

CHILDREN'S HEALTH℠ SYSTEM OF TEXAS AND AFFILIATES

CONSOLIDATED FINANCIAL AND OPERATING INFORMATION

For the Nine Months Ended September 30, 2026 and 2025

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CHILDREN'S HEALTH SYSTEM OF TEXAS
Consolidated Balance Sheets
(in thousands)

	September 30, 2026 (Unaudited)	December 31, 2025 (Audited)
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$ 605,184	$ 495,751
Restricted cash	1,794	1,729
Short-term investments	861,817	488,985
Patient accounts receivable, net of allowances	512,512	519,055
Pledges receivable, net of allowances	46,088	52,282
Other current assets	275,977	459,473
TOTAL CURRENT ASSETS	**2,303,372**	**2,017,275**
Pledges receivable, net of allowances	128,663	93,263
Property and equipment, net	1,580,927	1,637,605
Assets limited as to use	2,937,045	3,033,634
Right of use asset	67,656	52,583
Investments in unconsolidated entities	971,560	560,329
Other assets	86,077	76,784
TOTAL ASSETS	**$ 8,075,300**	**$ 7,471,473**
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable	$ 251,057	$ 229,415
Accrued liabilities	178,904	155,642
Accrued interest	6,283	18,738
Current portion of long-term debt	13,735	13,366
Current portion of lease obligations	13,614	16,578
Other current liabilities	138,672	118,586
TOTAL CURRENT LIABILITIES	**602,265**	**552,325**
Long-term debt, net of current portion	1,550,716	1,566,363
Lease obligations, net of current portion	59,527	41,731
Other non-current liabilities	79,558	74,681
TOTAL LIABILITIES	**2,292,066**	**2,235,100**
NET ASSETS		
Without donor restrictions		
Attributable to Children's Health	5,131,766	4,649,901
Attributable to noncontrolling interests	4,337	5,636
Total without donor restrictions	5,136,103	4,655,537
With donor restrictions	538,629	494,078
With donor restrictions - NPC	108,502	86,758
TOTAL NET ASSETS	**5,783,234**	**5,236,373**
TOTAL LIABILITIES AND NET ASSETS	**$ 8,075,300**	**$ 7,471,473**



CHILDREN'S HEALTH SYSTEM OF TEXAS
Consolidated Statements of Operations
For the Quarters and Nine Months Ended September 30, 2026 and 2025
(Unaudited, in thousands)

	Quarters		Nine Months	
	2026	**2025**	**2026**	**2025**
OPERATING REVENUE				
Net patient service revenue	$ 834,653	$ 793,880	$ 2,456,211	$ 2,324,846
Other revenue	46,771	50,611	145,391	131,989
TOTAL OPERATING REVENUE	**881,424**	**844,491**	**2,601,602**	**2,456,835**
OPERATING EXPENSES				
Salaries and benefits	397,354	359,958	1,163,087	1,091,262
Physician and provider costs	87,226	82,309	246,568	242,283
Medical supplies	99,057	87,257	283,466	279,624
General support	199,655	170,405	586,641	489,135
Depreciation and amortization	50,150	27,612	109,549	83,115
Interest	14,850	6,928	44,081	18,106
TOTAL OPERATING EXPENSES	**848,292**	**734,469**	**2,433,392**	**2,203,525**
INCOME FROM OPERATIONS	**33,132**	**110,022**	**168,210**	**253,310**
NONOPERATING INCOME (LOSS)				
Realized investment gains, net	64,169	23,851	147,496	96,152
Unrealized investment gains, net	21,286	122,874	173,405	145,973
Other	(1,665)	(1,878)	(6,402)	(53,393)
TOTAL NONOPERATING INCOME	**83,790**	**144,847**	**314,499**	**188,732**
EXCESS OF REVENUE AND GAINS OVER EXPENSES AND LOSSES	**116,922**	**254,869**	**482,709**	**442,042**
Less revenue in excess of expenses attributable to noncontrolling interests	1,557	1,756	3,938	4,321
EXCESS OF REVENUE AND GAINS OVER EXPENSES AND LOSSES ATTRIBUTABLE TO CHILDREN'S HEALTH	**$ 115,365**	**$ 253,113**	**$ 478,771**	**$ 437,721**

CHILDREN'S HEALTH SYSTEM OF TEXAS
Consolidated Statements of Changes in Net Assets
For the Quarters and Nine Months Ended September 30, 2026 and 2025
(Unaudited, in thousands)

	Quarters		Nine Months	
	2026	**2025**	**2026**	**2025**
CHANGES IN NET ASSETS WITHOUT DONOR RESTRICTIONS				
Excess of revenue and gains over expenses and losses attributable to Children's Health	$ 115,365	$ 253,113	$ 478,771	$ 437,721
Net assets released from restrictions	2,073	758	2,710	939
Change in noncontrolling interests	(62)	26	(1,299)	949
Change in donor designation and other	290	-	384	(2,481)
INCREASE IN NET ASSETS WITHOUT DONOR RESTRICTIONS	**117,666**	**253,897**	**480,566**	**437,128**
CHANGES IN NET ASSETS WITH DONOR RESTRICTIONS				
Contributions	44,300	7,410	70,053	75,669
Change in split-interest agreements	27	133	22	129
Realized investment gains, net	5,812	2,005	12,909	8,687
Unrealized investment gains, net	2,994	14,253	21,620	16,667
Net assets released from restrictions for operations	(7,234)	(6,552)	(28,332)	(21,369)
Net assets released from restrictions for capital	(2,073)	(758)	(2,710)	(939)
Transfer of restricted net assets to PHMS for NPC	(22,543)	(8,256)	(31,685)	(56,256)
Equity in PHMS related to restricted contributions	11,953	9,000	21,744	33,000
Change in donor designation and other	2,082	834	2,674	1,429
INCREASE IN NET ASSETS WITH DONOR RESTRICTIONS	**35,318**	**18,069**	**66,295**	**57,017**
INCREASE IN NET ASSETS	**152,984**	**271,966**	**546,861**	**494,145**
NET ASSETS BEGINNING OF THE PERIOD	**5,630,250**	**4,693,369**	**5,236,373**	**4,471,190**
NET ASSETS END OF THE PERIOD	**$ 5,783,234**	**$ 4,965,335**	**$ 5,783,234**	**$ 4,965,335**

CHILDREN'S HEALTH SYSTEM OF TEXAS
Consolidated Statements of Cash Flows
For the Nine Months Ended September 30, 2026 and 2025
(Unaudited, in thousands)

	2026	2025
CASH FLOW FROM OPERATING AND NONOPERATING ACTIVITIES		
Increase in net assets	**$ 546,861**	**$ 494,145**
Adjustment to reconcile increase in net assets to net cash provided by operating and nonoperating activities:		
Depreciation	106,245	79,644
Amortization of goodwill	3,304	3,471
Amortization of financing cost and bond discounts	485	241
Amortization of bond premium	(2,397)	(1,720)
Unrealized gains on investments, net	(195,025)	(162,640)
Equity in losses of unconsolidated entities	-	4,344
Equity in PHMS related to restricted contributions included in net assets	(21,744)	(33,000)
Gain on disposal/sale of property and equipment	(175)	(73)
Impairment loss on equity method investment	-	5,747
Change in right of use asset	(15,073)	11,613
Receipt of restricted contributions	(14,918)	(14,116)
Receipt of restricted contributions - NPC	(24,931)	(20,269)
Transfer of restricted net assets to PHMS for NPC	31,685	56,256
Changes in operating assets and liabilities:		
Patient accounts receivable	6,543	51,497
Pledges receivable, net	(29,206)	(40,766)
Other current assets	183,496	51,420
Other assets	(2,061)	(4,583)
Assets limited as to use	261,671	(68,771)
Short-term investments	(320,155)	106,299
Accounts payable, accrued liabilities and accrued interest	32,449	(100,252)
Lease liability	14,832	(11,289)
Other current liabilities	20,085	2,081
Other noncurrent liabilities	5,259	4,074
NET CASH PROVIDED BY OPERATING AND NONOPERATING ACTIVITIES	**587,230**	**413,353**
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase and construction of property and equipment	(49,228)	(151,938)
Purchases of investments	(69,566)	(139,436)
Sales of investments	66,430	109,168
Investment in unconsolidated entities	(389,486)	(202,260)
Transfer of restricted net assets to PHMS for NPC	(31,685)	(56,256)
Acquisitions, primarily goodwill	(6,921)	(407)
NET CASH USED BY INVESTING ACTIVITIES	**(480,456)**	**(441,129)**

CHILDREN'S HEALTH SYSTEM OF TEXAS
Consolidated Statements of Cash Flows - *continued*
For the Nine Months Ended September 30, 2026 and 2025
(Unaudited, in thousands)

	2026	2025
CASH FLOWS FROM FINANCING ACTIVITIES		
Change in annuities and trust obligations, net	(382)	(524)
Receipt of restricted contributions	14,918	14,116
Receipt of restricted contributions - NPC	24,931	20,269
Issuance of long-term debt	-	820,371
Payments of debt issuance costs	-	(5,971)
Payments of long-term debt	(13,366)	(12,998)
NET CASH PROVIDED BY FINANCING ACTIVITIES	**26,101**	**835,263**
INCREASE IN CASH, CASH EQUIVALENTS, AND RESTRICTED CASH	**132,875**	**807,487**
CASH, CASH EQUIVALENTS, AND RESTRICTED CASH, beginning of the period	**685,578**	**647,068**
CASH, CASH EQUIVALENTS, AND RESTRICTED CASH, end of the period	**$ 818,453**	**$ 1,454,555**
Supplemental cash flow disclosures:		
Noncash investing activities		
Capitalized interest included in purchase and construction of property and equipment	$ 228	$ 669
Interest paid, net of capitalized interest	57,512	24,514

Note 1 - Organization and Summary of Significant Accounting Policies

Organization and Basis of Presentation

Children's Health System of Texas ("CHST" or "Children's Health") is a Texas nonprofit corporation exempt from federal income taxes as an organization described in Section 501(c)(3) of the Internal Revenue Code of 1986. CHST has been serving its mission in North Texas since 1913 and was incorporated in 1947. CHST and its affiliates (collectively, the "System") operates two pediatric hospitals, ambulatory care clinics, and a foundation. The two pediatric hospitals are licensed for a combined total of 700 licensed beds: (i) a 488-bed hospital ("Dallas Medical Center") located in Dallas, Texas and (ii) a 212-bed hospital ("Plano Medical Center") located in Plano, Texas.

CHST's wholly owned operating entities are disclosed in the consolidated financial statements as of and for the years ended December 31, 2025 and 2024.

Children's Health, with more than 11,000 employees, is the leading pediatric health care system in North Texas and one of the largest pediatric health care providers in the nation. Children's Medical Center Dallas presently offers care in more than 50 specialties, houses 52 pediatric intensive care beds, a 52-bed Level IV neonatal intensive care unit, and has state-of-the-art diagnostic technology tailored specifically for children. Additionally, the Dallas Campus is the only designated Level I trauma center for pediatrics in North Texas. A designated Level III pediatric trauma center, Children's Medical Center Plano currently provides care in more than 30 specialties and subspecialties, houses 212 licensed beds and offers full-service laboratory, pharmacy, inpatient rehabilitation therapy, respiratory care and imaging services on a 180-acre campus with green space and pasturing horses. The Children's Health Andrews Institute for Orthopedics & Sports Medicine, on the Plano Campus, is the first comprehensive orthopedic institute in North Texas for children and adults.

Basis of Presentation

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates, assumptions and judgments that affect the reported amounts in the consolidated financial statements, including the notes and related disclosures of commitments and contingencies, if any. Children's Health considers critical accounting policies to be those that require significant judgments and estimates in the preparation of its consolidated financial statements, including the following: recognition of net patient service revenue, which include contractual allowances and the implicit price concessions; receivables from donor pledges and the related allowance for uncollectible pledges; estimates for reimbursement under various Supplemental Payment Programs; reserves for losses and expenses related to health care professional and general liabilities; accruals for claims incurred but not yet reported; determination of fair value of certain financial instruments; determination of fair value of certain goodwill and long-lived assets. Management relies on historical experience and on other assumptions believed to be reasonable under the circumstances in making its judgments and estimates. Actual results could differ materially from these estimates.

The consolidated balance sheet at December 31, 2025, has been derived from the audited consolidated statements at that date, but does not include all of the information and footnotes required by generally accepted accounting principles for complete statements. For further information, refer to the audited consolidated financial statements and footnotes thereto for the year ended December 31, 2025, which can be found online at www.emma.msrb.org.

The consolidated financial statements include all wholly owned and or controlled subsidiaries of CHST.

All significant intercompany balances and transactions have been eliminated in consolidation.

Reclassifications

Certain prior year amounts in the consolidated statement of cash flows have been reclassified to conform to the current year presentation. Specifically, $37.4 million previously reported as "Increase in pledges receivable included in net assets - NPC" was reclassified to "Pledges receivable, net" within changes in operating assets and liabilities. This reclassification affected the presentation of individual line items within operating activities but had no impact on total changes in cash, cash equivalents, and restricted cash or the overall change in net assets.

Note 2 - Revenue

Children's Health disaggregates revenue from contracts by payor type and revenue stream.

Children's Health revenue by payor type and major service line for the nine months ended September 30, 2026 was as follows (in thousands):

	Payor			Total
	Government	Commercial	Other	Consolidated
Revenue Source				
Net Patient Service Revenue	$ 1,305,447	$ 1,136,357	$ 14,407	$ 2,456,211
Graduate Medical Education	10,435	-	-	10,435
Other	-	-	134,956	134,956
Total	$ 1,315,882	$ 1,136,357	$ 149,363	$ 2,601,602

Children's Health revenue by payor type and major service line for the nine months ended September 30, 2025 was as follows (in thousands):

	Payor			Total
	Government	Commercial	Other	Consolidated
Revenue Source				
Net Patient Service Revenue	$ 1,181,641	$ 1,111,740	$ 31,465	$ 2,324,846
Graduate Medical Education	13,440	-	-	13,440
Other	-	-	118,549	118,549
Total	$ 1,195,081	$ 1,111,740	$ 150,014	$ 2,456,835

Net patient service revenue is reported at the amount that reflects the consideration Children's Health expects to be due from patients and third-party payors in exchange for providing patient care. Providing patient care services is considered a single performance obligation, satisfied over time, in both the inpatient and outpatient setting.

Children's Health has agreements with third-party payors that generally provide for payments at amounts different from its established charges. For uninsured patients who do not qualify for charity care, Children's Health recognizes revenue based on established charges subject to certain discounts and implicit price concessions. Children's Health determines the transaction price based on standard charges for services provided, reduced by explicit price concessions provided to third-party payors. Discounts are provided to uninsured patients in accordance with policy and implicit price concessions provided to uninsured patients. Explicit price concessions are based on contractual agreements, discount policies and historical experience. Implicit price concessions represent differences between amounts billed and the estimated consideration Children's Health expects to receive from patients which are determined based on historical collection experience and other factors.

Patients who are covered by third-party payors are responsible for patient responsibility balances, including deductibles and coinsurance, which vary in amount. Children's Health estimates the transaction price for patients with deductibles and coinsurance based on historical experience. The initial estimate of the transaction price is determined by reducing the standard charge by any explicit price concessions, discounts, and implicit price concessions. Subsequent changes to the estimate of the transaction price are recorded as adjustments to patient service revenue in the period of the change.

Children's Health is paid a prospectively determined rate, depending on the third-party payor. Reimbursement for inpatient services for Traditional Medicaid, Children with Special Health Care Needs, Children's Health Insurance Program ("CHIP") and certain Managed Medicaid contracts are based on All Patient Refined Diagnosis Related Groups. For outpatient services, these same payors pay based on a fixed fee or cost-based reimbursement. Commercial and certain managed care payors are reimbursed based on a percent of charges.

For cost-based reimbursement, Children's Health is reimbursed for its actual audited allowable cost of providing care to Medicaid enrollees using the Tax Equity and Fiscal Responsibility Act of 1982 cost principles. Children's Health files an annual cost report that is subject to administrative review and audit by third parties. As a result, there is a reasonable possibility that recorded estimates may change by a material amount as interpretations are clarified and cost reports are settled. The initial estimates are revised as needed until the cost report is final settled. Children's Health believes that the consolidated balance sheet amounts recorded are adequate to cover any such adjustments. At September 30, 2026 and 2025, Children's Health had a liability of $13.8 million and $17.4 million, respectively, recorded in accrued liabilities in the accompanying consolidated balance sheets. For the nine months ended September 30, 2026 and 2025, revenue increased $4.3 million and $0 million respectively, related to changes in estimates for cost report reopenings, appeals, and tentative and final cost report settlements on filed cost reports, of which some are still subject to audit, additional reopening, and/or appeal.

Note 3 - Restricted Cash

Cash, cash equivalents, and restricted cash as reported in the consolidated statements of cash flows are presented separately within the consolidated balance sheet in the following asset classes (in thousands):

	As of September 30, 2026	As of December 31, 2025
Cash and cash equivalents	$ 605,184	$ 495,751
Restricted cash	1,794	1,729
Assets limited as to use or restricted	211,475	188,098
Total cash, cash equivalents, and restricted cash	$ 818,453	$ 685,578

Note 4 - Fair Value of Financial Instruments

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 (i.e., an exit price). To measure fair value, a hierarchy has been established that requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs. As such, the hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets and liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3).

The three levels of the fair value hierarchy are described below:

Level 1: Unadjusted quoted prices in active markets that are accessible to the reporting entity at the measurement date for identical assets or liabilities.

Level 2: Inputs other than quoted prices in active markets for identical or similar assets and liabilities that are observable either directly or indirectly for substantially the full term of the asset or liability. Level 2 inputs include the following:

- quoted prices for identical or similar assets and liabilities in active markets
- quoted prices for identical or similar assets or liabilities in markets that are not active
- observable inputs other than quoted prices that are used in the valuation of the assets or liabilities (i.e., interest rate and yield curve quotes at commonly quoted intervals)
- inputs that are derived principally from or corroborated by observable market data by correlation or other means

Level 3: Unobservable inputs for the asset or liability (i.e., supported by little or no market activity). Level 3 inputs include management's own assumptions about the assumptions that market participants would use in pricing the asset or liability (including assumptions about risk).

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

The following is a description of the valuation techniques and inputs used for each major class of assets and liabilities measured at fair value.

Cash and Cash Equivalents

Cash and cash equivalents include all cash balances and highly liquid investments with original maturities of three months or less. Cash equivalents also include certain money market funds used for daily operating liquidity, which

are readily convertible to known amounts of cash and present insignificant risk of changes in value. The carrying amount approximates fair value due to the short maturity of these instruments.

Short Term Investments

Short-term investments consist primarily of trading securities, including certain money market funds, that are not used for day-to-day operating liquidity but are available to support general liquidity needs. These investments are subsequently measured at fair value, and unrealized gains and losses are included in nonoperating income in the accompanying consolidated statements of operations.

U.S. Government Securities, Common Stocks, Mutual Funds, Common/Collective Trusts, and Debt Securities

The fair values of the investments included in Level 1 were determined through quoted market prices, while the fair values of Level 2 investments were determined primarily using a market approach, with inputs, such as evaluated bid prices provided by third-party pricing services, where quoted market values are not available.

The underlying investments of common/collective trusts and pooled investment funds consist of marketable debt and equity securities with readily determinable market values without any lock-up or gate provisions.

Alternative Investments

Children's Health's alternative investments have similar risks as traditional fixed income and equity securities, although there may be some additional risk. The alternative investment strategy is to invest in hedge funds and private equity to obtain attractive risk-adjusted returns that are uncorrelated with equities and fixed income. These funds are invested through limited partnerships that employ various investment strategies, including long-term and short-term equity, multi-strategy, and credit. Performance is driven by individual manager selection and their ability to obtain superior results. Certain alternative investments have lock-up periods and other liquidity limitations that are generally one year from the date of the original investment. Earlier redemptions are allowed with an early redemption penalty.

The leveling tables include alternative investments held at the Foundation which were measured at fair value using net asset value ("NAV") as a practical expedient, as allowed under ASU 2015-07, *Fair Value Measurement (Topic 820): Disclosures for Investments in Certain Entities That Calculate Net Asset Value per Share (Or Its Equivalents)*. The net asset values of alternative investments are based on valuations provided by the managers of each fund. Valuations provided by the respective investment's management consider variables such as the financial performance of underlying investments, recent sales prices of underlying investments, and other pertinent information. In addition, actual market exchanges at year-end provide additional observable market inputs of the exit price.

Children's Health accounts for its alternative investments held outside the Foundation using the equity method of accounting; accordingly, these investments are also excluded from the three-tier fair value hierarchy.

Estimated fair values of financial instruments were as follows at September 30, 2026 (in thousands):

		Assets at Fair Value		
	Total	**Level 1**	**Level 2**	**Level 3**
Investment portfolio:				
Cash and cash equivalents	$ 211,475	$ 211,475	$ -	$ -
Restricted cash equivalents held by trustee	174,000	-	174,000	-
U.S. government securities	544,275	544,275	-	-
Common stocks	286,142	286,142	-	-
Debt securities:				
Corporate bonds	345,093	-	345,093	-
Mortgage-backed securities	187,531	-	187,531	-
Mutual funds:				
Registered:				
Domestic equity	23,213	23,213	-	-
International equity	2,451	2,451	-	-
Fixed income	1,488	1,488	-	-
Balanced and other	13,798	13,798	-	-
Total investments at fair value	$ 1,789,466	$ 1,082,842	$ 706,624	$ -
Investments recognized at net asset value:				
Common/collective trusts:				
Domestic equity	203,220			
International equity	526,719			
Hedge funds	494,947			
Private equity and other	815,946			
Total investment portfolio	3,830,298			
Included in short-term investments and other assets	902,767			
Total assets limited to use	$ 2,927,531			

Estimated fair values of financial instruments were as follows at December 31, 2025 (in thousands):

		Assets at Fair Value		
	Total	**Level 1**	**Level 2**	**Level 3**
Investment portfolio:				
Cash and cash equivalents	$ 188,098	$ 188,098	$ -	$ -
Guaranteed investment contracts held by trustee	456,245	-	456,245	-
U.S. government securities	389,924	389,924	-	-
Common stocks	297,096	297,096	-	-
Debt securities:				
Corporate bonds	259,002	-	259,002	-
Mortgage-backed securities	144,164	-	144,164	-
Mutual funds:				
Registered:				
Domestic equity	22,503	22,503	-	-
International equity	1,917	1,917	-	-
Fixed income	1,083	1,083	-	-
Balanced and other	11,668	11,668	-	-
Total investments at fair value	$ 1,771,700	$ 912,289	$ 859,411	$ -
Investments recognized at net asset value:				
Common/collective trusts:				
Domestic equity	180,052			
International equity	424,449			
Hedge funds	487,967			
Private equity	685,203			
Total investment portfolio	3,549,371			
Included in short-term investments and other assets	526,155			
Total assets limited to use	$ 3,023,216			

The tables above include equity investments in managed funds held at the Foundation. Remaining alternative investments in managed funds held by Children's Health of $9.5 million and $10.4 at September 30, 2026 and December 31, 2025, respectively, are not included in this table since they are accounted for using the equity method of accounting. Additionally, $41.0 million and $37.2 million of other assets were added to the corresponding categories of investments at fair value as of September 30, 2026 and December 31, 2025, respectively.

Note 5 - Leases

Children's Health leases office and clinical space and certain equipment under operating lease agreements that extend through 2047. Children's Health utilizes a practical expedient which does not require separation of non-lease and associated lease components. The company also elected a practical expedient for short-term lease exemption whereby leases with an initial term of 12 months or less without an option to purchase the underlying asset that is deemed reasonably certain to be exercised are not recorded on the balance sheet; rather, rent expense for these leases is recognized on a straight-line basis over the lease term. The lease term includes any options to renew that are reasonably certain of being exercised. Children's Health recognizes the total value of lease payments over the lease term as expense on a straight-line basis.

Variable lease payments are recognized as lease expense in the period in which the obligation for those payments is incurred and are not included in the measurement of lease liabilities. Such payments primarily relate to changes in an index or rate (e.g., CPI adjustments) and reimbursements of lessor costs such as property taxes, insurance, and maintenance.

When readily determinable, Children's Health uses the interest rate implicit in a lease to determine the present value of future lease payments. For leases where the implicit rate is not readily determinable, Children's Health utilizes a market-based yield curve. Children's Health calculates its incremental borrowing rate using publicly available market data, including the Bloomberg US Corporate high-yield curve during the initial year of the lease which estimates the rate of interest Children's Health would have to pay to borrow an amount equal to the total lease payments on a collateralized basis over a term similar to the lease. Each lease was analyzed independently, and the appropriate rate was applied to future payments to determine the net present value of those payments.

Operating lease and rental expenses and supplemental cash flow information for the nine months ended September 30, 2026 and 2025 are as follows (in thousands):

	2026	2025
Operating lease and rental expenses included in general support in the consolidated statements of operations	$ 18,900	$ 18,826
Cash paid for amounts included in the measurement of operating lease liabilities	14,906	14,906
Lease liabilities arising from the initial recognition of new lease right of use assets	27,965	1,919

Lease term and discount rate as of September 30, 2026 and 2025 are as follows:

	2026	2025
Weighted average remaining lease term - operating leases	6.6 years	6.1 years
Weighted average discount rate	4.4%	3.9%

The minimum future obligations under these agreements for the nine months ended September 30, 2026 are as follows (in thousands):

	2026
2026	$ 4,286
2027	15,241
2028	14,382
2029	12,815
2030	11,279
Thereafter	26,993
Total minimum lease payments	84,996
Less: amount of lease payments representing interest	(11,855)
Present value of future minimum lease payments	73,141
Less: current obligations under leases	(13,614)
Long-term lease obligations	$ 59,527

Note 6 - Employee Retirement Benefit Plans

Children's Health provides 401(a) defined contribution plan for the benefit of substantially all employees of Children's Health and Related Subsidiaries (collectively, Children's Health). This plan, known as The Children's Medical Center 401(a) Employee Savings Plan ("Savings Plan"), serves as the primary retirement program for all employees. The Savings Plan offers a common matching scale for all participants and normalizes Children's Health's retirement contribution for all employees. Employees who choose to participate in the Savings Plan receive a matching contribution of 4.0% to 10.0%, based on years of service. Children's Health made contributions of $44.7 million and $43.2 million to the Savings Plan for the nine months ended September 30, 2026 and 2025, respectively.

Note 7 - Professional Liability

ASU 2010-24, *Healthcare Entities Presentation of Insurance Claims and Related Insurance Recoveries,* requires professional liabilities to be reported at gross, without the consideration of insurance recoveries. Accordingly,

Children's Health has recorded insurance recoveries and professional liabilities included in other assets and other noncurrent liabilities, respectively, in the consolidated balance sheets. As of September 30, 2026 and December 31, 2025, Children's Health's professional liability consists of the following (in thousands):

Insurance recoveries included in other assets	$ 4,631
Less: Professional liability included in other noncurrent liabilities	32,041
Professional liability, net of insurance recoveries	$ 27,410

Note 8 - Functional Expenses

Functional expenses for the nine months ended September 30, 2026 were as follows (in thousands):

	Health Care Services		Support Services		
	Hospital	Physician Services	MG&A	Fundraising	**Total**
Salaries and benefits	$ 713,168	$ 134,536	$ 302,092	$ 13,291	$ 1,163,087
Physician and provider costs	220,339	26,229	-	-	246,568
Medical supplies	269,699	13,766	-	1	283,466
General support	356,474	25,584	197,999	6,584	586,641
Depreciation and amortization	92,744	3,965	12,800	40	109,549
Interest	16,856	1	27,224	-	44,081
	$ 1,669,280	$ 204,081	$ 540,115	$ 19,916	$ 2,433,392

Functional expenses for the nine months ended September 30, 2025 were as follows (in thousands):

	Health Care Services		Support Services		
	Hospital	Physician Services	MG&A	Fundraising	**Total**
Salaries and benefits	$ 704,193	$ 121,602	$ 253,107	$ 12,360	$ 1,091,262
Physician and provider costs	221,221	21,062	-	-	242,283
Medical supplies	268,497	11,126	-	1	279,624
General support	272,357	29,623	181,378	5,777	489,135
Depreciation and amortization	66,681	2,266	13,989	179	83,115
Interest	16,661	8	1,437	-	18,106
	$ 1,549,610	$ 185,687	$ 449,911	$ 18,317	$ 2,203,525

Management, general and administrative ("MG&A") expenses include overhead areas such as accounting, human resources, marketing, information services and other corporate related expenses. These expenses were not allocated to the health care service lines.

Note 9 - Charity Care

Children's Health utilizes the cost to charge ratios, as calculated based on its most recent cost reports filed with the CMS, to determine the total cost. The value and cost of charity care provided by Children's Health, based upon its established rates for the nine months ended September 30, 2026 and 2025 are as follows (in thousands):

	2026	2025
Charity Care Value and Cost		
Value of charity care	$ 134,746	$ 99,171
Cost of providing charity care services	55,071	41,638

Note 10 - Significant Events and Transactions

New Pediatric Campus

Children's Health and UTSW continue activities related to the New Pediatric Campus through Pediatric Health Management Services ("PHMS"), a jointly governed entity formed to support development of the New Pediatric Campus. Children's Health continued to provide funding through capital contributions to PHMS during the nine months ended September 30, 2026. Additional information regarding PHMS and the related agreements is included in the audited consolidated financial statements for the year ended December 31, 2025. No significant modifications to the underlying agreements occurred during the current period.

Payer Relationship Changes

During the nine months ended September 30, 2026, Children's Health experienced changes in certain payer relationships. Management continues to evaluate the financial implications of these changes; however, the potential impact cannot yet be reasonably estimated.

Supplementary Information

OBLIGATED GROUP
Combining Balance Sheet
As of September 30, 2026
(Unaudited, in thousands)

	CHST	Foundation	Eliminations	Combined
ASSETS				
CURRENT ASSETS				
Cash and cash equivalents	$ 542,514	$ 2,814	$ -	$ 545,328
Restricted cash	-	1,794	-	1,794
Short-term investments	820,817	41,000	-	861,817
Patient accounts receivable, net of allowances	497,546	-	-	497,546
Pledges receivable, net of allowances	-	46,088	-	46,088
Other current assets	275,227	1,974	-	277,201
TOTAL CURRENT ASSETS	**2,136,104**	**93,670**	**-**	**2,229,774**
Pledges receivable, net of allowances	-	128,663	-	128,663
Property and equipment, net	1,539,540	-	-	1,539,540
Assets limited as to use	189,698	2,694,427	-	2,884,125
Net assets of the Foundation	2,909,510	-	(2,909,510)	-
Investments in unconsolidated entities	936,462	-	-	936,462
Right of use asset	53,271	1,577	-	54,848
Other assets	111,646	1,942	-	113,588
TOTAL ASSETS	**$ 7,876,231**	**$ 2,920,279**	**$ (2,909,510)**	**$ 7,887,000**
LIABILITIES AND NET ASSETS				
CURRENT LIABILITIES				
Accounts payable	$ 236,151	$ 302	$ -	$ 236,453
Accrued liabilities	167,100	1,525	-	168,625
Accrued interest	6,283	-	-	6,283
Current portion of long-term debt	13,735	-	-	13,735
Current portion of lease obligations	11,945	244	-	12,189
Other current liabilities	103,853	-	-	103,853
TOTAL CURRENT LIABILITIES	**539,067**	**2,071**	**-**	**541,138**
Long-term debt, net of current portion	1,550,716	-	-	1,550,716
Lease obligations, net of current portion	45,434	1,496	-	46,930
Other non-current liabilities	74,534	5,024	-	79,558
Intercompany	3,403	2,178	-	5,581
TOTAL LIABILITIES	**2,213,154**	**10,769**	**-**	**2,223,923**
NET ASSETS				
Without donor restrictions	2,628,260	2,387,686	-	5,015,946
With donor restrictions	2,926,315	521,824	(2,909,510)	538,629
With donor restrictions - NPC	108,502	-	-	108,502
TOTAL NET ASSETS	**5,663,077**	**2,909,510**	**(2,909,510)**	**5,663,077**
TOTAL LIABILITIES AND NET ASSETS	**$ 7,876,231**	**$ 2,920,279**	**$ (2,909,510)**	**$ 7,887,000**



OBLIGATED GROUP
Combining Statement of Operations
For the Nine Months Ended September 30, 2026
(Unaudited, in thousands)

	CHST	Foundation	Eliminations	Combined
OPERATING REVENUE				
Net patient services revenue	$ 2,360,585	$ -	$ -	$ 2,360,585
Other revenue	122,765	3,093	(2,936)	122,922
TOTAL OPERATING REVENUE	**2,483,350**	**3,093**	**(2,936)**	**2,483,507**
OPERATING EXPENSES				
Salaries and benefits	1,012,547	13,291	-	1,025,838
Physician and provider costs	240,111	-	-	240,111
Medical supplies	269,671	1	-	269,672
General support	553,161	9,520	(2,936)	559,745
Depreciation and amortization	105,312	40	-	105,352
Interest	44,080	-	-	44,080
Shared Services	(40,460)	-	-	(40,460)
TOTAL OPERATING EXPENSES	**2,184,422**	**22,852**	**(2,936)**	**2,204,338**
INCOME (LOSS) FROM OPERATIONS	**298,928**	**(19,759)**	**-**	**279,169**
NONOPERATING INCOME (LOSS)				
Realized investment gains, net	40,353	102,693	-	143,046
Unrealized investment (losses) gains, net	(7,764)	181,169	-	173,405
Other	(3,000)	-	-	(3,000)
TOTAL NONOPERATING INCOME	**29,589**	**283,862**	**-**	**313,451**
EXCESS OF REVENUE AND GAINS OVER EXPENSES AND LOSSES	**$ 328,517**	**$ 264,103**	**$ -**	**$ 592,620**
Operating margin [1]				**11.2%**
Operating cash flow margin [2]				**17.3%**

[1] Operating margin is calculated as income from operations divided by total operating revenue.

[2] Operating cash flow margin is calculated as the sum of income from operations, interest expense, depreciation and amortization divided by total operating revenue.

Children's Health Obligated Group
Note to Combining Financial Statements
For the Nine Months Ended September 30, 2026

Note 1 - Basis of Presentation

Effective January 1, 2023, Children's Health Clinical Operations ("CHCO") and Children's Health System of Texas ("CHST"), each a Texas nonprofit corporation and an Obligated Group Member under the hereinafter defined Master Indenture, merged (the "Merger"). CHCO was the surviving entity of the Merger and changed its name to "Children's Health System of Texas." Following the Merger, the Obligated Group under the Master Trust Indenture dated as of September 1, 1988 and amended and restated as of August 1, 2020, among Children's Health System of Texas, the other Obligated Group Members referred to therein, and The Bank of New York Mellon Trust Company, National Association, as trustee, consists of the following entities: CHST and Children's Medical Center Foundation, a Texas nonprofit corporation.

CHST is providing the following quantitative financial information and operating data as required by a Continuing Disclosure Agreement related to its outstanding bonds. This financial information includes utilization statistics, debt service coverage calculations, liquidity and capital ratios, and payor mix by campus.

These combining financial statements have been prepared using the same accounting principles and policies described in the notes to the Consolidating Financial Statements.

Utilization Statistics

(Unaudited, in thousands)

	Nine Months Ended September 30,	
	2026	**2025**
Inpatient discharges	12,283	12,210
Inpatient days (including ICU days)	92,374	94,791
ICU days	46,713	48,629
Average length of stay (days)	7.52	7.76
Observation cases	18,660	16,111
Patient days (including observations)	111,034	110,902
Average daily census	407	406
Weighted average beds in service [1]	553	553
Percentage occupancy	74%	73%
Emergency visits	115,105	108,881
Clinic visits (including virtual visits)	683,979	681,305
Surgeries	20,791	20,337

[1] *Weighted average number of beds in service year-to-date; calculated as the sum of each 9-month number of beds in service, divided by 9.*

Coverage of Debt Service Requirements

(Audited, in thousands)

	Years Ended December 31,	
	2025	**2024**
Excess of revenue and gains over expenses and losses attributable to Children's Health	$ 698,851	$ 238,329
Depreciation and amortization expense	127,235	96,748
Interest expense	32,914	15,915
Unrealized investment gains, net	(154,513)	(18,732)
Other*	78,631	194,929
Consolidated revenues available for debt service	$ 783,118	$ 527,189
Historical maximum annual debt service[1]	102,718	46,606
Historical coverage of maximum annual debt service[2]	7.6x	11.3x

**As of December 31, 2025 and 2024, Children's Health recognized $43 million and $160 million, respectively, as other nonoperating expense in the consolidated statements of operations, respectively, which represent donations to the Texas Health and Human Services Commission in support of building a new state inpatient mental health facility. Refer to the 2025 Children's Health Audited Financial Statements for further information.*

[1] *Historical maximum annual debt service requirements in any subsequent fiscal year on the then-outstanding debt.*

[2] *Historical coverage of maximum annual debt service is calculated as net consolidated revenues available for debt service divided by historical maximum annual debt service requirements.*

Summary of Cash and Investments and Liquidity and Capitalization Ratios

(Unaudited, in thousands)

	As of September 30,	
	2026	**2025**
Cash and cash equivalents	$ 605,184	$ 592,786
Short-term investments	861,817	514,581
Board designated investments	2,396,432	2,096,936
Total available cash and investments	$ 3,863,433	$ 3,204,303
Total debt [1]	$ 1,564,451	$ 1,580,650
Total operating expenses	$ 2,433,392	$ 2,203,525
Less: depreciation and amortization	109,549	83,115
Adjusted total operating expenses	$ 2,323,843	$ 2,120,410
Average daily operating expense [2]	$ 8,512	$ 7,767
Days cash on hand [3]	454	413
Debt-to-capitalization [4]	23.4%	26.5%
Cash-to-debt [5]	247.0%	202.7%

[1] *Total debt includes unamortized bond premium/discount and other deferred financing costs of $20.2 million and $22.7 million as of September 30, 2026 and 2025, respectively.*

[2] *Average daily operating expense is calculated as adjusted total operating expenses divided by calendar days in the preceding nine months for the nine months ended September 30, 2026 and 2025.*

[3] *Days cash on hand is calculated as total available cash and investments multiplied by calendar days in the preceding nine months for the nine months ended September 30, 2026 and 2025, divided by adjusted total operating expenses less depreciation and amortization for such months.*

[4] *Debt-to-capitalization is calculated as total debt divided by the sum of total debt and unrestricted net assets excluding noncontrolling interest.*

[5] *Cash-to-debt is calculated as total available cash and investments divided by total debt.*

Payor mix percentages are calculated based on gross revenue in the tables below.

Payor Mix
All Campus
(unaudited)

	Nine Months Ended September 30,	
	2026	**2025**
Medicare	1%	1%
Medicaid (Traditional)	7	7
Medicaid (Managed Care)	47	50
Commercial	41	39
Self-Pay	4	3
All Other	0	0

Payor Mix
Dallas Campus
(unaudited)

	Nine Months Ended September 30,	
	2026	**2025**
Medicare	1%	1%
Medicaid (Traditional)	8	8
Medicaid (Managed Care)	49	52
Commercial	39	36
Self-Pay	3	3
All Other	0	0

Payor Mix
Plano Campus
(unaudited)

	Nine Months Ended September 30,	
	2026	**2025**
Medicare	0%	0%
Medicaid (Traditional)	4	5
Medicaid (Managed Care)	39	39
Commercial	53	53
Self-Pay	4	3
All Other	0	0

Management's Discussion and Analysis of Financial Condition and Results of Operations (Unaudited)

The following discussion and analysis should be read in conjunction with the Children's Health System of Texas Consolidated Financial Statements and the Notes thereto.

Summary of Utilization
For the Quarters and Nine Months Ended September 30, 2026 and 2025

	Third Quarter				Nine Months Ended			
	2026	2025	Change from Prior	% of Change	2026	2025	Change from Prior	% of Change
Case mix index	2.85	3.17	(0.32)	(10.0%)	2.80	2.82	(0.02)	(0.8%)
- Medicaid case mix index	2.94	3.40	(0.46)	(13.5%)	2.90	2.87	0.03	0.9%
Payor mix (based on gross revenue):								
Commercial	43%	40%	3%	7%	41%	39%	2%	5%
Medicaid (Traditional)	8%	7%	1%	14%	7%	7%	-%	-%
Medicaid (Managed Care)	45%	50%	(5%)	(10%)	47%	50%	(3%)	(6%)
Other	4%	3%	1%	33%	5%	4%	1%	25%

Net Patient Service Revenue

Patient service revenue is derived from charges for services provided to patients. Physicians order all services provided to patients, such as inpatient care and ancillary services, lab tests, drugs, radiology procedures, and surgical procedures. Children's Health records charges as revenue at the time the service is provided.

Children's Health has contractual agreements with third-party payors, including managed care health plans, such as HMOs and PPOs, and government programs, such as Medicaid and CHIP, which are both administered by the state of Texas. Payments from these payors are based on charges, fixed per diem rates, the costs of providing services, and discounts from established charges. Children's Health reports revenue at net realizable value after reflecting adjustments provided for in these contracts.

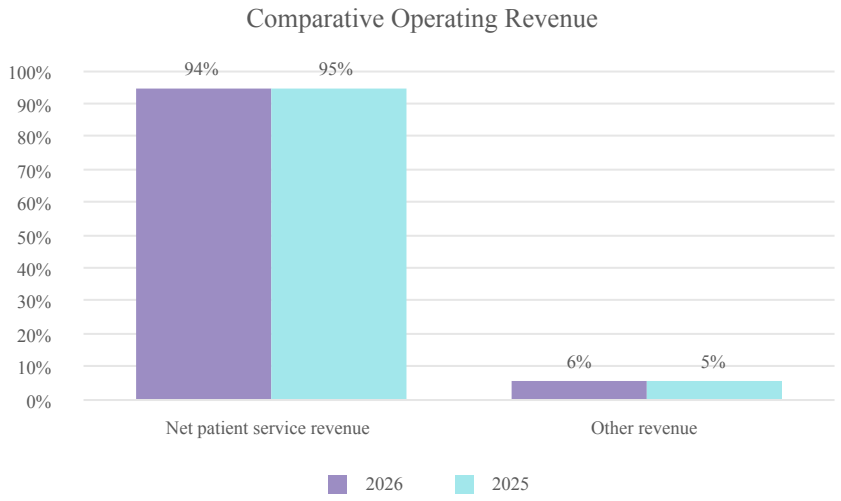
Children's Health provides financial counseling to assist patients with no third-party coverage in qualifying for government programs. Children's Health records revenue for these patients at net realizable value based on historical qualification rates. Charges for patients that do not qualify for government assistance, but fall within Children's Health's charity guidelines, are recorded as charity care and excluded from patient service revenue.

Accounts receivable on Children's Health's consolidated balance sheets is recorded net of allowances for contractual adjustments, implicit price concessions, and charity care.

The volume of inpatient, outpatient, and day surgery patients, as well as the acuity or intensity of care required, drives the level of Children's Health revenue. Volumes in intensive care units have a disproportionately large influence on the level of revenue due to the very high acuity and resource consumption of these patients and because contractual arrangements provide an adequate level of reimbursement for these cases.

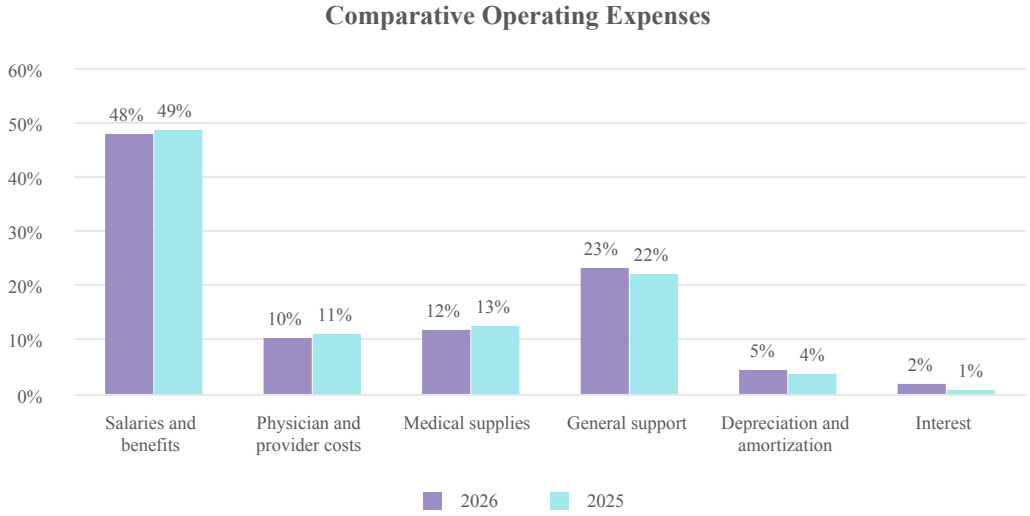
Total Operating Revenue

The graph below displays the comparison of operating revenue categories for the nine months ended September 30, 2026 and 2025.



Expenses

The graph below displays operating expense categories as a percentage of total operating expenses for the nine months ended September 30, 2026 and 2025.



Healthcare is a very labor-intensive industry with over 48% of total expense attributable to salaries and benefits. The salaries and benefits expense category represents salaries for all employees, employee benefits and payroll-related taxes.

Physician and provider costs include the costs associated with residents and providers, including medical administrative and physician coverage fees.

Supplies and other expenses include the cost of medical supplies, pharmaceuticals, and services directly related to patient care.

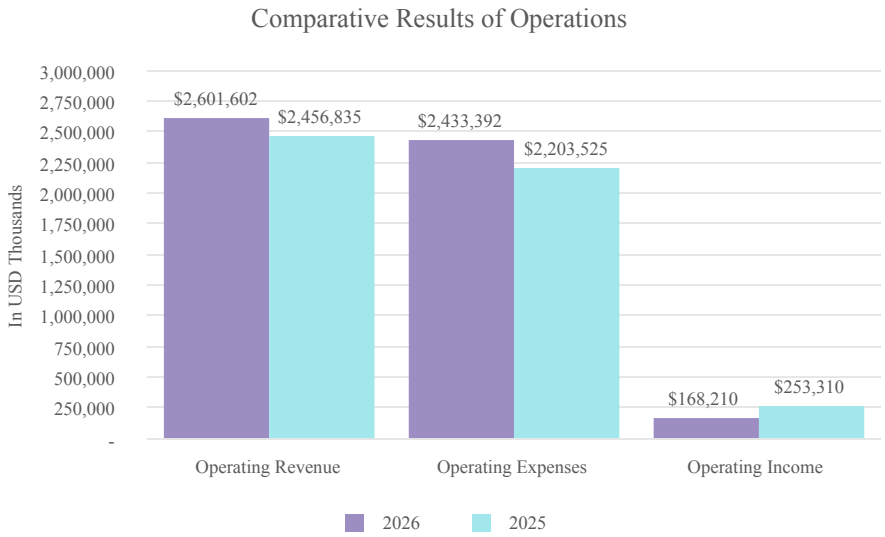
The general support expense category represents non-clinical supply and service costs in areas such as information services, medical records, billing and collections, and intergovernmental transfers.

The depreciation and amortization expense category represents the cost of property and equipment recognized over the estimated useful lives of the assets, as well as goodwill. Depreciation and amortization are computed using the straight-line method over a period of 3 to 50 years based on the asset classification or terms of the leases and goodwill is amortized over 10 years.

The interest expense category represents interest accrued for outstanding bond issues.

Results of Operations

Operating income of $168.2 million for the nine months ended September 30, 2026, represents a decrease of $85.1 million, or 33.6%, compared to the same period in 2025.



The table below displays the comparative change in operating revenue for the nine months ended September 30, 2026 and 2025 (in thousands).

			Change from Current to Prior	
	2026	**2025**	**Dollars**	**Percent**
Net patient service revenue	$ 2,456,211	$ 2,324,846	$ 131,365	6%
Other revenue	145,391	131,989	13,402	10%
Total Operating Revenue	**$ 2,601,602**	**$ 2,456,835**	**$ 144,767**	**6%**

The table below reflects the comparative change in operating expenses for the nine months ended September 30, 2026 and 2025 (in thousands).

			Change from Current to Prior	
	2026	**2025**	**Dollars**	**Percent**
Salaries and benefits	$ 1,163,087	$ 1,091,262	$ 71,825	7%
Physician and provider costs	246,568	242,283	4,285	2%
Medical supplies	283,466	279,624	3,842	1%
General support	586,641	489,135	97,506	20%
Depreciation and amortization	109,549	83,115	26,434	32%
Interest	44,081	18,106	25,975	143%
Total Operating Expenses	**$ 2,433,392**	**$ 2,203,525**	**$ 229,867**	**10%**

The table below reflects operating expenses as a percentage of net patient service revenue for the nine months ended September 30, 2026 and 2025 (in thousands).

	2026	2025
Salaries and benefits	47%	47%
Physician and provider costs	10%	10%
Medical supplies	12%	12%
General support	24%	21%
Depreciation and amortization	4%	4%
Interest	2%	1%
Total Operating Expenses as a % of Net patient service revenue	**99%**	**95%**

Liquidity and Capital Resources

Days cash on hand was 454 days and 413 days as of September 30, 2026 and 2025, respectively.

The table below displays the comparative analysis of change in cash for the nine months ended September 30, 2026 and 2025 (in thousands).

	2026	2025
Net cash provided by operating and nonoperating activities	$ 587,230	$ 413,353
Net cash used in investing activities	(480,456)	(441,129)
Net cash provided by financing activities	26,101	835,263

Off-Balance Sheet Financing

Children's Health does not have any debt or material guarantee obligations that are not reflected on the accompanying consolidated balance sheets and does not have an ownership stake in any special purpose entities.

CHILDREN'S HEALTH SYSTEM OF TEXAS
Liquidity Worksheet
Summary as of September 30, 2026
(in thousands)

ASSETS (Gross)	
Daily Liquidity	
Cash and cash equivalents	$ 808,118
Weekly Liquidity	
U.S. government securities	544,275
Exchange Traded Equities	269,239
Corporate bonds	312,009
Mortgage-backed securities	187,532
$300 million General Purpose Line of Credit	300,000
Subtotal Weekly Liquidity	1,613,055
TOTAL DAILY & WEEKLY LIQUIDITY	**$ 2,421,173**
CURRENTLY OUTSTANDING SELF-LIQUIDITY LIABILITIES	
Self-Liquidity Taxable Commercial Paper	
Taxable CP (authorized maximum amount $300 million)	$ -
Subtotal of CP	-
TOTAL SELF-LIQUIDITY LIABILITIES	**$ -**