Trinitas Regional Medical Center

Consolidated Financial Statements

December 31, 2016 and 2015

BAKER TILLY

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Trinitas Regional Medical Center

Table of Contents
December 31, 2016 and 2015

	Page
Independent Auditors' Report	1
Financial Statements	
Consolidated Balance Sheet	3
Consolidated Statement of Operations	4
Consolidated Statement of Changes in Net Assets	5
Consolidated Statement of Cash Flows	6
Notes to Consolidated Financial Statements	7

BAKER TILLY

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, 2016 and 2015, 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, 2016 and 2015, 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

Iselin, New Jersey
April 13, 2017

Trinitas Regional Medical Center

Consolidated Balance Sheet
December 31, 2016 and 2015

Assets	2016	2015
Current Assets		
Cash and cash equivalents	$ 130,023,301	$ 125,157,730
Assets whose use is limited	8,436,557	5,618,861
Patient accounts receivable, less allowance for doubtful collections of $32,631,000 in 2016 and $30,032,000 in 2015	26,770,713	24,364,632
Other receivables	3,384,131	2,626,250
Other current assets	5,641,062	5,257,856
Total current assets	174,255,764	163,025,329
Assets Whose Use is Limited and Investments		
Assets Whose Use is Limited:		
Internally designated	95,474,057	90,045,927
Internally designated - other	6,711,884	6,237,518
Held by trustees under bond indentures	13,068,545	13,047,329
Donor restricted	3,084,982	3,276,058
Investments	28,597,341	27,371,829
Total assets whose use is limited and investments, net of current	146,936,809	139,978,661
Beneficial Interest in Net Assets of Trinitas Health Foundation	7,062,702	7,646,904
Property and Equipment, Net	87,230,946	86,846,538
Other Assets	5,484,628	5,821,303
Total assets	$ 420,970,849	$ 403,318,735

Liabilities and Net Assets	2016	2015
Current Liabilities		
Current portion of long-term debt	$ 6,055,000	$ 7,339,132
Accounts payable and accrued expenses	24,433,614	22,663,096
Deferred revenue	5,542,064	5,195,165
Accrued bond interest payable	3,026,454	2,999,516
Accrued salaries and wages	5,992,441	5,194,097
Construction and retainage payable	1,874,554	1,688,373
Estimated settlements with third-party payors	16,501,567	14,320,000
Total current liabilities	63,425,694	59,399,379
Estimated Settlements with Third-party Payors	46,892,222	44,554,972
Long-Term Debt	118,532,642	121,303,293
Other Long-Term Liabilities	16,223,842	18,852,008
Total liabilities	245,074,400	244,109,652
Net Assets		
Unrestricted	165,748,761	148,286,116
Temporarily restricted	7,006,894	7,887,803
Permanently restricted	3,140,794	3,035,164
Total net assets	175,896,449	159,209,083
Total liabilities and net assets	$ 420,970,849	$ 403,318,735

See notes to consolidated financial statements

Trinitas Regional Medical Center

Consolidated Statement of Operations
Years Ended December 31, 2016 and 2015

	2016	2015
Revenues		
Net patient service revenue	$ 243,847,105	$ 235,724,411
Provision for doubtful collections	(15,961,302)	(17,404,925)
Net patient service revenue less provision for doubtful collections	227,885,803	218,319,486
Other revenue	68,606,506	76,252,049
Net assets released from restrictions used for operations	1,026,473	917,128
Total revenues	297,518,782	295,488,663
Expenses		
Salaries and wages	136,253,521	135,324,437
Employee benefits	27,488,850	25,620,500
Supplies and other	112,041,432	111,780,575
Depreciation	10,830,287	11,537,516
Interest	6,540,570	6,925,233
Total expenses	293,154,660	291,188,261
Operating income	4,364,122	4,300,402
Nonoperating Gains		
Interest, dividends and other	3,580,134	4,128,385
Net realized gains on investments	692,290	3,058,569
Change in fair value of interest rate swaps	-	44,613
Loss on refinancing	(655,153)	-
Gain on sale of Jersey Street campus	-	1,655,460
Total nonoperating gains	3,617,271	8,887,027
Revenues in excess of expenses before medicare/medicaid meaningful use	7,981,393	13,187,429
Medicare/Medicaid Meaningful Use	645,094	-
Revenues in excess of expenses	8,626,487	13,187,429
Change in Net Unrealized Gains and (Losses) on Investments	2,564,554	(7,367,939)
Net Assets Released from Restrictions Used for Purchase of Property and Equipment	6,271,604	2,708,053
Increase in unrestricted net assets	$ 17,462,645	$ 8,527,543

See notes to consolidated financial statements

Trinitas Regional Medical Center

Consolidated Statement of Changes In Net Assets
Years Ended December 31, 2016 and 2015

	2016	2015
Unrestricted Net Assets		
Revenues in excess of expenses	$ 8,626,487	$ 13,187,429
Change in net unrealized gains and (losses) on investments	2,564,554	(7,367,939)
Net assets released from restrictions used for purchase of property and equipment	6,271,604	2,708,053
Increase in unrestricted net assets	17,462,645	8,527,543
Temporarily Restricted Net Assets		
Contributions	7,060,073	3,113,118
Interest and dividends	14,465	37,094
Net assets released from restrictions	(7,298,077)	(3,625,181)
Change in beneficial interest in net assets of Trinitas Health Foundation	(657,370)	1,401,010
(Decrease) increase in temporarily restricted net assets	(880,909)	926,041
Permanently Restricted Net Assets		
Change in beneficial interest in net assets of Trinitas Health Foundation	73,168	112,537
Change in net unrealized gains and (losses) on investments	32,462	(53,023)
Increase in permanently restricted net assets	105,630	59,514
Increase in net assets	16,687,366	9,513,098
Net Assets, Beginning	159,209,083	149,695,985
Net Assets, Ending	$ 175,896,449	$ 159,209,083

See notes to consolidated financial statements

Trinitas Regional Medical Center

Consolidated Statement of Cash Flows
Years Ended December 31, 2016 and 2015

	2016	2015
Cash Flows from Operating Activities		
Increase in net assets	$ 16,687,366	$ 9,513,098
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Provision for doubtful collections	15,961,302	17,404,925
Depreciation	10,830,287	11,537,516
Loss on sale of bond refinancing	655,153	-
Gain on sale of Jersey Street Campus	-	(1,655,460)
Amortization of deferred bond discount and premium	(129,467)	(67,325)
Amortization of deferred financing costs	181,457	174,827
Restricted contributions for capital additions	(6,271,604)	(2,708,053)
Change in fair value of interest rate swaps	-	(44,613)
Change in net unrealized (gains) and losses on investments	(2,564,554)	7,367,939
Net realized gains on investments	(692,290)	(3,058,569)
Change in beneficial interest in net assets of Trinitas Health Foundation	584,202	(1,513,545)
Change in assets and liabilities:		
Patient accounts receivable	(18,367,383)	(14,288,025)
Other receivables	(757,881)	(247,585)
Other assets and other current assets	(46,531)	405,151
Accounts payable and accrued expenses	1,770,518	3,291,616
Deferred revenue	346,899	4,867,228
Accrued bond interest payable	26,938	(128,422)
Accrued salaries and wages	798,344	695,947
Other long-term liabilities	(3,161,239)	(1,216,093)
Construction and retainage payable	186,181	1,688,373
Estimated settlements with third-party payors	4,518,817	7,500,508
Net cash provided by operating activities	20,556,515	39,519,438
Cash Flows from Investing Activities		
Acquisition of property and equipment	(11,214,695)	(8,509,679)
Proceeds from sale of Jersey Street Campus	-	2,500,000
(Purchases) and sales of investments and assets whose use is limited, net	(6,519,000)	(1,509,204)
Net cash used in investing activities	(17,733,695)	(7,518,883)
Cash Flows from Financing Activities		
Restricted contributions for capital additions	6,271,604	2,708,053
Repayment on extinguishment of debt	(12,365,000)	-
Proceeds from refunding and revenue bonds	16,016,795	-
Payment of defered financing costs	(541,515)	-
Repayment of long-term debt	(7,339,133)	(7,516,528)
Net cash provided by (used in) financing activities	2,042,751	(4,808,475)
Net Increase in Cash and Cash Equivalents	4,865,571	27,192,080
Cash and Cash Equivalents, Beginning	125,157,730	97,965,650
Cash and Cash Equivalents, Ending	$ 130,023,301	$ 125,157,730
Supplemental Disclosure of Cash Flow Information,		
Interest paid	$ 6,430,884	$ 6,905,259

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 92.5% and 92.8% of self-pay accounts receivable at December 31, 2016 and 2015, respectively. In addition, the Medical Center's self-pay account write-offs net of recoveries decreased to $15,684,000 in 2016 from $17,971,000 in 2015. The Medical Center had not changed their financial assistance policy in 2016.

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 2016 or 2015.

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. In September 2016, the Medical Center terminated the interest rate swap agreement as part of long term debt refinancing (Notes 8 and 9).

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. In 2016, the Medical Center wrote off a portion of the deferred financing costs related to the Series 2006 Bonds. The Medical Center recorded new deferred financing costs of $541,515 relating to the Series 2016A Bonds (Note 8).

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.

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 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 2016 and 2015 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, 2016	$ 71,258,753	$ 89,460,734	$ 64,773,749	$ 18,353,869	$ 243,847,105
December 31, 2015	$ 71,751,800	$ 82,437,330	$ 61,856,267	$ 19,679,014	$ 235,724,411

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 2016, 2015, 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 $1,234,948 in 2016 and $1,227,339 in 2015.

Subsequent Events

The Medical Center evaluated subsequent events for recognition or disclosure through April 13, 2017, the date the financial statements were issued.

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 February 2016, the FASB issued Accounting Standards Update ASU No. 2016-02, *Leases (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.

In August 2016, the FASB issued ASU No. 2016-14, Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities. The new guidance is intended to improve and simplify the current net asset classification requirements and information presented in financial statements and notes that is useful in assessing a not-for-profit's liquidity, financial performance and cash flows. ASU 2016-14 is effective for the fiscal year beginning July 1, 2018, with early adoption permitted. ASU 2016-14 is to be applied retroactively with transition provisions. The Medical Center has not yet determined the impact of adoption of ASU No. 2016-14 on its financial statements.

2. Net Patient Service Revenue

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.

- 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, 2013.

Revenue received under third-party arrangements is subject to audit and retroactive adjustments. Net patient service revenue 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, 2016 and 2015 are as follows:

	2016	2015
Charity care	$ 32,925,120	$ 37,854,227
DSRIP	5,342,374	6,597,856
Mental health	1,781,590	1,661,902
Total	$ 40,049,084	$ 46,113,985

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 DSRIP program expires on June 30, 2017. There are statewide negotiations for the extension of the program but the current status is not known nor is the potential impact of future payments.

In July 2016, the Medical Center received $2,602,760 as the bonus incentive for the Delivery System Reform Incentive Payment. Management has reviewed the data used in the calculation and has filed an appeal in March 2017. The outcome of the appeal is not presently known.

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 $36 million and $35 million for the years ended December 31, 2016 and 2015, 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 in 2016 and 2015, 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.

	2016	2015
Assets (principally cash and cash equivalents, investments, assets limited as to use, and pledges receivable)	$ 7,305,648	$ 7,821,905
Liabilities	$ 242,946	$ 175,001
Net assets	7,062,702	7,646,904
Total liabilities and net assets	$ 7,305,648	$ 175,001
Revenues and other support	$ 7,413,022	$ 5,730,220
Expenses	(1,281,293)	(1,261,303)
Excess of revenues and other support over expenses	6,131,729	5,730,220
Contributions to the Medical Center	(6,715,931)	(2,955,372)
Net assets, beginning	7,646,904	6,133,359
Net assets, ending	$ 7,062,702	$ 2,774,848

The Foundation's contributions are reflected as a component of temporarily restricted contributions in the amount of $6,715,931 and $2,955,372 in 2016 and 2015, respectively.

At December 31, 2016 and 2015, amounts due to the Medical Center from affiliates were $680,924 and $579,974, of which $138,834 and $127,107, respectively, were due from Trinitas Healthcare Corporation and are included in other current assets on the consolidated balance sheet.

5. Assets Limited as to Use and Investments

The composition of assets whose use is limited at December 31, 2016 and 2015, is set forth in the following table:

	2016	2015
Internally designated:		
Cash and cash equivalents	$ 3,266,928	$ 3,493,830
U.S. government and agency obligations	10,868,867	13,681,744
Investment-grade corporate bonds	49,406,579	45,129,904
Marketable equity securities:		
Energy	3,108,856	2,927,843
Industrials	2,828,249	3,718,307
Consumer discretionary	4,515,197	4,292,194
Consumer staples	1,369,306	1,284,651
Healthcare	5,522,656	4,830,484
Financials	8,505,552	6,598,793
Information technology	4,629,327	3,437,140
Telecommunication services	1,452,540	651,037
Total internally designated assets	$ 95,474,057	$ 90,045,927
Internally designated - deferred compensation plans, Mutual funds	$ 6,711,884	$ 6,237,518
Assets held by trustees under bond indentures, Cash and cash equivalents	$ 21,505,102	$ 18,666,190
Less funds held by trustees available to meet current liabilities	(8,436,557)	(5,618,861)
Noncurrent portion of funds held by trustees under bond indentures	$ 13,068,545	$ 13,047,329
Donor-restricted assets:		
Cash and cash equivalents	$ 1,614,407	$ 1,837,946
Mutual funds - intermediate term bond	1,470,575	1,438,112
Total donor restricted assets	$ 3,084,982	$ 3,276,058

The composition of unrestricted investments at December 31, 2016 and 2015 is set forth in the following table:

	2016	2015
Cash and cash equivalents	$ 891,945	$ 1,074,605
U.S. government and agency obligations	3,523,673	4,429,346
Investment-grade corporate bonds	16,907,073	15,441,583
Marketable equity securities:		
Energy	1,438,204	936,590
Industrials	485,349	520,301
Consumer discretionary	1,086,177	1,152,476
Consumer staples	336,303	296,368
Healthcare	653,739	737,042
Financials	1,554,668	1,805,072
Information technology	996,483	453,208
Telecommunication services	249,457	78,455
Limited partnerships	474,270	446,783
Total investments	$ 28,597,341	$ 27,371,829

At December 31, 2016 and 2015, the fair value of certain investments was below historical cost. The unrealized losses on these investments were as follows:

	Unrealized Losses at December 31, 2016			
	Less than One Year	More than One Year	Total	Fair Value
Mutual funds:				
Equity	$ -	$ (33,545)	$ (33,545)	$ 1,470,575
U.S. government and agency obligations	(40,806)	(29,179)	(69,985)	6,361,174
Investment-grade corporate obligations	(815,907)	(1,700,947)	(2,516,854)	58,464,988
Marketable equity securities:				
Energy	(23,034)		(23,034)	885,420
Consumer discretionary and staples	-	(572,023)	(572,023)	1,276,128
Health care	(68,524)	(542,734)	(611,258)	2,918,187

	Unrealized Losses at December 31, 2015			
	Less than One Year	More than One Year	Total	Fair Value
Mutual funds:				
Equity	$ -	$ (66,008)	$ (66,008)	$ 1,438,112
U.S. government and agency obligations	(33,319)	(12,937)	(46,256)	5,057,831
Investment-grade corporate obligations	(430,542)	(2,262,009)	(2,692,551)	50,875,872
Marketable equity securities:				
Financials	(23,377)	(89,351)	(112,728)	3,170,062
Energy	(1,250,070)	-	(1,250,070)	3,377,127
Consumer discretionary	(110,620)	(553,501)	(664,121)	1,539,360
Health care	(28,545)	-	(28,545)	1,506,040
Industrials	(39,977)	-	(39,977)	1,242,840

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 $71,376,472 and $68,207,244 at December 31, 2016 and 2015, respectively. The unrealized losses relating to these investments amounted to $3,826,699 and $4,900,256 at December 31, 2016 and 2015, 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 $83,996,894 and $77,390,278 at December 31, 2016 and 2015, respectively. The unrealized gains relating to these investments amounted to $8,950,727 and $7,459,730 at December 31, 2016 and 2015, 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:

	2016				
	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	$ 27,278,382	$ -	$ -	$ 27,278,382	$ 27,278,382
Mutual funds:					
Domestic	6,711,884	-	-	6,711,884	6,711,884
Intermediate term bond	1,470,575	-	-	1,470,575	1,470,575
U.S. government and agency obligations	14,392,540	-	-	14,392,540	14,392,540
Investment-grade corporate bonds	-	66,313,652	-	66,313,652	66,313,652
Marketable equity securities:					
Energy	4,547,060	-	-	4,547,060	4,547,060
Industrials	3,313,598	-	-	3,313,598	3,313,598
Consumer discretionary	5,601,374	-	-	5,601,374	5,601,374
Consumer staples	1,705,609	-	-	1,705,609	1,705,609
Healthcare	6,176,395	-	-	6,176,395	6,176,395
Financials	10,060,220	-	-	10,060,220	10,060,220
Information technology	5,625,810	-	-	5,625,810	5,625,810
Telecommunication services	1,701,997	-	-	1,701,997	1,701,997
Limited partnerships	-	-	474,270	474,270	474,270
Total	$ 88,585,444	$ 66,313,652	$ 474,270	$ 155,373,366	$ 155,373,366
Disclosed at Fair Value					
Cash and cash equivalents	$ 130,023,301	$ -	$ -	$ 130,023,301	$ 130,023,301
Bonds payable	-	126,942,107	-	126,942,107	124,587,642

	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	6,237,518	-	-	6,237,518	6,237,518
Intermediate term bond	1,438,112	-	-	1,438,112	1,438,112
U.S. government and agency obligations	18,111,090	-	-	18,111,090	18,111,090
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

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, 2016 and 2015:

	2016	2015
Liability at January 1	$ 2,527,100	$ 2,571,713
Net unrealized loss (gain)	533,073	(44,613)
Termination of swap agreement (Note 9)	(3,060,173)	-
Liability at December 31	$ -	$ 2,527,100

Financial Instruments

The carrying amounts of cash and cash equivalents approximates fair value as of December 31, 2016 and 2015 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 Medical Center measured its derivative financial instrument at fair value based on proprietary models of an independent third party valuation specialist. The fair value took 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 considered the credit risk of the Medical Center and the counterparty. This method calculated the future payments required by the derivative financial instruments assuming that the current forward rates implied by the yield curve were the market's best estimate of future spot interest rates. These payments were 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. The agreement was terminated during 2016 (Note 9).

7. Property and Equipment and Accumulated Depreciation

Property and equipment and accumulated depreciation at December 31, 2016 and 2015 are as follows:

	2016	2015
Land	$ 1,589,358	$ 1,589,358
Land improvements	4,534,962	4,507,062
Buildings and improvements	166,810,503	161,627,449
Fixed and major movable equipment	149,403,792	144,765,258
Construction in progress	7,343,506	6,015,820
Total	329,682,121	318,504,947
Less accumulated depreciation	(242,451,175)	(231,658,409)
Property and equipment, net	$ 87,230,946	$ 86,846,538

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, 2016 and 2015, the Medical Center incurred costs for the project in the amount of $6,961,756 and $3,764,118, respectively. The project began in the summer of 2015 and the expected completion date, other than the elevators, is mid-2017.

8. Long-Term Debt

Long-term debt at December 31, 2016 and 2015, consist of the following:

	2016	2015
Serial bonds, Series 2007B, which mature July 1, 2012 through July 1, 2023, and bear interest of 4.75% to 5.25%, payable semiannually	$ 44,625,000	$ 49,865,000
Term bonds, Series 2007A, 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
Serial bonds, Series 2016A , which mature July 1, 2017 through July 1, 2030, and bear interest ranging from 4.00% to 5.00%, payable semiannually	13,810,000	-
Taxable Variable Rate Demand Revenue Bonds-Term bonds, Series 2006, interest was payable monthly, at a variable rate, fully repaid in 2016	-	12,690,000
Bank Note, payable monthly through December 1, 2016, bore interest at LIBOR index rate, plus 2.83%, fully repaid in 2016	-	1,720,000
Promissory Notes-vendors, noninterest bearing, payable monthly through April 1, 2016, fully repaid during 2016	-	54,132
	123,485,000	129,325,000
(Less)/Add:		
Current portion of long-term debt	(6,055,000)	(7,339,132)
Deferred financing costs	(1,793,527)	(1,555,549)
Unamortized bond premium	2,896,169	818,842
Total	$ 118,532,642	$ 122,040,000

The Medical Center, Marillac and Trinitas Physicians Practice, LLC are members of the Obligated Group for the Series 2007A Bonds, 2007B Bonds, and Series 2016A Bonds.

In June 2006, the Medical Center issued 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 was secured by an irrevocable, bank issued direct-pay Letter of Credit ("Letter of Credit") with an initial expiration date of June 22, 2009. The Letter of Credit, which backed the Series 2006 Bonds, expiration date had been extended to February of 2017. If the annual renewal of the Letter of Credit was not extended by the bank, the reimbursement agreement provided for one additional year after the expiration date before the actual termination of the Letter of Credit. Principal payments were 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 October 2016, the Medical Center fully repaid and extinguished the obligations of the Series 2006 Bonds. The Letter of Credit was also terminated, thereon.

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 "Series 2007A Bonds") and $65,350,000 of taxable converted to tax-exempt Revenue Bonds, Series 2007B (the "Series 2007B Bonds") (collectively, the "2007 Bonds"). In July 2010, the Series 2007B Bonds were converted to tax-exempt. The Series 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 Series 2007B Bonds bear interest of 4.75% to 5.25%. The proceeds from the Promissory Notes and the Series 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 Bonds and Series 2007B Bonds Debt Service Reserve Funds, and (3) used to pay costs of issuance.

In 2011, the Medical Center entered into a Bank Note Payable to replace a terminated capitalized lease agreement for the Cancer Center in the amount of $8,600,000. The Bank Note Payable bore interest at the LIBOR Market Index plus 2.83% and was payable monthly over a 60-month term. The Bank Note Payable was fully repaid in 2016.

In October 2016, the Authority issued, on behalf of the Medical Center, $13,810,000 of tax-exempt Refunding and Revenue Bonds, Series 2016A (the "Series 2016A Bonds"), bearing interest rates between 4% (for bond maturing July 2017) and 5% (for all other maturities). The proceeds from the sale of the Series 2016A Bonds were used to refund the Series 2006 Bonds and pay for debt issuance costs. The Medical Center will be required to fund the principal and interest payments on the bonds. The principal amounts are payable annually on July 1, and interest is payable semiannually on January 1 and July 1 through 2030. The Series 2016A Bonds are collateralized by substantially all of the Obligated Group's property and equipment and gross receipts.

In October 2016, the Medical Center also entered into a Forward Delivery Agreement. In the agreement, the Authority will issue, on behalf of the Medical Center, $82,970,000 in Refunding Bonds, Series 2017A (the "Series 2017A Bonds"), on April 3, 2017, at an interest rate of 5% percent. The proceeds from the sale of the Series 2017A Bonds combined with the debt service reserve funds released by the trustee relating to the Series 2007A Bonds and Series 2007B Bonds, will be used to refund Series 2007A Bonds and Series 2007B Bonds and pay debt issuance costs. The Medical Center will be required to fund the principal and interest payments on the bonds. The principal amounts are payable annually on July 1, and interest is payable semiannually on January 1 and July 1 through 2030. The Series 2017A Bonds are collateralized by substantially all of the Obligated Group's property and equipment and gross receipts. The impact of this Forward Delivery Agreement will be reflected in the 2017 consolidated financial statements when the Series 2017A Bonds are officially issued.

On April 3, 2017, the Authority issued, on behalf of the Medical Center, Series 2017A Bonds in the amount of $82,970,000. The 2017A Bonds refinanced and extinguished the 2007 Bonds.

Scheduled principal payments of long-term debt under the terms of their respective repayment schedules at December 31, 2016 are as follows:

	Bonds
2017	$ 6,055,000
2018	6,555,000
2019	6,895,000
2020	7,255,000
2021	7,640,000
Thereafter	89,085,000
Total	$ 123,485,000

The Series 2017A Bonds previously discussed are not reflected in this schedule.

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. According to the terms of the swap contract, the Medical Center paid a 5.826% rate in return for receiving one month LIBOR rate.

The fair value of the swap at December 31, 2015, was a liability $2,527,100.

In September 2016, the interest rate swap agreement was terminated by the Medical Center as the Series 2006 Bonds were fully repaid in 2016 (Note 8). To terminate the agreement, the Medical Center was required to pay $3,060,173, the effective fair value of the obligation at the termination date. The liability of the interest rate swap agreement was removed from other long-term liabilities in the accompanying consolidated balance sheet on the termination date. For the year ended December 31, 2015, the change in the fair value of the interest rate swap agreement resulted in an unrealized gain of $44,613, 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 in 2016 and 2015. 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, 2016 and 2015 of $2,093,877 and $1,799,690, respectively.

In addition, certain key members of senior management participate in deferred compensation plans sponsored by the Medical Center. At December 31, 2016 and 2015, internally designated assets included $6,711,884 and $6,237,518, respectively, related to these plans. A liability for the same amount is included in other long-term liabilities.

At December 31, 2016 and 2015, 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 $677,071 and $650,894 and a liability in other long-term liabilities in the amount of $936,980 and $899,510 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, 2016 and 2015, 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, 2016, are as follows:

2017	$ 3,852,924
2018	4,029,913
2019	4,165,779
2020	4,229,232
2021	4,329,889
Thereafter	8,258,864
Total	$ 28,866,601

Total rent expense for the years ended December 31, 2016 and 2015, was approximately $3,827,118 and $3,884,502, respectively.

Lease Receivable

On January 28, 2013, 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, 2016, are as follows:

2017	$ 311,000

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, 2016 and 2015 are as follows:

	2016	2015
Health care services	$ 249,262,652	$ 246,957,504
General and administrative	43,892,008	44,230,757
Total expenses	$ 293,154,660	$ 291,188,261

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, 2016 and 2015, accounts receivable related to Medicare amounted to 12% and 15% and accounts receivable related to Medicaid amounted to 33% and 30%, 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. For the year ended December 31, 2016, the Medical Center recognized EHR incentive payments as revenue in excess of expenses in the amounts of $645,094 in the consolidated statement of operations. For the year ended December 31, 2015, there were no EHR incentive payments or related revenue recognized. At December 31, 2016 and 2015, the Medical Center reflected EHR incentive payments in the amount of $3.4 million from the Medicare and Medicaid programs as estimated settlements with third party payors 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. Starting 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, 2016 and 2015, 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, 2016 and 2015, 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 $4,734,000 in 2016 and $5,143,000 in 2015, 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. In 2016, the Medical Center signed an agreement with the City of Elizabeth, whereby, the Medical Center will pay a community service contribution in the amount of $250,000 per year for each of the next four years, effective January 2016, or a higher amount if statewide legislation is passed.

Affordable Care Act

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. In 2017, the president of the United States signed an executive order stating the administrations intention to repeal the Affordable Care Act. The executive order also gives federal and state agencies the authority to grant waivers, exemptions and delays of provisions in the Affordable Care Act. The significance of the impact of the executive order and any potential future changes to the Affordable Care Act on the Medical Center's operations, specifically revenue for Medicaid and Charity Care patients, if any, is not presently determinable.

Government activity continues to increase with respect to investigations and allegations concerning possible violations by healthcare providers of fraud and abuse statues and regulations, which could result in the imposition of significant fines and penalties as well as significant repayments for patient services previously billed. Management is not aware of any material incidents of noncompliance that have not been provided for in the accompanying financial statements; however, the possible future financial effects of this matter on the Medical Center, if any, are not presently determinable.

16. Cogeneration Energy Project

The Medical Center has submitted an application and has received preliminary approval from the Energy Resilience Bank ("ERB"), for a plant electrical and steam generation project. The project would provide additional energy production which will be powered by natural gas during prolonged electrical outages. The project has an estimated cost of $10.1 million. The financing of the project would consist of a combination of grants for $6.6 million and a loan from the Department of Housing and Urban Development ("HUD") for approximately $3.5 million. A portion of the grants, approximately $520,000 will have to be repaid over ten years, interest free. Final construction and engineering costs have not yet been obtained as well as final approval, from ERB and HUD, which is expected in the second half of 2017.