subsidies towards a new Medicaid Outpatient Hospital Supplemental State-Directed Payment Program. Under the program, hospitals receive quarterly payments through Medicaid managed care organizations. Capital Health recorded \$17,320 and \$8,060 within net patient service revenue related to this program in 2025 and 2024, respectively.

4. Assets Whose Use is Limited

Assets whose use is limited consist of the following:

	December 31	
	2025	2024
Restricted investments for collateral	\$ 9,657	\$ 9,189
Assets held under supplemental retirement plan	8,187	5,853
Assets held under debt agreement	85,178	85,561
Assets held by CRIC (<i>see Note 12</i>)	14,536	12,864
Total assets whose use is limited	117,558	113,467
Less: assets whose use is limited – current portion	2,137	2,292
	\$ 115,421	\$ 111,175

Capital Health System, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)
(Dollars In Thousands)

4. Assets Whose Use is Limited (continued)

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

	December 31	
	2025	2024
Mortgage reserve fund	\$ 83,035	\$ 83,268
Accrued interest	6	1
Mortgage insurance premium	2,137	2,292
	<u>\$ 85,178</u>	<u>\$ 85,561</u>

When assessing fixed-income securities for impairment, Capital Health evaluates the underlying credit quality and credit ratings of the issuers and if necessary, the expected cash flows of the financial instrument. If Capital Health determines the decline in value to be related to a credit loss, an allowance is recorded, and a loss is recorded within the excess of revenue over expenses for the amount of such decline. If Capital Health intends to sell the security, or it is more likely than not Capital Health will be required to sell the security before recovery of the amortized cost, the entire impairment is included in earnings.

5. Investments

Investments consist of the following:

	December 31	
	2025	2024
Cash and cash equivalents	\$ 11,464	\$ 39,304
Mutual funds – fixed income securities	11,841	11,058
Mutual funds – equity securities	14,151	13,248
Accrued interest	31	136
Total investments	<u>37,487</u>	<u>63,746</u>
Less: short-term investments	24,527	52,561
	<u>\$ 12,960</u>	<u>\$ 11,185</u>

Capital Health System, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued) (Dollars In Thousands)

5. Investments (continued)

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

	Year Ended December 31	
	2025	2024
Interest and dividend income	\$ 1,808	\$ 2,087
Net realized gains	1,204	1,223
Total investment income	<u>\$ 3,012</u>	<u>\$ 3,310</u>

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. In determining fair value, Capital Health uses valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs to the extent possible and considers nonperformance risk in its assessment of fair value.

Capital Health System, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)
(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, 2025			
	Level 1	Level 2	Level 3	Total
Assets				
Cash and cash equivalents	\$ 69,215	\$ -	\$ -	\$ 69,215
Assets whose use is limited:				
Assets held by CRIC <i>(see Note 12)</i> :				
Equity funds	-	6,638	-	6,638
Fixed income funds	-	7,898	-	7,898
Investments restricted for collateral:				
Mutual funds – fixed income securities	9,657	-	-	9,657
Assets held under supplemental retirement plan:				
Money market funds	642	-	-	642
Mutual funds – fixed income securities	1,143	-	-	1,143
Mutual funds – equity securities	4,069	-	-	4,069
Investment contract with insurance company	-	2,333	-	2,333
Assets held under debt agreement:				
Cash and cash equivalents	2,137	-	-	2,137
U.S. government securities	-	83,041	-	83,041
Total assets whose use is limited	17,648	99,910	-	117,558
Investments:				
Cash and cash equivalents	11,464	-	-	11,464
Mutual funds – fixed income securities	11,841	-	-	11,841
Mutual funds – equity securities	14,182	-	-	14,182
Total investments	37,487	-	-	37,487
Total assets at fair value	\$ 124,350	\$ 99,910	\$ -	\$ 224,260

Capital Health System, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)
(Dollars In Thousands)

6. Fair Value Measurements (continued)

	December 31, 2024			Total
	Level 1	Level 2	Level 3	
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:				
Mutual funds – fixed income securities	9,189	–	–	9,189
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

Fair value for Level 1 is based upon quoted prices in active markets. Fair value for Level 2 is based on quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active and model-based valuation techniques for which all significant assumptions are observable in the market or can be corroborated by observable market data for substantially the full term of the assets. While Capital Health believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different estimate of fair value at the reporting date. A financial instrument's categorization within the three levels of the valuation hierarchy is not indicative of the investment risk associated with the underlying assets.

Capital Health System, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)
(Dollars In Thousands)

7. Property, Plant and Equipment

Property, plant and equipment consists of the following:

	December 31	
	2025	2024
Land	\$ 41,845	\$ 41,845
Land improvements	37,846	37,772
Buildings, leasehold improvements and fixed equipment	821,207	801,384
Major movable equipment/software	414,571	398,294
	<u>1,315,469</u>	<u>1,279,295</u>
Accumulated depreciation and amortization	(868,211)	(825,009)
	<u>447,258</u>	<u>454,286</u>
Construction in progress	36,042	39,548
Property, plant, and equipment, net	<u>\$ 483,300</u>	<u>\$ 493,834</u>

8. Long-Term Debt

Long-term debt consists of the following:

	December 31	
	2025	2024
FHA Taxable Insured Mortgage Loan	\$ 487,744	\$ 520,588
Finance lease obligations with interest rates ranging from 1.4% to 3.8% payable monthly and quarterly	9,106	11,568
Other loans	17,423	15,441
Line of credit	24,300	24,500
	<u>538,573</u>	<u>572,097</u>
Less: unamortized deferred financing costs	3,792	4,389
Less: current portion	63,798	61,872
	<u>\$ 470,983</u>	<u>\$ 505,836</u>

Capital Health System, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued) (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 related to the debt used for 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.

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, 2025 and 2024 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, 2025 and 2024 was 5.0625% and 6.625%, respectively. At December 31, 2025 and 2024, there was \$24,300 and \$24,500 outstanding under this line of credit, respectively. The line of credit has no expiration date.

As of December 31, 2025 and 2024, Capital Health had outstanding letters of credit totaling \$13,263 and \$7,770, respectively, related to vendor arrangements. No amounts were drawn on the letters of credit as of December 31, 2025 and 2024. The letters of credit expire in December 2026 and automatically renew for a one-year term. As of December 31, 2025 and 2024, \$9,657 and \$9,189, 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, 2025 and 2024.

Capital Health System, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)
(Dollars In Thousands)

8. Long-Term Debt (continued)

Scheduled payments of long-term debt and finance lease obligations, net of interest, at December 31, 2025 are as follows:

	FHA	Finance Leases	Other Loans	Line of Credit	Total
2026	\$ 34,458	\$ 2,423	\$ 2,617	\$ 24,300	\$ 63,798
2027	36,226	2,195	2,792	—	41,213
2028	37,916	2,280	2,980	—	43,176
2029	39,686	2,208	3,180	—	45,074
2030	41,538	—	2,502	—	44,040
Thereafter	297,920	—	3,352	—	301,272
Total long-term debt	<u>\$ 487,744</u>	<u>\$ 9,106</u>	<u>\$ 17,423</u>	<u>\$ 24,300</u>	<u>\$ 538,573</u>

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 2025 and 2024, Capital Health incurred \$6,191 and \$4,059, respectively, in 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 terminated its frozen, non-contributory defined benefit pension 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.

Capital Health System, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)
(Dollars In Thousands)

9. Retirement Plans (continued)

At December 31, 2024, the Plan had a remaining benefit obligation of \$1,056, attributable primarily to unlocatable participants and participants with small benefit amounts who did not elect a lump-sum distribution at the time of Plan termination. The related assets and liabilities were transferred to the Pension Benefit Guaranty Corporation (PBGC) during 2025. \$1,258 of the Plan assets, net of administrative expenses, was reverted to Capital Health and is available for general operational use.

The following tables summarize information about the defined benefit pension plan:

	<u>2025</u>	<u>2024</u>
Change in benefit obligation		
Benefit obligation, beginning of year	\$ 1,056	\$ 48,377
Interest cost	6	1,702
Actuarial gain	(258)	3,591
Premiums paid	(782)	–
Benefits paid	(22)	(1,962)
Settlements	–	(50,652)
Benefit obligation, end of year	–	1,056
Change in plan assets		
Fair value of plan assets, beginning of year	2,006	52,340
Actual return on plan assets	56	370
Employer contribution to plan	–	1,910
Benefits paid and settlements	(22)	(52,614)
Premiums paid	(782)	–
Assets reverted to employer for operational use	(1,258)	–
Fair value of plan assets, end of year	–	2,006
Funded status	<u>\$ –</u>	<u>\$ 950</u>

Capital Health System, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)
(Dollars In Thousands)

9. Retirement Plans (continued)

Components of net periodic benefit costs

	<u>2025</u>	<u>2024</u>
Interest cost	\$ 6	\$ 1,702
Expected return on plan assets	-	(1,072)
Recognized actuarial loss	77	381
Settlement loss	1,144	12,785
Net periodic pension cost	<u>\$ 1,227</u>	<u>\$ 13,796</u>

Assumptions

	<u>2025</u>	<u>2024</u>
Weighted-average assumptions used to determine benefit obligations at December 31:		
Discount rate	N/A	N/A
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	1.65%	4.87%
Expected long-term rate of return on plan assets	N/A	2.85%

At December 31, 2024, substantially all of Capital Health's pension plan assets were invested in money market funds. As a result of the settlement of all remaining benefit obligations and the reversion of excess plan assets during 2025, the Plan held no assets at December 31, 2025.

Capital Health System, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)
(Dollars In Thousands)

10. Net Assets With Donor Restrictions

Net assets with donor restrictions are available for the following purposes, \$5,786 and \$5,126 of which are permanent endowments to be maintained in perpetuity as of December 31, 2025 and 2024, respectively:

	December 31	
	2025	2024
Health care services	\$ 4,142	\$ 3,989
Education	1,790	1,951
Equipment	2,667	3,844
Charity care	4,260	4,240
Other	1,379	1,815
	\$ 14,238	\$ 15,839

Capital Health follows the requirements of the Uniform Prudent Management of Institutional Funds Act (UPMIFA), as enacted by the State of New Jersey in 2009, with respect to its permanent endowments. Capital Health's endowments consist of numerous individual funds established for a variety of purpose and are comprised solely donor-restricted endowment funds. As required by GAAP, nest assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions. Capital Health expends amounts annually appropriated from the related assets according to donor stipulations.

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level required by donors to be maintained as a fund of perpetual duration. There were no such deficiencies as of December 31, 2025 or 2024.

Capital Health System, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued) (Dollars In Thousands)

10. Net Assets With Donor Restrictions (continued)

Net assets were released from restrictions for the following purposes:

	Year Ended December 31	
	2025	2024
Health care services	\$ 689	\$ 896
Education	549	474
Equipment	1,101	130
Charity Care	3	20
Other	696	2,349
	<u>\$ 3,038</u>	<u>\$ 3,869</u>

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 lease term relative to the useful life of the asset and the total lease payments 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 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 using 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 System, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)
(Dollars In Thousands)

11. Leases and Other Commitments and Contingencies (continued)

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

The following schedule summarizes information related to the lease assets and liabilities as of and for the year ended December 31, 2025 and 2024:

	December 31	
	2025	2024
Lease cost:		
Finance lease cost:		
Amortization of right-of-use asset	\$ 2,532	\$ 2,541
Interest on lease liabilities	374	457
Operating lease cost	15,534	14,573
Short-term lease cost	241	149
Variable lease cost	4,502	4,103
Sublease and lessor income	(1,036)	(796)
Total lease cost	<u>\$ 22,147</u>	<u>\$ 21,027</u>
Right-of-use assets and liabilities:		
Right-of-use assets – finance leases	\$ 8,648	\$ 11,180
Lease liability – finance leases	9,106	11,568
Right-of-use assets – operating leases	96,101	88,107
Lease liability – operating leases	99,385	90,633
Other information:		
Cash paid for amounts included in the measurement of lease liabilities:		
Operating cash flows from finance leases	\$ 374	\$ 457
Operating cash flows from operating leases	14,773	13,777
Financing cash flows from finance leases	2,462	2,388
Right-of-use assets obtained in exchange for new operating lease liabilities	20,950	24,838
Weighted-average remaining lease term – finance leases	3.83	4.74
Weighted-average remaining lease term – operating leases	9.24	9.08
Weighted-average discount rate – finance leases	3.69%	3.64%
Weighted-average discount rate – operating leases	3.01%	2.55%

Capital Health System, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)
(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, 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
2026	\$ 2,712	\$ 14,857
2027	2,402	13,677
2028	2,402	12,641
2029	2,243	11,668
2030	–	10,692
Thereafter	–	51,580
Total lease payment	<u>9,759</u>	<u>115,115</u>
Less: imputed interest	653	15,730
Total lease obligation	<u>9,106</u>	<u>99,385</u>
Less: current portion	2,423	12,322
Long-term portion	<u>\$ 6,683</u>	<u>\$ 87,063</u>

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.

Capital Health System, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued) (Dollars In Thousands)

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 as of December 31, 2025.

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. 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, 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.

Capital Health System, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)

(Dollars In Thousands)

12. Professional Liability Insurance (continued)

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.

For the insurance coverage year June 1, 2025 to May 31, 2026 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, 2025 and 2024, CRIC has recorded an estimated reserve for claims of \$24,342 and \$36,034, 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 \$977 and \$11,653 at December 31, 2025 and 2024, respectively, are included in other noncurrent assets within the accompanying consolidated balance sheets.

Capital Health System, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)
(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, 2025		
	Program	General and Administrative	Total
	Expenses	Expenses	Expenses
Salaries and wages	\$ 480,587	\$ 178,198	\$ 658,785
Employee benefits	78,623	31,545	110,168
Supplies and other expenses	435,690	94,347	530,037
Interest	18,823	11,005	29,828
Depreciation and amortization	46,397	3,316	49,713
	\$ 1,060,120	\$ 318,411	\$ 1,378,531

Capital Health System, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)
(Dollars In Thousands)

13. Functional Expenses (continued)

	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
	<u>\$ 990,389</u>	<u>\$ 324,404</u>	<u>\$ 1,314,793</u>

14. Liquidity and Availability

Financial assets available for general expenditures within one year of December 31, 2025 and 2024 consist of the following:

	2025	2024
Financial assets at year-end:		
Cash and cash equivalents	\$ 69,215	\$ 47,729
Short-term investments	24,527	52,561
Assets limited as to use	117,558	113,467
Patient accounts receivable, net	225,639	212,858
Prepaid expenses and other current assets	112,707	87,315
Total financial assets	<u>549,646</u>	<u>513,930</u>
Less amounts not available to be used within one year:		
Assets limited as to use	117,558	113,467
Prepaid expenses and other current assets	51,561	52,634
Financial assets not available to be used within one year	<u>169,119</u>	<u>166,101</u>
Financial assets available for general expenditures within one year	<u>\$ 380,527</u>	<u>\$ 347,829</u>

Capital Health System, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued) (Dollars In Thousands)

14. Liquidity and Availability (continued)

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.

As of December 31, 2025 and 2024, Capital Health also has available lines of credit of \$5,700 and \$5,500 available to be used for general expenditure within one year.

15. Other Revenue

Other operating revenue consists of the following:

	Year Ended December 31	
	2025	2024
Purchasing rebates and settlements	\$ 5,712	\$ 21,034
Grant revenue	6,537	5,617
Investment income from operating funds	2,880	4,070
Food services	859	885
Rental income	814	1,677
Department of Corrections	10,400	10,936
Other	12,295	26,981
	<u>\$ 39,497</u>	<u>\$ 71,200</u>

16. Subsequent Events

Subsequent events have been evaluated through April 27, 2026 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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