Trinitas Regional Medical Center

Consolidated Financial Statements

December 31, 2019 and 2018

Trinitas Regional Medical Center

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Independent Auditors' Report

To the Board of Trustees of
Trinitas Regional Medical Center

We have audited the Medical Center 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, 2019 and 2018, 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, 2019 and 2018, 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.

Emphasis of Matter

As discussed in Note 1 to the consolidated financial statements, in 2019, the Medical Center adopted new accounting guidance related to the Financial Accounting Standards Board Accounting Standard Update No. 2016-02, *Leases (Topic 842)* and No. 2016-18, *Statement of Cash Flows (Topic 230): Restricted Cash*. Our opinion is not modified with respect to this matter.

Baker Tilly Virchow Krause, LLP

Iselin, New Jersey
April 1, 2020

Trinitas Regional Medical Center

Consolidated Balance Sheets
December 31, 2019 and 2018

Assets	2019	2018
Current Assets		
Cash and cash equivalents	$ 126,723,117	$ 130,800,645
Assets whose use is limited	4,870,024	4,795,508
Patient accounts receivable	31,733,480	27,488,727
Other receivables	3,220,611	3,640,921
Other current assets	8,000,940	5,106,329
Total current assets	174,548,172	171,832,130
Assets Whose Use is Limited and Investments		
Assets whose use is limited:		
Internally designated	126,374,140	108,838,240
Donor restricted	5,200,026	2,980,536
Investments	33,638,018	29,820,118
Total assets whose use is limited and investments, net of current	165,212,184	141,638,894
Beneficial Interest in Net Assets of Trinitas Health Foundation	8,096,265	7,590,940
Property and Equipment, Net	85,804,833	85,208,492
Right to Use Assets	11,003,177	-
Other Assets	6,592,602	7,808,425
Total assets	$ 451,257,233	$ 414,078,881

Liabilities and Net Assets	2019	2018
Current Liabilities		
Current portion of long-term debt	$ 5,580,000	$ 5,315,000
Current portion of operating lease obligation	2,317,590	-
Accounts payable and accrued expenses	24,739,715	23,600,591
Deferred revenue	7,599,914	5,730,237
Accrued bond interest payable	1,981,500	2,114,375
Accrued salaries and wages	7,019,729	6,867,900
Estimated settlements with third-party payors	7,865,071	8,498,718
Total current liabilities	57,103,519	52,126,821
Estimated Settlements With Third-Party Payors	55,674,298	50,984,990
Long-Term Debt	81,676,371	88,731,361
Operating Lease Obligations	8,685,587	-
Other Long-Term Liabilities	21,581,564	20,348,999
Total liabilities	224,721,339	212,192,171
Net Assets		
Without donor restrictions	213,239,598	191,315,229
With donor restrictions	13,296,296	10,571,481
Total net assets	226,535,894	201,886,710
Total liabilities and net assets	$ 451,257,233	$ 414,078,881

See notes to consolidated financial statements

Trinitas Regional Medical Center

Consolidated Statements of Operations
Years Ended December 31, 2019 and 2018

	2019	2018
Revenues		
Net patient service revenue	$ 236,128,027	$ 232,885,013
Other revenue	65,740,776	66,220,758
Net assets released from restrictions used for operations	720,123	616,045
Total revenues	302,588,926	299,721,816
Expenses		
Salaries and wages	142,479,579	139,466,511
Employee benefits	29,324,510	28,441,643
Supplies and other	117,214,248	115,243,264
Depreciation	10,785,196	10,917,882
Interest	2,638,359	3,101,913
Total expenses	302,441,892	297,171,213
Operating income	147,034	2,550,603
Nonoperating Gains (Losses)		
Interest, dividends and other	4,049,683	3,743,771
Net realized gains on investments	988,856	883,544
Change in unrealized gains (losses) on investments	14,309,123	(5,511,252)
Gain on bargain purchase	-	148,666
Total nonoperating gains (losses)	19,347,662	(735,271)
Revenues in excess of expenses	19,494,696	1,815,332
Net Assets Released From Restrictions Used for Purchase of Property and Equipment	2,429,673	5,071,505
Increase in net assets without donor restrictions	$ 21,924,369	$ 6,886,837

See notes to consolidated financial statements

Trinitas Regional Medical Center

Consolidated Statements of Changes in Net Assets
Years Ended December 31, 2019 and 2018

	2019	2018
Change Net Assets Without Donor Restrictions		
Revenues in excess of expenses	$ 19,494,696	$ 1,815,332
Net assets released from restrictions used for purchase of property and equipment	2,429,673	5,071,505
Increase in net assets without donor restrictions	21,924,369	6,886,837
Change in Net Assets With Donor Restrictions		
Contributions	4,401,296	5,681,001
Grants	870,000	-
Restricted investment income (loss), net	97,990	(41,082)
Net assets released from restrictions	(3,149,796)	(5,687,550)
Change in beneficial interest in net assets of Trinitas Health Foundation	505,325	(2,168,449)
Increase (decrease) in net assets with donor restrictions	2,724,815	(2,216,080)
Increase in net assets	24,649,184	4,670,757
Net Assets, Beginning	201,886,710	197,215,953
Net Assets, Ending	$ 226,535,894	$ 201,886,710

See notes to consolidated financial statements

Trinitas Regional Medical Center

Consolidated Statements of Cash Flows
Years Ended December 31, 2019 and 2018

	2019	2018
Cash Flows From Operating Activities		
Increase in net assets	$ 24,649,184	$ 4,670,757
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Depreciation	10,785,196	10,917,882
Lease expense	3,795,132	-
Change in right-of-use asset and lease obligation, net	(157,394)	-
Gain on bargain purchase and debt forgiveness	(11,370)	(160,036)
Amortization of deferred bond premium	(1,540,445)	(1,332,728)
Amortization of deferred financing costs	76,825	79,265
Operating lease payments	(3,637,738)	-
Restricted contributions for capital additions	(2,429,673)	(5,071,505)
Change in net unrealized (gains) losses on investments	(14,309,123)	5,511,252
Net realized gains on investments	(988,856)	(883,544)
Change in beneficial interest in net assets of Trinitas Health Foundation	(505,325)	2,168,449
Change in assets and liabilities:		
Patient accounts receivable	(4,244,753)	208,767
Other receivables	420,310	(1,044,349)
Other assets and other current assets	(1,678,788)	(958,324)
Accounts payable and accrued expenses	1,139,124	(895,629)
Deferred revenue	1,869,677	(1,600,309)
Accrued bond interest payable	(132,875)	(126,625)
Accrued salaries and wages	151,829	873,374
Other long-term liabilities	1,232,565	1,970,660
Estimated settlements with third-party payors	4,055,661	(3,205,697)
Net cash provided by operating activities	18,539,163	11,121,660
Cash Flows From Investing Activities		
Acquisition of property and equipment	(11,381,537)	(9,766,203)
Purchases of investments and assets whose use is limited, net	(6,139,143)	(3,290,430)
Net cash used in investing activities	(17,520,680)	(13,056,633)
Cash Flows From Financing Activities		
Restricted contributions for capital additions	2,429,673	5,071,505
Repayments of long-term debt	(5,315,000)	(5,065,000)
Net cash (used in) provided by financing activities	(2,885,327)	6,505
Net decrease in cash and cash equivalents and restricted cash and cash equivalents	(1,866,844)	(1,928,468)
Cash and Cash Equivalents and Restricted Cash and Cash Equivalents, Beginning	137,141,823	139,070,291
Cash and Cash Equivalents and Restricted Cash and Cash Equivalents, Ending	$ 135,274,979	$ 137,141,823
Supplemental Disclosure of Cash Flow Information		
Interest paid	$ 4,234,855	$ 4,482,000
Supplemental Disclosure of Noncash Investing and Financing Activities		
Assets acquired through bargain purchase	$ -	$ 239,623
Long-term debt assumed through bargain purchase	$ -	$ 90,957
Reconciliation of Cash and Cash Equivalents and Restricted Cash and Cash Equivalents		
Cash and cash equivalents	$ 126,723,117	$ 130,800,645
Current portion of assets whose use is limited, under trust indenture	4,870,024	4,795,508
Assets whose use is limited, included in donor restricted	3,681,838	1,545,670
Total cash, cash equivalents and restricted cash and cash equivalents	$ 135,274,979	$ 137,141,823

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 Medical Center (LLC), is a for-profit taxable entity.

The sole member of the Medical Center is Trinitas Health (the Parent), a tax-exempt holding Medical Center. 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 Health Care 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 and Principles of Consolidation

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

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 Medical Center's consolidated balance sheets, 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 sheets 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 sheets 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 sheets as a reduction of the related debt. Amortization expense is reported as a component of interest expense in the consolidated statements of operations. Amortization expense for the years ended December 31, 2019 and 2018 was $76,825 and $79,265, respectively. Accumulated amortization at December 31, 2019 and 2018 was $247,477 and $170,652, respectively.

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 and Measure of Operations

The consolidated statements of operations and changes in net assets includes the determination of revenues in excess of expenses. The revenues in excess of expenses includes net assets released from restrictions used for operations and excludes net assets released from restrictions for property and equipment.

For purposes of presentation, transactions deemed by management to be ongoing, major or central to the provision of healthcare services are reported as revenues in excess of expenses.

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 $620,831 in 2019 and $650,169 in 2018.

Subsequent Events

The Medical Center evaluated subsequent events for recognition or disclosure through April 1, 2020, the date the consolidated financial statements were issued.

The COVID-19 outbreak is disrupting business activity across a range of industries. The extent of the impact of COVID-19 on the Medical Center's operational and financial performance will depend on certain developments, including the duration and spread of the outbreak, impact on the demand for the Medical Center's services, the availability of staff and needed supplies, all of which are uncertain and cannot be predicted. At this point, the extent to which COVID-19 may impact the Medical Center's future financial condition or results of operations is uncertain.

New Accounting Pronouncements

Leases

In February 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Unit (ASU) No. 2016-02, *Leases (Topic 842)*. ASU No. 2016-02 was issued to increase transparency and comparability among organization by recognizing lease assets and lease liabilities on the balance sheets 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 (ROU) asset and lease liability, initially measured at the present value of the lease payments, in the balance sheets. 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 adopted the new standard on January 1, 2019. The Medical Center elected the option to apply the transition requirements in Topic 842 at the effective date of January 1, 2019. Consequently, financial information has not been updated and the disclosures required under the new standard have not been provided for dates and periods before January 1, 2019.

The adoption of the new standard had a material effect on the Medical Center's consolidated financial statements. The most significant effects relate to (1) the recognition of new ROU assets and lease liabilities on its consolidated balance sheets for operating leases; and (2) providing significant new disclosures about its leasing activities.

Upon adoption on January 1, 2019, the Medical Center recognized operating lease liabilities of approximately $14.4 million based on the present value of the remaining minimum rental payments as determined in accordance with Topic 842 for leases that had historically been accounted for as operating leases under the previous leasing standards. The Medical Center recognized corresponding ROU assets of $14.4 million based on the operating lease liabilities. The adoption of ASU No. 2016-02 did not impact the net assets of the Medical Center.

The Medical Center makes certain assumptions and judgements in determining the discount rate. As most of the Medical Center's leases do not provide an implicit rate, the Medical Center uses their incremental borrowing rate, for collateralized borrowings, based on the information available at the commencement date in determining the present value of lease payments.

The new standard provides a number of optional practical expedients in transition. The Medical Center elected the short-term lease recognition exemption for all leases that qualify. This means, for those leases that qualify, the Medical Center does not recognize ROU assets or lease liabilities and includes not recognizing ROU assets or lease liabilities for existing short-term leases of those assets in transition.

Restricted Cash

In 2019, the Medical Center retrospectively adopted the FASB's ASU No. 2016-18, *Statement of Cash Flows (Topic 230): Restricted Cash*. The amendments in this update require that a statement of cash flows explain the change during the year in total of cash, cash equivalents and amounts generally described as restricted cash and cash equivalents. Amounts generally described as restricted cash and cash equivalents should be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statements of cash flows. The 2018 consolidated statement of cash flows was updated to include approximately $6.3 million in restricted cash and cash equivalents at December 31, 2018.

2. Liquidity and Availability

As of December 31, 2019 and 2018, financial assets available for general expenditure within one year of the balance sheet date, consists of the following:

	2019	2018
Cash and cash equivalents	$ 126,723,117	$ 130,800,645
Patient accounts receivable, net	31,733,480	27,488,727
Investments	33,638,018	29,820,118
Assets limited to use, Board-designated	115,276,041	100,219,111
Total	$ 307,370,656	$ 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. At December 31, 2019 and 2018, respectively, $5 million remained available on the Medical Center's line of credit.

3. Net Patient Service Revenue

Net patient service revenue is 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:

	2019	2018
Medicare	$ 90,586,709	$ 89,974,503
Medicaid	84,375,534	82,147,328
Other third party payors	58,703,352	58,637,666
Self-pay and other	2,462,432	2,125,516
Total	$ 236,128,027	$ 232,885,013

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:

	2019	2018
Medical Center	$ 223,148,404	$ 220,296,586
Long-term care	7,255,100	6,778,427
Physicians practice	5,724,523	5,810,000
Total	$ 236,128,027	$ 232,885,013

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, 2019, the Medical Center's Medicare cost reports have been settled by the Medicare fiscal intermediary through December 31, 2015.

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, 2019, the Medical Center's Medicaid cost reports have been settled by the Medicaid fiscal intermediary through December 31, 2016.

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, 2019 and 2018, net patient service revenue on the consolidated statements of operations includes favorable transaction price adjustments in the amounts of $1,617,334 and $1,326,256, 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, 2019 and 2018, revenue was increased by $544,031 and $338,648, 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.

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, 2019 and 2018 are as follows:

	2019	2018
Charity care	$ 29,343,573	$ 29,690,520
DSRIP	6,732,195	6,320,464
Mental health	1,811,512	1,811,513
Total	$ 37,887,280	$ 37,822,497

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 November 2019, the Medical Center received a DSRIP payment in the amount of $8,612,720 for the program's year six incentive payment. In September 2018, the Medical Center received a DSRIP payment in the amount of $4,851,670, 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, 2020; 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, 2019 and 2018, $6,732,195 and $6,320,464 of the incentive payments were recognized in other revenue in the consolidated statements of operations, respectively. The unamortized portions of the incentive of $4,306,360 and $2,425,835 were included in deferred revenue in the consolidated balance sheets at December 31, 2019 and 2018, respectively.

The DSRIP program will end June 30, 2020 and be replaced with the Quality Improvement Program (QIP) in July of 2020. The QIP has been submitted to the Center for Medicare and Medicaid Service (CMS) in February of 2020 and has not received final approval. Details of the payment methodology is not currently available.

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, 2019 and 2018, were $18,589,075 and $16,708,868, 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 $150.0 million and $135.4 million for the years ended December 31, 2019 and 2018, respectively. Total charity care costs were approximately $41.0 and $38.2 million for the years ended December 31, 2019 and 2018, respectively.

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 in 2019 and 2018, 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 sheets.

	2019	2018
Assets (principally cash and cash equivalents, prepaid expenses and other current assets, investments, assets limited as to use and pledges receivable)	$ 8,249,927	$ 7,756,260
Liabilities	$ 153,662	$ 165,320
Net assets	8,096,265	7,590,940
Total liabilities and net assets	$ 8,249,927	$ 7,756,260
Revenues and other support	$ 6,291,206	$ 4,710,065
Expenses	(1,470,364)	(1,409,988)
Excess of revenues and other support over expenses	4,820,842	3,300,077
Contributions to the Medical Center of donor restricted funds	(4,315,517)	(5,468,526)
Net assets, beginning	7,590,940	9,759,389
Net assets, ending	$ 8,096,265	$ 7,590,940

The Foundation's contributions are reflected as a component of net assets with donor restrictions and amounted to $4,315,517 and $5,468,526 in 2019 and 2018, respectively.

At December 31, 2019 and 2018, amounts due to the Medical Center from affiliates were $263,292 and $243,348, of which $138,954 and $119,590, respectively, were due from Trinitas Health Care Corporation and are included in other current assets on the consolidated balance sheets.

6. Assets Limited as to Use and Investments

The composition of assets whose use is limited at December 31, 2019 and 2018, is set forth in the following table:

	2019	2018
Internally designated:		
Cash and cash equivalents	$ 2,479,249	$ 3,928,129
U.S. government and agency obligations	13,863,850	8,611,842
Investment-grade corporate bonds	57,039,017	55,478,760
Marketable equity securities:		
Energy	2,623,030	2,335,832
Industrials	5,829,195	4,511,427
Consumer discretionary	2,635,787	1,951,198
Consumer staples	2,868,477	2,510,426
Health Care	8,410,205	5,288,741
Financials	11,545,555	9,119,378
Information technology	6,482,806	3,734,501
Telecommunication services	1,498,870	2,748,877
Total internally designated assets	115,276,041	100,219,111
Internally designated, deferred compensation plans:		
Mutual funds	11,098,099	8,619,129
Total internally designated assets and deferred compensation plans	$ 126,374,140	$ 108,838,240
Assets held by trustees under bond indentures:		
Cash and cash equivalents	$ 4,870,024	$ 4,795,508
Less funds held by trustees available to meet current liabilities	(4,870,024)	(4,795,508)
Noncurrent portion of funds held by trustees under bond indentures	$ -	$ -
Donor-restricted assets:		
Cash and cash equivalents	$ 3,681,838	$ 1,545,670
Mutual funds	1,518,188	1,434,866
Total donor restricted assets	$ 5,200,026	$ 2,980,536

The composition of investments at December 31, 2019 and 2018 is set forth in the following table:

	2019	2018
Cash and cash equivalents	$ 1,073,629	$ 1,307,211
U.S. government and agency obligations	4,499,627	2,914,511
Investment-grade corporate bonds	19,482,645	18,928,270
Marketable equity securities:		
Energy	1,035,975	1,008,100
Industrials	1,196,693	632,810
Consumer discretionary	698,783	499,802
Consumer staples	464,773	417,139
Health Care	322,540	249,119
Financials	1,637,365	1,438,518
Information technology	2,159,358	1,376,862
Telecommunication services	1,066,630	1,047,776
Total investments	$ 33,638,018	$ 29,820,118

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 current and non-current on a recurring basis at fair value. The financial instruments were measured with the following inputs at December 31:

	2019				
	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					
Mutual funds:					
Domestic	$ 11,098,099	$ -	$ -	$ 11,098,099	$ 11,098,099
Intermediate term bond	1,518,188	-	-	1,518,188	1,518,188
U.S. government and agency obligations	18,363,477	-	-	18,363,477	18,363,477
Investment-grade corporate bonds	-	76,521,662	-	76,521,662	76,521,662
Marketable equity securities:					
Energy	3,659,005	-	-	3,659,005	3,659,005
Industrials	7,025,888	-	-	7,025,888	7,025,888
Consumer discretionary	3,334,570	-	-	3,334,570	3,334,570
Consumer staples	3,333,250	-	-	3,333,250	3,333,250
Health Care	8,732,745	-	-	8,732,745	8,732,745
Financials	13,182,920	-	-	13,182,920	13,182,920
Information technology	8,642,164	-	-	8,642,164	8,642,164
Telecommunication services	2,565,500	-	-	2,565,500	2,565,500
Cash and cash equivalents included within investments					1,073,629
Cash and cash equivalents included within assets whose use is limited					11,031,111
Total	$ 81,455,806	$ 76,521,662	$ -	$ 157,977,468	$ 170,082,208

	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					
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
Health Care	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
Cash and cash equivalents included within investments					1,307,211
Cash and cash equivalents included within assets whose use is limited					10,269,307
Total	$ 60,450,854	$ 74,407,030	$ -	$ 134,857,884	$ 146,434,402

Financial 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.

8. Property and Equipment and Accumulated Depreciation

Property and equipment and accumulated depreciation at December 31, 2019 and 2018 are as follows:

	2019	2018
Land	$ 1,783,178	$ 1,783,178
Land improvements	4,630,318	4,606,228
Buildings and improvements	179,747,274	178,868,591
Fixed and major movable equipment	170,294,333	161,998,648
Construction in progress	2,986,528	896,306
Total	359,441,631	348,152,951
Less accumulated depreciation	(273,636,798)	(262,944,459)
Property and equipment, net	$ 85,804,833	$ 85,208,492

9. Long-Term Debt

Long-term debt at December 31, 2019 and 2018, consist of the following:

	2019	2018
Note payable, state of NJ, noninterest bearing loan	$ 68,217	$ 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	11,735,000	12,520,000
Serial bonds, Series 2017A , which mature July 1, 2018 through July 1, 2030, and bear interest of 5.00%, payable semiannually	67,525,000	72,055,000
	79,328,217	84,654,587
(Less) or add:		
Current portion of long-term debt	(5,580,000)	(5,315,000)
Deferred financing costs	(476,567)	(553,392)
Unamortized bond premium	8,404,721	9,945,166
Total	$ 81,676,371	$ 88,731,361

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% 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% 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.

Scheduled principal payments of long-term debt under the terms of their respective repayment schedules at December 31, 2019 are as follows:

	Bonds
2020	$ 5,580,000
2021	5,876,370
2022	6,161,370
2023	6,466,370
2024	6,791,370
Thereafter	48,452,737
Total	$ 79,328,217

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

	2019	2018
Interest expense on Series 2016A Bonds, Series 2017A Bonds and other extinguished debt	$ 4,101,980	$ 4,355,376
Amortization of deferred financing costs	76,825	79,265
Amortization of bond premium	(1,540,446)	(1,332,728)
Total	$ 2,638,359	$ 3,101,913

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. 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, 2019 and 2018 of $2,344,562 and $2,156,970, respectively.

In addition, certain key members of senior management participate in deferred compensation plans sponsored by the Medical Center. At December 31, 2019 and 2018, internally designated assets included $11,098,099 and $8,619,129, respectively, related to these plans. A liability for the same amount is included in other long-term liabilities.

At December 31, 2019 and 2018, postretirement medical benefits and life insurance agreements for key employees are reflected in the consolidated balance sheets as other assets for premium receivables in the amount of $755,602 and $729,425 and a liability in other long-term liabilities in the amount of $1,029,545 and $980,092 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, 2019 and 2018.

11. Leases

The Medical Center leases real estate and medical and other equipment used in operations. For many of these leases, the Medical Center is responsible for paying property taxes, insurance, as well as maintenance and repair costs. The Medical Center assesses lease renewal options using a "reasonably certain" threshold, which is understood to be a high threshold, and therefore the majority of its leases' terms do not include renewal periods for accounting purposes. For leases where the Medical Center is reasonably certain to exercise its renewal option, the option periods are included within the lease term and, therefore, the measurement of the right-of-use asset and lease liability. The payment structure of most of the Medical Center's leases generally include annual escalation clauses that are either fixed or variable in nature, some of which are dependent upon published indices. Leases with an initial term of 12 months or less are not recorded on the consolidated balance sheets and expenses for these leases are recognized over the lease term as an operating expense.

Certain leases may include an option to purchase the leased assets. The Medical Center assesses the likelihood of exercising the purchase option using a "reasonably certain" threshold, which is understood to be a high threshold and, therefore, purchase options are generally accounted for when a compelling economic reason to exercise the option exists. Certain leases include an option to terminate the lease, the terms and condition of which vary by contract. These options allow the parties to the contract to terminate their obligations typically in return for an agreed upon financial consideration amount. The Medical Center's lease agreements do not contain material residual value guarantees.

The Medical Center makes certain assumption and judgements in determining the discount rate, as most leases do not provide an implicit rate. The Medical Center uses their incremental borrowing rate, for collateralized borrowing, based on information available at the commencement date in determining the present value of lease payments. In order to apply the incremental borrowing rate, a portfolio approach was utilized to group assets based on similar lease terms in a manner whereby the Medical Center reasonably expect that the application does not differ materially from application to individual leases.

Subsequent to the lease commencement date, the Medical Center reassesses lease classification when there is a contract modification that is accounted for as a separate contract, a change in the lease term, or a change in the assessment of whether the lessee is reasonably certain to exercise an option to purchase the underlying asset or terminate the lease.

At December 31, 2019, all of the Medical Center's leases were classified as operating leases and for the year ended December 31, 2019, the components of the operating lease expense are as follows:

	Equipment Leases	Real Estate Leases	Total
Operating lease expense	$ 1,624,213	$ 2,170,919	$ 3,795,132

For the year ended December 31, 2019, supplemental cash flow, cash paid for amounts included in the measurement of lease liabilities, information related to operating leases was as follows:

	Equipment Leases	Real Estate Leases	Total
Operating cash flows from operating leases	$ 1,534,393	$ 2,103,345	$ 3,637,738

As of December 31, 2019, supplemental balance sheet information related to operating leases was as follows:

	Equipment Leases	Real Estate Leases	Total
Operating leases:			
Right-of-use assets	$ 5,032,867	$ 5,970,310	$ 11,003,177
Lease liabilities	$ 5,032,867	$ 5,970,310	$ 11,003,177

The following tables include supplemental operating lease information as of and for the year ended December 31, 2019:

Lease Term and Discount Rate	Equipment Leases	Real Estate Leases
Weighted-average remaining lease term (years):	5 years	7 years
Weighted-average discount rate:	6.0%	6.0%

As of December 31, 2019, maturities of lease liabilities were as follows:

	Equipment Leases	Real Estate Leases	Total
Years ending December 31:			
2020	$ 1,361,448	$ 1,242,597	$ 2,604,045
2021	1,313,242	1,082,476	2,395,718
2022	1,280,113	1,077,524	2,357,637
2023	1,157,558	1,092,193	2,249,751
2024	1,067,335	1,107,260	2,174,595
Thereafter	131,066	2,395,241	2,526,307
Total lease payments	6,310,762	7,997,291	14,308,053
Less imputed interest	(1,277,895)	(2,026,981)	(3,304,876)
Total lease obligation	$ 5,032,867	$ 5,970,310	11,003,177
Less current portion			(2,317,590)
Long term portion			$ 8,685,587

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% 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, 2019 not including additional renewal periods, are as follows:

2020	$ 365,523
2021	374,661
2022	384,027
2023	360,826
Total	$ 1,485,037

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, 2019:

	Health Care Services	Medical Office Building	General and Administrative	Total
Salaries and wages	$ 124,049,470	$ -	$ 18,430,109	$ 142,479,579
Employee benefits	25,531,307	-	3,793,203	29,324,510
Supplies and other	91,443,989	833,804	24,936,455	117,214,248
Depreciation	9,160,287	389,830	1,235,079	10,785,196
Interest	2,324,180	-	314,179	2,638,359
	$ 252,509,233	$ 1,223,634	$ 48,709,025	$ 302,441,892

Functional expenses for the year ended December 31, 2018:

	Health Care 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

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:

	2019	2018
Beneficial interest in net assets of Trinitas Health Foundation (Note 5)	$ 8,096,265	$ 7,590,940
Other donor restricted net assets	3,958,565	1,822,402
Endowment funds	1,241,466	1,158,139
Total	$ 13,296,296	$ 10,571,481

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, 2019 and 2018, accounts receivable related to Medicare amounted to 22% and 18% and accounts receivable related to Medicaid amounted to 27% and 31%, 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 year ended December 31, 2018, the Medical Center recognized approximately $1.8 million of EHR payments as revenue in excess of expenses in the consolidated statements of operations. No EHR revenue was recognized in 2019. At December 31, 2019 and 2018, the Medical Center reflected EHR incentive payments in the amounts of approximately $3.4 million and $1.6 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 Health Care 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 Health Care 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% at December 31, 2019 and 2018, related to reported claims and incurred claims that have not been reported. At December 31, 2019, the Medical Center's other long-term liabilities include $7,667,000, of which $1,830,000 relates to estimated incurred claims that have not been reported and $5,837,000 relates to reported claims that are covered by insurance. At December 31, 2018, the Medical Center's other long-term liabilities include $8,820,000, of which $1,746,000 relates to estimated incurred claims that have not been reported and $7,074,000 relates to reported claims that are covered by insurance. Insurance recovery assets were $5,837,000 and $7,074,000 in 2019 and 2018, respectively, and are included in other assets on the consolidated balance sheets.

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 four years, effective January 2016, or a higher amount if statewide legislation is passed. In February 2020, the agreement was extended for 2020 and 2021, in which the community service contribution that the Medical Center will pay to the City of Elizabeth will be $250,000 in 2020 and $300,000 in 2021.

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 $10.1 million. The financing of the project will 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 with a 2% interest rate payable over 20 years. A portion of grants, approximately $520,000 has to be repaid over ten years, interest free. Final construction and engineering costs were finalized and approved by ERB and HUD and the transaction closed during the first quarter of 2019 and construction is expected to begin in the first quarter 2020. The debt and grants will be drawn down as construction occurs and there is no interest charged during the construction period. At the completion of the project, the loan will be finalized and payment amortization will begin. At December 31, 2019, project costs of $386,376 are reflected in property and equipment, net and in deferred grant revenue, respectively, on the consolidated balance sheets.

18. Administrative Services Building

In June of 2019, the Medical Center signed various agreements with a developer subject to various regulatory approvals and the developer being able to obtain financing. The project includes the demolishment of the existing administration services building and construction of an approximately 46,000 rentable square feet (RSF) medical office building, to be owned by the developer or designee. Further, the Medical Center entered into agreements with the developer for a ground lease, medical office space lease and the construction of a parking garage. The ground lease covers a term of 50 years, .6455 of an acre and annual rental income of $47,004, indexed by annual increases of 2.5% for the first ten years then adjusted to market value. The medical office space lease key terms are for a term of 15 years, for approximately 18,000 RSF, at $25.35 RSF indexed by annual increases of 2.5% plus operating expenses and fit out costs of approximately $4.3 million. Lastly, the key terms of the parking garage construction contract are for a four story, 300 spaces garage for $10,188,472. At the commencement date, (which will occur at the completion of construction) a final determination will be made to determine the accounting for the leases. The expected completion date is 12 to 18 months from the date of obtaining all necessary approvals. All necessary approvals have not presently been obtained.

19. Discussions With RWJ Barnabas

The Medical Center is currently engaged in potential affiliation negotiations with RWJ Barnabas Health, Inc. (the Corporation) located in West Orange, New Jersey. The Medical Center and the Corporation have entered into a non-disclosure agreement and a letter of intent. It is not currently possible to determine if, or when, a transaction with the Corporation will be completed.