

CONSOLIDATED FINANCIAL STATEMENTS

Capital Health System, Inc. and Subsidiaries  
Years Ended December 31, 2022 and 2021  
With Report of Independent Auditors

Ernst & Young LLP



Capital Health System, Inc. and Subsidiaries

Consolidated Financial Statements

Years Ended December 31, 2022 and 2021

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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, 2022 and 2021, and the related consolidated statements of operations, changes in net assets and cash flows for the years then ended, and the related notes (collectively referred to as the “financial statements”).

In our opinion, based on our audits and the report of the other auditors, the accompanying financial statements present fairly, in all material respects, the consolidated financial position of Capital Health at December 31, 2022 and 2021, and the consolidated results of its operations, changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

We did not audit the financial statements of Capital Region Insurance Company, SPC (CRIC), a wholly owned subsidiary, which statements reflect total assets of \$49,782,000 and \$68,316,000, as of December 31, 2022 and 2021, respectively and total revenues of \$5,355,000 and \$9,353,000 for the years then ended. Those statements were audited by other auditors, whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for CRIC, is based solely on the report of the other auditors.

### Basis for Opinion

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

### Adoption of ASU No. 2016-02, *Leases*

As discussed in Note 1 to the consolidated financial statements, Capital Health changed its method of accounting for leases as a result of the adoption of the amendments to the FASB Accounting Standards Codification resulting from Accounting Standards Update No. 2016-02, *Leases*, effective January 1, 2022. Our opinion is not modified with respect to this matter.

### 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.

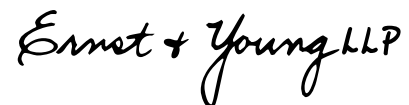
## **Auditor's Responsibilities for the Audit of the Financial Statements**

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.



April 28, 2023

# Capital Health System, Inc. and Subsidiaries

## Consolidated Balance Sheets

	December 31	
	2022	2021
	<i>(In Thousands)</i>	
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 74,743	\$ 42,389
Short-term investments	51,667	97,178
Assets whose use is limited – current portion	2,700	2,823
Patient accounts receivable, net	139,801	113,422
Supplies	14,723	11,998
Prepaid expenses and other current assets	65,335	51,452
Total current assets	348,969	319,262
Investments	8,363	9,939
Assets whose use is limited – noncurrent portion	149,380	153,816
Property, plant, and equipment, net	508,159	505,573
Operating lease assets, net	75,400	–
Other noncurrent assets	27,723	42,362
Total assets	\$ 1,117,994	\$ 1,030,952
<b>Liabilities and net assets</b>		
Current liabilities:		
Long-term debt – current portion	\$ 32,347	\$ 28,685
Operating lease liabilities – current portion	11,012	–
Accounts payable	107,706	76,003
Accrued expenses	98,249	95,560
Accrued interest	2,264	2,376
Estimated third-party payor settlements – current portion	2,206	31,622
Total current liabilities	253,784	234,246
Long-term debt – noncurrent portion	562,601	577,781
Operating lease liabilities – noncurrent portion	64,288	–
Estimated third-party payor settlements and other long-term liabilities – noncurrent portion	60,197	74,741
Total liabilities	940,870	886,768
Commitments and contingencies		
Net assets:		
Without donor restrictions	158,735	128,918
With donor restrictions	17,478	14,051
Total Capital Health System net assets	176,213	142,969
Non-controlling interest	911	1,215
Total net assets including non-controlling interest	177,124	144,184
Total liabilities and net assets	\$ 1,117,994	\$ 1,030,952

*See accompanying notes.*

Capital Health System, Inc. and Subsidiaries

Consolidated Statements of Operations

	<b>Year Ended December 31</b>	
	<b>2022</b>	<b>2021</b>
	<i>(In Thousands)</i>	
Net assets without donor restrictions:		
Revenue:		
Net patient service revenue	\$ 1,052,491	\$ 911,038
Other revenue	31,150	34,791
Contributions	443	443
Total revenue	<u>1,084,084</u>	946,272
Expenses:		
Salaries and wages	504,808	432,537
Employee benefits	67,175	64,811
Supplies and other expenses	413,245	349,954
Interest	31,536	36,586
Depreciation and amortization	41,480	40,094
Total expenses	<u>1,058,244</u>	923,982
Gain from operations prior to items below	25,840	22,290
Inherent contribution of net assets without donor restrictions received in the acquisition of St. Francis	26,106	–
Investment income and realized gains, net	4,357	9,498
Net change in unrealized gains and losses on equity securities	(13,929)	1,479
Excess of revenue over expenses, before non-controlling interest	42,374	33,267
Less: gain attributable to non-controlling interest	2,775	3,266
Excess of revenue over expenses	<u>39,599</u>	30,001
Net change in unrealized gains and losses on fixed income securities	(9,048)	2,670
Grant contributions received and expended – capital portion	2,408	664
Pension-related changes other than net periodic pension cost	(4,065)	(957)
Net assets released from restrictions for equipment	103	636
Transfer to net assets with donor restrictions	–	(2,000)
Other changes in net assets without donor restrictions	820	–
Change in net assets without donor restrictions	<u>\$ 29,817</u>	<u>\$ 31,014</u>

See accompanying notes.

## Capital Health System, Inc. and Subsidiaries

### Consolidated Statements of Changes in Net Assets

	<b>Without Donor Restrictions</b>	<b>With Donor Restrictions</b>	<b>Non-controlling Interest</b>	<b>Total</b>
	<i>(In Thousands)</i>			
Net assets at December 31, 2020	\$ 97,904	\$ 9,491	\$ 1,029	\$ 108,424
Excess of revenue over expenses	30,001	–	3,266	33,267
Net change in unrealized gains and losses on fixed income securities	2,670	–	–	2,670
Grant contributions received and expended – capital portion	664	–	–	664
Pension-related changes other than net periodic pension cost	(957)	–	–	(957)
Member distributions, net	–	–	(3,080)	(3,080)
Donor restricted contributions	–	3,466	–	3,466
Net assets released from restrictions for equipment	636	(636)	–	–
Net assets released from restrictions for operations	–	(270)	–	(270)
Net asset transfers	(2,000)	2,000	–	–
Change in net assets	<u>31,014</u>	<u>4,560</u>	<u>186</u>	<u>35,760</u>
Net assets at December 31, 2021	128,918	14,051	1,215	144,184
Excess of revenue over expenses	<b>39,599</b>	–	<b>2,775</b>	<b>42,374</b>
Net change in unrealized gains and losses on fixed income securities	<b>(9,048)</b>	–	–	<b>(9,048)</b>
Grant contributions received and expended – capital portion	<b>2,408</b>	–	–	<b>2,408</b>
Pension-related changes other than net periodic pension cost	<b>(4,065)</b>	–	–	<b>(4,065)</b>
Inherent contribution of net assets with donor restrictions received in the acquisition of St. Francis	–	<b>1,480</b>	–	<b>1,480</b>
Member distributions, net	–	–	<b>(3,079)</b>	<b>(3,079)</b>
Donor restricted contributions	–	<b>2,752</b>	–	<b>2,752</b>
Net assets released from restrictions for equipment	<b>103</b>	<b>(103)</b>	–	–
Net assets released from restrictions for operations	–	<b>(702)</b>	–	<b>(702)</b>
Other changes in net assets without donor restrictions	<b>820</b>	–	–	<b>820</b>
Change in net assets	<u><b>29,817</b></u>	<u><b>3,427</b></u>	<u><b>(304)</b></u>	<u><b>32,940</b></u>
Net assets at December 31, 2022	<u><b>\$ 158,735</b></u>	<u><b>\$ 17,478</b></u>	<u><b>\$ 911</b></u>	<u><b>\$ 177,124</b></u>

*See accompanying notes.*

# Capital Health System, Inc. and Subsidiaries

## Consolidated Statements of Cash Flows

	Year Ended December 31	
	2022	2021
	<i>(In Thousands)</i>	
<b>Operating activities</b>		
Change in net assets	\$ 32,940	\$ 35,760
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Inherent contribution received in the acquisition of St. Francis	(27,586)	–
Depreciation and amortization	41,480	40,094
Amortization of deferred financing fees	684	709
Net change in unrealized gains and losses on investments	22,977	(4,149)
(Gain) loss on disposal of fixed assets	(2,312)	43
Pension-related changes other than net periodic pension cost	4,065	957
Member distributions, net, related to non-controlling interest	3,079	3,080
Changes in operating assets and liabilities:		
Patient accounts receivable, net	(26,379)	(14,257)
Supplies	1,457	(1,573)
Prepaid expenses and other current assets	(13,883)	(23,645)
Other noncurrent assets	14,639	(3,952)
Accounts payable	31,703	19,065
Accrued pension	(4,065)	(957)
Accrued expenses	2,689	11,972
Accrued interest	(112)	(1,219)
Estimated third-party payor settlements and other long-term liabilities	(43,960)	(17,409)
Net cash provided by operating activities	<u>37,416</u>	<u>44,519</u>
<b>Investing activities</b>		
Net sales (purchases) of assets whose use is limited	332	(19,870)
Net sales (purchases) of investments	26,670	(7,945)
Distribution to members	(3,079)	(3,080)
Cash proceeds from sale of property and equipment	19,471	66
Cash received in the acquisition of St. Francis	14,500	–
Purchases of property, plant and equipment, net	(37,398)	(35,936)
Net cash provided by (used in) investing activities	<u>20,496</u>	<u>(66,765)</u>
<b>Financing activities</b>		
Payments on finance leases	(493)	(74)
Repayment of long-term debt	(28,643)	(26,934)
Proceeds of long-term debt	106	2,437
Net cash used in financing activities	<u>(29,030)</u>	<u>(24,571)</u>
Net increase (decrease) in cash and cash equivalents and restricted cash and restricted cash equivalents	28,882	(46,817)
Cash and cash equivalents and restricted cash and restricted cash equivalents at beginning of year	<u>53,044</u>	<u>99,861</u>
Cash and cash equivalents and restricted cash and restricted cash equivalents at end of year	<u>\$ 81,926</u>	<u>\$ 53,044</u>
<b>Supplemental disclosures of cash flow information</b>		
Assets acquired under finance lease obligations	\$ 16,374	\$ –
Cash paid for interest expense	<u>\$ 30,964</u>	<u>\$ 37,096</u>

See accompanying notes.



# Capital Health System, Inc. and Subsidiaries

## Notes to Consolidated Financial Statements

*(Dollars In Thousands)*

December 31, 2022

### **1. Organization and Summary of Significant Accounting Policies**

Capital Health System, Inc. (Capital Health), a New Jersey nonprofit corporation, consists of two operating divisions: Capital Health Regional Medical Center (Regional) and Capital Health Medical Center – Hopewell (Hopewell). Regional is a separately licensed acute care hospital with 237 licensed beds, located in Trenton, New Jersey and operates a satellite emergency department, Capital Health at East Trenton, located in Trenton, New Jersey (as of December 21, 2022). Hopewell consists of a separately licensed acute care hospital with 226 licensed beds, located in Hopewell Township, New Jersey and an ambulatory care facility located in Hamilton, New Jersey. Hopewell also operates a satellite emergency department, Capital Health at Deborah – Emergency Services, located in Browns Mills, New Jersey. Capital Health is the sole member of Capital Health Foundation (the Foundation), a nonprofit corporation and Population Health Management Service LLC (PHM), which is a disregarded entity for tax purposes. Capital Health is the sole member of Capital Health – East Trenton, Inc. (CH – East Trenton, Inc.) 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) which commenced operations on October 1, 2022, 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 2022 or 2021.

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 2022 or 2021.

Mercer Holding owns 100% of the capital stock of Bellevue Avenue Management, Inc. (Bellevue), a for-profit company which provides management services; Oasis Spa at Hopewell, LLC (Oasis Spa), a for-profit company which provides spa services at Hopewell; Capital Pharmacy LLC (Capital Pharmacy), a for-profit company with no activity in 2022 or 2021; and Comprehensive Imaging and Diagnostics LLC (CI), a for-profit company which provides radiology services. Mercer Holding has a 40.5% and 41.1% ownership interest at December 31, 2022 and 2021, 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*.

## Capital Health System, Inc. and Subsidiaries

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

#### **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.

#### **Acquisition of St. Francis Medical Center**

On December 21, 2022 (the Acquisition Date), Capital Health acquired St. Francis Medical Center and its controlled organizations (St. Francis), a not-for-profit community health care provider located in Trenton, New Jersey.

St. Francis was renamed Capital Health – East Trenton, Inc. (CH– East Trenton, Inc.) which is the sole member of Capital Health Life (LIFE), Central New Jersey Heart Services LLC, Capital Health Foundation – East Trenton, Inc. and Capital Health Medical Group – East Trenton, P.A. As of the Acquisition Date, a majority of operations had ceased at the at the St. Francis location, where only a satellite emergency room and other select services remain in operation.

Capital Health acquired St. Francis by means of an inherent contribution, where no consideration was transferred by Capital Health. Capital Health accounted for this business combination by applying the acquisition method and, accordingly, the inherent contribution received was valued as the excess of assets acquired over liabilities assumed. In determining the inherent contributions received, all assets acquired, and liabilities assumed are required to be measured at fair value as of the Acquisition Date. The results of St. Francis' operations have been included in the consolidated financial statements since the Acquisition date.

Assets acquired at the Acquisition date consisted primarily of cash of \$14,500, equipment of \$7,098, supplies and other current assets of \$4,184 and donor restricted net assets of \$1,480. No liabilities were assumed as part of the transaction.

# Capital Health System, Inc. and Subsidiaries

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

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

#### **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. The CARES Act authorized funding to hospitals and other healthcare providers to be distributed through the Public Health and Social Services Emergency Fund (Provider Relief Fund). Payments from the Provider Relief Fund are to be used to prevent, prepare for, and respond to COVID-19, and shall reimburse the recipient for health care related expenses and/or lost revenues attributable to COVID-19 and are not required to be repaid except where Provider Relief Funds received exceed the actual amounts of eligible health care related expenses and/or lost revenues as defined by the U.S. Department of Health and Human Services (HHS), provided the recipients attest to and comply with the terms and conditions. HHS has issued several Post-Payment Notices of Reporting Requirements and published responses to frequently asked questions (FAQs), most recently in January 2023, regarding the Provider Relief Fund distributions. HHS has indicated that the public health emergency period will end on May 11, 2023.

On December 27, 2020, the Consolidated Appropriations Act, 2021 (CAA) was signed into law. The CAA appropriated additional funding for COVID-19 response and relief through the Provider Relief Fund and provided several changes to the administration of the Provider Relief Fund.

For the year ended December 31, 2021, Capital Health received \$1,689 in funding which was recognized as revenue related to the Provider Relief Fund and is included in other revenue in the accompanying consolidated statements of operations (none in 2022). The recognized revenue was determined based on applicable accounting guidance, Post-Payment Notices of Reporting Requirements and FAQs that Capital Health has interpreted as being applicable to the accompanying consolidated financial statements. Management will continue to monitor communications from HHS applicable to the Provider Relief Fund reporting and data submission requirements.

## Capital Health System, Inc. and Subsidiaries

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

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

To enhance liquidity, the Centers for Medicare & Medicaid Services (CMS) expanded and streamlined the process for its Accelerated and Advance Payment Program, pursuant to which providers could receive advance Medicare payments. This program allowed eligible health care facilities to request up to six months of advance Medicare payments for acute care hospitals or up to three months of advance Medicare payments for other health care providers. During April 2020, Capital Health received approximately \$48,919 of expedited payments for future services. The advances were recovered by Medicare through October 2022. At December 31, 2021, \$28,589 was included as a contract liability in the current portion of estimated third-party payor settlements in the accompanying consolidated balance sheet. The remaining balance was fully repaid in 2022.

Under the CARES Act, Capital Health had elected to defer the payment of the employer portion of social security taxes totaling approximately \$13,400 that otherwise would have been due between March 27, 2020 and December 31, 2020. In December 2021 Capital Health repaid \$6,309 of the deferred tax in accordance with the terms of the program. The remaining balance of \$7,096 is included in accrued expenses on the accompanying consolidated balance sheets at December 31, 2022 and 2021, and was paid in January 2023.

Capital Health has applied for reimbursement for qualifying expenses under the Federal Emergency Management Agency (FEMA) Disaster Relief Fund. As of December 31, 2021, Capital Health received \$9,032 in FEMA reimbursement payments and recognized the full amount within other revenue on the consolidated statement of operations (none in 2022). Capital Health anticipates receipt of additional FEMA reimbursements in 2023 for qualifying expenses associated with the pandemic.

Due to the evolving nature of the COVID-19 pandemic, the ultimate impact to Capital Health's operating results, including costs that may be incurred in the future and the level of utilization of Capital Health's services and resulting impact on net patient service revenue reported in the future, and its financial condition is presently unknown. Capital Health has also experienced significant price increases in personnel costs and medical supplies, as well as volatility in the interest rate and capital markets, due to the broader economic disruption caused by the pandemic.

## Capital Health System, Inc. and Subsidiaries

### Notes to Consolidated Financial Statements (continued)

*(Dollars In Thousands)*

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

##### **Significant Accounting Policies**

A summary of significant accounting policies of Capital Health follows:

##### **Principles of Consolidation**

The consolidated financial statements include the accounts of Capital Health, the Foundation, Mercer Holding, the Association, PHM, 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 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.

## Capital Health System, Inc. and Subsidiaries

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

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

Cash and cash equivalents (unrestricted and restricted), as reported in the accompanying consolidated statements of cash flows, are reported within the following categories in the accompanying consolidated balance sheets as of December 31, 2022 and 2021:

	<u>2022</u>	<u>2021</u>
Cash and cash equivalents	\$ 74,743	\$ 42,389
Investments: cash and cash equivalents	2,466	4,407
Assets whose use is limited: cash and cash equivalents	<u>4,717</u>	<u>6,248</u>
Total cash and cash equivalents and restricted cash and restricted cash equivalents	<u>\$ 81,926</u>	<u>\$ 53,044</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.

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

## Capital Health System, Inc. and Subsidiaries

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

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

##### **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 \$5,674 and \$6,358 at December 31, 2022 and 2021, respectively, have been reported as a direct reduction from long-term debt in the consolidated balance sheets. Deferred financing fees are reported net of accumulated amortization of \$11,015 and \$10,331 at December 31, 2022 and 2021, respectively.

##### **Property, Plant, and Equipment**

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

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

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

## Capital Health System, Inc. and Subsidiaries

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

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

##### **Estimated Professional Liabilities**

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

##### **Classification of Net Assets**

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

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

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



## Capital Health System, Inc. and Subsidiaries

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

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

##### **Advertising Costs**

Capital Health expenses advertising costs as incurred. Total amounts charged to advertising expense during the years ended December 31, 2022 and 2021 are \$6,981 and \$6,566, respectively.

##### **Excess of Revenue Over Expenses**

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

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

##### **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's policy is to fund amounts as necessary on an actuarial basis to provide assets sufficient to meet the benefits to be paid to plan members in accordance with the requirements of the Employee Retirement Income Security Act of 1974 (ERISA). Capital Health recognizes in its consolidated balance sheets an asset for its defined benefit pension plan's (the Plan) overfunded status or a liability for the Plan's underfunded status, measures the Plan's assets and obligations that determine its funded status as of the end of its fiscal year, and recognizes changes in the funded status of the Plan in changes in net assets without donor restrictions in the year in which the changes occur (see Note 9).

## Capital Health System, Inc. and Subsidiaries

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

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

##### Recent Accounting Pronouncements:

###### *Adopted in 2022*

In February 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update No. (ASU) 2016-02, *Leases*, which requires the rights and obligations arising from lease contracts, including existing and new arrangements, to be recognized as assets and liabilities on the balance sheets, including both finance leases (formally referred to as capital leases) and operating leases. ASU 2016-02 requires expanded disclosure related to lease agreements (See Note 11) to help the financial statement users better understand the amount, timing, and uncertainty of cash flows arising from leases. The recognition, measurement and presentation of expenses and cash flows arising from a lease primarily depend on its classification as a finance or operating lease.

Capital Health adopted ASU 2016-02 effective January 1, 2022, following the modified retrospective method of application. As such, the 2021 consolidated financial statement amounts and disclosures have not been adjusted to reflect the provisions of the new standard. There was no cumulative-effect adjustment to the prior period consolidated net assets as a result of the adoption. Capital Health has made the transition-specific election to apply the package of practical expedients which allows for the carryforward of historical assessments of (1) whether contracts are or contain leases, (2) lease classification and (3) initial direct costs. Additionally, for operating leases entered into prior to January 1, 2022, Capital Health has elected to utilize the operating leases' remaining lease term as of the date of adoption to determine the discount rate used to initially measure the liability. Certain other accounting policy elections and quantitative and qualitative information pertaining to Capital Health's adoption of ASU 2016-02 are described in Note 11.

In May 2019, the FASB issued ASU 2019-06, *Intangibles – Goodwill and Other (Topic 350), Business Combinations (Topic 805), and Not-for-Profit Entities (Topic 958), Extending the Private Company Alternative on Goodwill and Certain Identifiable Intangible Assets to Not-for-Profit Entities*. Under ASU 2019-06, entities that elect the goodwill accounting alternative will amortize goodwill and perform a one-step impairment test, at either the entity level or the reporting unit level, only when an impairment indicator exists. Entities that elect the intangible asset accounting alternative may recognize fewer intangible assets in an acquisition, and they would be required to elect the goodwill accounting alternative. Capital Health adopted ASU 2019-06 during 2022 and, accordingly, did not recognize certain intangible assets in the acquisition of St. Francis.

# Capital Health System, Inc. and Subsidiaries

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

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

#### *Future Period Adoption*

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

### 2. Charity Care

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

The cost of charity care is derived from both estimated and actual data. The estimated cost of charity care includes the direct and indirect cost of providing such services and is estimated utilizing Capital Health's ratio of cost to gross charges, which is then multiplied by the gross uncompensated charges associated with providing care to charity patients. Charity care provided, at cost, during 2022 and 2021 totaled approximately \$56,196 and \$44,626, respectively.

Capital Health receives payments from the New Jersey Health Care Subsidy Funds for charity care and such amounts totaled approximately \$20,868 and \$18,867 for the years ended December 31, 2022 and 2021, 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, 2022 and 2021, changes in Capital Health's estimates of implicit price concessions, discounts, contractual adjustments or other reductions to expected payments for performance obligations satisfied in prior periods were not significant. Portfolio collection estimates are updated quarterly based on collection trends. Subsequent changes that are determined to be the result of an adverse change in the patient's ability to pay (determined on a portfolio basis when applicable) are recorded as bad debt expense. Bad debt expense for the years ended December 31, 2022 and 2021 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, 2022 and 2021, based on primary insurance designation is as follows:

	<u>2022</u>	<u>2021</u>
Medicare and Medicaid	\$ 159,295	\$ 140,719
Managed Medicare, Managed Medicaid and Commercial	868,349	747,872
Self-pay and other	24,847	22,447
	<u>\$ 1,052,491</u>	<u>\$ 911,038</u>

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

Net patient service revenue for the years ended December 31, 2022 and 2021 by line of business is as follows:

	<u>2022</u>	<u>2021</u>
Hospital and Physician services	\$ 1,035,692	\$ 891,112
Ambulatory services	16,799	19,926
	<u>\$ 1,052,491</u>	<u>\$ 911,038</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.

*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:

## Capital Health System, Inc. and Subsidiaries

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

#### 3. Net Patient Service Revenue (continued)

*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 2018 as of December 31, 2022.

*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 2019 have been audited and settled as of December 31, 2022.

*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, 2022 and 2021, adjustments arising from a change in the transaction price, were not significant.

## Capital Health System, Inc. and Subsidiaries

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

#### 3. Net Patient Service Revenue (continued)

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

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

Laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term. Capital Health believes that it is in compliance 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, 2022 and 2021 are as follows:

	<u>2022</u>	<u>2021</u>
Medicare	21%	28%
Medicaid	6	8
Commercial carriers, including worker's compensation and auto	72	63
Self-pay patients	1	1
	<u>100%</u>	<u>100%</u>



## Capital Health System, Inc. and Subsidiaries

### Notes to Consolidated Financial Statements (continued) (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:

	<b>2022</b>	<b>2021</b>
Charity care ( <i>Note 2</i> )	\$ <b>20,868</b>	\$ 18,867
Quality Improvement Program	<b>8,015</b>	6,225
New Jersey county option hospital fee program	<b>56,634</b>	24,309
Mental health	<b>957</b>	958
	<b>\$ 86,474</b>	<b>\$ 50,359</b>

The New Jersey Health Care Subsidy Funds were established for various purposes, including the distribution of charity care payments to hospitals statewide. Capital Health received \$22,594 and \$29,207 in charity care subsidies during the year ended December 31, 2022 and 2021, respectively, of which \$1,726 and \$10,340 is recorded as a deferred liability at December 31, 2022 and 2021, respectively, 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 \$8,015 and \$6,225 for the year ended December 31, 2022 and 2021, respectively.

Capital Health received 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 Payments. The State Directed Payments are subject to annual settlement based actual Medicaid utilization data and other factors. The program resulted in fees paid by Capital Health in 2022 and 2021 of \$19,352 and \$9,676, respectively, (included within supplies and other expense) and Medicaid State Directed Payments received of \$56,634 and \$24,309 in 2022 and 2021, respectively, (included within net patient service revenue).

Capital Health System, Inc. and Subsidiaries

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

**4. Assets Whose Use is Limited**

Assets whose use is limited consist of the following:

	<b>December 31</b>	
	<b>2022</b>	<b>2021</b>
Restricted investments for collateral	\$ 8,054	\$ 8,129
Assets held under supplemental retirement plan	5,830	7,320
Assets held under debt agreement	116,148	115,743
Assets held by CRIC (see Note 12)	22,048	25,447
Total assets whose use is limited	<b>152,080</b>	156,639
Less: assets whose use is limited – current portion	2,700	2,823
	<b>\$ 149,380</b>	<b>\$ 153,816</b>

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

	<b>December 31</b>	
	<b>2022</b>	<b>2021</b>
Mortgage reserve fund	\$ 112,832	\$ 112,920
Accrued interest	616	–
Mortgage insurance premium	2,700	2,823
	<b>\$ 116,148</b>	<b>\$ 115,743</b>

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, 2022 and 2021 are not significant. At December 31, 2022 and 2021, the unrealized losses were not deemed to be other than temporary based on Capital Health's ability and intent to hold the funds until recovery.

Capital Health System, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)

(Dollars In Thousands)

**5. Investments**

Investments consist of the following:

	<b>December 31</b>	
	<b>2022</b>	<b>2021</b>
Cash and cash equivalents	\$ 2,466	\$ 4,407
Mutual funds – fixed income securities	23,746	41,194
Mutual funds – equity securities	33,773	61,473
Accrued interest	45	43
Total investments	<b>60,030</b>	107,117
Less: short-term investments	<b>51,667</b>	97,178
	<b>\$ 8,363</b>	<b>\$ 9,939</b>

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

	<b>Year Ended December 31</b>	
	<b>2022</b>	<b>2021</b>
Interest and dividend income	\$ 1,237	\$ 1,469
Net realized gains	3,120	8,029
Total investment income	<b>\$ 4,357</b>	<b>\$ 9,498</b>

## Capital Health System, Inc. and Subsidiaries

### Notes to Consolidated Financial Statements (continued)

*(Dollars In Thousands)*

#### **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.

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 consolidated balance sheet based on the valuation hierarchy defined above:

	December 31, 2022			Total
	Level 1	Level 2	Level 3	
<b>Assets</b>				
Cash and cash equivalents	\$ 74,743	\$ –	\$ –	\$ 74,743
Assets whose use is limited:				
Assets held by CRIC (see Note 12):				
Equity securities	–	10,008	–	10,008
Fixed income	–	12,040	–	12,040
Investments restricted for collateral:				
Mutual funds – fixed income securities	8,054	–	–	8,054
Assets held under supplemental retirement plan:				
Mutual funds – fixed income securities	762	–	–	762
Mutual funds – equity securities	2,359	–	–	2,359
Investment contract with insurance company	–	2,709	–	2,709
Assets held under debt agreement:				
Cash and cash equivalents	4,717	–	–	4,717
U.S. government securities	–	111,431	–	111,431
Total assets whose use is limited	15,892	136,188	–	152,080
Investments:				
Cash and cash equivalents	2,466	–	–	2,466
Mutual funds – fixed income securities	23,746	–	–	23,746
Mutual funds – equity securities	33,818	–	–	33,818
Total investments	60,030	–	–	60,030
Total assets at fair value	\$ 150,665	\$ 136,188	\$ –	\$ 286,853
<b>Pension assets (See Note 9)</b>				
Mutual funds – fixed income securities	\$ 38,638	\$ –	\$ –	\$ 38,638
Money market funds	2,043	–	–	2,043
U.S. government securities	–	13,965	–	13,965
Total pension assets	\$ 40,681	\$ 13,965	\$ –	\$ 54,646

Capital Health System, Inc. and Subsidiaries

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

6. Fair Value Measurements (continued)

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

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:

	<b>December 31</b>	
	<b>2022</b>	<b>2021</b>
Land	\$ 41,845	\$ 42,218
Land improvements	37,483	36,841
Buildings, leasehold improvements and fixed equipment	786,391	780,680
Major movable equipment/software	356,761	324,884
	<b>1,222,480</b>	1,184,623
Accumulated depreciation and amortization	<b>(736,399)</b>	(698,371)
	<b>486,081</b>	486,252
Construction in progress	22,078	19,321
Property, plant, and equipment, net	<b>\$ 508,159</b>	<b>\$ 505,573</b>

Depreciation and amortization expense for the years ended December 31, 2022 and 2021 was \$41,480 and \$40,094, respectively.

Capital Health System, Inc. and Subsidiaries

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

**8. Long-Term Debt**

Long-term debt consists of the following:

	<b>December 31</b>	
	<b>2022</b>	<b>2021</b>
FHA Taxable Insured Mortgage Loan	<b>\$ 581,855</b>	\$ 610,412
Mercer Holding Bethpage Commercial LLC Mortgage Loan	<b>2,285</b>	2,369
Healthcare Employees Federal Credit Union (HEFCU) Loan	<b>105</b>	–
Finance lease obligations with interest rates ranging from 1.4% to 6.0% payable monthly and quarterly	<b>16,377</b>	43
	<b>600,622</b>	612,824
Less: unamortized deferred financing costs	<b>5,674</b>	6,358
Less: current portion	<b>32,347</b>	28,685
	<b>\$ 562,601</b>	\$ 577,781

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

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

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



## Capital Health System, Inc. and Subsidiaries

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

#### **8. Long-Term Debt (continued)**

As of December 31, 2022 and 2021, Capital Health had an outstanding letter of credit totaling \$1,390, related to an aspect of the construction funded by the mortgage loan. No amounts have been drawn at December 31, 2022 and 2021. The letter of credit expires in June 2023 and automatically renews for a term of one year.

Also in connection with the construction funded by the mortgage loan, Capital Health was required to provide a security interest in and lien on certain of its investments as collateral. As of December 31, 2022 and 2021, \$8,054 and \$8,129, 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, 2022 and 2021.

As of December 31, 2022 and 2021, Capital Health had outstanding letters of credit totaling \$5,800 and \$4,585, respectively, related to vendor arrangements. No amounts have been drawn on the letters of credit at December 31, 2022 and 2021. The letters of credit expire throughout 2023 and automatically renew for a term of one year.

Under the terms of the mortgage loan, Capital Health is required to maintain certain financial ratios, mortgage reserve fund balances, and comply with other restrictive covenants as described in the respective agreements in order to enter into additional indebtedness or to transfer funds to an affiliate without HUD approval. Capital Health did not meet all of these requirements during the year ended December 31, 2022 and 2021 and therefore obtained HUD approval for certain transactions as required.

On January 26, 2021, Mercer Holding closed on a \$2,437 mortgage with Bethpage Commercial LLC secured by a parcel of real property known as Condominium Unit A-1 at 1690 Big Oak Road, Yardley, Pennsylvania. The interest on the loan is 3.875% through January 31, 2031 and the greater of 3.875% or the then existing five-year Federal Home Loan Bank of New York Fixed Advanced Rate plus 2.25% from February 1, 2031 through maturity date of February 1, 2036. The mortgage specifies various defaults and events upon the happening of which all sums owing be declared immediately due and payable. At December 31, 2022 Mercer Holding is in compliance with such requirements.

## 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 at December 31, 2022, net of interest, are as follows:

	<b>FHA/ GNMA</b>	<b>Mercer Holding/ HEFCU</b>	<b>Finance Leases</b>	<b>Total</b>
2023	\$ 29,920	\$ 104	\$ 2,322	\$ 32,346
2024	31,348	108	2,403	33,859
2025	32,843	167	2,479	35,489
2026	34,458	99	2,440	36,997
2027	36,226	103	2,213	38,542
Thereafter	417,060	1,809	4,520	423,389
Total long-term debt	\$ 581,855	\$ 2,390	\$ 16,377	\$ 600,622

#### 9. Retirement Plans

Capital Health has a non-contributory defined benefit pension plan and a defined contribution plan that operates under Section 403(b) of the Internal Revenue Code. Both plans cover substantially all of its employees. The benefits are based on years of service and compensation. Capital Health's funding policy provides that payments to the defined benefit pension plan shall be equal to the minimum funding requirement of ERISA plus additional amounts, which may be approved by Capital Health. In 2022 and 2021, Capital Health incurred \$3,168 and \$2,931, respectively, in pension expense for employer contributions to the defined contribution plan, which is included in employee benefits expense in the accompanying consolidated statements of operations.

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

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

Capital Health System, Inc. and Subsidiaries

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

**9. Retirement Plans (continued)**

Included in net assets without donor restrictions is unrecognized actuarial loss at December 31, 2022 and 2021 of \$12,677 and \$8,612, respectively, which has not yet been recognized in net periodic pension cost. At December 31, 2022 and 2021, Capital Health has a defined benefit asset of \$2,851 and \$7,778, respectively, which is reported within other noncurrent assets in the accompanying consolidated balance sheets.

The following table sets forth the funded status of the plan at December 31, 2022 and 2021 and the amounts recognized in the consolidated financial statements:

	<u>2022</u>	<u>2021</u>
<b>Change in benefit obligation</b>		
Benefit obligation, beginning of year	\$ 61,679	\$ 68,977
Interest cost	1,433	1,240
Actuarial gain	(6,281)	(1,430)
Benefits paid	(1,994)	(1,995)
Settlements	(3,042)	(5,113)
Benefit obligation, end of year	<u>51,795</u>	<u>61,679</u>
<b>Change in plan assets</b>		
Fair value of plan assets, beginning of year	69,457	77,402
Actual return on plan assets	(9,775)	(837)
Benefits paid and settlements	(5,036)	(7,108)
Fair value of plan assets, end of year	<u>54,646</u>	<u>69,457</u>
Funded status	<u>\$ 2,851</u>	<u>\$ 7,778</u>

Capital Health System, Inc. and Subsidiaries

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

**9. Retirement Plans (continued)**

The net periodic pension cost includes the following components:

	<b>2022</b>	<b>2021</b>
Interest cost	\$ 1,433	\$ 1,240
Expected return on plan assets	(1,662)	(2,351)
Recognized actuarial loss	348	88
Settlement loss	744	714
Net periodic pension cost (benefit)	<u>\$ 863</u>	<u>\$ (309)</u>

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:

	<b>2022</b>	<b>2021</b>
Weighted-average assumptions used to determine benefit obligations at December 31:		
Discount rate	<b>5.15%</b>	2.47%
Cash balance interest credit rate	<b>3.30%</b>	2.70%
Weighted-average assumptions used to determine net periodic pension cost for the years ended December 31:		
Discount rate	<b>2.47%</b>	1.91%
Expected long-term return on plan assets	<b>2.57%</b>	3.24%

The expected long-term rate of return on plan assets assumption of 2.57% was selected using the “building block” approach described by the Actuarial Standards Board in Actuarial Standards of Practice No. 27 – Selecting Economic Assumptions for Measuring Pension Obligations. Based on Capital Health’s investment policy for the pension plan in effect as of the beginning of the fiscal year, a best estimate range was determined for both the real rate of return (net of inflation) and for inflation based on historical 30-year period rolling averages. An average inflation rate within the range equal to 4.0% was selected and added to the real rate of return range to arrive at a best estimate. The actuarial gain in 2022 and 2021 primarily relate to changes in discount rate and mortality assumptions used to measure the projected benefit obligation.

Capital Health System, Inc. and Subsidiaries

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

**9. Retirement Plans (continued)**

Capital Health’s pension plan weighted-average asset allocations at December 31, 2022 and 2021 by asset category are as follows:

	<b>Plan Assets at December 31</b>	
	<b>2022</b>	<b>2021</b>
U.S. government securities	<b>26%</b>	23%
Mutual funds – fixed income securities	<b>71</b>	66
Money market funds	<b>3</b>	11
	<b>100%</b>	100%

Capital Health expects to pay future benefits as follows:

2023	\$	5,924
2024		5,712
2025		5,387
2026		4,934
2027		4,506
2028-2032		17,737

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

Capital Health does not expect to contribute to its defined benefit pension plan in 2023.

In March 2023, the Board of Trustees of Capital Health adopted a resolution to terminate the Plan effective October 31, 2023.

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:

	<b>December 31</b>	
	<b>2022</b>	<b>2021</b>
Health care services	\$ 4,208	\$ 3,984
Education	1,243	1,152
Equipment	5,118	3,744
Charity care	3,737	3,680
Other	3,172	1,491
	<b>\$ 17,478</b>	<b>\$ 14,051</b>

Net assets were released from restrictions for the following purposes:

	<b>Year Ended December 31</b>	
	<b>2022</b>	<b>2021</b>
Health care services	\$ 363	\$ 249
Education	109	5
Equipment	103	636
Charity care	-	1
Other	230	15
	<b>\$ 805</b>	<b>\$ 906</b>

Capital Health System, Inc. and Subsidiaries

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

**10. Net Assets With Donor Restrictions (continued)**

Changes in donor endowment funds for the years ended December 31, 2022 and 2021, consisted of the following:

	<b>Without Donor Restrictions</b>	<b>With Donor Restrictions</b>
Endowment funds at December 31, 2021	\$ 4,838	\$ 5,102
Investment return on endowments	805	-
Appropriations	(2)	-
Contributions	-	9
Endowment funds at December 31, 2022	<u>\$ 5,641</u>	<u>\$ 5,111</u>

	<b>Without Donor Restrictions</b>	<b>With Donor Restrictions</b>
Endowment funds at December 31, 2020	\$ 3,939	\$ 5,094
Investment return on endowments	906	-
Appropriations	(7)	-
Contributions	-	8
Endowment funds at December 31, 2021	<u>\$ 4,838</u>	<u>\$ 5,102</u>

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, 2022 or 2021.

## Capital Health System, Inc. and Subsidiaries

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

#### **11. Operating Leases and Other Commitments and Contingencies**

##### *Leases*

As described in Note 1, Capital Health adopted ASU 2016-02 effective January 1, 2022. 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, amongst 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 (or initially, greater than one year remaining under the lease at the date of adoption of ASU 2016-02), 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 with that of the lease term. Capital Health has made an accounting policy election not to separate lease components from non-lease components in contracts when determining its lease payments for its asset classes as permitted by ASU 2016-02. 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 made an accounting policy election not to record leases with an initial term of less than a year as right-of-use assets and liabilities.

Operating leases with a present value of approximately \$73,558 were recorded as right-of-use liabilities and assets as of January 1, 2022 upon adoption of ASU 2016-02.



Capital Health System, Inc. and Subsidiaries

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

**11. Operating Leases and Other Commitments and Contingencies**

The following schedule summarizes information related to the lease assets and liabilities as of and for the year ended December 31, 2022 (in thousands):

Lease cost:	
Finance lease cost:	
Amortization of right-of-use asset	\$ 525
Interest on lease liabilities	59
Operating lease cost	11,201
Short-term lease cost	297
Variable lease cost	2,638
Sublease and lessor income	<u>(1,249)</u>
Total lease cost	<u>\$ 13,471</u>
Right-of-use assets and liabilities:	
Right-of-use assets – finance leases	\$ 16,374
Lease liability – finance leases	16,377
Right-of-use assets – operating leases	75,400
Lease liability – operating leases	75,300
Other information:	
Cash paid for amounts included in the measurement of lease liabilities:	
Operating cash flows from finance leases	\$ 59
Operating cash flows from operating leases	11,139
Financing cash flows from finance leases	494
Right-of-use assets obtained in exchange for new finance lease liabilities	16,857
Right-of-use assets obtained in exchange for new operating lease liabilities	7,028
Weighted-average remaining lease term – finance leases	6.63
Weighted-average remaining lease term – operating leases	9.12
Weighted-average discount rate – finance leases	3.59%
Weighted-average discount rate – operating leases	1.73%

Capital Health System, Inc. and Subsidiaries

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

**11. Operating Leases and Other Commitments and Contingencies**

Rent expense under operating leases amounted to approximately \$13,036 and \$11,983 in 2022 and 2021, respectively, and is reported within supplies and other expenses on the accompanying consolidated statements of operations.

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

	<b>Finance Leases</b>	<b>Operating Leases</b>
2023	\$ 2,864	\$ 12,380
2024	2,864	10,958
2025	2,855	9,712
2026	2,731	8,998
2027	2,421	7,965
Thereafter	4,678	32,234
Total lease payment	18,413	82,247
Less: imputed interest	2,036	6,947
Total lease obligation	16,377	75,300
Less: current portion	2,322	11,012
Long-term portion	\$ 14,055	\$ 64,288

*Other Commitments and Contingencies*

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

## Capital Health System, Inc. and Subsidiaries

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

#### **12. Professional Liability Insurance**

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

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

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

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

## 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, 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.

At December 31, 2022 and 2021, CRIC has recorded an estimated reserve for claims of \$39,592 and \$53,382, 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 \$20,063 and \$32,945 at December 31, 2022 and 2021, 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, 2022 and 2021.

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 certain Capital Health affiliates not covered under CRIC. BSR-RRG provides physician professional liability insurance on a claims made basis primarily to physicians in the Commonwealth of Pennsylvania. Policy limits include indemnity only and are unlimited with respect to loss adjustment expense until associated limit is exhausted.

Capital Health System, Inc. and Subsidiaries

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

**13. Functional Expenses**

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

	<b>Year Ended December 31, 2022</b>		
	<b>Program Expenses</b>	<b>General and Administrative Expenses</b>	<b>Total Expenses</b>
Salaries and wages	\$ 343,671	\$ 161,137	\$ 504,808
Employee benefits	44,019	23,156	67,175
Supplies and other expenses	340,368	72,877	413,245
Interest	28,002	3,534	31,536
Depreciation and amortization	32,280	9,200	41,480
	<b>\$ 788,340</b>	<b>\$ 269,904</b>	<b>\$ 1,058,244</b>

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

Capital Health System, Inc. and Subsidiaries

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

**14. Liquidity and Availability**

Financial assets available for general expenditures within one year of December 31, 2022 and 2021, consist of the following:

	<u>2022</u>	<u>2021</u>
Cash and cash equivalents	\$ 74,743	\$ 42,389
Short-term investments	51,667	97,178
Patient accounts receivable, net	139,801	113,422
	<u>\$ 266,211</u>	<u>\$ 252,989</u>

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.

**15. Other Revenue**

Other operating revenue consists of the following:

	<b>Year Ended December 31</b>	
	<u>2022</u>	<u>2021</u>
HHS Provider Relief Fund	\$ —	\$ 1,689
FEMA Disaster Relief Fund	—	9,032
Employee Retention Credit	—	3,913
Paycheck Protection Program Loan Forgiveness	—	1,048
Purchasing rebates and settlements	1,712	3,599
Grant revenue	7,263	7,437
Investment income	2,066	1,558
Food services	879	1,009
Rental income	1,152	1,102
Settlements	8,000	—
Other	10,078	4,404
	<u>\$ 31,150</u>	<u>\$ 34,791</u>

Capital Health System, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)

*(Dollars In Thousands)*

**16. Subsequent Events**

Subsequent events have been evaluated through April 28, 2023 which is the date the accompanying consolidated financial statements were issued. Except as disclosed in Note 9, no subsequent events have occurred that require disclosure in or adjustment to the accompanying consolidated financial statements.

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