

**Trinitas Regional Medical Center Obligated Group**  
Consolidated Balance Sheet  
At March 31, 2015 and December 31, 2014  
(Unaudited)

	March 2015	December 2014
<b>Assets</b>		
Current Assets:		
Cash and cash equivalents (includes certificates of deposit)	\$ 108,004,253	\$ 97,959,973
Assets whose use is limited	6,607,419	8,102,938
Patient accounts receivable (less allowance for doubtful collections of \$30,139,000 in 2015 and \$28,726,000 in 2014 )	24,698,888	27,481,532
Other receivables	5,984,320	2,357,469
Other current assets	6,355,335	5,142,127
Total current assets	151,650,215	141,044,039
<b>Assets Whose Use is Limited and Investments</b>		
Assets whose use is limited:		
Internally designated	92,073,027	92,104,617
Other internally designated	6,178,714	6,061,263
Held by trustee under bond indentures	11,737,386	10,556,845
Donor restricted	3,794,441	3,804,049
Investments	28,000,792	27,773,653
Total assets whose use is limited and investments	141,784,360	140,300,427
<b>Beneficial Interest in Net Assets of Trinitas Health Foundation</b>		
	5,579,697	6,133,359
<b>Property and Equipment</b> (net of accumulated depreciation of \$229,969,000 in 2015 and \$226,831,000 in 2014)		
	89,354,265	90,718,915
<b>Deferred Financing Costs</b> (net of accumulated amortization of \$1,775,000 in 2015 and \$1,731,000 in 2014)		
	1,686,669	1,730,376
<b>Other Assets</b>		
	6,363,156	6,363,379
Total	\$ 396,418,362	\$ 386,290,495
<b>Liabilities and Net Assets</b>		
Current Liabilities:		
Current portion of long-term debt	\$ 7,516,528	\$ 7,516,528
Accounts payable and accrued expenses	21,540,934	19,371,480
Deferred revenue	5,508,015	3,010,262
Accrued bond interest payable	1,632,419	3,127,938
Accrued salaries and wages	7,369,779	4,498,150
Estimated settlements with third-party payors	12,946,628	13,511,611
Total current liabilities	56,514,303	51,035,969
<b>Estimated Settlements with Third-party Payors</b>	37,301,633	35,180,528
<b>Long-Term Debt</b>	129,764,336	130,265,299
<b>Other Long-Term Liabilities</b>	20,446,196	20,112,714
Total liabilities	244,026,468	236,594,510
<b>Net Assets</b>		
Unrestricted	143,017,751	139,758,573
Temporarily restricted	6,388,685	6,961,762
Permanently restricted	2,985,458	2,975,650
Total net assets	152,391,894	149,695,985
Total	\$ 396,418,362	\$ 386,290,495

**Trinitas Regional Medical Center Obligated Group**  
Consolidated Statement of Operations  
For the Three Months Ended March 31, 2015 and 2014  
(Unaudited)

	March 2015	March 2014
	<u>                    </u>	<u>                    </u>
<b>Revenues</b>		
Net patient service revenue (net of contractual allowances, charity care and discounts)	\$ 57,190,576	\$ 56,949,668
Provision for bad debts	(4,550,460)	(4,872,717)
Net patient service revenue less provision for bad debts	<u>52,640,116</u>	<u>52,076,951</u>
Other revenue	19,834,323	20,656,076
Net assets released from restrictions used for operations	<u>213,252</u>	<u>179,513</u>
Total revenues	<u>72,687,691</u>	<u>72,912,540</u>
<b>Expenses</b>		
Salaries and wages	32,854,630	33,301,116
Employee benefits	6,507,974	6,589,453
Supplies and other	27,783,078	27,515,233
Depreciation and amortization	3,181,225	3,196,944
Interest	1,800,166	1,874,551
Total expenses	<u>72,127,073</u>	<u>72,477,297</u>
<b>Operating Income</b>	<u>560,618</u>	<u>435,243</u>
<b>Nonoperating Gains and Losses</b>		
Interest, dividends and other	976,721	883,546
Net realized gains and losses on investments	2,086,097	327,894
Change in fair value of interest rate swaps	(204,825)	(292,010)
Total nonoperating gains and losses	<u>2,857,993</u>	<u>919,430</u>
<b>Revenues in Excess of Expenses</b>	3,418,611	1,354,673
<b>Change in Net Unrealized Gains and (Losses) on Investments Other Than Trading Securities</b>	(1,048,705)	937,281
<b>Net Assets Released From Restrictions Used for Purchase of Property and Equipment</b>	<u>889,272</u>	<u>47,754</u>
<b>Increase in Unrestricted Net Assets</b>	<u>\$ 3,259,178</u>	<u>\$ 2,339,708</u>

**Trinitas Regional Medical Center Obligated Group**  
Consolidated Statement of Changes in Net Assets  
For the Three Months Ended March 31, 2015 and 2014  
(Unaudited)

	March 2015	March 2014
<b>Unrestricted Net Assets</b>		
Revenues in excess of expenses	\$ 3,418,611	\$ 1,354,673
Change in net unrealized gains and losses on investments other than trading securities	(1,048,705)	937,281
Net assets released from restrictions used for purchase of property and equipment	889,272	47,754
Increase in unrestricted net assets	<u>3,259,178</u>	<u>2,339,708</u>
<b>Temporarily Restricted Net Assets</b>		
Contributions	1,053,413	259,349
Interest and dividends	30,847	16
Net assets released from restrictions	(1,102,524)	(227,267)
Change in beneficial interest in net assets of Trinitas Health Foundation	(554,811)	(118,753)
Decrease in temporarily restricted net assets	<u>(573,075)</u>	<u>(86,655)</u>
<b>Permanently Restricted Net Assets</b>		
Change in beneficial interest in net assets of Trinitas Health Foundation	1,151	1,367
Change in net unrealized gains and losses on investments other than trading securities	8,657	16,878
Increase in permanently restricted net assets	<u>9,808</u>	<u>18,245</u>
<b>Increase in Net Assets</b>	2,695,911	2,271,298
<b>Net Assets</b>		
Beginning of year	<u>149,695,983</u>	<u>133,272,849</u>
End of period	<u>\$ 152,391,894</u>	<u>\$ 135,544,147</u>

**Trinitas Regional Medical Center Obligated Group**  
Consolidated Statement of Cash Flows  
For the Three Months Ended March 31, 2015 and 2014  
(Unaudited)

	March 2015	March 2014
<b>Cash Flows from Operating Activities</b>		
Increase in net assets	\$ 2,695,911	\$ 2,271,299
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Provision for bad debts	4,550,460	4,872,717
Depreciation and amortization	3,137,518	3,151,593
Amortization of deferred financing costs	43,707	45,351
Amortization of deferred bond discount and premium	(16,830)	(16,830)
Restricted contributions for capital additions	(889,272)	(47,754)
Change in fair value of interest rate swaps	204,825	292,010
Change in net unrealized gains and losses on other than trading securities	1,048,705	(937,281)
Net realized gains and losses on investments	(2,086,097)	(327,894)
Change in beneficial interest in net assets of Trinitas Health Foundation	553,660	117,386
Change in assets and liabilities:		
Patient accounts receivable	(1,767,816)	(5,802,343)
Other receivables	(3,697,990)	(7,765,618)
Other current assets and other assets	(1,283,587)	(770,005)
Accounts payable and accrued expenses	2,311,195	1,936,566
Deferred revenue	2,497,753	1,561,782
Accrued bond interest payable	(1,495,519)	(1,649,618)
Accrued salaries and wages	2,871,629	2,953,835
Estimated settlements with third-party payors	1,556,122	(1,536,204)
Other long-term liabilities	128,657	(113,746)
Net cash provided by (used in) operating activities	10,363,031	(1,764,754)
<b>Cash Flows from Investing Activities</b>		
Acquisition of property and equipment	(1,772,868)	(1,806,234)
(Purchases) sales of short-term investments, net	-	(29,502)
(Purchases) sales of investments and assets whose use is limited, net	1,048,978	(494,583)
Net cash used in investing activities	(723,890)	(2,330,319)
<b>Cash Flows from Financing Activities</b>		
Restricted contributions for capital additions	889,272	47,754
Repayment of long-term debt and capitalized lease obligations	(484,133)	(484,133)
Net cash provided by (used in) financing activities	405,139	(436,379)
<b>Net Increase (Decrease) in Cash and Cash Equivalents</b>	10,044,280	(4,531,452)
<b>Cash and Cash Equivalents, Beginning</b>	97,959,973	60,229,852
<b>Cash and Cash Equivalents, Ending</b>	\$ 108,004,253	\$ 55,698,400
<b>Supplemental Disclosure of Cash Flow Information,</b>		
Interest paid	\$ 3,293,983	\$ 3,433,395

**Trinitas Regional Medical Center Obligated Group**  
Notes to Consolidated Financial Statements  
March 31, 2015

**1. 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. In 2000, Elizabeth General Medical Center and St. Elizabeth Hospital 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, (TPP,LLC) a New Jersey professional limited liability company (LLC), a for-profit taxable entity.

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

The Medical Center is an affiliated member of the Parent, the controlling entity. Other affiliates of Trinitas Health include: Trinitas Healthcare Corporation and subsidiary, Trinitas Health Services Corporation, and Trinitas Health Foundation and Affiliate (the "Foundation"). Only the Medical Center's financial statements and its subsidiaries and TPP,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.

**2. Presentation**

The consolidated financial statements are unaudited and include all adjustments which are, in the opinion of Management, necessary for a fair presentation of the Obligated Group's financial position as of March 31, 2015 and December 31, 2014, its result of operations and its changes in net assets and cash flows for the three months ended March 31, 2015 and 2014 in conformity with accounting principles generally accepted in the United States of America. Certain information and footnote disclosures normally included in financial statements prepared in accordance with such accounting principles have been omitted.

These consolidated financial statements should be read in conjunction with Trinitas Regional Medical Center's audited consolidated financial statements and notes thereto for the years ended December 31, 2014.

**3. Patient Accounts Receivable**

Patient accounts receivable are reported at net realizable value. Accounts are written off when they are determined to be uncollectible based upon management's assessment of individual accounts. In evaluating the collectability of patient accounts receivable, the Medical Center analyzes its past history and identifies trends for each of its major payor sources of revenue to estimate the appropriate allowance for doubtful collections and provision for doubtful collections. For receivables associated with services provided to patients with third party insurance coverage (partial or complete) and patients with no coverage (partial or none), the Medical Center analyzes contractually due amounts and provides an allowance for doubtful collections and a provision for doubtful collections, if necessary. For receivables associated with patients with no insurance

(partial or complete) (which includes both patients without insurance and patients with deductible and copayment balances due), the Medical Center records a significant provision for doubtful collections in the period of service on the basis of its past experience, which indicates that many patients are unable to pay the portion of their bill for which they are financially responsible. The difference between the billed rates and the amounts actually collected after all reasonable collection efforts have been exhausted is charged off against the allowance for doubtful collections.

The Medical Center's allowance for doubtful collections for self-pay patients decreased to 96.2% of self-pay accounts receivable at March 31, 2015 from 96.9% of self-pay accounts receivable at December 31, 2014. The Medical Center had not changed its financial assistance policy in 2015.

**4. Net Patient Service Revenue**

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

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

The Medical Center has agreements with third-party payors that provide for payments to the Medical Center at amounts different from its established rates. The Medical Center recognizes patient service revenue associated with services provided to patients who have third-party payor coverage on the basis of these established rates for the services rendered. For uninsured patients that do not qualify for charity care, the Medical Center recognizes revenues on the basis of its standard rates, discounted in accordance with the Medical Center's policy. On the basis of historical experience, a significant portion of the Medical Center's uninsured patients will be unable to pay for the services provided. Thus, the Medical Center records a significant provision for doubtful collections related to uninsured patients in the period the services are provided. Patient service revenues, net of contractual allowances and discounts (but before the provision for doubtful collections), recognized in March 31, 2015 and 2014 from these major payor sources, are as follows:

	<b>Patient Service Revenues (Net of Contractual Allowances and Discounts)</b>				
	<u>Medicare</u>	<u>Medicaid</u>	<u>Other Third Party Payors</u>	<u>Self Pay and Other</u>	<u>Total</u>
March 31, 2015	<u>\$ 18,041,623</u>	<u>\$ 18,693,178</u>	<u>\$ 15,250,806</u>	<u>\$ 5,204,969</u>	<u>\$ 57,190,576</u>
March 31, 2014	<u>\$ 18,936,177</u>	<u>\$ 16,191,631</u>	<u>\$ 16,076,915</u>	<u>\$ 5,744,945</u>	<u>\$ 56,949,668</u>

**5. Subsequent Events**

The Medical Center evaluated subsequent events for recognition or disclosure through May 1, 2015, the date the financial statements were available to be issued.

**6. New Accounting Pronouncement**

In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*. ASU No. 2014-09 supersedes the revenue recognition requirements in Topic 605, Revenue Recognition, and most industry-specific guidance. Under the requirements of ASU No. 2014-09, the core principle is that entities should recognize revenue to depict the transfer of promised goods or services to customers (residents) in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The Medical Center will be required to retrospectively adopt the guidance in ASU No. 2014-09 for the years beginning after December 15, 2016. The Medical Center has not yet determined the impact of adoption of ASU No. 2014-09 on its financial statements.

**7. Net Patient Service Revenues**

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

- Medicare: Inpatient acute care and outpatient services rendered to Medicare program beneficiaries are paid at prospectively determined rates. These rates vary according to patient classification systems that are based on clinical, diagnostic, and other factors. Certain items, such as Medicare bad debts, are paid based on a cost reimbursement methodology. Reimbursements for cost reimbursable items are received at tentative interim rates, with final settlement determined after submission of annual cost reports by the Medical Center and audits thereof by the Medicare fiscal intermediary. The Medical Center's Medicare cost reports have been settled by the Medicare fiscal intermediary through December 31, 2009, except for December 31, 2005.
- Medicaid: Inpatient acute care services rendered to Medicaid program beneficiaries are paid at prospectively determined rates per discharge. These rates vary according to a patient classification system that is based on clinical, diagnostic, and other factors. Outpatient services are paid based on a cost reimbursement methodology. The Hospital's Medicaid cost reports have been settled by the Medicaid fiscal intermediary through December 31, 2011.

Revenue received under third-party arrangements is subject to audit and retroactive adjustments. Net patient service revenues include adjustments of \$-0- for the three months ended March 31, 2015 and 2014, respectively, related to tentative and final settlements of prior year cost reports and other settlements.

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

**8. 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 three months ended March 31, 2015 and 2014 are as follows:

	<u>2015</u>	<u>2014</u>
Charity care	\$ 10,550,721	\$ 11,024,980
Deliver system reform incentive payment / Hospital relief	1,589,916	2,187,661
Mental health	<u>407,995</u>	<u>407,995</u>
Total	<u>\$ 12,548,632</u>	<u>\$ 13,620,636</u>

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

**9. Derivative Financial Instrument**

In June 2006, the Medical Center entered into an interest rate swap with a start date of July 1, 2006, and expiration date of July 1, 2035, based on the notional amount of approximately fifty percent (50%) of the principal amount of the Series 2006 Bonds (\$7,430,000). At March 31, 2015 and December 31, 2014, the Medical Center's interest rate swap agreement had a notional principal amount of \$6,497,500 and \$6,642,500, respectively. According to the terms of the swap contract, the Medical Center will pay a 5.826% rate in return for receiving one month LIBOR rate.

The fair value of the swap at March 31, 2015 and December 31, 2014 was a liability of \$2,776,538 and \$2,571,713, respectively, and is included in other long-term liabilities in the accompanying consolidated balance sheet. For the three months ended March, 2015 and 2014, the change in the fair value of the interest rate swap resulted in an unrealized loss of \$204,825 and \$292,010, respectively, and is included in non-operating gains and losses in the consolidated statement of operations.

**10. 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. At March 31, 2015 and 2014, the Medical Center had recorded EHR incentive payments from the Medicare and Medicaid programs as deferred revenue on the balance sheet in the amounts of \$2.7 million and \$2.9 million, respectively, which will be recognized as non-operating revenue when the Medical Center has satisfied the statutory and regulatory requirements.

**11. Emergency Room Department**

The Medical Center's Board approved the updating and renovating of the Medical Center's emergency room department and adding additional ICU beds. The project will involve architectural, engineering, mechanical studies, relocation of various departments, demolition, purchasing a new CT scan, renovation and new construction. The expected costs for the project are approximately \$18 million, project costs are currently being finalized. The project is expected to begin in the spring or summer of 2015 and will take twelve to eighteen months to complete.