Trinitas Regional Medical Center

Consolidated Financial Statements

December 31, 2018 and 2017

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Independent Auditors' Report

To the Board of Trustees of
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 sheets as of December 31, 2018 and 2017, 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, 2018 and 2017, 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 22, 2019

Trinitas Regional Medical Center

Consolidated Balance Sheets
December 31, 2018 and 2017

Assets	2018	2017
Current Assets		
Cash and cash equivalents	$ 130,800,645	$ 132,741,105
Assets whose use is limited	4,795,508	4,789,990
Patient accounts receivable	27,488,727	27,697,494
Other receivables	3,640,921	2,596,572
Other current assets	5,106,329	6,105,115
Total current assets	171,832,130	173,930,276
Assets Whose Use is Limited and Investments		
Assets whose use is limited:		
Internally designated	100,219,111	101,660,141
Internally designated, other	8,619,129	8,451,871
Donor restricted	2,980,536	3,028,167
Investments	29,820,118	29,829,519
Total assets whose use is limited and investments, net of current	141,638,894	142,969,698
Beneficial Interest in Net Assets of Trinitas Health Foundation	7,590,940	9,759,389
Property and Equipment, Net	85,208,492	86,120,548
Other Assets	7,808,425	5,851,315
Total assets	$ 414,078,881	$ 418,631,226

Liabilities and Net Assets	2018	2017
Current Liabilities		
Current portion of long-term debt	$ 5,315,000	$ 5,065,000
Accounts payable and accrued expenses	23,600,591	24,496,220
Deferred revenue	5,730,237	7,330,546
Accrued bond interest payable	2,114,375	2,241,000
Accrued salaries and wages	6,867,900	5,994,526
Estimated settlements with third-party payors	8,498,718	13,071,014
Total current liabilities	52,126,821	58,198,306
Estimated Settlements with Third-Party Payors	50,984,990	49,618,391
Long-Term Debt	88,731,361	95,220,237
Other Long-Term Liabilities	20,348,999	18,378,339
Total liabilities	212,192,171	221,415,273
Net Assets		
Without donor restrictions	191,315,229	184,428,392
With donor restrictions	10,571,481	12,787,561
Total net assets	201,886,710	197,215,953
Total liabilities and net assets	$ 414,078,881	$ 418,631,226

See notes to consolidated financial statements

Trinitas Regional Medical Center

Consolidated Statements of Operations
Years Ended December 31, 2018 and 2017

	2018	2017
Revenues		
Net patient service revenue	$ 232,885,013	$ 229,214,871
Other revenue	66,220,758	66,787,624
Net assets released from restrictions used for operations	616,045	749,362
Total revenues	299,721,816	296,751,857
Expenses		
Salaries and wages	139,466,511	137,453,014
Employee benefits	28,441,643	27,281,250
Supplies and other	115,243,264	111,810,523
Depreciation	10,917,882	10,492,885
Interest	3,101,913	4,605,167
Total expenses	297,171,213	291,642,839
Operating income	2,550,603	5,109,018
Nonoperating Gains (Losses)		
Interest, dividends and other	3,743,771	3,423,425
Net realized gains on investments	883,544	2,277,397
Change in unrealized losses and gains on investments	(5,511,252)	3,251,228
Gain on bargain purchase	148,666	-
Loss on refinancing	-	(1,238,343)
Total nonoperating (losses) and gains	(735,271)	7,713,707
Revenues in excess of expenses	1,815,332	12,822,725
Net Assets Released from Restrictions Used for Purchase of Property and Equipment	5,071,505	5,856,906
Increase in net assets without donor restrictions	$ 6,886,837	$ 18,679,631

See notes to consolidated financial statements

Trinitas Regional Medical Center

Consolidated Statements of Changes In Net Assets
Years Ended December 31, 2018 and 2017

	2018	2017
Change Net Assets Without Donor Restrictions		
Revenues in excess of expenses	$ 1,815,332	$ 12,822,725
Net assets released from restrictions used for purchase of property and equipment	5,071,505	5,856,906
Increase in net assets without donor restrictions	6,886,837	18,679,631
Change in Net Assets With Donor Restrictions		
Contributions	5,681,001	6,520,726
Restricted investment (loss) income, net	(41,082)	28,728
Net assets released from restrictions	(5,687,550)	(6,606,268)
Change in beneficial interest in net assets of Trinitas Health Foundation	(2,168,449)	2,696,687
(Decrease) increase in net assets with donor restrictions	(2,216,080)	2,639,873
Increase in net assets	4,670,757	21,319,504
Net Assets, Beginning	197,215,953	175,896,449
Net Assets, Ending	$ 201,886,710	$ 197,215,953

See notes to consolidated financial statements

Trinitas Regional Medical Center

Consolidated Statements of Cash Flows
Years Ended December 31, 2018 and 2017

	2018	2017
Cash Flows from Operating Activities		
Increase in net assets	$ 4,670,757	$ 21,319,504
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Depreciation	10,917,882	10,492,885
Loss on sale of bond refinancing	-	1,238,343
Gain on bargain purchase and debt forgiveness	(160,036)	-
Amortization of deferred bond premium	(1,332,728)	(1,136,402)
Amortization of deferred financing costs	79,265	127,514
Restricted contributions for capital additions	(5,071,505)	(5,856,906)
Change in net unrealized losses (gains) on investments	5,511,252	(3,251,228)
Net realized gains on investments	(883,544)	(2,277,397)
Change in beneficial interest in net assets of Trinitas Health Foundation	2,168,449	(2,696,687)
Change in assets and liabilities:		
Patient accounts receivable	208,767	(926,781)
Other receivables	(1,044,349)	787,559
Other assets and other current assets	(958,324)	(830,740)
Accounts payable and accrued expenses	(895,629)	62,606
Deferred revenue	(1,600,309)	1,788,482
Accrued bond interest payable	(126,625)	(1,536,988)
Accrued salaries and wages	873,374	2,085
Other long-term liabilities	1,970,660	2,154,497
Construction and retainage payable	-	(1,874,554)
Estimated settlements with third-party payors	(3,205,697)	(704,384)
Net cash provided by operating activities	11,121,660	16,881,408
Cash Flows from Investing Activities		
Acquisition of property and equipment	(9,766,203)	(9,382,487)
(Purchases) sales and of investments and assets whose use is limited, net	(3,302,422)	13,142,303
Net cash (used in) provided by investing activities	(13,068,625)	3,759,816
Cash Flows from Financing Activities		
Restricted contributions for capital additions	5,071,505	5,856,906
Repayment on extinguishment of debt (Note 8)	-	(109,675,000)
Proceeds from refunding and revenue bonds	-	93,217,203
Payment of deferred financing costs	-	(182,529)
Repayments of long-term debt	(5,065,000)	(7,140,000)
Net cash provided by (used in) financing activities	6,505	(17,923,420)
Net (decrease) increase in cash and cash equivalents	(1,940,460)	2,717,804
Cash and Cash Equivalents, Beginning	132,741,105	130,023,301
Cash and Cash Equivalents, Ending	$ 130,800,645	132,741,105
Supplemental Disclosure of Cash Flow Information		
Interest paid	$ 4,482,000	$ 4,378,113
Supplemental Disclosure of Non-Cash Investing and Financing Activities		
Assets acquired through bargain purchase	$ 239,623	$ -
Long-term debt assumed through bargain purchase	$ 90,957	$ -

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, Trinitas Health Services Corporation and subsidiary, and Trinitas Health Foundation and Affiliate (the "Foundation"). Only the Medical Center's consolidated financial statements and its subsidiaries including Marillac and 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 consolidated 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 consolidated 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 recorded at net realizable value at the transaction price based on standard charges for services provided, reduced by contractual adjustments provided to third-party payors, discounts provided to uninsured or underinsured patients in accordance with the Medical Center's policies, and/or implicit price concessions provided to uninsured or underinsured patients, and do not bear interest. Subsequent changes to the estimate of the transaction price are generally recorded as adjustments to patient revenue in the period of the change.

Other Receivables

Other receivables include grant revenue receivables which 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 net realizable value. 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 unrealized and 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 net assets with donor restriction.

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.

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 net assets without restriction, 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 donor 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.

Other Assets

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

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 a component of interest expense in the consolidated statements of operations. In 2017, the Medical Center wrote off a portion of the deferred financing costs which related to the Series 2007A and 2007B Bonds and is included in loss on refinancing in the consolidated statements of operations. In 2017, the Medical Center recorded new deferred financing costs of $182,529 related to the Series 2017A Bonds.

Other Liabilities

Other long-term liabilities include deferred compensation, postretirement benefits, estimated medical malpractice costs, and deferred revenue.

Net Assets with Donor Restrictions

Net assets with donor restrictions 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. Certain net assets with donor restrictions are required to be maintained by the Medical Center in perpetuity. The income, including gains and losses, earned on these funds is primarily classified as net assets without donor restrictions.

Revenues in Excess of Expenses

The consolidated statements of operations and changes in net assets includes the determination of revenues in excess of expenses. Changes in net assets without donor restrictions which are excluded from the determination of revenues in excess of expenses, consistent with industry practice, include net assets released from donor restrictions related to long-lived assets.

Revenue Recognition

Revenue is recognized in the period services are performed and performance obligations are satisfied and consists primarily of net patient service revenue (Note 3). Net patient service revenue relates to amounts due from patients, third-party payors, and others for services rendered and include estimated retroactive revenue adjustments due to 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 audits, reviews and investigations.

Accounting for Uncertainty in Income Taxes

The Medical Center accounts for uncertainty in income taxes recognized in the consolidated 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.

Advertising Costs

Advertising costs, which pertain mainly to marketing and public relations, are expensed as incurred. Advertising expense was $650,169 in 2018 and $717,540 in 2017.

Subsequent Events

The Medical Center evaluated subsequent events for recognition or disclosure through April 22, 2019, the date the consolidated financial statements were issued.

New Accounting Pronouncements

Revenue Recognition

In 2018, the Medical Center adopted the Financial Accounting Standards Board ("FASB") Accounting Standards Update ("ASU") No. 2014-09, *Revenue from Contracts with Customers (Topic 606)* using the full retrospective approach. ASU No. 2014-09 supersedes the revenue recognition requirements in Topic 605, *Revenue Recognition*, and most industry specific guidance. The core principle under ASU No. 2014-09 is that revenues are recognized to depict the transfer of promised goods or services to customers (patients) in an amount that reflects the consideration at which the entity expects to be entitled in exchange for those goods or services. Additionally, ASU No. 2014-09 requires enhanced disclosures of revenue arrangements.

The Medical Center applied the full retrospective approach to all contracts when adopting ASU No. 2014-09. The adoption of the standard did not have an impact on the recognition of net revenues for any periods prior to adoption. The Medical Center determined that there was no impact on net assets as of January 1, 2017 and December 31, 2017 for the adoption of ASC 606. In addition, the Medical Center determined there was no impact on revenues in excess of expenses for the adoption of ASC 606 in 2017 or 2018.

The most significant impact of adopting the new standard is within the consolidated statements of operations. Certain patient activity where collection was uncertain, previously included as net patient service revenue and separately reported as the provision for bad debts, no longer meets the criteria for revenue recognition. Accordingly, net patient service revenue has been reduced by the amounts previously reported as the provision for bad debts and accordingly the provision for bad debts has been eliminated. Such patient activity, previously reported as the provision for bad debts (representing approximately $16.7 million and $16.9 million for the years ended December 31, 2018 and 2017, respectively) is now classified as an implicit price concession. In addition, the Medical Center eliminated the related presentation of the allowance for doubtful accounts (representing approximately $27.6 and $26.6 million for the years ended December 31, 2018 and 2017, respectively) on the consolidated balance sheet as a result of the adoption of the new standard.

Financial Assets and Liabilities

In January 2016, the FASB issued ASU No. 2016-01, *Recognition and Measurement of Financial Assets and Liabilities (Subtopic 825-10).* The new guidance requires equity investments (except equity method investments or those that result in consolidation) to be measured at fair value with changes in fair value recognized in net income. Finally, ASU 2016-01 requires other specific investment presentation and disclosures in the financial statements for certain financial instruments. In 2018, the Medical Center early adopted ASU No. 2016-01 in its consolidated financial statements. In addition to the adoption of ASU No. 2016-01, the Medical Center changed its accounting policy for its debt securities from available for sale to trading securities, whereby, equity and debt securities are combined in unrealized gains and losses in the consolidated statements of operations. As part of the adoption of ASU No. 2016-01 and the change in accounting policy, the Medical Center reclassified its changes in unrealized gains and (losses) on investments and assets whose use is limited in the amounts of ($5,511,252) and $3,251,228 to be included in non-operating gains (losses) within revenues in excess of expenses for the years ended December 31, 2018 and 2017, respectively. The Medical Center also removed certain unrealized loss disclosures, which had been required for investments and assets whose use is limited classified as available for sale securities.

Leases

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 determined that as a result of ASU No. 2016-02, on January 1, 2019, the Medical Center will record right-of-use assets and lease liabilities of approximately $12 million on the consolidated balance sheet.

Presentation of Financial Statements of Not-for-Profit Entities

In August 2016, the FASB issued ASU No. 2016-14, *Not-for-Profit Entities (Topics 958): Presentation of Financial Statements of Not-for-Profit Entities and Liquidity and Availability of Resources*. 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. In 2018, the Medical Center adopted ASU No. 2016-14 on its consolidated financial statements. The Medical Center has adjusted the presentation of these consolidated financial statements accordingly. ASU No. 2016-14 has been applied retrospectively to all periods presented, except for the disclosures around liquidity and availability of resources and analysis of expenses by nature and function. These disclosures have been presented for 2018 only, as allowed by ASU No. 2016-14.

The new standard changes the following aspects of the consolidated financial statements:

- The unrestricted net assets class has been renamed net assets without donor restrictions;
- The temporarily and permanently restricted net asset classes have been combined into a single net asset class called net assets with donor restrictions;
- The consolidated financial statements include a disclosure about liquidity and availability of resources at December 31, 2018 (Note 2).
- The functional expense disclosure for 2018 includes expenses reported both by nature and function (Note 12).

2. Liquidity and Availability

As of December 31, 2018, financial assets available for general expenditure within one year of the balance sheet date, consists of the following:

Cash and cash equivalents	$ 130,800,645
Patient accounts receivable, net	27,488,727
Investments	29,820,118
Assets limited to use,	
Board-designated	100,219,111
Total	$ 288,328,601

The Medical Center has certain board-designated assets limited to use which are available for general expenditure within one year in the normal course of operations. Accordingly, these assets have been included in the qualitative information above. The Medical Center has other assets limited to use for donor-restricted purposes, debt service, and for other internally designated funds.

As part of the Medical Center's liquidity management plan, cash in excess of daily requirements are invested in short-term investments and money market funds. The board of trustees established a funded depreciation account for future capital needs of the Medical Center, these funds may be drawn upon, if necessary, to meet unexpected liquidity needs.

Additionally, the Medical Center maintains a $5 million line of credit. As of December 31, 2018, $5 million remained available on the Medical Center's line of credit.

3. Net Patient Service Revenue

Net patient service revenues are recognized at the amount that reflects the consideration to which the Medical Center expects to be entitled in exchange for providing patient care. These amounts are due from patients, third-party payors (including commercial and governmental programs), and others and includes variable consideration for retroactive revenue adjustments due to settlement of audits, reviews and investigations. Generally, the Medical Center bills the patients and third-party payors several days after the services are performed and/or the patient is discharged from the facility. Revenue is recognized as performance obligations are satisfied.

Performance obligations are determined based on the nature of the services provided by the Medical Center. Revenue for performance obligations satisfied over time is recognized based on actual services incurred in relation to total expected (or actual) payments. The Medical Center believes that this method provides a faithful depiction of the transfer of services over the term of the performance obligation based on the inputs needed to satisfy the obligation. Generally, performance obligations satisfied over time relate to patients in the Medical Center receiving inpatient acute care services. The Medical Center measures the performance obligation from admission into the facility to the point when it is no longer required to provide services to that patient, which is generally at the time of discharge. Revenue for performance obligations satisfied at a point in time are recognized when services are provided and the Medical Center does not believe it is required to provide additional services to the patient.

Generally, because all the Medical Center's performance obligations relate to contracts with a duration of less than one year, the Medical Center has elected to apply the optional exemption provided in Accounting Standard Codification ("ASC") 606-10-50-14(a) and, therefore, the Medical Center is not required to disclose the aggregate amount of the transaction price allocated to performance obligations that are unsatisfied or partially unsatisfied at the end of the reporting period. The unsatisfied or partially unsatisfied performance obligations referred to above are primarily related to inpatient acute care services at the end of the reporting period. The performance obligations for these contracts are generally completed when the patients are discharged, which generally occurs within days or weeks of the end of the reporting period.

The Medical Center determines the transaction price based on standard charges for services provided, reduced by contractual adjustments provided to third-party payors, discounts provided to uninsured patients in accordance with the Medical Center's policy, and /or implicit price concessions provided to uninsured patients. The Medical Center determines its estimates of contractual adjustments and discounts based on contractual agreements, its discount policies and historical experience. The Medical Center determines its estimate of implicit price concessions based on its historical collection experience with this class of patients.

The composition of the Medical Center's net patient care service revenue by payor (which excludes state subsidies) for the years ended December 31 is as follows:

	2018	2017
Medicare	$ 89,974,503	$ 85,124,420
Medicaid	82,147,328	84,725,900
Other third party payors	58,637,666	57,765,313
Self-pay and other	2,125,516	1,599,238
Total	$ 232,885,013	$ 229,214,871

The composition of patient care service revenue based on the Medical Center's lines of business (which excludes state subsidies) for years ended December 31 is as follows:

	2018	2017
Medical Center	$ 220,296,586	$ 216,358,048
Long-term care	6,778,427	7,058,842
Physicians practice	5,810,000	5,797,981
Total	$ 232,885,013	$ 229,214,871

Agreements with third-party payors typically provide for payments at amounts less than established charges. A summary of the payment arrangements with major third-party payors are as follows:

Medicare: Certain inpatient acute care services are paid at prospectively determined rates per discharge based on clinical, diagnostic and other factors. Certain services are paid based on cost-reimbursement methodologies subject to certain limits. Physician services are paid based upon established fee schedules. Outpatient services are paid using prospectively determined rates. 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. As of December 31, 2018, the Medical Center's Medicare cost reports have been settled by the Medicare fiscal intermediary through December 31, 2010.

Medicaid: Reimbursements for Medicaid services are generally paid at prospectively determined rates per discharge, per occasion of service or per covered member. Outpatient services are paid based on a cost reimbursement methodology. As of December 31, 2018, the Medical Center's Medicaid cost reports have been settled by the Medicaid fiscal intermediary through December 31, 2015.

Other: Payment agreements with certain commercial managed care, Medicare and Medicaid managed care insurance carriers, health maintenance organizations and preferred provider organizations provide for payment using prospectively determined rates per discharge, or per diem, or discounts from established charges and prospectively determined daily rates.

Laws and regulations concerning government programs, including Medicare and Medicaid, are complex and subject to varying interpretation. As a result of investigations by governmental agencies, various health care organizations have received requests for information and notices regarding alleged noncompliance with those laws and regulations, which, in some instances, have resulted in organizations entering into significant settlement agreements. Compliance with such laws and regulations may also be subject to future government review and interpretation as well as significant regulatory action, including fines, penalties and potential exclusion from the related programs. There can be no assurance that regulatory authorities will not challenge the Medical Center's compliance with these laws and regulations, and it is not possible to determine the impact (if any) such claims or penalties would have upon the Medical Center. In addition, the contracts the Medical Center has with commercial payors also provide for retroactive audit and review of claims.

Settlements with third-party payors for retroactive adjustments due to audits, reviews or investigations are considered variable consideration and are included in the determination of the estimated transaction price for providing patient care. These settlements are estimated based on the terms of the payment agreement with the payor, correspondence from the payor and the Medical Center's historical settlement activity, including an assessment to ensure that it is probable that a significant reversal in the amount of cumulative revenue recognized will not occur when the uncertainty associated with the retroactive adjustment is subsequently resolved. Estimated settlements are adjusted in future periods as adjustments become known (that is, new information becomes available), or as years are settled or are no longer subject to such audits, reviews and investigations. Revenue received under third-party arrangements is subject to audit and retroactive adjustments. For the years ended December 31, 2018 and 2017, net patient service revenue on the consolidated statements of operations includes favorable transaction price adjustments in the amounts of $1,326,256 and $1,447,643, respectively, related to final settlements of prior year cost reports and other settlements.

Generally, patients who are covered by third-party payors are responsible for related deductibles and coinsurance, which vary in amount. The Medical Center also provides services to uninsured patients, and offers those uninsured patients a discount, either by policy or law, from standard charges. The Medical Center estimates the transaction price for patients with deductibles and coinsurance and from those who are uninsured based on historical experience and current market conditions. The initial estimate of the transaction prices including bad debts is determined by reducing the standard charge by any contractual adjustments, discounts and implicit price concessions. Subsequent changes to the estimate of the transaction price are generally recorded as adjustments to patient service revenue including bad debts in the period of the change. For the years ended December 31, 2018 and 2017, revenue was increased by $338,648 and $216,892, respectively, due to changes in estimates of implicit price concessions for performance obligations satisfied in prior years.

Consistent with the Medical Center's mission, care is provided to patients regardless of their ability to pay. Therefore, the Medical Center has determined it has provided implicit price concessions to uninsured patients and other patient balances (for example, copays and deductibles). The implicit price concessions included in estimating the transaction price represent the difference between amounts billed to patients and the amounts the Medical Center expects to collect based on its collection history with those patients.

The Medical Center disaggregates revenue from contracts with customers by type of service and payor source as this depicts the nature, amount, timing and uncertainty of its revenue and cash flows as affected by economic factors. Tables providing details of these factors are presented in Note 2.

4. 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, 2018 and 2017 are as follows:

	2018	2017
Charity care	$ 29,690,520	$ 30,744,894
DSRIP	6,320,464	6,339,569
Mental health	1,811,513	1,811,511
Total	$ 37,822,497	$ 38,895,974

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

In September 2018, the Medical Center received a DSRIP payment in the amount of 4,851,670 for the program's year six incentive payment. In October 2017, the Medical Center received a DSRIP payment in the amount of $7,789,257, which included the program's year five incentive payment and an additional appeal incentive payment for year four of the program.

The allocations of subsidy payments to the Medical Center are subject to change from year to year based on available state budget amounts and allocation methodologies. A proportionate amount is in place through June 30, 2019; however, such amounts are subject to change.

The Medical Center is amortizing the DSRIP incentive payments over the program's respective fiscal years, which end on June 30, 2019 and 2018. For the years ended December 31, 2018 and 2017, $6,320,464 and $6,339,569 of the incentive payments were recognized in other revenue in the consolidated statements of operations, respectively. The unamortized portions of the incentive of $2,425,835 and $3,894,628 were included in deferred revenue in the consolidated balance sheet at December 31, 2018 and 2017, respectively.

Consistent with the Medical Center's mission, care is provided to patients regardless of their ability to pay. Therefore, the Medical Center has determined it has provided implicit price concessions to uninsured patients and patients with other uninsured balances (for example, copays and deductibles). The implicit price concessions included in estimating the transaction price represent the difference between amounts billed to patients and the amounts the Medical Center expects to collect based on its collection history with those patients. The implicit price concessions, which effectively reduce net patient service revenue, for the years ended December 31, 2018 and 2017, were $16,708,868 and $16,907,577, respectively.

Patients who meet the State of New Jersey's criteria for charity care are provided care without charge or at amounts less than established rates. Such amounts determined to qualify as charity care are not reported as revenue. Charges for charity care rendered were approximately $135.4 million and $147 million for the years ended December 31, 2018 and 2017, respectively. Total charity care costs were approximately $38.2 and $40.8 million for the years ended December 31, 2018 and 2017.

5. 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 $62,000 and $52,000 in 2018 and 2017, 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.

	2018	2017
Assets (principally cash and cash equivalents, prepaid expenses and other current assets, investments, assets limited as to use, and pledges receivable)	$ 7,756,260	$ 9,937,915
Liabilities	$ 165,320	$ 178,526
Net assets	7,590,940	9,759,389
Total liabilities and net assets	$ 7,756,260	$ 9,937,915
Revenues and other support	$ 4,710,065	$ 10,380,220
Expenses	(1,409,988)	(1,259,563)
Excess of revenues and other support over expenses	3,300,077	9,120,657
Contributions to the Medical Center of donor restricted funds	(5,468,526)	(6,423,970)
Net assets, beginning	9,759,389	7,062,702
Net assets, ending	$ 7,590,940	$ 9,759,389

The Foundation's contributions are reflected as a component of net assets with donor restrictions and amounted to $5,468,526 and $6,423,970 in 2018 and 2017, respectively.

At December 31, 2018 and 2017, amounts due to the Medical Center from affiliates were $243,348 and $140,940, of which $119,590 and $95,023, respectively, were due from Trinitas Healthcare Corporation and are included in other current assets on the consolidated balance sheet.

6. Assets Limited as to Use and Investments

The composition of assets whose use is limited at December 31, 2018 and 2017, is set forth in the following table:

	2018	2017
Internally designated:		
Cash and cash equivalents	$ 3,928,129	$ 2,033,823
U.S. government and agency obligations	8,611,842	9,073,097
Investment-grade corporate bonds	55,478,760	55,752,559
Marketable equity securities:		
Energy	2,335,832	2,660,043
Industrials	4,511,427	3,926,955
Consumer discretionary	1,951,198	3,558,086
Consumer staples	2,510,426	2,474,441
Healthcare	5,288,741	5,080,043
Financials	9,119,378	9,480,025
Information technology	3,734,501	6,052,278
Telecommunication services	2,748,877	1,568,791
Total internally designated assets	$ 100,219,111	$ 101,660,141
Internally designated, deferred compensation plans, Mutual funds	$ 8,619,129	$ 8,451,871
Assets held by trustees under bond indentures, Cash and cash equivalents	$ 4,795,508	$ 4,789,990
Less funds held by trustees available to meet current liabilities	(4,795,508)	(4,789,990)
Noncurrent portion of funds held by trustees under bond indentures	$ -	$ -
Donor-restricted assets:		
Cash and cash equivalents	$ 1,545,670	$ 1,539,196
Mutual funds, intermediate term bond	1,434,866	1,488,971
Total donor restricted assets	$ 2,980,536	$ 3,028,167

The composition of investments at December 31, 2018 and 2017 is set forth in the following table:

	2018	2017
Cash and cash equivalents	$ 1,307,211	$ 988,698
U.S. government and agency obligations	2,914,511	3,000,589
Investment-grade corporate bonds	18,928,270	18,879,716
Marketable equity securities:		
Energy	1,008,100	1,193,122
Industrials	632,810	632,324
Consumer discretionary	499,802	1,101,119
Consumer staples	417,139	1,227,806
Healthcare	249,119	614,468
Financials	1,438,518	1,022,407
Information technology	1,376,862	892,665
Telecommunication services	1,047,776	276,605
Total investments	$ 29,820,118	$ 29,829,519

7. 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 and assets whose use is limited on a recurring basis at fair value. The financial instruments were measured with the following inputs at December 31:

	2018				
	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	$ 11,576,518	$ -	$ -	$ 11,576,518	$ 11,576,518
Mutual funds:					
Domestic	8,619,129	-	-	8,619,129	8,619,129
Intermediate term bond	1,434,866	-	-	1,434,866	1,434,866
U.S. government and agency obligations	11,526,353	-	-	11,526,353	11,526,353
Investment-grade corporate bonds	-	74,407,030	-	74,407,030	74,407,030
Marketable equity securities:					
Energy	3,343,932	-	-	3,343,932	3,343,932
Industrials	5,144,237	-	-	5,144,237	5,144,237
Consumer discretionary	2,451,000	-	-	2,451,000	2,451,000
Consumer staples	2,927,565	-	-	2,927,565	2,927,565
Healthcare	5,537,860	-	-	5,537,860	5,537,860
Financials	10,557,896	-	-	10,557,896	10,557,896
Information technology	5,111,363	-	-	5,111,363	5,111,363
Telecommunication services	3,796,653	-	-	3,796,653	3,796,653
Total	$ 72,027,372	$ 74,407,030	$ -	$ 146,434,402	$ 146,434,402
Disclosed at Fair Value					
Cash and cash equivalents	$ 130,800,645	$ -	$ -	$ 130,800,645	$ 130,800,645
Bonds payable and note payable	-	93,502,588	-	93,502,588	94,046,361

	2017				
	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	$ 9,351,707	$ -	$ -	$ 9,351,707	$ 9,351,707
Mutual funds:					
Domestic	8,451,871	-	-	8,451,871	8,451,871
Intermediate term bond	1,488,971	-	-	1,488,971	1,488,971
U.S. government and agency obligations	12,073,686	-	-	12,073,686	12,073,686
Investment-grade corporate bonds	-	74,632,275	-	74,632,275	74,632,275
Marketable equity securities:					
Energy	3,853,165	-	-	3,853,165	3,853,165
Industrials	4,559,279	-	-	4,559,279	4,559,279
Consumer discretionary	4,659,205	-	-	4,659,205	4,659,205
Consumer staples	3,702,247	-	-	3,702,247	3,702,247
Healthcare	5,694,511	-	-	5,694,511	5,694,511
Financials	10,502,432	-	-	10,502,432	10,502,432
Information technology	6,944,943	-	-	6,944,943	6,944,943
Telecommunication services	1,845,396	-	-	1,845,396	1,845,396
Total	$ 73,127,413	$ 74,632,275	$ -	$ 147,759,688	$ 147,759,688
Disclosed at Fair Value					
Cash and cash equivalents	$ 132,741,105	$ -	$ -	$ 132,741,105	$ 132,741,105
Bonds payable	-	101,201,989	-	101,201,989	100,285,237

Financial Instruments

The carrying amounts of cash and cash equivalents approximates fair value as of December 31, 2018 and 2017 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.

The fair value of fixed rate long-term debt was estimated using quoted market prices.

8. Property and Equipment and Accumulated Depreciation

Property and equipment and accumulated depreciation at December 31, 2018 and 2017 are as follows:

	2018	2017
Land	$ 1,783,178	$ 1,589,358
Land improvements	4,606,228	4,585,528
Buildings and improvements	178,868,591	175,620,149
Fixed and major movable equipment	161,998,648	156,119,650
Construction in progress	896,306	888,006
Total	348,152,951	338,802,691
Less accumulated depreciation	(262,944,459)	(252,682,143)
Property and equipment, net	$ 85,208,492	$ 86,120,548

In 2018, the emergency room department project was expanded to include patient experience improvement in the emergency room. Total estimated costs for the project were approximately $19 million. For the years ended December 31, 2018 and 2017, the Medical Center incurred costs for the project in the amount of $1,591,190 and $5,425,443, respectively. The construction project began in the summer of 2015 and was completed, including the elevators, in March 2018.

9. Long-Term Debt

Long-term debt at December 31, 2018 and 2017, consist of the following:

	2018	2017
Note payable, state of NJ, non-interest bearing loan	$ 79,587	$ -
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	12,520,000	13,270,000
Serial bonds, Series 2017A , which mature July 1, 2018 through July 1, 2030, and bear interest of 5.00%, payable semiannually	72,055,000	76,370,000
	84,654,587	89,640,000
(Less)/Add:		
Current portion of long-term debt	(5,315,000)	(5,065,000)
Deferred financing costs	(553,392)	(632,657)
Unamortized bond premium	9,945,166	11,277,894
Total	$ 88,731,361	$ 95,220,237

The Medical Center, Marillac and Trinitas Physicians Practice, LLC are members of the Obligated Group for the Series 2016A Bonds and Series 2017A Bonds.

The Medical Center has outstanding New Jersey Health Care Facilities Financing Authority (the "Authority") tax-exempt Refunding and Revenue Bonds, Series 2016A (the "Series 2016A Bonds"), bearing interest at 5 percent per annum. The initial $13,810,000 in proceeds from the sale of the Series 2016A Bonds were used to refund the Series 2006 Bonds and pay for debt issuance costs. 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.

The Medical Center has outstanding Authority Refunding Bonds, Series 2017A (the "Series 2017A Bonds"), bearing interest at 5 percent per annum. The initial $82,970,000 in 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, were used to refund Series 2007A Bonds and Series 2007B Bonds and pay debt issuance costs. 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.

This 2017 refinancing resulted in a loss on bond refinancing in the amount of $1,238,343, which is reflected in the consolidated statements of operations.

Scheduled principal payments of long-term debt under the terms of their respective repayment schedules at December 31, 2018 are as follows:

	Bonds
2019	$ 5,315,000
2020	5,591,370
2021	5,876,370
2022	6,161,370
2023	6,466,370
Thereafter	55,244,107
Total	$ 84,654,587

Interest expense as reported on the consolidated statements of operations is composed of the following for the years ended December 31:

	2018	2017
Interest expense on Series 2016A Bonds, Series 2017A Bonds and other extinguished debt	$ 4,355,376	$ 5,614,055
Amortization of deferred financing costs	79,264	127,514
Amortization of bond premium	(1,332,727)	(1,136,402)
Total	$ 3,101,913	$ 4,605,167

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 percent of their salaries, up to the Internal Revenue Service limit. Eligible employees may also contribute catch up contributions up to the Internal Revenue Service limit. 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, 2018 and 2017 of $2,156,970 and $2,062,022, respectively.

In addition, certain key members of senior management participate in deferred compensation plans sponsored by the Medical Center. At December 31, 2018 and 2017, internally designated assets included $8,619,129 and $8,451,871, respectively, related to these plans. A liability for the same amount is included in other long-term liabilities.

At December 31, 2018 and 2017, 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 $729,425 and $703,248 and a liability in other long-term liabilities in the amount of $980,092 and $963,433 for both benefits payable, respectively. There were no changes to net assets without donor restrictions for unfunded post-retirement medical benefits for the years ended December 31, 2018 and 2017, respectively.

11. Operating Leases

The Medical Center leases certain property and equipment under operating leases that have initial or remaining non-cancelable terms in excess of one year. Future minimum rental payments under these agreements as of December 31, 2018, are as follows:

2019	$	3,753,603
2020		2,327,457
2021		2,121,159
2022		2,088,030
2023		1,965,476
Thereafter		3,972,868
Total	$	16,228,593

Total rent expense for the years ended December 31, 2018 and 2017, was approximately $4,236,611 and $4,060,568, respectively.

Lease Receivable

On June 23, 2017, the Medical Center renewed 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 renewal commenced on January 28, 2018, and is for a five year term, with a base rental that increases 2.5 percent annually, and additional renewal periods available, as defined in the lease agreement.

Future minimum rental to be received under this agreement as of December 31, 2018 not including additional renewal periods, are as follows:

2019	$	356,608
2020		365,523
2021		374,661
2022		384,027
2023		360,826
Total	$	1,841,645

12. Functional Expenses

The consolidated financial statements report certain categories of expenses that are attributable to one or more program or supporting functions of the Medical Center. These expenses include depreciation, interest and amortization, administration, communications, media production, information technology, and facilities operations and maintenance. Employee benefits are allocated based on the respective proportion of salaries and wages. Depreciation and interest are allocated based on square footage. Costs of other categories were allocated on estimates of time and effort.

Functional expenses for the year ended December 31, 2018:

	Healthcare Services	Medical Office Building	General and Administrative	Total
Salaries and wages	$ 121,426,151	$ -	$ 18,040,360	$ 139,466,511
Employee benefits	24,762,641	-	3,679,002	28,441,643
Supplies and other	89,905,239	820,882	24,517,143	115,243,264
Depreciation	9,249,069	418,539	1,250,274	10,917,882
Interest	2,732,534	-	369,379	3,101,913
	$ 248,075,634	$ 1,239,421	$ 47,856,158	$ 297,171,213

Functional expenses for the year ended December 31, 2017:

Healthcare services	$ 248,405,903
General and administrative	43,236,936
Total expenses	$ 291,642,839

13. Donor Restricted Net Assets

Net assets with donor restrictions include the Medical Center's beneficial interest in the Trinitas Health Foundation (Note 5), an endowment fund, and other funds that are restricted based upon specified donor restrictions. As required by generally accepted accounting principles, net assets associated with the endowment fund are classified and reported based on the existence or absence of donor-imposed restrictions.

For the endowment, the Medical Center has classified as net assets with restrictions (a) the original value of gifts donated to the endowment, (b) the original value of subsequent gifts to the endowment, and (c) accumulations to the endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. These original values of the donor restricted net assets are always maintained by the Medical Center. The remaining portion of the donor restricted endowment fund remains classified as net assets with restriction until those assets are appropriated for expenditure by the Medical Center in a manner consistent with the donor's expressed intent.

The Medical Center has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. The endowment assets are invested in fixed income and equity securities.

Net assets with donor restricted purposes have been summarized as follows at December 31:

	2018	2017
Beneficial interest in net assets of Trinitas Health Foundation (Note 5)	$ 7,590,940	$ 9,759,389
Other donor restricted net assets	1,822,402	1,815,928
Endowment funds	1,158,139	1,212,244
Total	$ 10,571,481	$ 12,787,561

14. 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, 2018 and 2017, accounts receivable related to Medicare amounted to 18 percent and 14 percent and accounts receivable related to Medicaid amounted to 31 percent and 33 percent, 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.

15. 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 years ended December 31, 2018 and 2017, the Medical Center recognized approximately $1.8 million and $-0- respectively, EHR payments as revenue in excess of expenses in the consolidated statements of operations. At December 31, 2018 and 2017, the Medical Center reflected EHR incentive payments in the amounts of approximately $1.6 million and $3.4 million from the Medicare and Medicaid programs as estimated settlements with third party payors on the consolidated balance sheets, respectively, which will be recognized as revenue when the Medical Center has satisfied the statutory and regulatory requirements.

16. Commitment and Contingencies

Litigation and Regulatory Matters

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 consolidated 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 un-asserted 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 is 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 percent at December 31, 2018 and 2017, related to reported claims and incurred claims that have not been reported. The Medical Center's estimated medical malpractice claims liability was approximately $1,746,000 at December 31, 2018 and 2017, 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 $7,074,000 in 2018 and $5,144,000 in 2017, respectively.

The Medical Center believes it has adequate insurance coverages for all asserted claims and it has no knowledge of un-asserted 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.

Healthcare Industry Laws and Regulations

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 un-asserted at this time.

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 consolidated financial statements; however, the possible future financial effects of this matter on the Medical Center, if any, are not presently determinable.

17. Cogeneration Energy Project

The Medical Center has final approval, in 2019, from the Energy Resilience Bank ("ERB"), for a plant electrical and steam generation project and the transaction closed in the first quarter of 2019. The project will provide additional energy production which will be powered by natural gas during prolonged electrical outages. The project has an estimated cost of $10.8 million. The financing of the project will consist of a combination of grants for $7 million (a portion of the grants, approximately $520,000 will have to be repaid over ten years, interest free) and a 20 year loan from the Department of Housing and Urban Development ("HUD") for approximately $3.3 million bearing interest at a rate of 2 percent per annum. The project will start in 2019.

18. Administrative Services Building

The Medical Center is in the process of finalizing with a developer a 50 year ground lease for the land under the current administrative building and replacing the existing administrative building on the Williamson street campus. The developer would construct a new 51,000 gross square feet ("GSF") Medical Office Building ("MOB"). Further, the Medical Center will enter into two ten year triple net leases for approximately 18,000 GSF in the MOB. Lastly, the Medical Center would construct a 300 space, multi-level parking garage for approximately $10 million. The Medical Center expects to obtain approval and finalize this transaction during 2019.

19. Clinical and Financial Review

Due to changes in the healthcare industry and, specifically, in the New Jersey market place, the Medical Center is currently engaged in a broad programmatic, operational and strategic planning review. The Medical Center is in the initial phases of this review. The overall goal of the review is to improve access, quality, and address financial challenges. Like many other stand-alone health systems, the Medical Center engages in discussions regarding affiliation with, or becoming part of, a larger health system, and will provide timely disclosure regarding any such developments, as required.