

Trinitas Regional Medical Center Obligated Group
Consolidated Balance Sheet
At March 31, 2019 and December 31, 2018
(Unaudited)

| | March 2019 | December 2018 |
|--|----------------|------------------|
| Assets | | |
| Current Assets: | | |
| Cash and cash equivalents (includes certificates of deposit) | \$ 125,414,919 | \$ 130,800,645 |
| Assets whose use is limited | 5,070,806 | 4,795,508 |
| Patient accounts receivable, net | 27,421,813 | 27,488,727 |
| Other receivables | 3,418,784 | 3,640,921 |
| Other current assets | 6,791,303 | 5,106,329 |
| Total current assets | 168,117,625 | 171,832,130 |
| Assets Whose Use is Limited and Investments | | |
| Assets whose use is limited: | | |
| Internally designated | 106,039,746 | 100,219,111 |
| Other internally designated | 9,648,000 | 8,619,129 |
| Donor restricted | 4,143,023 | 2,980,536 |
| Investments | 31,350,001 | 29,820,118 |
| Total assets whose use is limited and investments | 151,180,770 | 141,638,894 |
| Beneficial Interest in Net Assets of Trinitas Health Foundation | 6,672,907 | 7,590,940 |
| Property and Equipment (net of accumulated depreciation of \$266,421,000 and \$263,598,000 in 2019 and 2018, respectively) | 83,381,661 | 85,208,492 |
| Right-of-Use Assets | 12,191,711 | - |
| Other Assets | 7,803,425 | 7,808,425 |
| Total | \$ 429,348,099 | \$ 414,078,881 |
| Liabilities and Net Assets | | |
| Current Liabilities: | | |
| Current portion of long-term debt | \$ 5,315,000 | \$ 5,315,000 |
| Accounts payable, construction payable and accrued expenses | 22,318,148 | 23,600,591 |
| Deferred revenue | 3,473,387 | 5,730,237 |
| Accrued bond interest payable | 1,023,968 | 2,114,375 |
| Accrued salaries and wages | 4,104,039 | 6,867,900 |
| Estimated settlements with third-party payors | 8,571,107 | 8,498,718 |
| Total current liabilities | 44,805,649 | 52,126,821 |
| Estimated Settlements with Third-party Payors | 52,172,541 | 50,984,990 |
| Long-Term Debt | 88,375,618 | 88,731,361 |
| Lease Liabilities | 12,191,711 | - |
| Other Long-Term Liabilities | 21,339,959 | 20,348,999 |
| Total liabilities | 218,885,478 | 212,192,171 |
| Net Assets | | |
| Without donor restrictions | 199,646,686 | 191,315,229 |
| With donor restrictions | 10,815,935 | 10,571,481 |
| Total net assets | 210,462,621 | 201,886,710 |
| Total | \$ 429,348,099 | \$ 414,078,881 |

Trinitas Regional Medical Center Obligated Group
Consolidated Statement of Operations
For the Three Months Ended March 31, 2019 and 2018
(Unaudited)

| | March 2019 | March 2018 |
|--|---------------------|-----------------------|
| Revenues | | |
| Net patient service revenue | \$ 57,293,208 | \$ 55,118,727 |
| Other revenue | 16,213,888 | 16,439,390 |
| Net assets released from restrictions used for operations | 197,042 | 64,362 |
| Total revenues | 73,704,138 | 71,622,479 |
| Expenses | | |
| Salaries and wages | 34,570,072 | 33,131,067 |
| Employee benefits | 7,256,979 | 6,688,886 |
| Supplies and other | 28,573,712 | 28,118,806 |
| Depreciation | 2,822,516 | 2,843,271 |
| Interest and amortization | 668,663 | 775,479 |
| Total expenses | 73,891,942 | 71,557,509 |
| Operating (Loss) Income | (187,804) | 64,970 |
| Nonoperating Gains and Losses | | |
| Interest, dividends and other | 968,881 | 903,314 |
| Net realized gains and losses on investments | 186,224 | 153,922 |
| Change in unrealized gains and (losses) on investments | 6,351,685 | (3,232,494) |
| Total nonoperating gains and (losses) | 7,506,790 | (2,175,258) |
| Revenues and Nonoperating Gains Over (Under) Expenses | \$ 7,318,986 | \$ (2,110,288) |

Trinitas Regional Medical Center Obligated Group
 Consolidated Statement of Changes in Net Assets
 For the Three Months Ended March 31, 2019 and 2018
 (Unaudited)

| | March 2019 | March 2018 |
|--|----------------|----------------|
| Without Donor Restrictions: | | |
| Revenues and nonoperating gains over (under) expenses | \$ 7,318,986 | \$ (2,110,288) |
| Net assets released from restrictions used for purchase of property and equipment | 1,012,471 | 328,212 |
| Increase (decrease) in without donor restrictions net assets | 8,331,457 | (1,782,076) |
| With Donor Restrictions: | | |
| Contributions | 1,457,747 | 513,452 |
| Other | 870,000 | - |
| Interest and dividends | 3,133 | - |
| Change in unrealized gains and (losses) on investments | 41,120 | (27,053) |
| Net assets released from restrictions | (1,209,513) | (392,574) |
| Change in beneficial interest in net assets of Trinitas Health Foundation | (918,033) | (95,158) |
| Increase (decrease) in with donor restrictions net assets | 244,454 | (1,333) |
| Increase (Decrease) in Net Assets | 8,575,911 | (1,783,409) |
| Net Assets | | |
| Beginning of year | 201,886,710 | 197,215,953 |
| End of year | \$ 210,462,621 | \$ 195,432,544 |

Trinitas Regional Medical Center Obligated Group
Consolidated Statement of Cash Flows
For the Three Months Ended March 31, 2019 and 2018
(Unaudited)

| | March 2019 | March 2018 |
|--|----------------|----------------|
| Cash Flows from Operating Activities | | |
| Increase (decrease) in net assets | \$ 8,575,911 | \$ (1,783,409) |
| Adjustments to reconcile increase in net assets to net cash provided by operating activities: | | |
| Depreciation | 2,822,516 | 2,843,271 |
| Lease expense | 904,977 | - |
| Amortization of deferred financing costs | 19,206 | 19,815 |
| Amortization of deferred bond premium | (374,950) | (333,180) |
| Restricted contributions for capital additions | (1,012,471) | (328,212) |
| Change in net unrealized gains and losses on other than trading securities | (6,351,685) | 3,232,494 |
| Net realized gains and losses on investments | (186,224) | (153,922) |
| Change in beneficial interest in net assets of Trinitas Health Foundation | 918,033 | 95,158 |
| Change in assets and liabilities: | | |
| Patient accounts receivable | (13,861) | 1,586,195 |
| Other receivables | 302,913 | (885,287) |
| Other current assets and other assets | (1,775,658) | (1,397,105) |
| Accounts payable, construction payable and accrued expenses | (1,186,759) | (1,505,752) |
| Deferred revenue | (2,256,850) | (2,585,385) |
| Accrued bond interest payable | (1,090,407) | (1,152,157) |
| Accrued salaries and wages | (2,763,861) | (2,543,294) |
| Estimated settlements with third-party payors | 1,259,940 | (2,174,592) |
| Other long-term liabilities | 990,960 | 74,297 |
| Lease payments | (904,977) | - |
| Net cash provided by (used in) operating activities | (2,123,247) | (6,991,065) |
| Cash Flows from Investing Activities | | |
| Acquisition of property and equipment and construction | (995,685) | (2,333,533) |
| Purchases of investments and assets whose use is limited, net | (3,279,265) | (1,055,379) |
| Net cash provided by (used in) investing activities | (4,274,950) | (3,388,912) |
| Cash Flows from Financing Activities | | |
| Restricted contributions for capital additions | 1,012,471 | 328,212 |
| Net cash Provided by (used in) financing activities | 1,012,471 | 328,212 |
| Net Increase (Decrease) in Cash and Cash Equivalents | (5,385,726) | (10,051,765) |
| Cash and Cash Equivalents, Beginning | 130,800,645 | 132,741,105 |
| Cash and Cash Equivalents, Ending | \$ 125,414,919 | \$ 122,689,340 |
| Supplemental Disclosure of Cash Flow Information, | | |
| Interest paid | \$ 2,114,813 | \$ 2,241,000 |

Trinitas Regional Medical Center Obligated Group

Notes to Consolidated Financial Statements

March 31, 2019

(Unaudited)

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.

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, (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, Trinitas Health Services Corporation and subsidiary, and Trinitas Health Foundation and Affiliate (the "Foundation"). Only the Medical Center's 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.

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 at March 31, 2019 and December 31, 2018, its result of operations and its changes in net assets and cash flows for the three months ended March 31, 2019 and 2018 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, 2018.

3. Net Patient Service Revenue

Patient care service revenues are recognized at the amount that reflects the consideration to which the Medical Center expects to be entitled to 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.

Trinitas Regional Medical Center Obligated Group

Notes to Consolidated Financial Statements

March 31, 2019

(Unaudited)

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 patient care service revenue by payor (which excludes state subsidies) for the three months ended March 31, 2019 and 2018 is as follows:

| | <u>2019</u> | <u>2018</u> |
|--------------------------|----------------------|----------------------|
| Medicare | \$ 21,635,599 | \$ 21,119,848 |
| Medicaid | 21,768,262 | 19,819,989 |
| Other third party payors | 13,294,530 | 13,367,074 |
| Self-pay and other | 594,817 | 811,816 |
| Total | <u>\$ 57,293,208</u> | <u>\$ 55,118,727</u> |

The composition of patient care service revenue based on the Medical Center's lines of business (which excludes state subsidies) for three months ended March 31, 2019 and 2018 is as follows:

| | <u>2019</u> | <u>2018</u> |
|---------------------|----------------------|----------------------|
| Medical Center | \$ 54,312,642 | \$ 51,948,676 |
| Long-term care | 1,684,674 | 1,641,047 |
| Physicians practice | 1,295,892 | 1,529,004 |
| Total | <u>\$ 57,293,208</u> | <u>\$ 55,118,727</u> |

Trinitas Regional Medical Center Obligated Group

Notes to Consolidated Financial Statements

March 31, 2019

(Unaudited)

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. 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. 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 three months ended March 31, 2019 and 2018, respectively, \$-0- was recorded as transaction price adjustments in net patient service revenue in the consolidated statement of operations related to final settlements of prior year cost reports and other settlements.

Trinitas Regional Medical Center Obligated Group
Notes to Consolidated Financial Statements
March 31, 2019
(Unaudited)

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 three months ended March 31, 2019 and 2018, revenue was increased by \$487,236 and decreased by \$257,736, 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 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 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. Healthcare Payment Proposals

The healthcare industry is subject to numerous laws and regulations of federal, state and local governments. Compliance with these laws and regulations is subject to future government review and interpretation as well as regulatory actions unknown or unasserted at this time.

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

5. Subsequent Events

The Medical Center evaluated subsequent events for recognition or disclosure through May 9, 2019, the date the financial statements were available to be issued.

6. New Accounting Pronouncements

Revenue Recognition

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

Trinitas Regional Medical Center Obligated Group

Notes to Consolidated Financial Statements

March 31, 2019

(Unaudited)

The most significant impact of adopting the new standard is within the consolidated statements of operations. Certain patient activity where collections was uncertain, previously included as net patient service revenue and separately recorded as the provision for bad debts, no longer meets the criteria for revenue recognition. Accordingly, net patient service revenue has been reduced by the amounts previously reported as the provision for bad debts and accordingly the provision for bad debts has been eliminated. Such patient activity, previously reported as the provision for bad debts (representing approximately \$4.3 million and \$4.1 million for the three months ended March 31, 2019 and 2018, respectively) is now classified as an implicit price concession. In addition, the Medical Center eliminated the related presentation of the allowance for doubtful accounts (representing approximately \$28.9 million and \$27.7 million for the three months ended March 31, 2019 and 2018, respectively) on the consolidated balance sheet as a result of the adoption of the new standard.

Financial Assets and Liabilities

In January 2016, the FASB issued ASU No. 2016-01, *Recognition and Measurement of Financial Assets and Liabilities (Subtopic 825-10)*. The new guidance requires equity investments (except equity method investments or those that result in consolidation) to be measured at fair value with changes in fair value recognized in net income. Finally, ASU 2016-01 requires other specific investment presentation and disclosures in the consolidated financial statements for certain financial instruments. In 2018, the Medical Center adopted ASU No. 2016-01 on its consolidated financial statements. In addition, the Medical Center changed its accounting policy for its debt securities from available for sale to trading securities, whereby, equity and debt securities are combined in unrealized gains and losses in the consolidated statement of operations. As part of the adoption of ASU No. 2016-01 and the change in accounting policy, the Medical Center reported its changes in unrealized gains and (losses) on investments in the amounts of \$6,351,685 and (\$3,232,494) to be included in non-operating gains (losses) within revenues in excess of expenses for the three months ended March 31, 2019 and 2018, respectively.

Presentation of Financial Statements of Not-for-Profit Entities

In August 2016, the FASB issued ASU No. 2016-14, *Not-for-Profit Entities (Topics 958): Presentation of Financial Statements of Not-for-Profit Entities and Liquidity and Availability of Resources*. The new guidance is intended to improve and simplify the current net asset classification requirements and information presented in financial statements and notes that is useful in assessing a not-for-profit's liquidity, financial performance and cash flows. In 2018, the Medical Center adopted ASU No. 2016-14 on its consolidated financial statements. The Medical Center has adjusted the presentation of these consolidated financial statements accordingly. ASU No. 2016-14 has been applied retrospectively to all periods presented.

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

- The unrestricted net assets class has been renamed Net Assets Without Donor Restrictions;
- The temporarily and permanently restricted net asset classes have been combined into a single net asset class called Net Assets with Donor Restrictions;
- The financial statements include a disclosure about liquidity and availability of resources at March 31, 2019 and 2018 (Note 7).
- The functional expense disclosure for 2019 and 2018 includes expenses reported both by nature and function (Note 9).

Trinitas Regional Medical Center Obligated Group
Notes to Consolidated Financial Statements
March 31, 2019
(Unaudited)

Leases

In February 2016, the FASB issued Accounting Standards Update ASU No. 2016-02, *Leases* (Topic 842). ASU No. 2016-02 was issued to increase transparency and comparability among organizations by recognizing lease assets and lease liabilities on the balance sheet and disclosing key information about leasing arrangements. Under the provisions of ASU No. 2016-02, a lessee is required to recognize a right-to-use asset and lease liability, initially measured at the present value of the lease payments, in the balance sheet. In addition, lessees are required to provide qualitative and quantitative disclosures that enable users to understand more about the nature of the Medical Center's leasing activities. The Medical Center has retrospectively adopted the guidance in ASU No. 2016-02 for years beginning after December 15, 2018. The Medical Center has determined that as a result of ASU No. 2016-02, on January 1, 2019, the Medical Center has recorded right-of-use assets and lease liabilities of approximately \$13 million on the consolidated balance sheet.

7. Liquidity and Availability

As of March 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 | \$ 125,414,919 | \$ 122,689,340 |
| Accounts receivable, net | 27,421,813 | 26,111,298 |
| Investments | 31,350,001 | 29,186,047 |
| Assets limited to use: | | |
| Board-designated | 106,039,746 | 99,990,551 |
| Total | <u>\$ 290,226,479</u> | <u>\$ 277,977,236</u> |

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

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

Additionally, the Medical Center maintains a \$5 million line of credit. As of March 31, 2019, \$5 million remained available on the Medical Center's line of credit.

Trinitas Regional Medical Center Obligated Group

Notes to Consolidated Financial Statements

March 31, 2019

(Unaudited)

8. Right-of-Use Operating Leases

The Medical Center has operating leases for equipment leases which are for medical equipment to provide medical services and for real estate leases which are for administrative office space and space to provide outpatient medical services. For the equipment leases, the equipment will be returned to the lessor at the end of the respective leases. The leases have remaining lease terms of 1 year to 10 years, some of which include options to extend the leases for up to 5 years.

For the three months ended March, 31, 2019, the components of the leases were as follows:

| | Equipment Leases | Real Estate Leases | Total |
|-------------------------|---------------------|-----------------------|------------|
| Operating lease expense | \$ 401,098 | \$ 503,879 | \$ 904,977 |

For the three months ended March 31, 2019, supplemental cash flow information related to leases was as follows:

| | Equipment Leases | Real Estate Leases | Total |
|---|---------------------|-----------------------|------------|
| Cash paid for amounts included in the measurement of lease liabilities: | | | |
| Operating cash flows from operating leases | \$ 401,098 | \$ 503,879 | \$ 904,977 |

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

| | Equipment Leases | Real Estate Leases | Total |
|---------------------------------------|---------------------|-----------------------|---------------|
| Operating Leases | | | |
| Operating lease right-of-use assets | \$ 5,557,788 | \$ 6,633,923 | \$ 12,191,711 |
| Operating lease liabilities | \$ 5,557,788 | \$ 6,633,923 | \$ 12,191,711 |
| Weighted Average Remaining Lease Term | | | |
| Operating leases | 5 years | 5 years | 5 years |
| Weighted Average Discount Rate | | | |
| Operating leases | 6% | 6% | 6% |

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

| | Equipment Leases | Real Estate Leases | Total |
|--------------------------|---------------------|-----------------------|---------------|
| Year Ending December 31, | | | |
| 2019 | \$ 1,604,392 | \$ 2,015,515 | \$ 3,619,907 |
| 2020 | 1,193,907 | 1,133,550 | 2,327,457 |
| 2021 | 1,145,701 | 975,458 | 2,121,159 |
| 2022 | 1,112,572 | 975,458 | 2,088,030 |
| 2023 | 990,017 | 975,459 | 1,965,476 |
| Thereafter | 1,111,149 | 2,861,719 | 3,972,868 |
| Total lease payments | 7,157,738 | 8,937,159 | 16,094,897 |
| Less imputed interest | (1,599,950) | (2,303,236) | (3,903,186) |
| Total | \$ 5,557,788 | \$ 6,633,923 | \$ 12,191,711 |

Trinitas Regional Medical Center Obligated Group
Notes to Consolidated Financial Statements
March 31, 2019
(Unaudited)

9. Functional Expenses

The 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. Depreciation is allocated based on square footage and interest is allocated based on usage of space. Costs of other categories were allocated on estimates of time and effort.

Functional expenses for the three months ended March 31, 2019:

| | Healthcare Services | Medical Office Building | General and Administrative | Total |
|---------------------------|------------------------|----------------------------|-------------------------------|----------------------|
| Salaries and wages | \$ 30,098,342 | \$ - | \$ 4,471,730 | \$ 34,570,072 |
| Employee benefits | 6,318,270 | - | 938,709 | 7,256,979 |
| Supplies and other | 22,286,775 | 208,093 | 6,078,844 | 28,573,712 |
| Depreciation | 2,400,272 | 99,020 | 323,224 | 2,822,516 |
| Interest and amortization | 589,038 | - | 79,625 | 668,663 |
| Total | <u>\$ 61,692,697</u> | <u>\$ 307,113</u> | <u>\$ 11,892,132</u> | <u>\$ 73,891,942</u> |

Functional expenses for the three months ended March 31, 2018:

| | Healthcare Services | Medical Office Building | General and Administrative | Total |
|---------------------------|------------------------|----------------------------|-------------------------------|----------------------|
| Salaries and wages | \$ 28,845,476 | \$ - | \$ 4,285,591 | \$ 33,131,067 |
| Employee benefits | 5,823,661 | - | 865,225 | 6,688,886 |
| Supplies and other | 21,916,637 | 220,103 | 5,982,066 | 28,118,806 |
| Depreciation | 2,410,480 | 107,191 | 325,600 | 2,843,271 |
| Interest and amortization | 683,134 | - | 92,345 | 775,479 |
| Total | <u>\$ 59,679,388</u> | <u>\$ 327,294</u> | <u>\$ 11,550,827</u> | <u>\$ 71,557,509</u> |

10. Charity Care and Subsidy Revenue

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, 2019 and 2018 are as follows:

| | <u>2019</u> | <u>2018</u> |
|--|---------------------|---------------------|
| Charity care | \$ 7,558,981 | \$ 7,286,280 |
| Delivery System Reform Incentive Payment (DSRIP) | 1,212,917 | 1,947,315 |
| Mental health | 452,878 | 452,877 |
| Total | <u>\$ 9,224,776</u> | <u>\$ 9,686,472</u> |

The Medical Center is amortizing the DSRIP incentive payments over the program's respective fiscal years, which end on June 30. For the three months ended March 31, 2019 and 2018, \$1,212,917 and \$1,947,315 of the incentive payments were recognized in other revenue in the consolidated statement of operations, respectively. The unamortized portions of the incentive of

Trinitas Regional Medical Center Obligated Group
Notes to Consolidated Financial Statements
March 31, 2019
(Unaudited)

\$1,212,918 and \$1,947,315 were included in deferred revenue in the consolidated balance sheet at March 31, 2019 and 2018, respectively.

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 or partial charge to the uninsured or underinsured.

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 \$36,370,755 and \$33,338,602 for the three months ended March 31, 2019 and 2018, respectively.

11. Long-term Debt

The Medical Center has outstanding New Jersey Health Care Facilities Financing Authority (the "Authority") tax exempt Refunding and Revenue Bonds, Series 2016A (the "Series 2016A Bonds"), bearing interest at 5 percent per annum. The initial \$13,810,000 in proceeds from the sale of the Series 2016A Bonds were used to refund Series 2006 Bonds and pay for debt issuance costs. The principal amounts are payable annually on July 1, and interest is payable semiannually on January 1 and July 1 through 2030. The Series 2016A Bonds are collateralized by substantially all of the Obligated Group's property and equipment and gross receipts.

The Medical Center has outstanding Authority Refunding Bonds, Series 2017A (the "Series 2017A Bonds"), bearing interest at 5 percent per annum. The initial \$82,970,000 in proceeds from the sale of the Series 2017A Bonds combined with the debt service reserve funds released by the trustee relating to the Series 2007A Bonds and Series 2007B Bonds, were used to refund Series 2007A Bonds and Series 2007B Bonds and pay debt issuance costs. The principal amounts are payable annually on July 1, and interest is payable semiannually on January 1 and July 1 through 2030. The Series 2017A Bonds are collateralized by substantially all of the Obligated Group's property and equipment and gross receipts.

12. Cogeneration Energy Project

The Medical Center has submitted an application and received approval from the Energy Resilience Bank ("ERB"), for a plant electrical and steam generation project. The project provides 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 consists of a combination of grants for \$6.6 million and a loan from the Department of Housing and Urban Development ("HUD") for approximately \$3.5 million. A portion of the grants, approximately \$520,000, 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. 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. As of March 31, 2019, \$386,376 has been reflected as an asset and liability in the consolidated balance sheet.

Trinitas Regional Medical Center Obligated Group

Notes to Consolidated Financial Statements

March 31, 2019

(Unaudited)

13. Administrative Services Building Project

The Medical Center is finalizing a ground lease with a developer for a 50 year term which will provide annual rental revenue of \$47,000 with a 2.5% annual escalator. The land is approximately 50,600 gross square feet (GSF) which is under the current Administrative Services Building located on the Williamson Street Campus. The lease addresses the demolition of the existing building and the construction of a new multi-level, 50,599 GSF Medical Office Building by the developer. Further, the Medical Center will be entering into two 15 year triple net leases for approximately 17,900 GSF. The Medical Center will also construct a 300 space parking garage at an estimated cost of \$10.2 million. The Medical Center expects to obtain approval and finalize this transaction in 2019.

14. Clinical and Financial Review

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

**TRINITAS REGIONAL MEDICAL CENTER
MARCH 31, 2019 AND 2018
INPATIENT STATISTICS**

| | 2019 ACTUAL TOTAL | 2018 ACTUAL TOTAL |
|-----------------------------|-------------------------|-------------------------|
| ADMISSIONS | | |
| MEDICAL | 1,575 | 1,702 |
| SURGICAL | 376 | 431 |
| OBSTETRICS | 336 | 384 |
| NEWBORN | 309 | 370 |
| ADULT & ED PSYCH | 374 | 424 |
| ADOLESCENT PSYCH | 142 | 143 |
| DEVELOP DISABLED | 66 | 66 |
| | 3,178 | 3,520 |
| SAME DAY SURGERY | 966 | 1,156 |
| | 4,144 | 4,676 |
| | | |
| INTERMEDIATE PSYCH | 47 | 48 |
| RESIDENTIAL UNIT | 2 | 2 |
| LONG TERM CARE | 53 | 86 |
| | 102 | 136 |
| PATIENT DAYS | | |
| MEDICAL | 8,651 | 9,109 |
| SURGICAL | 3,066 | 3,006 |
| OBSTETRICS | 901 | 1,049 |
| NEWBORN | 914 | 1,006 |
| ADULT & ED PSYCH | 3,726 | 3,832 |
| ADOLESCENT PSYCH | 1,166 | 1,381 |
| DEVELOP DISABLED | 783 | 764 |
| | 19,207 | 20,147 |
| SAME DAY SURGERY | 966 | 1,156 |
| | 20,173 | 21,303 |
| | | |
| INTERMEDIATE PSYCH | 1,737 | 1,849 |
| RESIDENTIAL UNIT | 1,350 | 1,343 |
| LONG TERM CARE | 10,430 | 9,914 |
| | 13,517 | 13,106 |
| ALOS | | |
| MEDICAL | 5.5 | 5.4 |
| SURGICAL | 8.2 | 7.0 |
| OBSTETRICS | 2.7 | 2.7 |
| NEWBORN | 3.0 | 2.7 |
| ADULT & ED PSYCH | 10.0 | 9.0 |
| ADOLESCENT PSYCH | 8.2 | 9.7 |
| DEVELOP DISABLED | 11.9 | 11.6 |
| TOTAL W/O SDS | 6.0 | 5.7 |
| | | |
| INTERMEDIATE PSYCH | 37.0 | 38.5 |
| RESIDENTIAL UNIT | 675.0 | 671.5 |
| LONG TERM CARE | 196.8 | 115.3 |
| | 132.5 | 96.4 |
| CARDIAC CATH LAB I/P | | |
| CARDIAC CATHS | 99 | 78 |
| EMERGENCY ANGIO | 8 | 13 |
| ELECTIVE ANGIO | 23 | 32 |
| OTHER | 42 | 37 |
| TOTAL | 172 | 160 |

**TRINITAS REGIONAL MEDICAL CENTER
MARCH 31, 2019 AND 2018
OUTPATIENT STATISTICS**

| | 2019 ACTUAL YTD | 2018 ACTUAL YTD |
|----------------------------------|-----------------------|-----------------------|
| EMERGENCY ROOM | | |
| NEWPOINT-PSYCH O/P VISITS | 488 | 451 |
| WILLIAMSON O/P VISITS | 13,308 | 13,694 |
| TOTAL O/P | <u>13,796</u> | <u>14,145</u> |
| NEWPOINT ADMISSIONS | 359 | 445 |
| WILLIAMSON ADMISSIONS | 1,728 | 1,892 |
| TOTAL ADMISSIONS | <u>2,087</u> | <u>2,337</u> |
| % Total ADMISSIONS FROM ER | 65.67% | 66.39% |
| TOTAL EMERGENCY ROOM VISITS | <u>15,883</u> | <u>16,482</u> |
| OBSERVATION | | |
| WSC OBSERVATON CASES | 759 | 639 |
| NPC OBSERVATON CASES | 23 | 38 |
| TOTAL OBSERVATION | <u>782</u> | <u>677</u> |
| CLINICS | | |
| ADULT OP SERVICES | 19,344 | 18,701 |
| PC (PARTIAL HOSP) SERVICES | 1,850 | 2,067 |
| CHILD/ADOL OP SERVICES | 8,105 | 8,493 |
| YIP (AFTER SCHOOL) | 1,870 | 1,675 |
| IOP SERVICES | 644 | 722 |
| OTHER CHILD/ADOL SERVICES | 16,987 | 17,434 |
| BAYONNE MH CLINIC | 6,519 | 0 |
| TOTAL PSYCH CLINICS | <u>55,319</u> | <u>49,092</u> |
| D.B.HERSH CLINIC | 2,001 | 2,210 |
| PEDIATRIC HEALTH CENTER | 1,045 | 1,879 |
| WOMENS HEALTH CENTER | 4,614 | 5,207 |
| WOUND HEALING CENTER | 940 | 954 |
| MEDICAL CLINIC (EID) | 385 | 383 |
| TOTAL MEDICAL CLINICS | <u>8,985</u> | <u>10,633</u> |
| TOTAL CLINICS | <u>64,304</u> | <u>59,725</u> |
| CANCER CENTER | | |
| OFFICE VISITS | 1,714 | 1,681 |
| INFUSION TREATMENTS | 1,606 | 1,901 |
| RADIATION TREATMENTS | 1,213 | 1,447 |
| CANCER CENTER TOTAL | 4,533 | 5,029 |
| PRIVATE AMBULATORY | | |
| SLEEP CENTER | 359 | 311 |
| OTHER PRIVATE REFERRED (1) | 13,186 | 14,212 |
| TOTAL PRIVATE AMBULATORY | 13,545 | 14,523 |
| O/P RENAL TREATMENTS | | |
| O/P HEMODIALYSIS | 5,084 | 5,194 |
| HOME DIALYSIS | 365 | 435 |
| LINDEN SATELLITE | 3,173 | 3,169 |
| TOTAL RENAL TREATMENTS | <u>8,622</u> | <u>8,798</u> |
| AMBULANCE RUNS | 1,526 | 1,522 |
| SCTU RUNS | 60 | 53 |
| MICU RUNS | 893 | 912 |
| SDS (FROM IP SCHEDULE) | 966 | 1,156 |
| TOTAL O/P VISITS (INCLUDING SDS) | <u>109,027</u> | <u>106,540</u> |
| PAID PHYSICIAN ENCOUNTERS | 40,444 | |
| CARDIAC CATH LAB O/P | | |
| CARDIAC CATHS | 95 | 105 |
| ELECTIVE ANGIOPLASTY | 24 | 27 |
| OTHER | 45 | 20 |
| TOTAL | <u>164</u> | <u>152</u> |

Trinitas Regional Medical Center Obligated Group
 Debt Service Calculation Certificate
 (Twelve Month Rolling Average)
 (Unaudited)

| | | March 2019 |
|--|-----------|-------------------|
| Funds Available for Debt Service | | |
| Net increase in unrestricted net assets | \$ | 17,000,370 |
| Reconciling items: | | |
| Depreciation | | 10,897,127 |
| Interest and amortization | | 2,995,095 |
| Net assets released from restrictions used for purchase of property and equipment | | (5,755,764) |
| Gain on bargain purchase | | (148,666) |
| Change in net unrealized gains and losses on investments | | (4,072,928) |
| Total | \$ | 20,915,234 |
| | | |
| Maximum annual debt service | \$ | 9,628,587 |
| | | |
| Actual ratio | | 2.17 |
| | | |
| Required ratio | | 1.25 |

Trinitas Regional Medical Center Obligated Group

Cushion Ratio Calculation Certificate

(Twelve Month Rolling Average)

(Unaudited)

| | March 2019 |
|--|-----------------------|
| Cushion Ratio | |
| Cash and investments | \$ 156,205,263 |
| Internally designated funds | 102,266,079 |
| Total | <u>\$ 258,471,342</u> |
| Maximum annual debt service | |
| Series 2016A and 2017A bonds payable | \$ 9,549,000 |
| Loan payable | 79,587 |
| Total maximum annual debt service | <u>\$ 9,628,587</u> |
| Cushion ratio | 26.84 |
| Required ratio | 1.25 |