Trinitas Regional Medical Center

Consolidated Financial Statements

December 31, 2015 and 2014

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Baker Tilly Virchow Krause, LLP
100 Walnut Ave, Ste 200
Clark, NJ 07066-1255
tel 732 388 5210
tel 800 267 9405
fax 888 264 9617
bakertilly.com

Independent Auditors' Report

Board of Trustees
Trinitas Regional Medical Center

We have audited the accompanying consolidated financial statements of Trinitas Regional Medical Center, (the "Medical Center") (an affiliate of Trinitas Health) and its subsidiaries, which comprise the consolidated balance sheet as of December 31, 2015 and 2014, and the related consolidated statements of operations, changes in net assets, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements 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 entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Trinitas Regional Medical Center and its subsidiaries as of December 31, 2015 and 2014, and the results of its operations, changes in net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Baker Tilly Virchow Krause, LLP

Clark, New Jersey
April 6, 2016

Trinitas Regional Medical Center

Consolidated Balance Sheet
December 31, 2015 and 2014

	2015	2014
Assets		
Current Assets		
Cash and cash equivalents	$ 125,157,730	$ 97,965,650
Assets whose use is limited	5,618,861	5,617,404
Patient accounts receivable, less allowance for doubtful collections of $30,032,000 in 2015 and $28,726,000 in 2014	24,364,632	27,481,532
Other receivables	2,626,250	2,378,665
Other current assets	5,257,856	5,120,931
Total current assets	163,025,329	138,564,182
Assets Whose Use is Limited and Investments		
Assets Whose Use is Limited:		
Internally designated	90,045,927	92,104,617
Internally designated - other	6,237,518	6,061,263
Held by trustees under bond indentures	13,047,329	13,042,379
Donor restricted	3,276,058	3,804,049
Investments	27,371,829	27,767,976
Total assets whose use is limited and investments, net of current	139,978,661	142,780,284
Beneficial Interest in Net Assets of Trinitas Health Foundation	7,646,904	6,133,359
Property and Equipment, Net	86,846,538	90,718,915
Other Assets	5,821,303	6,363,379
Total assets	$ 403,318,735	$ 384,560,119

	2015	2014
Liabilities and Net Assets		
Current Liabilities		
Current portion of long-term debt	$ 7,339,132	$ 7,516,528
Accounts payable and accrued expenses	22,663,096	19,371,480
Deferred revenue	5,195,165	327,937
Accrued bond interest payable	2,999,516	3,127,938
Accrued salaries and wages	5,194,097	4,498,150
Construction and retainage payable	1,688,373	-
Estimated settlements with third-party payors	14,320,000	13,511,611
Total current liabilities	59,399,379	48,353,644
Estimated Settlements with Third-party Payors	44,554,972	37,862,853
Long-Term Debt	121,303,293	128,534,923
Other Long-Term Liabilities	18,852,008	20,112,714
Total liabilities	244,109,652	234,864,134
Net Assets		
Unrestricted	148,286,116	139,758,573
Temporarily restricted	7,887,803	6,961,762
Permanently restricted	3,035,164	2,975,650
Total net assets	159,209,083	149,695,985
Total liabilities and net assets	$ 403,318,735	$ 384,560,119

See notes to consolidated financial statements

Trinitas Regional Medical Center

Consolidated Statement of Operations
Years Ended December 31, 2015 and 2014

	2015	2014
Revenues		
Net patient service revenue	$ 235,724,411	$ 230,769,662
Provision for doubtful collections	(17,404,925)	(19,459,208)
Net patient service revenue less provision for doubtful collections	218,319,486	211,310,454
Other revenue	76,252,049	85,443,685
Net assets released from restrictions used for operations	917,128	677,037
Total revenues	295,488,663	297,431,176
Expenses		
Salaries and wages	135,324,437	134,643,900
Employee benefits	25,620,500	26,176,939
Supplies and other	111,780,575	112,365,202
Depreciation	11,537,516	12,735,413
Interest	6,925,233	7,346,875
Total expenses	291,188,261	293,268,329
Operating income	4,300,402	4,162,847
Nonoperating Gains		
Interest, dividends and other	4,128,385	3,664,289
Net realized gains on investments	3,058,569	1,468,577
Change in fair value of interest rate swaps	44,613	(724,649)
Gain on sale of Jersey Street campus	1,655,460	-
Contributions	-	3,900,000
Total nonoperating gains	8,887,027	8,308,217
Revenues in excess of expenses before medicare/medicaid meaningful use	13,187,429	12,471,064
Medicare/Medicaid Meaningful Use	-	1,253,205
Revenues in excess of expenses	13,187,429	13,724,269
Change in Net Unrealized Gains and Losses on Investments	(7,367,939)	362,576
Net Assets Released from Restrictions Used for Purchase of Property and Equipment	2,708,053	1,268,627
Change in beneficial interest in unrestricted net assets of Trinitas Health Foundation	-	800,000
Increase in unrestricted net assets	$ 8,527,543	$ 16,155,472

See notes to consolidated financial statements

Trinitas Regional Medical Center

Consolidated Statement of Changes In Net Assets
Years Ended December 31, 2015 and 2014

	2015	2014
Unrestricted Net Assets		
Revenues in excess of expenses	$ 13,187,429	$ 13,724,269
Change in net unrealized gains and (losses) on investments	(7,367,939)	362,576
Net assets released from restrictions used for purchase of property and equipment	2,708,053	1,268,627
Change in beneficial interest in unrestricted net assets of Trinitas Health Foundation	-	800,000
Increase in unrestricted net assets	8,527,543	16,155,472
Temporarily Restricted Net Assets		
Contributions	3,113,118	2,877,771
Interest and dividends	37,094	57
Net assets released from restrictions	(3,625,181)	(1,945,664)
Change in beneficial interest in net assets of Trinitas Health Foundation	1,401,010	(898,534)
Increase in temporarily restricted net assets	926,041	33,630
Permanently Restricted Net Assets		
Change in beneficial interest in net assets of Trinitas Health Foundation	112,537	133,714
Change in net unrealized gains and (losses) on investments	(53,023)	100,320
Increase in permanently restricted net assets	59,514	234,034
Increase in net assets	9,513,098	16,423,136
Net Assets, Beginning	149,695,985	133,272,849
Net Assets, Ending	$ 159,209,083	$ 149,695,985

See notes to consolidated financial statements

Trinitas Regional Medical Center

Consolidated Statement of Cash Flows
Years Ended December 31, 2015 and 2014

	2015	2014
Cash Flows from Operating Activities		
Increase in net assets	$ 9,513,098	$ 16,423,136
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Provision for doubtful collections	17,404,925	19,459,208
Depreciation	11,537,516	12,735,413
Gain on sale of Jersey Street Campus	(1,655,460)	-
Amortization of deferred bond discount and premium	(67,325)	(67,325)
Amortization of deferred financing costs	174,827	181,403
Restricted contributions for capital additions	(2,708,053)	(1,268,627)
Change in fair value of interest rate swaps	(44,613)	724,649
Change in net unrealized gains and losses on investments	7,367,939	(362,576)
Net realized gains on investments	(3,058,569)	(1,468,577)
Change in beneficial interest in net assets of Trinitas Health Foundation	(1,513,545)	(835,180)
Change in assets and liabilities:		
Patient accounts receivable	(14,288,025)	(19,806,833)
Other receivables	(247,585)	19,795
Other assets and other current assets	405,151	894,828
Accounts payable and accrued expenses	3,291,616	(657,933)
Deferred revenue	4,867,228	(281,093)
Accrued bond interest payable	(128,422)	(115,345)
Accrued salaries and wages	695,947	485,279
Other long-term liabilities	(1,216,093)	1,033,387
Construction and retainage payable	1,688,373	-
Estimated settlements with third-party payors	7,500,508	7,960,871
Net cash provided by operating activities	39,519,438	35,054,480
Cash Flows from Investing Activities		
Acquisition of property and equipment	(8,509,679)	(6,791,799)
Proceeds from sale of Jersey Street Campus	2,500,000	-
Sale of short-term investments	-	20,059,049
(Purchases) and sales of investments and assets whose use is limited, net	(1,509,204)	(5,178,031)
Net cash (used in) provided by investing activities	(7,518,883)	8,089,219
Cash Flows from Financing Activities		
Repayment of long-term debt	(7,516,528)	(6,676,528)
Restricted contributions for capital additions	2,708,053	1,268,627
Net cash used in financing activities	(4,808,475)	(5,407,901)
Net Increase in Cash and Cash Equivalents	27,192,080	37,735,798
Cash and Cash Equivalents, Beginning	97,965,650	60,229,852
Cash and Cash Equivalents, Ending	$ 125,157,730	$ 97,965,650
Supplemental Disclosure of Cash Flow Information,		
Interest paid	$ 6,905,259	$ 7,222,951

See notes to consolidated financial statements

1. Summary of Significant Accounting Policies

Reporting Organizations

The consolidated financial statements include the accounts of Trinitas Regional Medical Center (the “Medical Center”), Marillac Corporation (“Marillac”), a wholly-owned subsidiary of the Medical Center and Trinitas Physicians Practice, LLC.

Elizabeth General Medical Center and St. Elizabeth Hospital in 2000, merged to form Trinitas Hospital, a not-for-profit, tax-exempt, voluntary, acute health care provider located in Elizabeth, New Jersey. Trinitas Hospital officially changed its name to Trinitas Regional Medical Center as of October 2008. The Medical Center provides inpatient, outpatient, and emergency care services for local residents. Admitting physicians are primarily practitioners from the local area.

Marillac, a not-for-profit, tax-exempt corporation pursuant to Section 501(c)(3) of the Internal Revenue Code, owns and operates a medical office building in Elizabeth, New Jersey.

Trinitas Physicians Practice, LLC, a New Jersey professional limited liability company (LLC), is a for-profit taxable entity.

The sole member of the Medical Center is Trinitas Health (the “Parent”), a tax-exempt holding company. Both the Parent and the Medical Center are tax-exempt organizations, pursuant to Section 501(c)(3) of the Internal Revenue Code.

The Medical Center is an affiliated member of the Parent, the controlling entity. Other affiliates of Trinitas Health include: Trinitas Healthcare Corporation and subsidiary, Trinitas Health Services Corporation, and Trinitas Health Foundation and Affiliate (the “Foundation”). Only the Medical Center's financial statements and its subsidiaries including Trinitas Physicians Practice, LLC are presented herein. The Parent's affiliates, with the exception of Trinitas Health Services Corporation, are not-for-profit, tax-exempt organizations. Trinitas Health Services Corporation is a for-profit, taxable entity.

Basis of Accounting

The consolidated financial statements have been prepared on the accrual basis of accounting. All significant intercompany accounts and transactions have been eliminated.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as of the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents

Cash and cash equivalents include certain investments in highly liquid debt investments purchased with an original maturity of three months or less, excluding assets whose use is limited and investments.

Patient Accounts Receivable

Patient accounts receivable are reported at net realizable value. Accounts are written off when they are determined to be uncollectible based upon management's assessment of individual accounts. In evaluating the collectability of patient accounts receivable, the Medical Center analyzes its past history and identifies trends for each of its major payor sources of revenue to estimate the appropriate allowance for doubtful collections and provision for doubtful collections. For receivables associated with services provided to patients with third party insurance coverage (partial or complete) and patients with no coverage (partial or none), the Medical Center analyzes contractually due amounts and provides an allowance for doubtful collections and a provision for doubtful collections, if necessary. For receivables associated with patients with no insurance or partial insurance (which includes both patients without insurance and patients with deductible and copayment balances due), the Medical Center records a significant provision for doubtful collections in the period of service on the basis of its past experience, which indicates that many patients are unable to pay the portion of their bill for which they are financially responsible. The difference between the billed rates and the amounts actually collected after all reasonable collection efforts have been exhausted is charged off against the allowance for doubtful collections.

The Medical Center's allowance for doubtful collections for self-pay patients was 92.8% and 96.9% of self-pay accounts receivable at December 31, 2015 and 2014, respectively. In addition, the Medical Center's self-pay account write-offs net of recoveries decreased to $17,971,000 in 2015 from $18,016,000 in 2014. The Medical Center had not changed their financial assistance policy in 2015.

Other Receivables

Other receivables include grant revenue receivables and are reported at net realizable value.

Inventories

Inventories, which are included in other current assets in the accompanying consolidated balance sheet, are stated at the lower of cost or market. Cost is determined on a first-in, first-out basis.

Investments and Investment Risk

Investments in equity and debt securities are measured at fair value. Cash and cash equivalents are carried at cost which approximates fair value. Donated investments are recorded at fair value at the date of receipt.

Investment income or loss (including realized gains and losses on investments, interest and dividends) is included in the determination of revenues in excess of expenses. Gains and losses on sales of investment assets are determined using the average-cost method. Donor-restricted investment income is reported as an increase in temporarily or permanently restricted net assets.

The Medical Center's investments are comprised of a variety of financial instruments. The Medical Center utilizes an independent advisor to monitor and evaluate two investment managers. The Medical Center's investments are held by an independent custodian and marked to market daily.

The fair values reported in the consolidated balance sheet are exposed to various risks including changes in the equity markets, the interest rate environment, and general economic conditions. Due to the level of risk associated with certain investment securities and the level of uncertainty related to changes in the fair value of investment securities, it is reasonably possible that the amounts reported in the accompanying consolidated financial statements could change materially in the near term.

Assets Whose Use is Limited

Assets whose use is limited include assets held by trustees under bond indenture agreements, assets set aside under deferred compensation plans, assets of donor-restricted funds and designated assets set aside by the Board of Trustees and management for future use. The Board designated funds are set aside for capital improvements over which the Board retains control and may at its discretion subsequently use for other purposes. Amounts available to pay current liabilities have been classified as current assets.

Property and Equipment

Property and equipment acquisitions are recorded at cost, except donated assets which are recorded at fair market value at the date of donation. Depreciation expense is calculated on a straight-line basis for all depreciable assets, based upon the following estimated useful lives of the assets:

	Years
Land improvements	10 - 25
Buildings and improvements	10 - 40
Fixed equipment	10 - 15
Major movable equipment	5 - 15

Gifts of long-lived assets such as land, buildings, or equipment are reported as unrestricted net assets, unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor stipulations about how long those long-lived assets must be maintained, expirations of donor restrictions are reported when the donated or acquired long-lived assets are placed in service.

Interest costs incurred on borrowed funds during the period of construction of capital assets are capitalized as a component of the cost of acquiring those assets. No amounts were capitalized during 2015 or 2014.

Other Assets

Other assets include insurance recovery receivable, split-dollar life insurance receivable, and security deposits.

Derivative Financial Instrument

The Medical Center entered into an interest rate swap agreement in 2006, which is considered a derivative financial instrument, to manage its interest rate exposure on a portion of its long-term debt. The interest rate swap is reported at fair value in the consolidated balance sheet and related changes in fair value are reported in the consolidated statement of operations as a component of nonoperating gains and losses.

Estimated Malpractice Costs

The provision for estimated medical malpractice claims includes estimates of the ultimate costs for both reported claims and claims incurred but not reported, including costs associated with litigating or settling claims. Anticipated insurance recoveries associated with reported claims are reported separately in the Medical Center's consolidated balance sheet at net realizable value.

Deferred Financing Costs

Deferred financing costs consist principally of debt acquisition costs that are being amortized using the effective interest method over the life of the related debt. These costs are reported in the consolidated balance sheet as a reduction of the related debt. Amortization expense is reported as interest expense in the consolidated statement of operations.

Other Liabilities

Other long-term liabilities include deferred compensation, postretirement benefits, estimated medical malpractice costs, a derivative financial instrument, and asset retirement obligation and deferred revenue.

In June 2015, the Medical Center sold the Jersey Street Campus and received $2.5 million in cash proceeds that resulted in a gain on the sale of building and land in the amount of $1.7 million which is reflected in the non-operating gains and losses on the consolidated statement of operations for the year ended December 31, 2015. The sale of the building effectively removed the asset retirement obligation for encapsulated asbestos material.

Temporarily and Permanently Restricted Net Assets

Temporarily restricted net assets are those whose use by the Medical Center has been limited by donors to a specific time period or purpose, and are available for use by the Medical Center, as specified by the donor, for capital acquisitions, research, and education.

Permanently restricted net assets have been restricted by donors to be maintained by the Medical Center in perpetuity. The income, including gains and losses, earned on these funds is primarily unrestricted.

Revenues in Excess of Expenses

The consolidated statement of operations and changes in net assets includes the determination of revenues in excess of expenses. Changes in unrestricted net assets which are excluded from the determination of revenues in excess of expenses, consistent with industry practice, include unrealized gains and losses on investments other than trading securities, postretirement benefit obligation, change in beneficial interest in unrestricted net assets of Trinitas Health Foundation and contributions of (and assets released from donor restrictions related to) long-lived assets.

Net Patient Service Revenue

The Medical Center reports net patient service revenue at the estimated net realizable amounts from patients, third party payors, and others for services rendered, including an estimate for retroactive adjustments that may occur as a result of future audits, reviews and investigations. Retroactive adjustments are considered in the recognition of revenue on an estimated basis in the period the related services are rendered, and such amounts are adjusted in future periods as adjustments become known or as years are no longer subject to such audits, review and investigations. Net patient service revenue as reported in the consolidated statements of operations is reduced both by (1) estimated allowances for the excess of charges over anticipated patient or third party payor payments and (2) a provision for doubtful collections. Certain health care services provided by the Medical Center are reimbursed by third party payors on the basis of the lower of cost or charges, with costs subject to certain imposed limitations.

Patient accounts receivable are reported at net realizable value and include charges for accounts due from Medicare, Medicaid, other commercial and managed care insurers, and self-paying patients (Note 1). Patient accounts receivable also includes management’s estimate of the impact of certain undercharges to be recouped or overcharges to be paid back for inpatient and outpatient services in subsequent years rates as discussed above. Deducted from patient accounts receivable are estimates of doubtful collections related to patients and allowances for the excess of charges over the payments to be received from third party payors.

The Medical Center has agreements with third-party payors that provide for payments to the Medical Center at amounts different from its established rates. The Medical Center recognizes patient service revenue associated with services provided to patients who have third-party payor coverage on the basis of these established rates for the services rendered. For uninsured patients that do not qualify for charity care, the Medical Center recognizes revenues on the basis of its standard rates, discounted in accordance with the Medical Center's policy. On the basis of historical experience, a significant portion of the Medical Center's uninsured patients will be unable to pay for the services provided. Thus, the Medical Center records a significant provision for doubtful collections related to uninsured patients in the period the services are provided. Patient service revenues, net of contractual allowances and discounts (but before the provision for doubtful collections), recognized in 2015 and 2014 from these major payor sources, are as follows:

	Patient Service Revenues (Net of Contractual Allowances and Discounts)				
	Medicare	Medicaid	Other Third Party Payors	Self-Pay and Other	Total
December 31, 2015	$ 71,751,800	$ 82,437,330	$ 61,856,267	$ 19,679,014	$ 235,724,411
December 31, 2014	$ 73,185,951	$ 75,154,692	$ 60,244,779	$ 22,184,240	$ 230,769,662

Accounting for Uncertainty in Income Taxes

The Medical Center accounts for uncertainty in income taxes recognized in the financial statements using a recognition threshold of more-likely-than-not as to whether the uncertainty will be sustained upon examination by the appropriate taxing authority. Measurement of the tax uncertainty occurs if the recognition threshold has been met. Management determined there were no tax uncertainties that met the recognition threshold. The Medical Center's federal Exempt Organization Business Income Tax Returns for 2012, 2013, and 2014 remain subject to examination by the Internal Revenue Service.

Advertising Costs

Advertising costs, which pertain mainly to marketing and public relations, are expensed as incurred. Advertising expense was $1,227,339 in 2015 and $1,069,997 in 2014.

Reclassifications

Certain reclassifications have been made to the 2014 balances previously reported to conform to the current year presentation.

Subsequent Events

The Medical Center evaluated subsequent events for recognition or disclosure through April 6, 2016, the date the financial statements were available to be issued.

In March 2016, the Medical Center entered into a lease agreement for new office space located in Cranford, New Jersey. The lease term is ten years and the future minimum lease payments under the lease totals approximately $6,439,000.

New Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*. ASU No. 2014-09 supersedes the revenue recognition requirements in *Topic 605, Revenue Recognition*, and most industry-specific guidance. Under the requirements of ASU No. 2014-09, the core principle is that entities should recognize revenue to depict the transfer of promised goods or services to customers (residents) in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The Medical Center will be required to retrospectively adopt the guidance in ASU No. 2014-09 for years beginning after December 15, 2017. The Medical Center has not yet determined the impact of adoption of ASU No. 2014-09 on its financial statements.

In April 2015, the FASB issued ASU 2015-03 (Interest - Imputation of Interest: Simplifying the Presentation of Debt Issuance Costs). ASU 2015-03 is part of FASB's Simplification Initiative, a FASB initiative to reduce complexity in its accounting standards. ASU 2015-03 is effective for fiscal years beginning after December 15, 2015 for all entities (i.e. December 2016). The new authoritative guidance requires entities to report debt issuance costs in their balance sheet as a reduction of its related debt. Entities are also required to report the amortization of debt issuance costs as interest expense in the income statement. The Medical Center elected to early adopt ASU 2015-03. As a result of adopting the new authoritative guidance, the Medical Center reclassified its debt issuance costs as of December 31, 2015 and 2014, by $1,556,000 and $1,731,000, respectively, as a reduction of its long-term debt, and its amortization of debt issuance costs by $175,000 and $181,000, respectively, as interest expense. No other reclassifications or modifications have been made to the Medical Center's 2015 financial statements as a result of adoption ASU 2015-03.

In February 2016, the FASB issued Accounting Standards Update ASU No. 2016-02, L*eases* (Topic 842). ASU No. 2016-02 was issued to increase transparency and comparability among organizations by recognizing lease assets and lease liabilities on the balance sheet and disclosing key information about leasing arrangements. Under the provisions of ASU No. 2016-02, a lessee is required to recognize a right-to-use asset and lease liability, initially measured at the present value of the lease payments, in the balance sheet. In addition, lessees are required to provide qualitative and quantitative disclosures that enable users to understand more about the nature of the Medical Center's leasing activities. The Medical Center will be required to retrospectively adopt the guidance in ASU No. 2016-02 for years beginning after December 15, 2018. The Medical Center has not yet determined the impact of adoption of ASU No. 2016-02 on its financial statements.

2. Net Patient Service Revenues

The Medical Center has agreements with third-party payors that provide for payments to the Medical Center at amounts different from its established rates. A significant portion of the Medical Center's net patient service revenue is derived from these third-party payor programs. A summary of the principal payment arrangements with major third-party payors follows:

- Medicare: Inpatient acute care and outpatient services rendered to Medicare program beneficiaries are paid at prospectively determined rates. These rates vary according to patient classification systems that are based on clinical, diagnostic, and other factors. Certain items, such as Medicare bad debts, are paid based on a cost reimbursement methodology. Reimbursements for cost reimbursable items are received at tentative interim rates, with final settlement determined after submission of annual cost reports by the Medical Center and audits thereof by the Medicare fiscal intermediary. The Medical Center's Medicare cost reports have been settled by the Medicare fiscal intermediary through December 31, 2009, except for December 31, 2005.

- Medicaid: Inpatient acute care services rendered to Medicaid program beneficiaries are paid at prospectively determined rates per discharge. These rates vary according to a patient classification system that is based on clinical, diagnostic, and other factors. Outpatient services are paid based on a cost reimbursement methodology or published fee schedules, with final settlement determined after submission of annual cost reports. The Hospital's Medicaid cost reports have been settled by the Medicaid fiscal intermediary through December 31, 2012.

Revenue received under third-party arrangements is subject to audit and retroactive adjustments. Net patient service revenues were not impacted by adjustments related to tentative and final settlements of prior year cost reports and other settlements.

The Medical Center also has entered into payment agreements with certain managed care organizations, commercial, Medicare and Medicaid managed care products with insurance carriers, and preferred provider organizations. The basis for payment to the Medical Center under these agreements includes daily rates, rates per discharge, and discounts from established charges.

3. Subsidy Payments and Charity Care

The Medical Center receives subsidy payments from the State of New Jersey to partially fund charity care and certain other program costs. Subsidy payments included in other revenue for the years ended December 31, 2015 and 2014 are as follows:

	2015	2014
Charity care	$ 37,854,227	$ 43,151,402
DSRIP	6,597,856	9,225,582
Mental health	1,661,902	1,631,980
Total	$ 46,113,985	$ 54,008,964

The Delivery System Reform Incentive Payment (DSRIP) includes bonus incentives are subject to achieving certain measurable and incremental clinical outcome results that demonstrate an impact on improving the health care system.

The Medical Center, as part of its mission, provides medical care without charge or at reduced charges to residents of its community through the provision of charity care. The Medical Center's definition of charity care is in accordance with state regulations and includes services provided at no charge or partial charge to the uninsured or underinsured.

The Medical Center maintains records to identify and monitor the level of charity care that it provides. The costs associated with the charitable care services provided are estimated by applying the cost-to-charge ratio to the amount of gross uncompensated charges for the patients receiving charity care. Total charity care costs were approximately $35 million and $46 million for the years ended December 31, 2015 and 2014, respectively.

4. Related-Party Transactions

The Medical Center has one-year service agreements with its affiliated organizations to provide administrative facilities, supplies, and accounting services for a set annual fee. In addition, the Medical Center leases office space to affiliates. Fees and rent for all agreements approximated $52,000 and $42,000 in 2015 and 2014, respectively, and are recorded as other revenue.

The Foundation was established to solicit contributions from the general public solely for the funding of operations and capital acquisitions by the Medical Center. Funds are distributed to the Medical Center as determined by the Foundation's Board of Trustees. A summary of the Foundation's assets, liabilities, net assets, results of operations, and changes in net assets follows. The Medical Center's interest in the net assets of the Foundation is reported as a noncurrent asset in the consolidated balance sheet.

	2015	2014
Assets (principally cash and cash equivalents, investments, assets limited as to use and pledges receivable)	$ 7,821,905	$ 6,332,245
Liabilities	$ 175,001	$ 198,886
Net assets	7,646,904	6,133,359
Total liabilities and net assets	$ 7,821,905	$ 6,332,245
Revenues and other support	$ 5,730,220	$ 5,464,272
Expenses	(1,261,303)	(1,144,857)
Excess of revenues and other support over expenses	4,468,917	4,319,415
Contributions to the Medical Center	(2,955,372)	(4,284,235)
Net assets, beginning	6,133,359	6,098,179
Net assets, ending	$ 7,646,904	$ 6,133,359

The Foundation's contributions are reflected as a component of change in unrestricted net assets in the amount of $800,000 in 2014, as a component of non-operating gains in the amount of $1,500,000 in 2014, and as a component of temporarily restricted contributions in the amount of $2,955,372 and $1,984,235 in 2015 and 2014, respectively.

At December 31, 2015 and 2014, amounts due to the Medical Center from affiliates were $579,974 and $548,800, of which $127,107 and $144,456, respectively, were due from Trinitas Healthcare Corporation.

5. Assets Limited as to Use and Investments

The composition of assets whose use is limited at December 31, 2015 and 2014, is set forth in the following table:

	2015	2014
Internally designated:		
Cash and cash equivalents	$ 3,493,830	$ 4,191,564
U.S. government and agency obligations	13,681,744	12,354,494
Investment-grade corporate bonds	45,129,904	42,079,995
Marketable equity securities:		
Energy	2,927,843	4,180,823
Industrials	3,718,307	3,145,077
Consumer discretionary	4,292,194	4,693,219
Consumer staples	1,284,651	2,097,483
Healthcare	4,830,484	5,702,353
Financials	6,598,793	8,478,522
Information technology	3,437,140	4,266,767
Telecommunication services	651,037	914,320
Total internally designated assets	$ 90,045,927	$ 92,104,617
Internally designated - deferred compensation plans, Mutual funds	$ 6,237,518	$ 6,061,263
Assets held by trustees under bond indentures, Cash and cash equivalents	$ 18,666,190	$ 18,659,783
Less funds held by trustees available to meet current liabilities	(5,618,861)	(5,617,404)
Noncurrent portion of funds held by trustees under bond indentures	$ 13,047,329	$ 13,042,379
Donor-restricted assets:		
Cash and cash equivalents	$ 1,837,946	$ 2,312,914
Mutual funds - intermediate term bond	1,438,112	1,491,135
Total donor restricted assets	$ 3,276,058	$ 3,804,049

The composition of unrestricted investments at December 31, 2015 and 2014 is set forth in the following table:

	2015	2014
Cash and cash equivalents	$ 1,074,605	$ 2,132,423
U.S. government and agency obligations	4,429,346	3,994,927
Investment-grade corporate bonds	15,441,583	13,897,258
Marketable equity securities:		
Energy	936,590	667,814
Industrials	520,301	570,422
Consumer discretionary	1,152,476	1,331,059
Consumer staples	296,368	476,908
Healthcare	737,042	833,105
Financials	1,805,072	2,115,100
Information technology	453,208	1,041,648
Telecommunication services	78,455	227,740
Limited partnerships	446,783	479,572
Total investments	$ 27,371,829	$ 27,767,976

At December 31, 2015 and 2014, the fair value of certain investments was below historical cost. The unrealized losses on these investments were as follows:

	Unrealized Losses at December 31, 2015			
	Less than One Year	More than One Year	Total	Fair Value
Mutual funds:				
Equity	$ -	$ (66,008)	$ (66,008)	$ 1,504,120
U.S. government and agency obligations	(33,319)	(12,937)	(46,256)	5,104,087
Investment-grade corporate obligations	(430,542)	(2,262,009)	(2,692,551)	53,568,422
Marketable equity securities:				
Financials	(23,377)	(89,351)	(112,728)	3,282,790
Energy	(1,250,070)	-	(1,250,070)	4,627,197
Consumer discretionary	(110,620)	(553,501)	(664,121)	2,203,481
Health care	(28,545)	-	(28,545)	1,534,585
Industrials	(39,977)	-	(39,977)	1,282,817
	Unrealized Losses at December 31, 2014			
Mutual funds:				
Equity	$ (12,985)	$ (31,329)	$ (44,314)	$ 2,066,030
U.S. government and agency obligations	(4,000)	(5,248)	(9,248)	2,326,589
Investment-grade corporate obligations	(426,282)	(990,137)	(1,416,419)	37,486,419
Marketable equity securities:				
Financials	(20,630)	(4,297)	(24,927)	3,971,709
Energy	(617,013)	-	(617,013)	1,395,713
Consumer discretionary	(630,130)	-	(630,130)	2,381,730

Management periodically reviews securities in its portfolio to determine whether any have become other-than-temporarily impaired. Securities are screened to identify those whose market value has declined. The Medical Center considers relevant facts and circumstances surrounding individual securities, such as:

a. Evidence that would justify immediate impairment, such as bankruptcy, fraud, environmental disaster, etc.

b. The financial condition and near-term prospects of the issuing entity, including any specific events that may influence the operations of that entity that may impair the earnings potential of the investment or the discontinuance of a segment of the business that may affect future earnings potential.

c. The ability of the Medical Center to hold securities for a period of time sufficient to allow for recovery in fair value.

The fair value of investments that were below historical cost amounted to $73,107,499 and $49,628,190 at December 31, 2015 and 2014, respectively. The unrealized losses relating to these investments amounted to $4,900,255 and $2,742,051 at December 31, 2015 and 2014, respectively. The Medical Center has the intent and ability to hold these investments to allow for recovery in fair value.

The fair value of investments that were above historical cost amounted to $72,490,023 and $98,769,498 at December 31, 2015 and 2014, respectively. The unrealized gains relating to these investments amounted to $7,459,730 and $12,669,465 at December 31, 2015 and 2014, respectively.

6. Fair Value Measurements and Financial Instruments

Fair Value Measurements

Fair value is defined as the price that would be received to sell an asset or the price that would be paid to transfer a liability in an orderly transaction between market participants at the measurement date. The framework for measuring fair value includes a hierarchy used to classify the inputs used in measuring fair value. The hierarchy prioritizes the inputs used in determining valuations into three levels. The level in the fair value hierarchy within which the fair value measurement falls is determined based on the lowest level input that is significant to the fair value measurement. The levels of the fair value hierarchy are as follows:

Level 1 - Fair value is based on unadjusted quoted prices in active markets that are accessible to the Medical Center for identical assets. These generally provide the most reliable evidence and are used to measure fair value whenever available.

Level 2 - Fair value is based on significant inputs, other than Level 1 inputs, that are observable either directly or indirectly for substantially the full term of the asset through corroboration with observable market data. Level 2 inputs include quoted market prices in active markets for similar assets, quoted market prices in markets that are not active for identical or similar assets, and other observable inputs.

Level 3 - Fair value would be based on significant unobservable inputs. Examples of valuation methodologies that would result in Level 3 classification include option pricing models, discounted cash flows, and other similar techniques.

The Medical Center measures its investments, assets whose use is limited, and derivative financial instruments on a recurring basis at fair value. The financial instruments were measured with the following inputs at December 31:

	2015				
	Quoted Prices in Active Markets (Level 1)	**Other Observable Inputs (Level 2)**	**Unobservable Inputs (Level 3)**	**Fair Value**	**Carrying Value**
Reported at Fair Value - Assets					
Cash and cash equivalents	$ 25,072,571	$ -	$ -	$ 25,072,571	$ 25,072,571
Mutual funds:					
Domestic	6,237,519	-	-	6,237,519	6,237,519
Intermediate term bond	1,438,112	-	-	1,438,112	1,438,112
U.S. government and agency obligations	18,111,089	-	-	18,111,089	18,111,089
Investment-grade corporate bonds	-	60,571,487	-	60,571,487	60,571,487
Marketable equity securities:					
Energy	3,864,433	-	-	3,864,433	3,864,433
Industrials	4,238,608	-	-	4,238,608	4,238,608
Consumer discretionary	5,444,670	-	-	5,444,670	5,444,670
Consumer staples	1,581,019	-	-	1,581,019	1,581,019
Healthcare	5,567,526	-	-	5,567,526	5,567,526
Financials	8,403,865	-	-	8,403,865	8,403,865
Information technology	3,890,348	-	-	3,890,348	3,890,348
Telecommunication services	729,492	-	-	729,492	729,492
Limited partnerships	-	-	446,783	446,783	446,783
Total	$ 84,579,252	$ 60,571,487	$ 446,783	$ 145,597,522	$ 145,597,522
Reported at Fair Value - Liability					
Derivative financial instruments	$ -	$ -	$ 2,527,100	$ 2,527,100	$ 2,527,100
Disclosed at Fair Value					
Cash and cash equivalents	$ 125,157,730	$ -	$ -	$ 125,157,730	$ 125,157,730
Bonds payable	-	132,979,235	-	132,979,235	126,868,293
Notes payable	-	-	1,774,132	1,774,132	1,774,132

	2014				
	Quoted Prices in Active Markets (Level 1)	**Other Observable Inputs (Level 2)**	**Unobservable Inputs (Level 3)**	**Fair Value**	**Carrying Value**
Reported at Fair Value - Assets					
Cash and cash equivalents	$ 27,296,684	$ -	$ -	$ 27,296,684	$ 27,296,684
Mutual funds:					
Domestic	6,061,263	-	-	6,061,263	6,061,263
Intermediate term bond	1,491,135	-	-	1,491,135	1,491,135
U.S. government and agency obligations	16,349,421	-	-	16,349,421	16,349,421
Investment-grade corporate bonds	-	55,977,253	-	55,977,253	55,977,253
Marketable equity securities:					
Energy	4,848,637	-	-	4,848,637	4,848,637
Industrials	3,715,499	-	-	3,715,499	3,715,499
Consumer discretionary	6,024,278	-	-	6,024,278	6,024,278
Consumer staples	2,574,391	-	-	2,574,391	2,574,391
Healthcare	6,535,458	-	-	6,535,458	6,535,458
Financials	10,593,622	-	-	10,593,622	10,593,622
Information technology	5,308,415	-	-	5,308,415	5,308,415
Telecommunication services	1,142,060	-	-	1,142,060	1,142,060
Limited partnerships	-	-	479,572	479,572	479,572
Total	$ 91,940,863	$ 55,977,253	$ 479,572	$ 148,397,688	$ 148,397,688
Reported at Fair Value - Liability					
Derivative financial instruments	$ -	$ -	$ 2,571,713	$ 2,571,713	$ 2,571,713
Disclosed at Fair Value					
Cash and cash equivalents	$ 97,965,650	$ -	$ -	$ 97,965,650	$ 97,965,650
Bonds payable	-	141,196,000	-	141,196,000	132,040,791
Notes payable	-	-	4,010,660	4,010,660	4,010,660

The following table presents the fair value measurements for the investments in limited partnerships included in assets whose use is limited that have unobservable (Level 3) inputs at December 31, 2015 and 2014:

	2015	2014
Balance at January 1	$ 479,572	$ 477,862
Net (loss) gain	(32,789)	1,710
Balance at December 31	$ 446,783	$ 479,572

The following table presents the fair value measurements for the derivative financial instruments included in other long-term liabilities that have unobservable (Level 3) inputs at December 31, 2015 and 2014:

	2015	2014
Liability at January 1	$ 2,571,713	$ 1,847,064
Net unrealized loss (gain)	(44,613)	724,649
Liability at December 31	$ 2,527,100	$ 2,571,713

Financial Instruments

The carrying amounts of cash and cash equivalents approximates fair value as of December 31, 2015 and 2014 because of the short maturity of these instruments.

Mutual funds are valued at the published net asset value of the units on the measurement date.

U.S. government and agency obligations are valued by quoted market prices. Corporate bonds are valued using recently executed transactions, market price quotations (where observable), bond spreads or credit default swap spreads. Marketable equity securities and mutual funds are valued at the closing price reported or the active market on which the individual securities are traded.

Marketable equity securities are valued at the closing price reported on the active market on which the individual securities are traded.

Investments in limited partnerships do not have readily determinable market values. Fair value estimates are based on statements provided by each fund manager. Such investments are accounted for under the equity method of accounting and any adjustments to the estimated fair value are recorded as changes in the value of the investment.

The fair value of fixed rate long-term debt was estimated using quoted market prices. The fair value of the Medical Center’s debt and swap was approximately $135,506,335 and $143,767,713 at December 31, 2015 and 2014, respectively.

The Medical Center measures its derivative financial instrument at fair value based on proprietary models of an independent third party valuation specialist. The fair value takes into consideration the prevailing interest rate environment and the specified terms and conditions of the derivative financial instruments. The fair value was estimated using the zero-coupon discounting method and considers the credit risk of the Medical Center and the counterparty. This method calculates the future payments required by the derivative financial instruments assuming that the current forward rates implied by the yield curve are the market's best estimate of future spot interest rates. These payments are then discounted using the spot rates implied by the current yield curve for a hypothetical zero-coupon rate bond due on the date of each future net settlement payment on the derivative financial instruments. The value represents the estimated exit price the Medical Center would pay to terminate the agreement.

7. Property and Equipment and Accumulated Depreciation

Property and equipment and accumulated depreciation at December 31, 2015 and 2014 are as follows:

	2015	2014
Land	$ 1,589,358	$ 2,397,450
Land improvements	4,507,062	4,501,762
Buildings and improvements	161,627,449	160,424,416
Fixed and major movable equipment	144,765,258	147,898,696
Construction in progress	6,015,820	1,330,209
Total	318,504,947	316,552,533
Less accumulated depreciation	(231,658,409)	(225,833,618)
Property and equipment, net	$ 86,846,538	$ 90,718,915

In 2014 the Medical Center's Board approved the updating and renovating of the Medical Center's emergency room department and adding additional ICU beds. The project involved architectural, engineering, mechanical studies, relocation of various departments, demolition, purchase of a new CT scan, renovation and new construction. Estimated costs for the project are approximately $18 million. For the years ended December 31 2015 and 2014, the monies spent to date for the project amounted to $3,764,118 and $379,136, respectively. The project began in the summer of 2015 and the expected completion date is mid-2017.

8. Long-Term Debt

Long-term debt at December 31, 2015 and 2014, consist of the following:

	2015	2014
Serial bonds, Series 2007B (Tax Exempt Converted from Taxable in July 2010) which mature July 1, 2012 through July 1, 2023, and bear interest of 4.75% to 5.25%, payable semiannually	$ 49,865,000	$ 54,840,000
Term bonds, Series 2007A (Tax Exempt), which mature July 1, 2023 through July 1, 2030, and bear interest ranging from 4.75% to 5.25%, payable semiannually	65,050,000	65,050,000
Taxable Variable Rate Demand Revenue Bonds-Term bonds, Series 2006, which mature annually through July 1, 2035. Interest is payable monthly at a variable rate (.42% at December 31, 2015)	12,690,000	12,995,000
Bank Note, payable monthly through December 1, 2016, bearing interest at LIBOR index rate, plus 2.83%	1,720,000	3,440,000
Promissory Notes-vendors, noninterest bearing, payable monthly through April 1, 2016	54,132	570,660
	129,379,132	136,895,660
(Less)/Add:		
Current portion of long-term debt	(7,339,132)	(7,516,528)
Deferred financing costs	(1,555,549)	(1,730,376)
Unamortized bond premium	818,842	886,167
Total	$ 121,303,293	$ 128,534,923

The Medical Center, Marillac and Trinitas Physicians Practice, LLC are members of the Obligated Group for the Series 2007A and 2007B and Series 2006 Bonds.

In May 2007, the New Jersey Health Care Facilities Financing Authority (the “Authority”) issued, on behalf of the Medical Center, $65,050,000 of tax-exempt Revenue Bonds, Series 2007A (the “2007A Bonds”) and $65,350,000 of taxable converted to tax-exempt Revenue Bonds, Series 2007B (the “2007B Bonds”) (collectively, the “2007 Bonds”). In July 2010, the 2007B Bonds were converted to tax-exempt.

The 2007A Bonds bear interest of 4.75% on $8,505,000 of bonds maturing in 2023 and 2024, and 5.25% on $56,545,000 of bonds maturing in 2025 through 2030. The 2007B Bonds bear interest of 4.75% to 5.25%.

The proceeds from the Promissory Notes and the 2007 Bonds were (1) deposited in Escrow Accounts for the refunding of the Series 1997 and Series 2000 Bonds, and for tender of the Series 2000 Bonds, (2) deposited in the Series 2007A and Series 2007B Debt Service Reserve Funds, and (3) used to pay costs of issuance.

The Medical Center is required to fund the principal and interest payments on the bonds on a monthly basis. The principal amounts are payable annually on July 1, and interest is payable semiannually on January 1 and July 1 through the year 2030. Both bond issues and the Bank Note are collateralized by substantially all of the Medical Center's property and equipment and gross receipts.

In 2006, the Medical Center issued a Taxable Variable Rate Demand Revenue Bonds, Series 2006 (the "Series 2006 Bonds") in the amount of $14,860,000 to permanently finance the construction loan for the Medical Center's portion of construction costs of the Cancer Center. Payment of the principal and interest on the Series 2006 Bonds is secured by an irrevocable, direct-pay letter of credit with an initial expiration date of June 22, 2009. The bank issued letter of credit, which backs the Series 2006 Variable Rate Demand Bonds, expiration date has been extended to February of 2017. If the annual renewal of Letter of Credit is not extended by the bank, the reimbursement Agreement provides for one additional year after the expiration date before the actual termination of the Letter of Credit. Principal payments are not due until the termination date of the Letter of Credit. The Series 2006 Bonds began amortizing annually on July 1, 2007 through their final maturity date of July 1, 2035.

In 2011, the Medical Center entered into a note to replace a terminated capitalized lease agreement for the Cancer Center in the amount of $8,600,000. The loan bears interest at the LIBOR Market Index plus 2.83% and is payable monthly over a 60-month term.

Scheduled principal payments of long-term debt under the terms of their respective repayment schedules at December 31, 2015 are as follows:

	Bonds	Notes	Total
2016	$ 5,565,000	$ 1,774,132	$ 7,339,132
2017	5,865,000	-	5,865,000
2018	6,175,000	-	6,175,000
2019	6,505,000	-	6,505,000
2020	6,850,000	-	6,850,000
Thereafter	96,645,000	-	96,645,000
Total	$ 127,605,000	$ 1,774,132	$ 129,379,132

9. Derivative Financial Instrument

In June 2006, the Medical Center entered into an interest rate swap with a start date of July 1, 2006, and expiration date of July 1, 2035, based on the notional amount of approximately fifty percent (50%) of the outstanding principal amount of the Series 2006 Bonds at December 31, 2015 was ($6,345,000). According to the terms of the swap contract, the Medical Center will pay a 5.826% rate in return for receiving one month LIBOR rate.

The fair value of the swap at December 31, 2015 and 2014, was a liability of $2,527,100 and $2,571,713, respectively, and is included in other long-term liabilities in the accompanying consolidated balance sheet. For the years ended December 31, 2015 and 2014, the change in the fair value of the interest rate swap resulted in an unrealized gain of $44,613 and an unrealized loss of $724,649, respectively, and is included in non-operating gains and losses in the consolidated statement of operations.

10. Retirement Plans

The Trinitas Savings and Retirement Plan covers all eligible employees as defined by the plan. All employees who are full time employees are eligible to participate upon completing one year of service and attaining age 21. Eligible employees may contribute up to 15% of their salaries, up to the Internal Revenue Service limit of $18,000 and $17,500 in 2015 and 2014, respectively. The Medical Center will contribute a percentage of eligible salaries on an annual basis, at the option of the Board of Trustees. The Medical Center expensed contributions to this plan for the years ended December 31, 2015 and 2014 of $1,799,690 and $2,023,630, respectively.

In addition, certain key members of senior management participate in deferred compensation plans sponsored by the Medical Center. At December 31, 2015 and 2014, internally designated assets included $6,237,518 and $6,061,263, respectively, related to these plans. A liability for the same amount is included in other long-term liabilities.

At December 31, 2015 and 2014, postretirement medical benefits and life insurance agreements for key employees are reflected in the balance sheet as other assets for premium receivables in the amount of $650,894 and $624,717 and a liability in other long-term liabilities in the amount of $899,510 and $934,578 for both benefits payable, respectively. There were no changes to unrestricted net assets for unfunded post-retirement medical benefits for the years ended December 31, 2015 and 2014, respectively.

11. Operating Leases

The Medical Center leases certain property and equipment under operating leases that have initial or remaining noncancelable terms in excess of one year. Future minimum rental payments under these agreements as of December 31, 2015, are as follows:

2016	$ 3,930,965
2017	3,981,537
2018	4,059,817
2019	4,135,715
2020	4,216,035
Thereafter	4,402,670
Total	$ 24,726,739

Total rent expense for the years ended December 31, 2015 and 2014, was approximately $3,884,502 and $3,869,831, respectively.

Lease Receivable

In November 2012, the Medical Center signed a lease and service agreement with a provider of long-term care ("LTAC"). The LTAC built a 25 bed, 13,000 square foot LTAC unit and leases space and purchases certain auxiliary and support services from the Medical Center. The lease is a five year renewable lease, with a base rental of $307,500 increased annually by 2.5%.

Future minimum rental to be received under this agreement as of December 31, 2015, are as follows:

2016	$ 339,000

12. Functional Expenses

The Medical Center provides general health care services to residents within its geographic location. All expenses are related to providing these services. Functional expenses for the years ended December 31, 2015 and 2014 are as follows:

	2015	2014
Health care services	$ 246,957,504	$ 249,369,990
General and administrative	44,230,757	43,898,339
Total expenses	$ 291,188,261	$ 293,268,329

13. Concentration of Credit Risk

The Medical Center grants credit without collateral to its patients, most of whom are local residents and are insured under third-party arrangements, primarily with Medicaid, Medicare, and various commercial insurance companies. At December 31, 2015 and 2014, accounts receivable related to Medicare amounted to 15% and 18% and accounts receivable related to Medicaid amounted to 30% and 29%, respectively, of patient accounts receivable.

The Medical Center maintains its cash and cash equivalents with several financial institutions. Cash and cash equivalents on deposit with any one financial institution are insured up to $250,000. The Medical Center's cash accounts exceed the insured limits.

14. Meaningful Use

Under certain provisions of the American Recovery and Reinvestment Act of 2009, federal incentive payments are available to hospitals, physicians and certain other professionals ("providers") when they adopt certified electronic health record ("EHR") technology or become "meaningful users" of EHRs in ways that demonstrate improved quality, safety and effectiveness of care. Medicare and Medicaid providers can receive their initial incentive payment by adopting implementing or upgrading certified EHR technology, but must demonstrate meaningful use of EHRs in subsequent years in order to qualify for additional payments. Hospitals may be eligible for both Medicare and Medicaid EHR incentive payments. The Medical Center accounts for EHR payments using the contingency method, whereby revenue is recognized when all contingencies are satisfied. In December 31, 2014, the Medical Center received EHR incentive payments in the amount of $2.9 million from Medicare and $421,000 from Medicaid. As of December 31, 2015 and 2014, the Medical Center recognized EHR incentive payments as revenue in excess of expenses in the amounts of $-0- and $1.2 million, respectively, in the consolidated statement of operations. At December 31, 2015 and 2014, the Medical Center reflected EHR incentive payments in the amount of $2.7 million from the Medicare and Medicaid programs as estimated settlements with third party payors and as deferred revenue on the balance sheets, respectively, which will be recognized as non-operating revenue when the Medical Center has satisfied the statutory and regulatory requirements.

15. Commitment and Contingencies

Litigation and Regulatory Matters

In addition, certain contractual matters may ultimately result in dispute and claim for additional payments. Management and their counsel believe that there are substantial defenses to such claims, should they be asserted, and that the ultimate result of such actions, if any, will not have an adverse material effect to the financial statements. Accordingly, no amounts have been recorded in connection with these matters.

The healthcare industry is subject to numerous laws and regulations of federal, state, and local governments. Compliance with these laws and regulations is subject to future government review and interpretation as well as regulatory actions unknown or unasserted at this time. Government activity continues to increase with respect to investigations and allegations concerning possible violations by healthcare providers of fraud and abuse statutes and regulations, which could result in the imposition of significant fines and penalties as well as significant repayments for patient services previously billed. In 2015, the Medical Center will be subject to the Centers for Medicare and Medicaid Services (CMS) calculation for the Medicaid Disproportionate Share Hospital (DSH) payments and the uncompensated care Medicaid DSH audit; the financial impact is uncertain. Management is not aware of any material incidents of noncompliance; however, the possible future financial effects of this matter on the Medical Center, if any, are not presently determinable. In addition, the Medical Center is party to litigation incidental to the normal course of its business. Management believes that the Medical Center's insurance is adequate to cover all payments, if any, that may arise from these lawsuits.

Medical Malpractice

The Medical Center is insured for medical malpractice claims under a claims-made policy with a commercial insurer. The policy currently provides a primary layer of coverage of $1,000,000 per occurrence and $3,000,000 annual aggregate; an umbrella layer of $20,000,000 per occurrence and $20,000,000 annual aggregate. The Medical Center records an estimated liability for medical malpractice costs, discounted at a rate of 5% at December 31, 2015 and 2014, related to reported claims and incurred claims that have not been reported. The Medical Center’s estimated medical malpractice claims liability was $1,700,000 at December 31, 2015 and 2014, and is included in other long-term liabilities in the accompanying consolidated balance sheet. Insurance recovery assets and related liabilities are presented on a gross basis in the amount of $5,143,000 in 2015 and $5,710,000 in 2014, respectively.

The Medical Center believes it has adequate insurance coverages for all asserted claims and it has no knowledge of unasserted claims which would exceed its insurance coverages.

Real Estate Taxes

As a not-for-profit corporation in New Jersey, the Medical Center is an organization which has historically qualified for an exemption from real property taxes; however, a number of cities and municipalities in New Jersey have challenged and continue to challenge such exemption. The City of Elizabeth has advised the Medical Center of its intentions to remove all of the Medical Center's properties from the current tax exempt status and will place the properties on the real estate property tax rolls. The City has not finalized determining the appraised values or the amount of tax assessment. The Medical Center has filed an appeal with the City of Elizabeth challenging the change in tax status of the Medical Center's properties. The financial effects of this matter on the Medical Center are not presently determinable.