# NEW JERSEY HEALTH CARE FACILITIES FINANCING AUTHORITY
## (A Component Unit of the State of New Jersey)

ANNUAL FINANCIAL REPORT

December 31, 2012

**NEW JERSEY HEALTH CARE FACILITIES FINANCING AUTHORITY**
**(A Component Unit of the State of New Jersey)**

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December 31, 2012

## INDEPENDENT AUDITORS' REPORT

To the Members of
the New Jersey Health Care Facilities Financing Authority

### Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities, of New Jersey Health Care Facilities Financing Authority (the "Authority"), as of and for the years ended December 31, 2012 and 2011, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

### *Management's Responsibility for the Financial Statements*

Management is responsible for the preparation and fair presentation of these 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 financial statements that are free from material misstatement, whether due to fraud or error.

### *Auditors' Responsibility*

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the Authority's preparation and fair presentation of the 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 Authority'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 financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.



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## INDEPENDENT AUDITORS' REPORT (CONTINUED)

### *Opinions*

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of the Authority, as of December 31, 2012 and 2011, and the respective changes in financial position, and, where applicable, cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

### *Other Matters*

*Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis and the Schedule of Funding Progress for the Retiree Healthcare Plan on pages four through eleven and page twenty-five, respectively, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

*Other Supplementary Financial Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Authority's basic financial statements. The accompanying supplementary information which consists of the schedule of expenditures of federal awards and the statements of trustee held funds are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The accompanying supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the accompanying supplementary information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

## INDEPENDENT AUDITORS' REPORT (CONTINUED)

### Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated March 12, 2013 on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control over financial reporting and compliance.

Mercadien, P.C.
Certified Public Accountants

**MERCADIEN, P.C.**
**CERTIFIED PUBLIC ACCOUNTANTS**

March 12, 2013

**NEW JERSEY HEALTH CARE FACILITIES FINANCING AUTHORITY**
**(A Component Unit of the State of New Jersey)**

MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of the New Jersey Health Care Facilities Financing Authority's (the "Authority") annual financial report presents management's discussion and analysis of the Authority's financial performance during the fiscal year ended December 31, 2012. Please read it in conjunction with the Authority's financial statements and accompanying notes.

**Financial Highlights**

The Authority's total net position increased $577,000 or 5.6%
Cash and cash equivalents increased $1,421,000 or 26.3%
Operating revenue decreased $132,000 or 3.2%
Operating expenses increased $183,000 or 5.7%
Operating income decreased $315,000 or 35.4%

**Overview of the Financial Statements**

This annual financial report consists of four parts – Management's Discussion and Analysis (this section), the basic financial statements, schedule of funding progress for the retiree healthcare plan and supplemental financial information and related notes. The Authority is a self-supporting entity and follows enterprise fund reporting. Accordingly, the financial statements are presented using the accrual basis of accounting.

**Financial Analysis of the Authority**

**Net Position** – The following table presents the changes in net position between December 31, 2012, 2011 and 2010:

| | 2012 ($000) | 2011 ($000) | 2010 ($000) | Increase/ (Decrease) 2011-2012 ($000) | % (%) |
|---|---|---|---|---|---|
| Current assets | **$ 12,140** | $11,054 | $ 9,561 | $ 1,086 | 9.8 |
| Noncurrent assets | **942** | 1,240 | 1,561 | (298) | (24.0) |
| Total assets | **13,082** | 12,294 | 11,122 | 788 | 6.4 |
| Current liabilities | **2,111** | 1,900 | 1,640 | 211 | 11.1 |
| Total liabilities | **2,111** | 1,900 | 1,640 | 211 | 11.1 |
| Total net position | **$ 10,971** | $10,394 | $ 9,482 | $ 577 | 5.6 |

Current assets are comprised of Cash and Cash Equivalents (Operating Account and Federally Qualified Health Centers ("FQHC") Loan Program), Administrative Fees and Other Receivables, Note Receivables, Note Interest Receivables and Prepaid Expenses. Current Assets increased 9.8% from December 31, 2011 to December 31, 2012. As of December 31, 2012, the majority of the Cash and Cash Equivalents were held in the New Jersey Cash Management Fund, a liquid short-term investment vehicle. The yield on the New Jersey Cash Management Fund at December 31, 2012 and 2011, was 0.08% and 0.03%, respectively. Overall, the Operating Account Cash and Cash Equivalents increased $1,107,000 while the ("FQHC") Loan Program Cash and Cash Equivalents increased $314,000. The increase in the Operating Account Cash and Cash Equivalents was due in part to the receipt of the Authority's annual fees. The increase in the FQHC Loan Program Cash and Cash Equivalents was due to the principal and interest received on the loan the Authority provided to Lakewood Resource and Referral Center, an FQHC. The FQHC loan program is further described in Note J to the financial statements.

Administrative Fees and Other Receivables decreased overall by $65,000. The majority of the receivables consist of the Authority's semi-annual fee billings that were disseminated on December 31, 2012 and 2011, in the amounts of $1,903,191 and $1,982,448, respectively, or a decrease of $79,257. The decrease in the semi-annual fee billing is due in part to: (1) a couple of health care systems refinancing several of their old bond issues with one new bond issue wherein the fee for the new bond issue is capped; (2) several health care institutions partially and/or completely paying off their bond issues ahead of schedule; and (3) a couple of health care institutions refinancing their outstanding debt through another entity. At December 31, 2012, there was still a receivable outstanding in the amount of $20,378 from the June 30, 2012, semi-annual fee billing. Also decreasing was the receivable for Trustee Fees and Mortgage Servicing Fees. Those receivables decreased $6,135 and $3,252, respectively. The Trustee Fees receivable fluctuates from year to year depending on the timing of the invoices received from the Trustee and the timing of the payments received from the health care institutions with which the Authority has outstanding debt. However, in this particular case the decrease is due in part to the same issues that affected the decrease in the semi-annual fee billings. The Mortgage Servicing Fees receivable decreased due to the Authority's portfolio no longer containing any FHA-Insured bond issues. The FHA-Insured bond issue that the Authority was mortgage servicer for, refinanced out of the portfolio on June 27, 2012. The Note Receivable-designated FQHC loan program and the Note Interest Receivable-designated FQHC loan program are further described in Note J to the financial statements.

Prepaid expenses decreased in part due to the recording of the expense for the Authority's Annual Required Contribution ("ARC") for its Post-Retirement Health Benefits. A Post-Retirement Health Benefits Trust ("Trust") was established by the Authority and is fully funded resulting in a prepaid balance. Each year the ARC for that particular year is charged to expense. The prepaid balance as of December 31, 2012 and 2011, was $2,906,215 and $3,173,822, respectively.

When comparing Current Assets as of December 31, 2011 to December 31, 2010, Current Assets increased 15.6%. Overall, Operating Account Cash and Cash Equivalents increased $1,483,000 while FQHC Loan Program Cash and Cash Equivalents increased $321,000. The reasons for the increases in the Cash and Cash Equivalents in 2011 are the same as those stated on page five for 2012. Regarding the Administrative Fees and Other Receivables, the receivable decreased $56,000 from December 31, 2010. At December 31, 2010, there was a receivable from two institutions for the costs incurred by the Authority for a consultant that was hired to evaluate health care services in Hudson County which covers Christ Hospital, Jersey City Medical Center, and Hoboken University Medical Center. The receivable was in the amount of $139,881 and the payment was received during 2011. By contrast, at December 31, 2012, the receivable for annual fees increased $39,694 due to the financings completed since the December 31, 2010, semi-annual fee billing. In addition, the receivable for Trustee Fees and the receivable from the New Jersey Department of Health ("DOH") increased $18,919 and $22,664, respectively. The receivable from the DOH was for the salary and fringe benefits of the Health Information Technology ("HIT") Project Manager hired by the Authority to manage the Health Information Exchange ("HIE") Grant the Authority received through the American Recovery and Reinvestment Act (ARRA 2009). The receivable from the DOH was new in 2011 and covered the period October 1, 2011 to December 31, 2011.

Prepaid expenses from December 31, 2011 to December 31, 2012, decreased due in part to the recording of the expense for the Authority's Annual Required Contribution ("ARC") for its Post-Retirement Health Benefits. The prepaid balance recorded for the trust as of December 31, 2011 and 2010, totaled $3,173,822 and $3,428,685, respectively.

Noncurrent Assets represent the Authority's capital assets which include furniture, leasehold improvements, equipment and automobiles whose costs are in excess of $1,000, net of accumulated depreciation, and that portion of the note receivable-designated FQHC loan Program outstanding from Lakewood Resource and Referral Center that exceeds one year as further described in Note J to the financial statements. Noncurrent assets decreased $298,000 due in part to the repayments on the Lakewood Resource and Referral Center note receivable. In addition, the Authority disposed of some obsolete computer equipment in 2012.

Noncurrent assets at December 31, 2011, decreased $321,000 when compared to December 31, 2010. The decrease was due in part to the repayments on the Lakewood Resource and Referral Center note receivable and the Authority sold and/or disposed of an Authority vehicle and obsolete computer equipment.

Current Liabilities in 2012 are comprised of Accounts Payable, Accrued Expenses and Unearned Revenue-annual fees and section 142(d) fees. Accounts Payable and Accrued Expenses increased $92,000 or 31.2% compared to December 31, 2011. Increasing were the accruals for the Governor's Authorities Unit annual assessment, accrued wages and accrued vacation. Further, there was the addition of a payable for appraisal services and the addition of an accrual for financial advisory services and special tax counsel legal fees. Unearned Revenue-annual fees increased $124,000 or 8.0% compared to December 31, 2011. It represents the semi-annual fees billed on December 31, 2012 and 2011, which cover the periods January 1, 2013 to June 30, 2013, and January 1, 2012 to June 30, 2012, respectively. Financings completed since January 1, 2003, are billed in advance. The Unearned Revenue-annual fees increase is due to financings completed since December 31, 2011. Unearned Revenue-section 142(d) fees represents the prepayment from a client institution of fees the Authority charges in order to compensate the Authority for monitoring the financings completed under Section 142(d) of the Internal Revenue Code. Up to and including year 2022 when monitoring will cease on this particular client institution, $5,000 will be moved each year from Unearned Revenue-section 142(d) fees to the Section 142(d) fees income account.

Current Liabilities in 2011 increased $260,000 or 15.9% compared to December 31, 2010. Accounts Payable and Accrued Expenses increased $26,000 or 9.7% while Unearned Revenue-annual fees and section 142(d) fees increased $171,000 and $63,000, respectively, or 17.1% in total. Increasing were the employer's pension expense accrual, the accrual for the Governor's Authorities Unit annual assessment and the Trustee Fees payable which is the offset of the Trustee Fees receivable mentioned previously and will increase and/or decrease in correlation with the receivable due from the institution. The increase in Unearned Revenue-annual fees from December 31, 2010 to December 31, 2011, is attributable to financings completed since December 31, 2010, and Unearned Revenue-section 142(d) fees was new for 2011.

**NEW JERSEY HEALTH CARE FACILITIES FINANCING AUTHORITY**
**(A Component Unit of the State of New Jersey)**

MANAGEMENT'S DISCUSSION AND ANALYSIS

**Changes in Net Position** – The following table presents the changes in net position of fiscal years 2012, 2011 and 2010:

| | 2012 | 2011 | 2010 | Increase/ (Decrease) 2011-2012 | % |
|---|---|---|---|---|---|
| | ($000) | ($000) | ($000) | ($000) | (%) |
| Operating revenues | | | | | |
| Administrative fees | | | | | |
| Annual fees | **$ 3,728** | $ 3,796 | $3,737 | $ (68) | (1.8) |
| Initial fees | **96** | 110 | 81 | (14) | (12.7) |
| Per series/per master lease fees | **56** | 75 | 65 | (19) | (25.3) |
| Capital asset application fees | **-** | - | 1 | n/a | n/a |
| Mortgage servicing and section 142 (d) fees | **40** | 64 | 66 | (24) | (37.5) |
| Note interest income designated FQHC loan program | **27** | 34 | 39 | (7) | (20.6) |
| Total operating revenues | **3,947** | 4,079 | 3,989 | (132) | (3.2) |
| Operating expenses | | | | | |
| Salaries and related expenses | **2,304** | 2,163 | 2,343 | 141 | 6.5 |
| General and administrative | **572** | 559 | 551 | 13 | 2.3 |
| Provision for postemployment benefits | **268** | 255 | 297 | 13 | 5.1 |
| Professional fees and other | **229** | 213 | 227 | 16 | 7.5 |
| Total operating expenses | **3,373** | 3,190 | 3,418 | 183 | 5.7 |
| Operating income | **574** | 889 | 571 | (315) | (35.4) |
| Nonoperating revenues (expenses) | | | | | |
| Interest income | **3** | 11 | 25 | (8) | (72.7) |
| Other | **-** | 12 | 9 | (12) | (100.0) |
| Health information exchange grant income | **2,215** | 3,222 | n/a | (1,007) | (31.3) |
| Health information exchange grant expenses | **(2,215)** | (3,222) | n/a | 1,007 | 31.3 |
| Total nonoperating revenues (expenses) | **3** | 23 | 34 | (20) | (87.0) |
| Change in net position | **577** | 912 | 605 | (335) | (36.7) |
| Net position, beginning of year | **10,394** | 9,482 | 8,877 | 912 | 9.6 |
| Net position, end of year | **$ 10,971** | $ 10,394 | $9,482 | $ 577 | 5.6 |

The Authority's Net Position increased $577,000 or 5.6% from the end of calendar year 2011 to December 31, 2012. However, when comparing the Change in Net Position amount to the prior year, there was a decrease of $335,000 or 36.7% from 2011 to 2012. The decrease in Operating revenues and the increase in Operating expenses are the main reason for the decrease in the Authority's Change in Net Position.

By contrast, the Authority's Net Position increased $912,000 or 9.6% from the end of calendar year 2010 to December 31, 2011. When comparing the Change in Net Position amount, there was an increase of $307,000 or 50.7% from 2010 to 2011. The increase in the Change in Net Position from 2010 to 2011 was attributable in part to the decrease in Operating expenses.

Operating Revenues - During 2012, total Operating Revenues decreased $132,000 or 3.2%. Annual Fees, Initial Fees, Per Series/Per Master Lease Fees, Mortgage Servicing Fees and Note Interest Income-Designated FQHC Loan Program decreased $68,000, $14,000, $19,000, $24,000 and $7,000, respectively when compared to 2011. Concerning Annual Fees, as mentioned previously, the decrease is due in part to: (1) a couple of health care systems refinancing several of their old bond issues with one new bond issue wherein the fee for the new bond issue is capped; (2) several health care institutions partially and/or completely paying off their bond issues ahead of schedule; and (3) a couple of health care institutions refinancing their outstanding debt through another entity. Regarding Initial Fees and Per Series/Per Master Lease Fees, the collection of those fees can fluctuate from year to year depending on Authority financing activity, the financing needs of the health care institutions, the actual/estimated bond/master lease size and the current economic client. In 2012, seven (7) initial fees, six (6) per series fees, and three (3) master lease fees were received compared to nine (9) initial fees, ten (10) per series fees, and one (1) per master lease fee received in 2011. The decrease in Mortgage Servicing Fees is due to the FHA-Insured bond issue that the Authority was servicer for, refinancing their outstanding debt through another entity on June 27, 2012. Finally, the Note Interest Income-Designated FQHC Loan program amount is the interest earned to the Lakewood Resource and Referral Center on the loan issued on January 29, 2010 as further described in Note J to the financial statements. For 2012, the interest earned totaled $27,000 compared to $34,000 for 2011.

When compared to 2010, Operating Revenues during 2011 increased $90,000 or 2.3%. During 2011, Annual Fees, Initial Fees and Per Series/Per Master Lease Fees increased $59,000, $29,000 and $10,000, respectively when compared to 2010. The increase was due in part to the financings completed in 2011. Regarding the Note Interest Income-Designated FQHC Loan program, for 2011, the interest earned totaled $34,000 compared to $39,000 for 2010 or a decrease of $5,000.

Operating Expenses – During 2012, Operating Expenses increased $183,000 or 5.7% when compared to 2011. The main area of increase in Operating Expenses was in Salaries and Related Expenses which was due in part to the change in the composition of staff in 2012. Staff positions that had been vacant were filled by July 2012 giving the Authority a total of 27 staff compared to 25 staff for most of 2011 and 26 staff by the end of 2011. In addition, there was an increase in the cost of health benefits. Further, as mentioned previously, the Authority is being reimbursed by the DOH for the salary and fringe benefits of the HIT Project Manager. The contract for the reimbursement was signed in June 2011 and was retroed back to May of 2010. As a result, the reimbursement for the 2010 salary and fringe benefits was credited against the 2011 Salaries and Related Expenses line item meaning a greater portion of the reimbursement was applied in 2011 as opposed to being applied in 2010 because of the delay in the signing of the contract. Under General and Administrative expenses, increases were in the areas such as rent, Single Audit fees, meetings/seminars/ educational courses and computer equipment/services. Regarding the increase in the Provision for Postemployment Benefits, the ARC per the actuarial valuation for 2012 was more than the ARC for 2011. Another area of increase was in Professional Fees and Other. Concerning Professional Fees, increases were in the areas such as the Governor's Authorities Unit annual assessment, financial advisory services, special tax counsel legal fees and appraisal services. In the area of Other expenses, Depreciation expense decreased due in part to office furniture purchased in 2005 being fully depreciated during 2012. This decrease helped offset somewhat the increase in Professional Fees.

When compared to 2010, Operating Expenses during 2011 decreased $228,000 or 6.7%. The main area of decrease in operating expenses was in Salaries and Related Expenses which was due in part to the change in the composition of staff in 2011, specifically two staff retirements. In addition, there was the reimbursement from the DOH for the salary and fringe benefits of the HIT Project Manager that was retroed back to May 2010, as mentioned previously. Regarding the decrease in the Provision for Postemployment Benefits, the ARC per the actuarial valuation for 2011 was less than the ARC for 2010. Another area of decrease was in Professional Fees and Other, specifically depreciation expense. Depreciation expense decreased due in part to office furniture purchased in 2004 being fully depreciated during 2011 and the cost for desk top computers no longer reaching the threshold for being considered a depreciable asset. Finally, offsetting the decreases somewhat were increases in General and Administrative expenses such as rent, computer equipment/services, general office equipment and transportation.

Nonoperating Revenues/(Expenses) – During 2012 Nonoperating Revenues/(Expenses) decreased $20,000 or 87.0%. Interest income, Other income, Health Information Exchange Grant Income and Health Information Exchange Grant Expenses decreased $8,000, $12,000 and $1,007,000, respectively. Interest income in 2012 and 2011 represented interest earned on the Authority's checking accounts and the operating funds invested in the New Jersey Cash Management Fund which totaled $3,000 in 2012 and $5,000 in 2011. In addition, in 2011, $6,000 in interest was earned on the Hoboken Municipal Hospital Authority ("HMHA") Note as further described in Note K to the financial statements. Concerning interest exclusive of the interest on the note, the average yield on the New Jersey Cash Management Fund for 2012 and 2011 was .05% and .10%, respectively. Regarding Other Income, in 2011, $12,050 was received from the auction of the Authority's remaining 2005 Toyota Prius Hybrid. By contrast, no vehicle was disposed of in 2012. Finally, the Health Information Exchange Grant Income and Expenses are as a result of the Health Information Exchange Grant that the Authority received through the American Recovery and Reinvestment Act (ARRA 2009) as mentioned previously. The income represents the receipt of the Grant funds that have been drawn down while the expenses represent distribution of those funds to the HIT Coordinator – State of New Jersey, the Health Information Exchanges created for the purposes of the Grant and/or direct payment to the vendors used by the Exchanges for Grant purposes.

When compared to 2010, Nonoperating Revenues/(Expenses) during 2011 decreased $11,000 or 32.4%. Interest income decreased $14,000 while Other income, Health Information Exchange Grant Income and Health Information Exchange Grant Expenses increased $3,000, $3,222,000 and $3,222,000, respectively. Interest income in 2011 and 2010 represented interest earned on the Authority's checking accounts and the operating funds invested in the New Jersey Cash Management Fund which totaled $5,000 in 2011 and $11,000 in 2010. In addition, in 2011, $6,000 in interest was earned on the Hoboken Municipal Hospital Authority ("HMHA") Note as mentioned on page ten and in 2010 interest was earned on the Bayonne Medical Center/IJKG Propco LLC Note totaling $14,000, which was paid in full on June 7, 2010. Concerning interest exclusive of the interest on the notes, the average yield on the New Jersey Cash Management Fund for 2011 and 2010 was 0.10% and 0.25%, respectively. Regarding Other Income, there was an increase of $3,000 or 33.3%. In 2010, $8,400 was received from the auction of one of the Authority's two remaining 2005 Toyota Prius Hybrids while in 2011 the remaining 2005 Toyota Prius Hybrid was auctioned off for $12,050 as mentioned above. Finally, the Health Information Exchange Grant Income and Expenses in 2011 represent the first year the Authority drew down funds and distributed funds.

**Contacting the Authority's Financial Management**

This financial report is designed to provide New Jersey citizens, the Authority's client's investors and creditors, with a general overview of the Authority's finances. Questions about this report and/or additional financial information should be directed to the Executive Director at NJHCFFA, P.O. Box 366, Trenton, NJ 08625-0366. Readers are also invited to visit the Authority's web site at: www.njhcffa.com.

**NEW JERSEY HEALTH CARE FACILITIES FINANCING AUTHORITY**
**(A Component Unit of the State of New Jersey)**

STATEMENT OF NET POSITION

| | December 31, 2012 | December 31, 2011 |
|---|---|---|
| | ($000) | |
| **Assets** | | |
| Current assets | | |
| Cash and cash equivalents | $ 5,909 | $ 4,802 |
| Cash and cash equivalents - designated FQHC loan program | 909 | 595 |
| Administrative fees and other receivables | 2,015 | 2,080 |
| Note receivable - designated FQHC loan program | 286 | 286 |
| Note interest receivable - designated FQHC loan program | 2 | 3 |
| Prepaid expenses | 3,019 | 3,288 |
| Total current assets | 12,140 | 11,054 |
| Noncurrent assets | | |
| Note receivable - designated FQHC loan program | 905 | 1,190 |
| Capital assets | 727 | 724 |
| Less accumulated depreciation | (690) | (674) |
| Total noncurrent assets | 942 | 1,240 |
| Total assets | $ 13,082 | $ 12,294 |
| **Liabilities and Net Position** | | |
| Current liabilities | | |
| Accounts payable and accrued expenses | $ 387 | $ 295 |
| Unearned revenue - annual fees | 1,666 | 1,542 |
| Unearned revenue - 142(d) fees | 58 | 63 |
| Total current liabilities | 2,111 | 1,900 |
| Net position | | |
| Unrestricted | | |
| Undesignated | 8,833 | 8,270 |
| Designated - FQHC loan program | 2,101 | 2,074 |
| Invested in capital assets | 37 | 50 |
| | 10,971 | 10,394 |
| Total liabilities and net position | $ 13,082 | $ 12,294 |

See accompanying notes.

**NEW JERSEY HEALTH CARE FACILITIES FINANCING AUTHORITY**
**(A Component Unit of the State of New Jersey)**

STATEMENT OF REVENUES, EXPENSES AND CHANGES
IN NET POSITION

| | Year Ended December 31, 2012 | Year Ended December 31, 2011 |
|---|---|---|
| | ($000) | |
| Operating revenues | | |
| Administrative fees | | |
| Annual fees | $ 3,728 | $ 3,796 |
| Initial fees | 96 | 110 |
| Per series/per master lease fees | 56 | 75 |
| Mortgage servicing fees | 16 | 40 |
| Section 142 (d) fees | 24 | 24 |
| Note interest income - designated FQHC loan program | 27 | 34 |
| Total operating revenues | 3,947 | 4,079 |
| Operating expenses | | |
| Salaries and related expenses | 2,304 | 2,163 |
| General and administrative expenses | 572 | 559 |
| Professional fees | 202 | 167 |
| Provision for postemployment benefits | 268 | 255 |
| Depreciation | 27 | 46 |
| Total operating expenses | 3,373 | 3,190 |
| Operating income | 574 | 889 |
| Nonoperating revenues (expenses) | | |
| Interest income from investments | 3 | 5 |
| Note interest income | - | 6 |
| Gain on disposal of assets | - | 12 |
| Health information exchange grant income | 2,215 | 3,222 |
| Health information exchange grant expenses | (2,215) | (3,222) |
| Total nonoperating revenues | 3 | 23 |
| Changes in net position | 577 | 912 |
| Net position, beginning of year | 10,394 | 9,482 |
| Net position, end of year | $ 10,971 | $ 10,394 |

See accompanying notes.

# NEW JERSEY HEALTH CARE FACILITIES FINANCING AUTHORITY
# (A Component Unit of the State of New Jersey)

## STATEMENT OF CASH FLOWS

| | Year Ended December 31, 2012 | 2011 |
|---|---|---|
| | ($000) | |
| **Cash flows from operating activities** | | |
| Cash received from customers | $ 4,104 | $ 4,335 |
| Cash payment to suppliers and employees | (2,985) | (2,863) |
| Net cash from operating activities | 1,119 | 1,472 |
| **Cash flows from capital and related financing activities** | | |
| Acquisition of capital assets | (14) | (11) |
| Cash received on disposal of assets | - | 12 |
| Net cash from capital and related financial activities | (14) | 1 |
| **Cash flows from noncapital financing activities** | | |
| Note issued to Hoboken Municipal Hospital Authority | - | (2,500) |
| Note repaid from client institution - designated FQHC loan program | 286 | 286 |
| Note repaid from Hoboken Municipal Hospital Authority | - | 2,500 |
| Interest received on note - Hoboken Municipal Hospital Authority | - | 6 |
| Interest received on note - designated FQHC loan program | 27 | 34 |
| Net cash from noncapital financial activities | 313 | 326 |
| **Cash flows from investing activities** | | |
| Investment income | 3 | 5 |
| Net cash from investing activities | 3 | 5 |
| Net increase in cash and cash equivalents | 1,421 | 1,804 |
| Cash and cash equivalents, beginning of year | 5,397 | 3,593 |
| Cash and cash equivalents, end of year | $ 6,818 | $ 5,397 |
| Operating income | $ 574 | $ 889 |
| Adjustments | | |
| Depreciation | 27 | 46 |
| Note interest income - designated FQHC loan program | (27) | (34) |
| Changes in assets and liabilities | | |
| Accounts receivable | 65 | 56 |
| Prepaid expenses | 269 | 255 |
| Unearned revenue | 119 | 234 |
| Accounts payable | 92 | 26 |
| Net cash from operating activities | $ 1,119 | $ 1,472 |

See accompanying notes.

NOTES TO FINANCIAL STATEMENTS

## A. ORGANIZATION

The New Jersey Health Care Facilities Financing Authority (the "Authority") is a public body corporate and politic, a political subdivision of the State of New Jersey and a public instrumentality organized and existing under and by virtue of the New Jersey Health Care Facilities Financing Authority Law, P.L. 1972, c.29, N.J.S.A. 26:21:1, *et seq.* (the "Act"). The Authority is empowered to provide financing for health care organizations located in the State. The Authority is a component unit as reflected in the comprehensive annual financial report of the State of New Jersey.

Under the terms of the Act, the Authority has the power to issue bonds to, in addition to other things, construct, acquire, reconstruct, rehabilitate and improve, and furnish and equip projects on behalf of health care organizations. The Authority enters into loan and security agreements, and in some cases, mortgage agreements with designated health care organizations for each revenue bond issue. The loans and/or mortgages are general obligations of the health care organizations. Each of the Authority's issues of bonds, notes and leases is payable out of revenues derived from separate organizations and is secured by its own series resolution, note resolution or trust agreement and is separate and distinct as to source of payment and security, except for certain issues for the same organization or system which may be secured on a parity basis. The Authority assigns the loan and security agreements and, if any, mortgage agreements to the trustee for each bond issue, without recourse to the Authority.

Further, under the Hospital Asset Transformation Program the Authority, upon written approval of the Treasurer of the State of New Jersey (the "State Treasurer"), may issue bonds in order to satisfy the outstanding bonded indebtedness of any nonprofit hospital in connection with the termination of the provision of hospital acute care services at a specific location that may no longer be necessary or useful for the provision of such care. To secure such bonds, the State Treasurer and the Authority are permitted to enter into one or more contracts providing for the payments by the State Treasurer to the Authority in each State fiscal year, from the State's General Fund, of an amount equivalent to the amount due to be paid in that fiscal year for debt service on such bonds, subject to and dependent upon appropriations being made by the State Legislature for such purpose.

Bonds, notes and leases issued by the Authority are not a debt or liability of the State of New Jersey or any political subdivision and do not constitute a pledge of the faith and credit of the State of New Jersey or any such political subdivision thereof, but are special and limited obligations of the Authority payable solely from the amounts payable under each agreement and mortgage and from amounts in the respective debt service reserve funds, if any, and other funds held pursuant to the resolutions, trust indenture, if any, and the mortgage agreement, if any, except as noted under the Hospital Asset Transformation Program. The Authority has no taxing power.

## A. ORGANIZATION (CONTINUED)

With regards to the Authority's Master Leasing Program, health care systems ("Sublease User") can access tax-exempt equipment leases through a pre-arranged master lease financing. The Lessee (the "Authority") approves the system for a total dollar amount, and the system's members enter into leases over a specific period up to an aggregate dollar amount of leases. The system must enter into a master lease agreement with each separate lessor/equipment vendor. Each of the leases is payable out of revenues derived from the Sublease User and is secured by its own Master Lease and Sublease Agreement. The Master Lease and Sublease Agreement, and the lease payments are not a debt or liability or moral obligation of the State, the Authority or any political subdivision of the State, or a pledge of the faith and credit or taxing power of the State, or the Authority, or any political subdivision of the State, but are special obligations payable solely from the sublease payments and other amounts payable under the Master Lease and Sublease Agreement.

The Authority is exempt from both federal and state taxes.

## B. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounts are maintained on the accrual basis of accounting in conformity with accounting principles generally accepted in the United States.

In its accounting and financial reporting, the Authority follows the pronouncements of the Governmental Accounting Standards Board ("GASB"). GASB is the accepted standards setting body for establishing government accounting and financial reporting principles. GASB's Codification of Governmental Accounting and Financial Reporting Standards recognizes the following hierarchy: GASB Statements and Interpretations; GASB Technical Bulletins; American Institute of Certified Public Accountants ("AICPA") Industry Audit and Accounting Guides and AICPA Statements of Position, if applicable and cleared by GASB; AICPA Practice Bulletins, if applicable and cleared by GASB; Implementation Guides published by GASB; AICPA pronouncements that are not specifically applicable to state and governmental entities; Financial Accounting Standard Board ("FASB") Statements and Interpretations; and Accounting Principles Board Opinions and Accounting Research Bulletins of the Committee on Accounting Procedure (issued on or before November 30, 1989). The Authority has elected not to follow FASB pronouncements issued after November 30, 1989. The Authority follows the hierarchy in determining accounting treatment.

*Operating Revenues and Expenses* - Operating revenues and expenses result from providing services to various health care organizations in connection with the issuance of bonds, notes, and/or leases. The Authority's principal operating revenues are the administrative fees that it charges these entities as further explained on page seventeen. Such fees are recognized when earned. Operating expenses include administrative expenses and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

## B. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

*Administrative Fees* - The Authority charges an upfront fee comprised of an initial fee, per series fee or per master lease fee to those health care organizations that have executed a Memorandum of Understanding signifying the organization's intentions to have the Authority finance a project through the issuance of bonds, notes or through the entering of a master lease. A separate application fee is charged to those health care organizations who wish to finance a project through the issuance of a Capital Asset Program Loan. An annual fee is also charged to those health care organizations for which bond sales, note sales and/or lease agreements have been completed. Such fees are charged for the processing of project costs, investment management of bond proceeds, monitoring of financial performance, and other services provided to the organizations. The fees are used to provide sufficient funds to ensure that the Authority's operating expenses will be met, and that sufficient funds will be available to provide for the Authority's needs, including but not limited to, the coverage of Authority members' legal liability as a result of official actions, and research and development costs consistent with the Authority's legislation.

*Mortgage Servicing Fees* - The Authority charges a fee in accordance with the servicing agreement for those issues for which the Authority has assumed the mortgage servicing function.

*Section 142(d) Fees* - The Authority charges an annual fee for each low and moderate income unit located in each project financed by the Authority under Section 142(d) of the Internal Revenue Code to compensate the Authority for monitoring the project's compliance therewith.

*Capital Assets* – The Authority capitalizes fixed assets of $1,000 or more. Capital assets as listed below are depreciated over their estimated useful lives using the straight-line method as follows:

| | Useful Lives |
|---|---|
| Equipment | 3 to 5 years |
| Furniture | 7 years |
| Leasehold improvements | Term of lease |
| Automobiles | 3 years |

*Cash and Cash Equivalents* - The Authority classifies all highly-liquid investments with an original maturity of less than ninety days as cash and cash equivalents. Cash equivalents consist of the Authority's checking account and units of the State of New Jersey Cash Management Fund.

## C. CASH AND CASH EQUIVALENTS

The components of cash at December 31, 2012 and 2011, are:

| | 2012 | 2011 |
|---|---|---|
| | ($000) | |
| Cash and cash equivalents | | |
| Operating checking account | $ 117 | $ 26 |
| New Jersey Cash Management Fund | 5,792 | 4,776 |
| New Jersey Cash Management Fund - designated FQHC loan program | 909 | 595 |
| Total cash and cash equivalents | $ 6,818 | $ 5,397 |

Currently there are no funds held in investment accounts, however, if the Authority purchased investments, the Authority's investment policy permits the following securities and investment vehicles: (i) Obligations of or guaranteed by the State of New Jersey or the United States of America (including obligations which have been stripped of their unmatured interest coupons, and interest coupons which have been stripped from such obligations); (ii) Obligations issued or guaranteed by any instrumentality or agency of the United States of America, whether now existing or hereafter organized; (iii) Obligations issued or guaranteed by any State of the United States or District of Columbia, so long as such obligations are rated at the time of purchase in either of the highest two credit rating categories by any two nationally recognized securities rating agencies; (iv) Repurchase agreements and guaranteed investment contracts with any banking institution, where such agreement or contract is fully secured by obligations of the kind specified in (i), (ii) or (iii) above, provided that such security is held by a third party and that the seller of such obligations represents that such obligations are free and clear of claims by any other party; (v) Interest-bearing deposits in any bank or trust company provided that all such deposits shall, to the extent not insured, be secured by a pledge of obligations of the kind in (i), (ii) or (iii); (vi) Units of participation in the New Jersey Cash Management Fund, or any similar common trust fund which is established pursuant to law as a legal depository of public moneys and for which the New Jersey State Treasurer is custodian; and (vii) Shares of an open-end, diversified investment company which is registered under the Investment Company Act of 1940, as amended, and which (1) invests its assets exclusively in obligations of or guaranteed by the United States of America or any instrumentality or agency thereof having in each instance a final maturity date of less than one year from their date of purchase; (2) seeks to maintain a constant net position value per share; and (3) has aggregate net position of not less than $50,000,000 on the date of purchase of such shares.

The New Jersey Cash Management Fund (the "Fund") is a common trust fund administered by the New Jersey Department of the Treasury, Division of Investment. Securities in the Fund are insured, registered or held by the Division or its agent in the Fund's name.

The Authority provides the disclosures required by the Governmental Accounting Standards Board and, accordingly, the Authority has assessed the Custodial Credit Risk, the Concentration of Credit Risk, Credit Risk and Interest Rate Risk of its Cash and Cash Equivalents.

## C. CASH AND CASH EQUIVALENTS (CONTINUED)

(a) Custodial Credit Risk - The Authority's deposits are exposed to custodial credit risk if they are not covered by depository insurance and the deposits are: uncollateralized, collateralized with securities held by the pledging financial institution, or collateralized with securities held by the pledging financial institution's trust department or agent but not in the depositor-government's name. The deposit risk is that, in the event of the failure of a depository financial institution, the Authority will not be able to recover deposits or will not be able to recover collateral securities that are in the possession of an outside party. The Authority's investment securities are exposed to custodial credit risk if the securities are uninsured, are not registered in the name of the Authority and are held by either: the counterparty or the counterparty's trust department or agent but not in the Authority's name. The investment risk is that, in the event of the failure of the counterparty to a transaction, the Authority will not be able to recover the value of the investment or collateral securities that are in the possession of an outside party.

At December 31, 2012 and December 31, 2011, the Authority's bank balance was not exposed to custodial credit risk since the full amount was covered by FDIC insurance. The Fund which is administered by the New Jersey Department of the Treasury invests pooled monies from various State and non-State agencies in primarily short-term investments. These investments include: U.S. Treasuries, Short-Term Commercial Paper, U.S. Government Agency Bonds, Corporate Bonds, and Certificates of Deposits.

Agencies that are part of the Fund typically earn returns that mirror short-term interest rates. The Fund is considered an investment pool and as such is not exposed to custodial credit risk. The Authority does not have a formal policy for deposit custodial credit risk other than to maintain sufficient funds in the checking account to cover checks that have not cleared the account as of a specific date. As of December 31, 2012 and 2011, there were no investments in the Authority's portfolio. The majority of available funds were being held in the Fund. The Authority does not have a formal policy for investment securities custodial credit risk other than to maintain a safekeeping account for the securities at a financial institution.

(b) Concentration of Credit Risk - This is the risk associated with the amount of investments the Authority has with any one issuer that exceed five percent or more of its total investments. Investments issued or explicitly guaranteed by the U.S. government and investments in mutual funds, external investment pools, and other pooled investments were excluded from this requirement. The Authority places no limit on the amount it may invest in any one issuer.

(c) Credit Risk - This is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. In general, the Authority does not have an investment policy regarding credit risk except to the extent previously outlined under the Authority's investment policy. The New Jersey Cash Management Fund is not rated.

## C. CASH AND CASH EQUIVALENTS (CONTINUED)

(d) Interest Rate Risk - This is the risk that changes in interest rates will adversely affect the fair value of an investment. The Authority does not have a formal policy that limits investment maturities as a means of managing its exposure to fair value losses arising from interest rate fluctuations. The Authority does not have investments, but when they do, the Authority frequently evaluates the Authority's investment portfolio to determine, based on the interest rate environment, if other investment vehicles would provide higher yields that lower the cost and risk.

## D. PENSION PLAN

The Authority's employees participate in the Public Employees Retirement System of New Jersey ("PERS"), a cost sharing multiple-employer defined benefit plan. The Authority's contribution is determined by State statute and is based upon an actuarial computation performed by the PERS.

The Authority's total and covered payroll for the years ended December 31, 2012, 2011 and 2010 were, $1,714,026, $1,719,625, and $1,734,231, respectively. Pension costs for the years ended December 31, 2012, 2011 and 2010 were $184,712, $185,377, and $174,866, respectively. Employees of the Authority also contribute a percentage of their wages to the pension system; the percentage of contributions, as determined by PERS, was 6.5% from January 1, 2012 to June 30, 2012; 6.64% from July 1, 2012 to December 31, 2012; 5.5% from January 1, 2011 to September 30, 2011; 6.5% from October 1, 2011 to December 31, 2011; and 5.5% in 2010.

The State of New Jersey, Division of Pension and Benefits, issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the State of New Jersey, Division of Pension and Benefits, P.O. Box 295, Trenton, NJ 08625-0295 or by visiting their website at: www.state.nj.us/treasury/pensions.

## E. POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS

The Authority sponsors and administers a single employer defined benefit health care plan (the "Plan") that provides postemployment medical coverage for eligible retirees, their spouses/domestic partners and eligible dependent children and continues to be provided on behalf of the surviving spouse/domestic partner or a retiree. The Authority does not issue a publicly available financial report for the Plan. Employees and/or their spouses/domestic partners become eligible for these benefits upon:

- Disability retirement.
- Retirement after 25 years of creditable service in PERS and ten years of service with the Authority.
- Retirement after age 65, 25 years of PERS service, and six years of service with the Authority.
- Retirement after age 62 and 15 years of service with the Authority.

## E. POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (CONTINUED)

Contributions and benefit provisions for the Plan are established and amended through the Members of the Authority and there is no statutory requirement for the Authority to continue this Plan for future Authority employees. The Plan is a non contributory plan with all payments for Plan benefits being funded by the Authority.

The Authority's annual other post-employment benefits ("OPEB") cost for the Plan is calculated based on the annual required contribution ("ARC"), an amount actuarially determined. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and interest on the net OPEB obligation and to amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years.

The Authority is amortizing this liability over a 30-year period using a level dollar method on an open basis. The Authority's annual OPEB cost and net OPEB (prepaid)/obligation for the years ended December 31, 2012 and 2011, and the related information for the Plan are as follows (dollar amounts in thousands):

| | 2012 | 2011 |
|---|---|---|
| | ($000) | |
| Annual required contributions | $ 268 | $ 255 |
| Increase (decrease) in net OPEB obligations | 268 | 255 |
| Prepaid OPEB obligation - beginning of year | (3,175) | (3,430) |
| Prepaid OPEB obligation - end of year | $ (2,907) | $ (3,175) |

The Authority's annual OPEB cost, the percentage of annual OPEB cost contributed to the Plan, and the net OPEB obligation for fiscal years 2012, 2011 and 2010 were as follows (dollar amounts in thousands):

| Fiscal Year Ended | Annual OPEB Cost | Percentage Annual OPEB Cost Contributed | Net OPEB Obligation (Prepaid) |
|---|---|---|---|
| December 31, 2012 | $ 268 | 100% | $ (2,907) |
| December 31, 2011 | 255 | 100% | (3,175) |
| December 31, 2010 | 297 | 100% | (3,430) |

In 2008, the Authority established an irrevocable trust to provide for the payment of its OPEB obligations.

At January 1, 2010, the actuarial accrued liability for benefits was $4,641,793. At December 31, 2012, funds in the trust totaled $5,243,333. The covered payroll (annual payroll of active employees covered by the plan) was $1,714,026 for the year ended December 31, 2012, and the ratio of the funded actuarial accrued liability was 306%.

## E. POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (CONTINUED)

The most recent actuarial valuation date is January 1, 2010. Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events in the future. Amounts determined regarding the funded status of the Plan and the annual required contributions of the employer are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future. The required schedule of funding progress presented as required supplementary information provides multiyear trend information that shows whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

Projections of benefits are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits in force at the valuation date and the pattern of sharing benefit costs between the Authority and the plan members to that point. Actuarial calculations reflect a long-term perspective and employ methods and assumptions that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets.

For the January 1, 2010, actuarial valuation, the projected unit credit with benefits attributed from date of hire to the date of decrement method was used. The actuarial assumptions included a 4% discount rate and an annual healthcare cost trend rate of 8.5% medical grading down to an ultimate rate of 5%.

## F. COMMITMENTS

The Authority has an operating lease commitment for its offices at an annual rental of approximately $269,700 from September 24, 2006 to September 23, 2011, and $286,556 from September 24, 2011 to September 23, 2016.

## G. RELATED PARTY TRANSACTIONS

Operating expenses for the years ended December 31, 2012 and 2011, include approximately $255,000 and $263,000, respectively, relating to payment for goods and services provided by various State of New Jersey agencies.

## H. CONDUIT DEBT AND MASTER LEASE OBLIGATIONS

Due to the fact that the bonds and notes issued by the Authority are nonrecourse conduit debt obligations of the Authority, the Authority has, in effect, none of the risks or rewards of the related financing. Accordingly, with the exception of certain fees generated as a result of the financing transaction, the financing transaction is given no accounting recognition in the accompanying financial statements. During the years ended December 31, 2012 and 2011, the Authority issued $459,392,000 and $941,865,000, respectively, in conduit debt. The amount of conduit debt outstanding at December 31, 2012 and 2011, totaled $6,069,686,949 and $6,634,098,654, respectively.

## H. CONDUIT DEBT AND MASTER LEASE OBLIGATIONS (CONTINUED)

Regarding the Master Leasing Program, during the year ended December 31, 2012, leases entered into totaled $24,908,000. The amount of lease payments outstanding at December 31, 2012, totaled $22,200,921. No leases were entered into prior to January 1, 2012.

## I. RISK MANAGEMENT

The Authority maintains a Not-For-Profit Protector Individual and Organization Insurance Policy (Directors & Officers Liability) that provides protection to the Authority's past, present and future members, committee members, officers and staff for official actions that may have been taken while carrying out their normal duties on behalf of the Authority. The Authority's policy which covers the period December 18, 2012 through December 18, 2013, has a $20 million liability limit with a retention level of $175,000 at a premium cost of $72,030.

## J. FEDERALLY QUALIFIED HEALTH CENTER ("FQHC") LOAN PROGRAM

At the Authority's meeting on July 23, 2009, the members of the Authority approved the creation of a loan program using the Authority's unrestricted net position that exceeded a six month cash-on-hand reserve (approximately $2 million) to provide funding, including capital and working capital, for start-up FQHCs. The terms of said loans will vary from five to ten years with interest due and computed using the monthly variable rate on the New Jersey Cash Management Fund plus 2%. The repaid funds will be returned to the FQHC loan program to be lent out in the future to start-up FQHCs.

Consequently, on January 29, 2010, the Authority and Lakewood Resource and Referral Center, Inc. a Federally Qualified Health Center, entered into a loan agreement in the amount of $2 million. The executed promissory note (the "Note") required that commencing March 1, 2010, the outstanding principal amount of the Note shall be due in eighty-three equal monthly installments of $23,809 with a final principal payment of $23,853 due on February 1, 2017. Further, interest on the Loan became payable commencing March 1, 2010. Interest is computed using the monthly variable rate on the New Jersey Cash Management Fund plus 2%; this interest is estimated for the maturity schedule on the next page. Security for the loan is accounts receivable of the Lakewood Resource and Referral Center. The table on page twenty-four summarizes the Authority's remaining loan payments to be received under this agreement.

## J. FEDERALLY QUALIFIED HEALTH CENTER ("FQHC") LOAN PROGRAM (CONTINUED)

| Year Ending December 31, | Principal | Estimated Interest | Total |
|---|---|---|---|
| 2013 | $ 285,708 | $ 21,191 | $ 306,899 |
| 2014 | 285,708 | 15,477 | 301,185 |
| 2015 | 285,708 | 9,763 | 295,471 |
| 2016 | 285,708 | 4,048 | 289,756 |
| 2017 | 47,662 | 119 | 47,781 |
| Total | $ 1,190,494 | $ 50,598 | $ 1,241,092 |

## K. NOTE RECEIVABLE HOBOKEN MUNICIPAL HOSPITAL AUTHORITY

At the Authority's meeting on July 28, 2011, the members of the Authority approved a $2.5 million loan to Hoboken Municipal Hospital Authority ("HMHA"). The loan was to fund the continued operations of the Hoboken University Medical Center ("HUMC") which was owned by HMHA, until the planned sale of HUMC to a company known as HUMC Holdco could be completed.

Consequently, on August 23, 2011, the Authority and HMHA entered in a loan agreement in the amount of $2.5 million and then three Notes were executed on September 9, 22 and 28, 2011, in the amounts of $750,000, $1,000,000 and $750,000, respectively. The executed Notes had a maturity of November 23, 2011. Interest was computed using the rate on New Jersey Cash Management Fund plus 2%. The sale of HUMC to HUMC Holdco was completed on November 4, 2011, at which time the loan was paid in full.

## L. PRIOR PERIOD ADJUSTMENT

Upon the reinstatement of the required employer pension expense contributions in 2005 by the State of New Jersey, the Authority incorrectly calculated its pension expense and related accrual. This error resulted in an over accrual of the expense and the liability since 2005. In 2012, the Authority corrected the error. The effect of this correction resulted in a reduction of the pension liability by $190,259 and $183,307 as of December 31, 2011 and 2010, respectively, and to increase the change in net assets by $190,259 and $183,307 in 2011 and 2010, respectively.

# REQUIRED SUPPLEMENTARY INFORMATION

# NEW JERSEY HEALTH CARE FACILITIES FINANCING AUTHORITY
## (A Component Unit of the State of New Jersey)

SCHEDULE OF FUNDING PROGRESS FOR THE RETIREE HEALTHCARE PLAN
(DOLLARS IN THOUSANDS)

| Actuarial Valuation Date* | Actuarial Value of Assets (a) | Actuarial Accrued Liability (AAL) - Level Dollar (b) | Unfunded AAL (UAAL) (b-a) | Funded Ratio (a/b) | Covered Payroll (c) | UAAL as a Percentage of Covered Payroll (b-a)/c |
|---|---|---|---|---|---|---|
| January 1, 2010 | $ 3,703 | $ 4,642 | $ 939 | 80% | $ 1,640 | 57% |
| January 1, 2007 | - | 3,153 | 3,153 | 0% | 1,760 | 179% |
| January 1, 2006 | - | 2,760 | 2,760 | 0% | 1,710 | 161% |

*Actuarial valuations are performed every third year. See Note E.

# OTHER SUPPLEMENTARY FINANCIAL INFORMATION – FEDERAL AWARDS

# NEW JERSEY HEALTH CARE FACILITIES FINANCING AUTHORITY
## (A Component Unit of the State of New Jersey)

## SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

## YEAR ENDED DECEMBER 31, 2012

| Federal Grantor | Federal CFDA Number | Award Number | Program or Award Amount | Grant Period | Current Year's Expenditures | Current Year Non-Federal Share | Cumulative Expenditures | Cumulative Non-Federal Share |
|---|---|---|---|---|---|---|---|---|
| *U.S. Department of Health and Human Services: | 93.719 | 90HT0049/01 | $ 11,408,594 | 3/15/2010-3/14/2014 | $ 2,214,509 | $ 284,826 | $ 5,436,866 | $ 1,063,955 |
| Pass-through to the State of New Jersey, Department of Health and Human Services ARRA - State Grants to Promote Health Information Technology | | | | | | | | |

*Denotes Major Program.

See notes to schedule of federal awards.

**NEW JERSEY HEALTH CARE FACILITIES FINANCING AUTHORITY**
**(A Component Unit of the State of New Jersey)**

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Note 1. Basis of Presentation

The accompanying schedule of expenditures of federal awards includes federal grant activity of the Authority and is presented on the accrual basis of accounting. The information in the schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations.* Therefore, some amounts presented in the schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

Note 2. Significant Accounting Policy

The Authority recognizes grant revenue when earned on an accrual basis; that is, activities prerequisite to obtaining benefit have been completed, such as, complying with the terms and conditions of the grant agreement.

Note 3. Subrecipients

Of the expenditures presented in the schedule of expenditures of federal awards, the Authority provided grants to subrecipients as follows:

| Subrecipient | Federal CFDA Number | Current Year's Expenditures | Cumulative Non-Federal Share |
|---|---|---|---|
| Health-E-Citi-NJ | 93.719 | $ 569,506 | $ 334,856 |
| Jersey Health Connect | 93.719 | 1,010,298 | 245,895 |
| HIT Coordinator-State of New Jersey | 93.719 | 500,000 | 186,134 |
| Camden HIE | 93.719 | 134,705 | 297,070 |
| Total | | $ 2,214,509 | $ 1,063,955 |

Note 4. Current Year Non-Federal Share

Current Year Non-Federal Share represents the matching amount requirements met from January 1, 2012 through March 14, 2012, and March 15, 2012 through December 31, 2012, for years two and three of the grant agreement at a match requirement of $1 for each $10 of federal dollars and of $1 for each $7 of federal dollars, respectively.

Note 5. Cumulative Non-Federal Share

Cumulative Non-Federal Share represents the matching requirements met since the grant's inception.

**NEW JERSEY HEALTH CARE FACILITIES FINANCING AUTHORITY**
**(A Component Unit of the State of New Jersey)**

SUMMARY OF PRIOR YEAR FINDINGS

**Finding 2011-01**

Audit Findings
The Authority's September 30, 2011, FFR annual report did not include the total recipient share expended for the period ended September 30, 2011.

Corrective Action Taken
This finding has been resolved through management corrective action.

**Finding 2011-02**

Audit Finding
The Authority did not communicate the federal award CFDA title and number to the subrecipients.

Corrective Action Taken
This finding has been resolved through management corrective action.

## NEW JERSEY HEALTH CARE FACILITIES FINANCING AUTHORITY
## (A Component Unit of the State of New Jersey)

### SCHEDULE OF FINDINGS AND QUESTIONED COSTS

### Section I – Summary of Auditors' Results

*Financial Statements*

Type of auditors' report issued: unqualified

Internal control over financial reporting:

| | | |
|---|---|---|
| · Material weaknesses identified? | ______ yes | X no |
| · Significant deficiencies identified that are not considered to be material weaknesses? | ______ yes | X none reported |
| Noncompliance material to financial statements noted? | ______ yes | X no |

*Federal Awards*

Internal control over major programs:

| | | |
|---|---|---|
| · Material weaknesses identified? | ______ yes | X no |
| · Significant deficiencies identified that are not considered to be material weaknesses? | ______ yes | X none reported |

Type of auditors' report issued on compliance for major programs: unqualified

| | | |
|---|---|---|
| Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133? | ______ yes | X no |

Identification of major programs:

| *Federal CFDA Number* | *Federal Gantor/Pass through Grantor Program Title* |
|---|---|
| 93.719 | ARRA-State Grants to Promote Health Information Technology |

| | | |
|---|---|---|
| Dollar threshold used to distinguish between type A and type B programs: | $ 300,000 | |
| Auditee qualified as low-risk auditee? | ______ yes | X no |

### Section II - Financial Statement Findings

**None**

### Section III – Federal Award Findings and Questioned Costs

**None**

# OTHER SUPPLEMENTARY FINANCIAL INFORMATION – TRUSTEE HELD FUNDS

**NEW JERSEY HEALTH CARE FACILITIES FINANCING AUTHORITY**
**(A Component Unit of the State of New Jersey)**

STATEMENT OF NET POSITION FOR TRUSTEE HELD FUNDS

| | December 31, 2012 | December 31, 2011 |
|---|---|---|
| | ($000) | |
| Assets | | |
| Mortgages and loans receivable, net | $ 4,884,572 | $ 5,230,387 |
| Lease receivable | 171,620 | 178,760 |
| State contract bonds receivable | 429,665 | 435,380 |
| Equipment revenue notes receivable, net | 5,187 | 7,126 |
| Capital Asset Program notes receivable, net | 61,854 | 57,536 |
| Construction/program accounts | | |
| Cash and cash equivalents | 159,530 | 245,880 |
| Investments | 12,683 | 108,844 |
| Prepaid expenses | 10 | 10 |
| Debt service accounts | | |
| Cash and cash equivalents | 156,205 | 141,641 |
| Investments | 1,309 | 1,668 |
| Receivable from master trustee/institution | 13,909 | 13,719 |
| Debt service reserve accounts | | |
| Cash and cash equivalents | 196,344 | 180,660 |
| Investments | 78,478 | 140,260 |
| Master lease funds | | |
| Cash and cash equivalents | 3,049 | - |
| Lease payments receivable, net | 19,152 | - |
| Mortgage servicing accounts | | |
| Cash and cash equivalents | - | 226 |
| Mortgage payments receivable | - | 577 |
| Total assets | $ 6,193,567 | $ 6,742,674 |
| Liabilities and net position | | |
| Bonds payable | $ 6,064,482 | $ 6,626,930 |
| Revenue notes payable | 5,204 | 7,169 |
| Accrued interest payable | 100,863 | 106,768 |
| Accrued expenses | 242 | 230 |
| Master lease payable | 22,201 | - |
| Mortgages and escrows payable | - | 803 |
| Capital Asset Program net position | 575 | 774 |
| Total liabilities and Capital Asset Program net position | $ 6,193,567 | $ 6,742,674 |

See accompanying notes.

**NEW JERSEY HEALTH CARE FACILITIES FINANCING AUTHORITY**
**(A Component Unit of the State of New Jersey)**

STATEMENT OF CASH FLOWS FOR TRUSTEE HELD FUNDS

| | Year Ended December 31, 2012 | 2011 |
|---|---|---|
| | ($000) | |
| **Cash flows from operating activities** | | |
| Payments received from institutions under agreements | $ 534,125 | $ 619,848 |
| Equity contributions from institutions | 24,407 | 22,405 |
| Disbursements for construction/acquisition and issuance expense | (199,286) | (461,590) |
| Other receipts/(disbursements) | 148,417 | (34,305) |
| Net cash from operating activities | 507,663 | 146,358 |
| **Cash flows from noncapital financing activities** | | |
| Face amount of revenue bonds | 459,392 | 941,865 |
| Additions (deductions) at time of sale, net | 7,114 | (110,740) |
| Refunding of pre-existing debt/escrows fund deposit | (338,437) | (446,199) |
| Net proceeds from sale of revenue bonds | 128,069 | 384,926 |
| Principal/premium paid on revenue bonds | (594,668) | (551,252) |
| Interest paid on revenue bonds | (254,408) | (252,776) |
| Net cash from noncapital financing activities | (721,007) | (419,102) |
| **Cash flows from capital financing activities** | | |
| Lease escrow deposit | 24,908 | - |
| Disbursements for equipment | (22,088) | - |
| Payments received from institutions under lease/sublease agreements | 3,278 | - |
| Principal/premium paid on master lease | (2,707) | - |
| Interest paid on master lease | (342) | - |
| Net cash from capital financing activities | 3,049 | - |
| **Cash flows from investing activities** | | |
| Net investment in securities | 151,179 | 291,590 |
| Interest on investments | 5,837 | 12,467 |
| Net cash from investing activities | 157,016 | 304,057 |
| Net (decrease) increase in cash and cash equivalents | (53,279) | 31,313 |
| Cash and cash equivalents, beginning of year | 568,407 | 537,094 |
| Cash and cash equivalents, end of year | $ 515,128 | $ 568,407 |

See accompanying notes.

**NEW JERSEY HEALTH CARE FACILITIES FINANCING AUTHORITY**
**(A Component Unit of the State of New Jersey)**

NOTES TO SUPPLEMENTAL FINANCIAL INFORMATION

## A. BACKGROUND

As indicated in Note A to the Authority's financial statements, the Authority has the power to issue bonds, notes and enter into lease agreements on behalf of healthcare organizations. Each of the Authority's issues of bonds, notes and leases is payable out of revenues derived from separate organizations and is secured by its own series resolution, note resolution, trust agreement or lease agreement and is separate and distinct as to source of payment and security, except for certain issues for the same organization or system which may be secured on a parity basis. The Authority assigns the loan and security agreements and, if any, mortgage agreements to the trustee for each bond issue. The amounts reported in these supplemental financial statements include all Trustee Held Funds maintained by the Authority's various trustees.

Bonds, notes and leases issued by the Authority are not a debt or liability of the State of New Jersey or any political subdivision and do not constitute a pledge of the faith and credit of the State of New Jersey or any such political subdivision thereof, but are special and limited obligations of the Authority payable solely from the amounts payable under each agreement and mortgage and from amounts in the respective debt service reserve funds, if any, and other funds held pursuant to the resolutions, trust indenture, if any, and the mortgage agreement, if any, except as noted under the Hospital Asset Transformation Program. The Authority has no taxing power.

## B. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounts are maintained in accordance with the requirements of the applicable bond and note resolutions and on the accrual basis of accounting.

*Description of Funds* - The Authority maintains books of account for each of the issues of debt outstanding and for its mortgage servicing funds (Trustee Held Funds). The funds are combined for financial statement presentation. The following is a description of the Authority's financing programs:

- *Capital Asset Program* - Accounts for the receipt and disbursement of funds in connection with the Authority's Capital Asset Revenue Bonds, Series A through D. These bonds were initially issued without designated borrowers. Under the Capital Asset Program, the Authority was required to establish a Debt Service Reserve Fund which may be used to pay debt service if pledged revenues are insufficient.

- *Revenue Bond/Note Program* - Accounts for the receipt and disbursement of funds in connection with the various revenue bonds/notes issued by the Authority to designated borrowers for specific purposes as described in the applicable bond and note resolutions.

Under both programs the assets of the Construction/Program Accounts, Debt Service Accounts and Debt Service Reserve Accounts are held by trustees in accordance with the applicable bond and note resolutions. The resolutions establish the following accounts, which are referred to as "funds." These do not represent "funds" as the term is used in generally accepted accounting principles, but are separate "accounts" used to delineate the accounting and reporting of bond related monies.

## B. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

- Construction/Program Accounts - accounts for the receipt and disbursement of monies for the payment of construction expenses, related equipment expenditures, and expenses associated with bond issues.

- Debt Service Accounts - accounts for the receipt and disbursement of monies held on behalf of the designated borrowers for the payment of bond or note principal and interest.

- Debt Service Reserve Accounts - accounts for the receipt and disbursement of monies held in reserve on behalf of the investors in compliance with applicable bond resolutions. When required, the Debt Service Reserve Funds are generally maintained at an amount equal to the greatest annual amount of principal and interest payable.

- Master Lease Accounts – accounts for the receipt and disbursement of monies held on behalf of sublessee/user for the related equipment expenditures and for the payment of the lease principal and interest.

- Mortgage Servicing Accounts - accounts for receipt of principal, interest, insurance, reserve for replacements and property tax payments of institutions for which the Authority is the mortgagee of record and has assumed the mortgage servicing function. These funds are held in segregated escrow accounts until remitted to the bond trustee or appropriate agency.

Interest Income on these accounts (except for accounts held under the Capital Asset Program) and the interest expense on the bonds and notes are recorded in the borrowers financial statements, and therefore, the Authority does not present a statement of revenues, expenses and changes in fund balance for the Trustee Held Funds.

## C. MORTGAGES AND LOANS RECEIVABLE

Loans are granted by the Authority to borrowers for periods concurrent with those of the related bond issues. In some instances, mortgages, and in most instances, a pledge of gross receipts is granted to the Authority to support the respective loans. The organizations are required to make principal and interest payments to the Authority or trustee bank sufficient to meet the principal and interest requirements of the bonds. To the extent required by the applicable bond documents, funds received by the Authority have been placed in Debt Service and Debt Service Reserve Funds for future principal and interest payments.

Among other things, the mortgages provide first liens on the physical property financed with the bond proceeds, and in some instances, all after-acquired property and previously existing facilities. The Authority has assigned all of its rights, title and interest in such security to the trustee bank for each respective issue.

NEW JERSEY HEALTH CARE FACILITIES FINANCING AUTHORITY
(A Component Unit of the State of New Jersey)

NOTES TO SUPPLEMENTAL FINANCIAL INFORMATION

## C. MORTGAGES AND LOANS RECEIVABLE (CONTINUED)

As of December 31, 2012 and 2011, mortgages and loans receivable were:

| | 2012 | 2011 |
|---|---|---|
| | ($000) | |
| **Mortgages** | | |
| Burdette Tomlin Memorial Hospital | $ - | $ 21,620 |
| Holy Name Hospital | 60,000 | 60,000 |
| Deborah Heart and Lung Center | 18,885 | 20,085 |
| Somerset Medical Center | 80,080 | 81,390 |
| CentraState Assisted Living, Inc. | 5,509 | 5,791 |
| Total mortgages receivable | $ 164,474 | $ 188,886 |
| | | |
| **Loans** | | |
| Secured by pledge of collateral with trustees | | |
| Christian Health Care Center | $ 6,330 | $ 6,580 |
| Bartley Assisted Living LLC | 5,296 | 5,618 |
| Jersey City Medical Center | - | 170,770 |
| JFK Assisted Living | 9,961 | 10,578 |
| Meridian Hospitals Corporation | 16,500 | 17,090 |
| Wiley Mission Project | 13,327 | 11,070 |
| Englewood Hospital and Medical Center | - | 83,825 |
| The Matheny School and Hospital | 2,200 | 2,400 |
| Robert Wood Johnson University Hospital | 52,945 | 56,540 |
| St. Francis Medical Center | 1,300 | 1,500 |
| Virtua Health, Inc. | 60,265 | 62,290 |
| Rahway Hospital | 11,000 | 11,000 |
| Bayshore Community Hospital | 1,790 | 2,645 |
| South Jersey Hospital, Inc. | 12,235 | 12,625 |
| Children's Specialized Hospital | 45,755 | 46,270 |
| AtlantiCare Regional Medical Center | - | 39,000 |
| Recovery Management, Inc. | 11,710 | 12,175 |
| East Orange General Hospital | 8,415 | 9,250 |
| FitnessFirst Oradell Center, LLC | 4,665 | 5,865 |
| MHAC I, LLC | 29,360 | 30,215 |
| Southern Ocean County Hospital | 16,745 | 17,050 |
| Somerset Medical Center | 21,095 | 22,355 |
| Underwood-Memorial Hospital | 54,350 | 56,075 |
| Kennedy Health Facilities | 15,719 | 16,012 |
| St. Ann's Home for the Aged | 11,535 | 11,625 |
| Bridgeway Assisted Living | 5,073 | 5,252 |
| St. Luke's Warren Hospital | 42,150 | - |

## C. MORTGAGES AND LOANS RECEIVABLE (CONTINUED)

| | 2012 | 2011 |
|---|---|---|
| | ($000) | |
| **Loans (Continued)** | | |
| Secured by pledge of gross receipts under Master Trust Indenture | | |
| Hackensack Medical Center (currently Hackensack University Medical Center) | $ 431,610 | $ 444,470 |
| Saint Peter's Medical Center (currently Saint Peter's University Hospital) | 165,815 | 165,815 |
| Hunterdon Medical Center | 47,145 | 48,600 |
| Pascack Valley Hospital Association | 28,538 | 28,538 |
| Palisades Medical Center of New York Presbyterian Health Care System Obligated Group | 36,250 | 37,560 |
| Shore Memorial Health Care System | 76,434 | 79,085 |
| South Jersey Hospital System | 144,285 | 147,995 |
| Raritan Bay Medical Center | 39,800 | 41,300 |
| Bayonne Hospital Obligated Group | - | 25,110 |
| Warren Hospital Obligated Group (currently St. Luke's Warren Hospital) | - | 43,345 |
| St. Joseph's Hospital and Medical Center Obligated Group | 234,910 | 238,470 |
| AHS Hospital Corporation | 457,730 | 465,730 |
| Newton Memorial Hospital | 10,325 | 10,870 |
| Kennedy Health System Obligated Group | 66,035 | 60,090 |
| Christian Health Care Center | 20,835 | 21,680 |
| Rahway Hospital Obligated Group | 5,480 | 8,020 |
| Saint Barnabas Medical Center/West Hudson Hospital Obligated Group (currently a part of Barnabas Health, Inc.) | - | 12,150 |
| CentraState Medical Center Obligated Group | 81,965 | 113,615 |
| Virtua Health, Inc. | 631,345 | 646,365 |
| Saint Barnabas Health Care System (currently Barnabas Health, Inc.) | 162,525 | 335,371 |
| Catholic Health East | 124,975 | 129,315 |
| Meridian Health System Obligated Group | 524,825 | 541,595 |
| RWJ Health Care Corp. at Hamilton, Obligated Group | 107,220 | 110,600 |
| Trinitas Hospital Obligated Group | 129,170 | 130,400 |
| The House of the Good Shepherd | 14,645 | 16,490 |
| Bayshore Community Hospital | 38,075 | 39,450 |
| Atlantic City Medical Center | - | 50,275 |
| AtlantiCare Regional Medical Center | 186,245 | 111,310 |
| Chilton Memorial Hospital | 38,530 | 39,195 |
| Princeton Healthcare System | 230,000 | 230,000 |
| Holy Name Medical Center | 51,305 | 53,145 |
| Robert Wood Johnson Hospital | 119,300 | 122,275 |
| Barnabas Health. Inc. | 533,685 | 450,000 |
| Total loans receivable | 5,198,723 | 5,723,904 |
| Total mortgages and loans receivable | 5,363,197 | 5,912,790 |
| Less cash and investments held by trustees | 478,625 | 682,403 |
| Mortgages and loans receivable, net | $ 4,884,572 | $ 5,230,387 |

## D. CAPITAL ASSET PROGRAM NOTES RECEIVABLE

Capital Asset Program notes receivable are for varying terms. The borrowing institutions are required to make principal and interest payments to the trustee in an amount sufficient to repay principal borrowed and to meet the interest requirements including program expenses related to the respective loans. Any principal repayments can be reloaned to other institutions as long as they are scheduled for repayment no later than six months prior to the maturity of the Capital Asset Program Bonds, Series A-D in 2035.

As of December 31, 2012 and 2011, Capital Asset Program notes receivable were:

| | 2012 | 2011 |
|---|---|---|
| | ($000) | |
| P.G. Chambers School | | |
| (formerly Children's Center for Therapy and Learning, Inc.) | $ 911 | $ 1,046 |
| Palisades Medical Center, Inc. | 1,131 | 1,845 |
| Cooper Health System | 3,544 | 3,904 |
| Meridian Nursing and Rehabilitation at Ocean Grove | 5,513 | 5,962 |
| South Jersey Hospital | 32,662 | 36,129 |
| CentraState Medical Center | 8,000 | 9,000 |
| Englewood Hospital | 12,486 | 9,250 |
| Chilton Hospital | 5,072 | 5,929 |
| Total Capital Asset Program notes receivable | 69,319 | 73,065 |
| Less cash and investments held by trustee | 7,465 | 15,529 |
| Capital Asset Program notes receivable, net | $ 61,854 | $ 57,536 |

## E. EQUIPMENT REVENUE NOTES RECEIVABLE

Equipment revenue notes ("Notes") receivable are for varying terms. The borrowing institutions are required to make principal and interest payments to the note holder in an amount sufficient to meet the principal and interest requirements of the Notes.

The Notes are secured by first liens on all or a portion of the physical property financed with the note, or similar collateral. The Authority has assigned all of its rights, title and interest in such security to the holder of each respective Note.

## E. EQUIPMENT REVENUE NOTES RECEIVABLE (CONTINUED)

| | 2012 | 2011 |
|---|---|---|
| | ($000) | |
| FitnessFirst Oradell Center | $ - | $ 75 |
| Children's Specialized Hospital | - | 778 |
| Christian Health Care Center | 1,880 | 2,233 |
| Somerset Medical Center | 3,324 | 4,083 |
| Total equipment revenue notes receivable | 5,204 | 7,169 |
| Less cash and investment held by trustee | 17 | 43 |
| Equipment revenue notes receivable, net | $ 5,187 | $ 7,126 |

## F. LEASE RECEIVABLE: GREYSTONE PARK PSYCHIATRIC HOSPITAL

The Authority entered into a 50-year lease on December 18, 2003, with the Department of Human Services of the State of New Jersey ("DHS") whereby the Authority obtained a lease on the existing property and buildings of the Greystone Park Psychiatric Hospital. The Authority has agreed to make major improvements to the leased property and sublease the property back to DHS. The improvements are being financed by the issuance of Lease Revenue Bonds of the Authority payable solely from sublease rental payments received from DHS. On December 18, 2003, the Authority issued lease revenue bonds in the aggregate principal amount of $19,125,000 to finance a portion of the improvements. The sublease was also entered into on December 18, 2003. On September 8, 2005, the Authority completed a second issue of lease revenue bonds in the amount of $186,565,000 to construct a new 450 bed replacement facility, including administrative, program and support functions, renovate existing support space and existing patient residential cottages that will house an additional 60 patients. Under the sublease, DHS agrees to make rental payments to the Authority that are sufficient to pay the principal, interest and other costs associated with the financing, subject to appropriation. There is no remedy provided to the Authority under the sublease for any default by DHS in its payment of rent or failure by DHS to make such payments, if moneys are not appropriated. As of December 31, 2012 and 2011, the lease receivable was in the amount of $171,620,000 and $178,760,000, respectively.

## G. STATE CONTRACT BONDS RECEIVABLE

The Hospital Asset Transformation Act (the "Act") (*P. L.* 2000, c. 98) amended, and established a Hospital Asset Transformation Program within the Authority for the purpose of providing financial assistance by the Authority to nonprofit hospitals in the State, in connection with the termination of the provision of hospital acute care services at a specific location that may no longer be necessary or useful for the provision of such care. Under the Act, the Authority, subject to the prior written approval of the State Treasurer, may issue bonds in order to satisfy the outstanding bonded indebtedness of any nonprofit hospital for the purposes outlined in the Act. To secure such bonds, the State Treasurer and the Authority are permitted to enter into one or more contracts providing for the payment by the State Treasurer to the Authority in each fiscal year from the State's General Fund, of an amount equivalent to the amount due to be paid in that fiscal year for the debt service on such bonds, subject to and dependent upon appropriation being made by the State Legislature for such purpose. (See subsequent event footnote M).

At December 31, 2012 and 2011, the State contract bonds receivable was as follows:

| | 2012 | 2011 |
|---|---|---|
| | ($000) | |
| St. Mary's Hospital | $ 39,035 | $ 40,755 |
| St. Michael's Medical Center, Inc. | 237,705 | 241,700 |
| Solaris Health System | 152,925 | 152,925 |
| Total State contract bonds receivable | $ 429,665 | $ 435,380 |

## H. MASTER LEASE RECEIVABLE

For the Authority's Master Leasing Program introduced in 2012, health care systems (Sublease User) can access tax-exempt equipment leases through a pre-arranged master lease financing. The Authority as lessee approves the system for a total dollar amount, and the system's members enter into leases over a specific period up to an aggregate dollar amount of leases. The system must enter into a master lease agreement with each separate lessor/equipment vendor. Each of the leases is payable out of revenues derived from the Subleasee User and is secured by its own Master Lease and Sublease Agreement. The systems are required to make principal and interest payments to the Authority or trustee bank sufficient to meet the principal and interest requirements of the leases.

## H. MASTER LEASE RECEIVABLE (CONTINUED)

At December 31, 2012 and 2011, the master lease receivable was as follows:

| | 2012 | 2011 |
|---|---|---|
| | ($000) | |
| St. Barnabas Medical Center | $ 7,915 | $ - |
| Monmouth Medical Center | 3,318 | - |
| Clara Maass Medical Center | 2,895 | - |
| Community Medical Center | 3,434 | - |
| Kimball Medical Center | 633 | - |
| Newark Beth Israel Medical Center | 3,570 | - |
| Barnabas Corp. d/b/a Barnabas Health | 436 | - |
| Total Master Lease receivable | 22,201 | - |
| Less cash and investments held by trustee | 3,049 | - |
| Net Master Lease receivable | $ 19,152 | $ - |

## I. CASH AND INVESTMENTS

The components of cash and investments at December 31, 2012 and 2011, are as follows:

| | 2012 | 2011 |
|---|---|---|
| | ($000) | |
| Cash and cash equivalents | | |
| Money Market Funds (which includes New Jersey Cash Management Fund) | $ 515,128 | $ 568,407 |
| Investments | | |
| Investment agreements | | |
| Collateralized | 37,389 | 189,726 |
| U.S. Treasury and Agency obligations | 55,081 | 61,046 |
| Total cash, cash equivalents and investments | $ 607,598 | $ 819,179 |

## I. CASH AND INVESTMENTS (CONTINUED)

The New Jersey Cash Management Fund is a common trust fund administered by the New Jersey Department of the Treasury, Division of Investment. Securities in the Fund are insured, registered or held by the Division or its agent in the Fund's name. Money market funds represent shares of open-end, diversified investment companies which, along with funds invested in the New Jersey Cash Management Fund, are "uncategorized" investments for GASB purposes.

All investments, except for investment agreements, are carried at fair value. Investment agreements are non-participating guaranteed investment contracts which are carried at cost.

Investments of restricted funds are generally made in accordance with the Authority's General Bond Resolution, subject to modifications in the applicable Series Resolutions. The General Bond Resolution, which is amended from time to time, permits the investment of funds held by the trustee in the following: (a) obligations of or guaranteed by the State of New Jersey; the U.S. government or agencies of the U.S. government; (b) obligations of or guaranteed by any state of the U.S. or the District of Columbia rated in the highest two credit rating categories; (c) repurchase agreements secured by obligations noted in (a) or (b) above; (d) interest-bearing deposits in any bank or trust company, insured or secured by a pledge of obligations noted in (a) or (b) above; (e) New Jersey Cash Management Fund; and (f) shares of an open-end, diversified investment company which is registered under the Investment Company Act of 1940 which invests in obligations of or guaranteed by the U. S. government or government agencies with maturities of less than one year and has a net position of not less than $10,000,000.

In addition, bond resolutions for FHA-insured mortgages, the Capital Asset Program and certain bond issues permit investments in investment agreements.

These investments are made at the direction of the Authority and are held by the respective trustee in the name of the Authority and the respective health care organization. Interest Income earned on such investments is credited periodically to the participant's trust account.

## J. REVENUE BONDS, NOTES AND MASTER LEASES

The security for the revenue bonds and notes of the Authority is described in Note C and is assigned to the trustee of the bond issue or to the holder of the equipment revenue note. The bonds, notes or leases do not constitute a debt or liability of the State of New Jersey or any other political subdivision, or a pledge of the faith and credit of the State of New Jersey or any other political subdivision thereof, but are special limited obligations of the Authority payable solely from the revenues received by the Authority under the mortgage, loan, lease and note agreements and from amounts in the debt service reserve funds and other funds held pursuant to the resolutions, loan and mortgage agreements, except as described in Note G.

## J. REVENUE BONDS, NOTES AND MASTER LEASES (CONTINUED)

The security for the Master Lease is described in Note H and is assigned to the trustee of the Master Lease issue. The Master Lease and Sublease Agreement, and the lease payments are not a debt or liability or moral obligation of the State, the Authority or any political subdivision of the State, or a pledge of the faith and credit or taxing power of the State or the Authority, or any political subdivision of the State, but are special obligations payable solely from the sublease payments and other amounts payable under the Master Lease and Sublease Agreement.

Revenue bonds, notes and master leases outstanding are comprised of the following:

| | Due in Varying Installments Ending | Range of Annual Interest Rate Percentages | Amount Outstanding December 31, 2012 | 2011 |
|---|---|---|---|---|
| | | | ($000) | |
| **Revenue bonds** | | | | |
| **Public issues** | | | | |
| Deborah Heart and Lung Center, Series 1993 | 2023 | 6.20 - 6.30 | $ 18,885 | $ 20,085 |
| Raritan Bay Medical Center, Series 1994 | 2027 | 7.25 | 39,800 | 41,300 |
| Bayonne Hospital Obligated Group, Series 1994 | 2012 | 6.25 | - | 2,385 |
| Kennedy Health System Obligated Group, Series 1997 A | 2027 | 5.00 - 5.20 | - | 11,605 |
| Christian Health Care Center, Series 1997 B | 2028 | Weekly variable rate | 7,400 | 7,700 |
| Bayonne Hospital Obligated Group, Series 1998 | 2027 | 4.75 | - | 22,725 |
| Kennedy Health System Obligated Group, Series 1997 B | 2015 | 5.00 - 5.75 | - | 4,620 |
| Rahway Hospital Obligated Group, Series 1998 | 2014 | 5.00 - 5.125 | 5,480 | 8,020 |
| Saint Barnabas Medical Center/West Hudson Hospital Obligated Group, Series 1998 A (currently a part of Barnabas Health, Inc.) | 2028 | 4.75 - 5.25 | - | 12,150 |
| Christian Health Care Center, Series 1998 A-3 | 2018 | Weekly variable rate | 300 | 400 |
| CentraState Medical Center Obligated Group Series 1998 | 2028 | 4.50 - 4.65 | 42,055 | 43,815 |
| Pascack Valley Hospital Association, Series 1998 | 2028 | 4.70 - 5.125 | 10,884 | 10,884 |
| Virtua Health Inc., Series 1998 | 2028 | 4.50 - 5.25 | 23,705 | 23,705 |
| Saint Barnabas Health Care System, Series 1998 B (currently a part of Barnabas Health, Inc.) | 2028 | 0.00 - 5.25 | 21,206 | 194,052 |
| Catholic Health East, Series 1998 E | 2029 | 4.30 - 5.25 | 5,445 | 5,445 |
| Palisades Medical Center of New York Presbyterian Health Care System Obligated Group Series 1999 | 2028 | 4.65 - 5.25 | 25,565 | 26,645 |
| Burdette Tomlin Memorial Hospital, Series 1999 | 2029 | 5.30 - 5.60 | - | 21,620 |
| The House of the Good Shepherd Obligated Group, Series 2001 | 2031 | 4.50 - 5.20 | - | 16,490 |
| Jersey City Medical Center, Series 2001 | 2041 | 4.20 - 5.00 | - | 157,405 |
| Kennedy Health System Obligated Group, Series 2001 | 2031 | 5.50 - 5.625 | - | 43,865 |

# NEW JERSEY HEALTH CARE FACILITIES FINANCING AUTHORITY
# (A Component Unit of the State of New Jersey)

## NOTES TO SUPPLEMENTAL FINANCIAL INFORMATION

## J. REVENUE BONDS, NOTES AND MASTER LEASES (CONTINUED)

| | Due in Varying Installments Ending | Range of Annual Interest Rate Percentages | Amount Outstanding December 31, 2012 | 2011 |
|---|---|---|---|---|
| | | | ($000) | |
| **Revenue bonds (continued)** | | | | |
| **Public issues (continued)** | | | | |
| Newton Memorial Hospital, Series 2001 | 2026 | 3.70 - 5.25 | $ 10,325 | $ 10,870 |
| Bayshore Community Hospital, Series 2002 | 2032 | 4.00 - 5.125 | 38,075 | 39,450 |
| Atlantic City Medical Center, Series 2002 | 2025 | 5.25 - 6.25 | - | 50,275 |
| Palisades Medical Center of NY Presbyterian Health Care System Obligated Group, Series 2002 | 2031 | 5.50 - 6.625 | 10,685 | 10,915 |
| South Jersey Hospital, Series 2002 | 2032 | 5.875 - 6.00 | - | 3,710 |
| RWJ Health Corp. at Hamilton, Series 2002 | 2032 | Weekly variable rate | 24,145 | 25,165 |
| Wiley Mission Project, Series 2002 | 2029 | Weekly variable rate | - | 11,070 |
| Englewood Hospital and Medical Center, Series 2002 | 2031 | 3.35 - 5.25 | - | 83,825 |
| Meridian Health System Obligated Group, Series 2003 A | 2033 | Weekly variable rate | 60,000 | 60,000 |
| Meridian Health System Obligated Group, Series 2003 B | 2033 | Weekly variable rate | - | 40,000 |
| Pascack Valley Hospital Association, Series 2003 | 2036 | 6.00 - 6.625 | 17,654 | 17,654 |
| Somerset Medical Center, Series 2003 | 2033 | 5.50 - 5.75 | 80,080 | 81,390 |
| The Matheny School and Hospital Inc., Series 2003 A-2 | 2023 | Weekly variable rate | 2,200 | 2,400 |
| Robert Wood Johnson University Hospital, Inc., Series 2003 A-3 | 2023 | Weekly variable rate | 13,900 | 15,900 |
| St. Francis Medical Center, Series 2003 A-5 | 2018 | Weekly variable rate | 1,300 | 1,500 |
| Virtua Health Inc., Series 2003 A-7 | 2018 | Weekly variable rate | 5,000 | 5,800 |
| Shore Memorial Health Care System, Obligated Group, Series 2003 | 2023 | 3.00 - 5.00 | 20,905 | 22,330 |
| Rahway Hospital, Series 2003 A-8 | 2023 | Weekly variable rate | 11,000 | 11,000 |
| Jersey City Medical Center, Series 2003 | 2030 | 3.20 - 4.80 | - | 13,365 |
| Greystone Park Psychiatric Hospital Project, Series 2003 | 2025 | 3.40 - 5.00 | 14,025 | 14,820 |
| Bayshore Community Hospital, Series 2004 A-1 | 2014 | Weekly variable rate | 1,790 | 2,645 |
| Meridian Nursing and Rehab, Series 2004 A-3 | 2035 | Weekly variable rate | 12,340 | 12,710 |
| South Jersey Hospital, Inc., Series 2004 A-4 | 2034 | Weekly variable rate | 12,235 | 12,625 |
| Robert Wood Johnson Univ. Hospital, Series 2004 | 2029 | Weekly variable rate | 39,045 | 40,640 |
| Virtua Health, Series 2004 | 2033 | Weekly variable rate | 55,265 | 56,490 |

# NEW JERSEY HEALTH CARE FACILITIES FINANCING AUTHORITY
## (A Component Unit of the State of New Jersey)

## NOTES TO SUPPLEMENTAL FINANCIAL INFORMATION

## J. REVENUE BONDS, NOTES AND MASTER LEASES (CONTINUED)

| | Due in Varying Installments Ending | Range of Annual Interest Rate Percentages | Amount Outstanding December 31, 2012 | 2011 |
|---|---|---|---|---|
| | | | ($000) | |
| **Revenue bonds (continued)** | | | | |
| **Public issues (continued)** | | | | |
| Recovery Management Sys, Inc. Series 2005 | 2030 | Weekly variable rate | $ 11,710 | $ 12,175 |
| RWJ Health Care Corp. at Hamilton, Series 2005 A | 2024 | Auction rate | 22,625 | 23,925 |
| RWJ Health Care Corp. at Hamilton, Series 2005 B | 2035 | 4.00 - 5.00 | 60,450 | 61,510 |
| Greystone Park Psychiatric Hospital Project, Series 2005 | 2028 | 3.50 - 5.00 | 157,595 | 163,940 |
| Children's Specialized Hospital, Proj., Series 2005 A | 2036 | 5.00 - 5.50 | 30,535 | 31,050 |
| Children's Specialized Hospital, Proj., Series 2005 B | 2036 | Weekly variable rate | 15,220 | 15,220 |
| AtlantiCare Regional Med. Ctr., Series 2005 A-1 | 2030 | Weekly variable rate | - | 19,000 |
| Christian Health Care Center, Series 2005 A-2 | 2035 | Weekly variable rate | 6,030 | 6,180 |
| Hunterdon Medical Center, Series 2006 A | 2035 | 5.125 - 5.25 | 21,525 | 21,525 |
| Southern Ocean County Hospital, Series 2006 | 2036 | Weekly variable rate | 16,745 | 17,050 |
| Holy Name Hospital, Series 2006 | 2036 | 5.00 - 5.25 | 60,000 | 60,000 |
| South Jersey Hospital, Series 2006 | 2046 | 5.00 | 144,285 | 144,285 |
| AtlantiCare Regional Medical Center, Series 2006 A-1 | 2031 | Weekly variable rate | - | 20,000 |
| East Orange General Hospital, Series 2006 A-2 | 2021 | Weekly variable rate | 8,415 | 9,250 |
| Meridian Nursing and Rehabilitation, Series 2006 A-3 | 2031 | Weekly variable rate | 4,160 | 4,380 |
| MHAC I, LLC, Series 2006 A-4 | 2027 | Weekly variable rate | 18,445 | 19,300 |
| MHAC I, LLC, Series 2006 A-5 | 2036 | Weekly variable rate | 10,915 | 10,915 |
| FitnessFirst Oradell Center, LLC, Series 2006 A-6 | 2031 | Weekly variable rate | 4,665 | 5,865 |
| CentraState Medical Center, Series 2006 A | 2021 | 3.625 - 4.00 | 39,910 | 40,350 |
| CentraState Medical Center, Series 2006 B | 2037 | Weekly variable rate | - | 29,450 |

# NEW JERSEY HEALTH CARE FACILITIES FINANCING AUTHORITY
## (A Component Unit of the State of New Jersey)

## NOTES TO SUPPLEMENTAL FINANCIAL INFORMATION

## J. REVENUE BONDS, NOTES AND MASTER LEASES (CONTINUED)

| | Due in Varying Installments Ending | Range of Annual Interest Rate Percentages | Amount Outstanding December 31, 2012 | Amount Outstanding December 31, 2011 |
|---|---|---|---|---|
| | | | ($000) | |
| **Revenue bonds (continued)** | | | | |
| **Public issues (continued)** | | | | |
| Saint Barnabas Health Care System, Series 2006 A, currently Barnabas Health, Inc. | 2029 | 5.00 | $ 63,070 | $ 63,070 |
| Saint Barnabas Health Care System, Series 2006 B, currently Barnabas Health, Inc. | 2038 | 0.00 | 78,249 | 78,249 |
| Hunterdon Medical Center, Series 2006 B | 2036 | 4.00 - 5.00 | 16,800 | 16,945 |
| St. Mary's Hospital, Passaic, New Jersey, Series 2007-1 | 2027 | 4.00 - 5.00 | 27,925 | 27,925 |
| St. Mary's Hospital, Passaic, New Jersey, Series 2007-2 | 2018 | 5.265 | 11,110 | 12,830 |
| Catholic Health East Health System, Series 2007 E | 2033 | Indexed rate | 1,430 | 1,445 |
| Trinitas Hospital Obligated Group, Series 2007 A | 2030 | 4.75 - 5.25 | 65,050 | 65,050 |
| Trinitas Hospital Obligated Group, Series 2007 B | 2023 | 5.25 - 8.08 | 64,120 | 65,350 |
| AtlantiCare Regional Medical Center, Series 2007 | 2037 | 4.00 - 5.00 | 110,670 | 111,310 |
| Meridian Health System Obligated Group, Series 2007 | 2038 | 5.00 and Weekly variable rate | 142,675 | 241,000 |
| Saint Peter's University Hospital Obligated Group, Series 2007 | 2037 | 5.25 - 5.75 | 65,175 | 65,175 |
| Hackensack University Medical Center, Series 2008 | 2041 | 4.00 - 5.375 | 236,185 | 240,780 |
| AHS Hospital Corp., Series 2008 A | 2023 | 3.50 - 5.125 | 151,095 | 158,075 |
| AHS Hospital Corp., Series 2008 B | 2036 | Weekly variable rate | 88,555 | 88,555 |
| AHS Hospital Corp., Series 2008 C | 2036 | Weekly variable rate | 88,555 | 88,555 |
| Underwood-Memorial Hospital, Series 2008 | 2033 | Weekly variable rate | 54,350 | 56,075 |
| St. Michael's Medical Center (HATP), Series 2008 A | 2038 | 5.00 - 5.50 | 237,705 | 241,700 |
| Somerset Medical Center, Series 2008 | 2024 | Weekly variable rate | 21,095 | 22,355 |
| St. Joseph's Healthcare System Obligated Group, Series 2008 | 2038 | 5.75 - 6.625 | 234,910 | 238,470 |
| Christian Health Care Center, Series 2009 | 2038 | Weekly variable rate | 13,435 | 13,980 |
| Virtua Health, Series 2009 A | 2038 | 4.375 - 6.00 | 379,645 | 379,645 |
| Virtua Health, Series 2009 B | 2043 | Daily variable rate | 60,000 | 60,000 |
| Virtua Health, Series 2009 C | 2043 | Daily variable rate | 40,000 | 40,000 |
| Virtua Health, Series 2009 D | 2043 | Weekly variable rate | 65,000 | 65,000 |
| Virtua Health, Series 2009 E | 2043 | Weekly variable rate | 20,000 | 20,000 |

## J. REVENUE BONDS, NOTES AND MASTER LEASES (CONTINUED)

| | Due in Varying Installments Ending | Range of Annual Interest Rate Percentages | Amount Outstanding December 31, 2012 | 2011 |
|---|---|---|---|---|
| | | | ($000) | |
| **Revenue bonds (continued)** | | | | |
| **Public issues (continued)** | | | | |
| Solaris (HATP), Series 2009 A | 2032 | 4.00 - 5.75 | $ 152,925 | $ 152,925 |
| Chilton Memorial Hospital, Series 2009 | 2039 | 4.00 - 5.75 | 38,530 | 39,195 |
| Catholic Health East, Series 2010 | 2033 | 2.00 - 5.25 | 118,100 | 122,425 |
| Hackensack University Medical Center, Series 2010 | 2034 | 3.00 - 5.00 | 79,115 | 82,450 |
| Holy Name Medical Center, Series 2010 | 2025 | 3.00 - 5.00 | 51,305 | 53,145 |
| Robert Wood Johnson University Hospital, Series 2010 | 2031 | 2.00 - 5.00 | 119,300 | 122,275 |
| Hackensack University Medical Center, Series 2010 B | 2028 | 4.00 - 5.00 | 116,310 | 121,240 |
| AHS Hospital Corp., Series 2011 | 2041 | 4.00 - 6.00 | 129,525 | 130,545 |
| Saint Peter's University Hospital Obligated Group, Series 2011 | 2035 | 5.00 - 6.25 | 100,640 | 100,640 |
| Barnabas Health, Series 2011 A | 2041 | 3.00 - 5.75 | 347,700 | 370,000 |
| Barnabas Health, Series 2011 B | 2038 | weekly variable rate | 36,310 | 37,010 |
| Barnabas Health, Series 2011 C | 2038 | weekly variable rate | 42,990 | 42,990 |
| Meridian Health System, Series 2011 | 2027 | 2.00 - 5.00 | 186,735 | 200,595 |
| Kennedy Health System, Series 2012 | 2042 | 2.00 - 5.00 | 66,035 | - |
| Barnabas Health, Series 2012 A | 2026 | 2.00 - 5.00 | 106,685 | - |
| Total public issues | | | 5,292,933 | 6,073,809 |
| **Private placements** | | | | |
| CentraState Assisted Living, Inc., Series 1998 | 2018 | 4.37 | 5,509 | 5,791 |
| Bartley Assisted Living LLC, Series 2000 | 2025 | Monthly variable rate | 5,296 | 5,618 |
| JFK Assisted Living Series 2001 | 2026 | 5.65 | 9,961 | 10,578 |
| Virtua Health, Inc., Series 2006 | 2013 | Weekly variable rate | 5,565 | 10,930 |
| Warren Hospital Obligated Group, Series 2008 A | 2038 | 7.25 | - | 33,840 |
| Warren Hospital Obligated Group, Series 2008 B | 2018 | 10.00 | - | 9,505 |
| Shore Memorial Hospital Obligated Group, Series 2009 | 2039 | Indexed rate | 28,655 | 29,115 |
| Kennedy Health Facilities, Inc. Series 2009 | 2039 | Weekly variable rate | 15,719 | 16,012 |
| Hunterdon Medical Center, Series 2009 | 2036 | Indexed rate | 8,820 | 10,130 |
| Shore Memorial Hospital Obligated Group, Series 2010 | 2039 | Indexed rate | 14,360 | 14,640 |
| St. Ann's Home for the Aged, Series 2010 | 2040 | Indexed rate | 11,535 | 11,625 |
| Princeton HealthCare System, Series 2010 B | 2041 | Indexed rate | 55,000 | 55,000 |
| Princeton HealthCare System, Series 2010 C | 2041 | Indexed rate | 100,000 | 100,000 |
| Princeton HealthCare System, Series 2010 D | 2041 | Indexed rate | 75,000 | 75,000 |
| Bridgeway Assisted Living LLC., Series 2010 | 2020 | Indexed rate | 5,073 | 5,252 |
| Virtua Health, Inc., Series 2011 | 2018 | 1.062-1.956 | 37,430 | 47,085 |
| Shore Memorial Hospital, Series 2011 | 2022 | 5.00 | 12,514 | 13,000 |
| Atlanticare Regional Medical Center, Series 2012 A | 2030 | 2.11% reset in 7 years | 37,495 | - |
| St. Luke's Warren Hospital, Series 2012 | 2049 | 6% thru 2019, then 7.25% | 42,150 | - |
| Atlanticare Regional Medical Center, Series 2012 B | 2025 | 2.3549 | 38,080 | - |
| Meridian Health System Obligated Group, Series 2012 A | 2033 | Monthly Variable Rate | 40,005 | - |
| Meridian Health System Obligated Group, Series 2012 B | 2038 | Monthly Variable Rate | 47,705 | - |
| Meridian Health System Obligated Group, Series 2012 C | 2038 | Monthly Variable Rate | 47,705 | - |
| House of the Good Shepherd Obligated Group, Series 2012 | 2031 | 2.54 to 2022, 4.410 after | 14,645 | - |
| Wiley Mission, Series 2012 Lot A | 2029 | Monthly Variable Rate | 10,840 | - |
| Wiley Mission, Series 2012 Lot B | 2022 | Monthly Variable Rate | 2,487 | - |
| Total private placements | | | 671,549 | 453,121 |

**NEW JERSEY HEALTH CARE FACILITIES FINANCING AUTHORITY**
**(A Component Unit of the State of New Jersey)**

NOTES TO SUPPLEMENTAL FINANCIAL INFORMATION

## J. REVENUE BONDS, NOTES AND MASTER LEASES (CONTINUED)

| | Due in Varying Installments Ending | Range of Annual Interest Rate Percentages | Amount Outstanding December 31, 2012 | Amount Outstanding December 31, 2011 |
|---|---|---|---|---|
| | | | ($000) | |
| **Capital asset program** | | | | |
| Total Capital Asset Program, Series A, B, C, D | | | $ 100,000 | $ 100,000 |
| Total bonds payable | | | 6,064,482 | 6,626,930 |
| **Equipment revenue notes** | | | | |
| FitnessFirst Oradell Center, LLC, Series 2007 | 2012 | 3.92 | - | 75 |
| Children's Specialized Hospital, Series 2007 | 2012 | 3.92 | - | 778 |
| Christian Health Care Center, Series 2008 | 2013 | 3.60 | 1,878 | 2,209 |
| Christian Health Care Center, Series 2008 | 2013 | 3.60 | 2 | 24 |
| Christian Health Care Center, Series 2009 | 2016 | 5.45 | 3,324 | 4,083 |
| Total equipment revenue notes | | | 5,204 | 7,169 |
| **Master Leases** | | | | |
| St. Barnabas Medical Center, Dated March 30, 2012 | 2017 | 2.55 | 2,590 | - |
| St. Barnabas Medical Center, Dated March 30, 2012 | 2017 | 2.55 | 2,613 | - |
| Monmouth Medical Center, Dated March 30, 2012 | 2017 | 2.55 | 3,318 | - |
| St. Barnabas Medical Center, Dated March 30, 2012 | 2017 | 2.55 | 2,712 | - |
| Clara Maass Medical Center, Dated March 30, 2012 | 2017 | 2.55 | 1,123 | - |
| Community Medical Center, Dated March 30, 2012 | 2017 | 2.55 | 1,761 | - |
| Kimball Medical Center, Dated March 30, 2012 | 2017 | 2.55 | 633 | - |
| Newark Beth Israel Medical Center, Dated March 30, 2012 | 2017 | 2.55 | 2,147 | - |
| Barnabas Corp. d/b/a Barnabas Health, Dated March 30, 2012 | 2017 | 2.55 | 436 | - |
| Community Medical Center, Dated November 14, 2012 | 2017 | 1.81 | 1,673 | - |
| Newark Beth Israel Medical Center, Dated November 14, 2012 | 2017 | 1.81 | 1,423 | - |
| Clara Maass Medical Center, Dated November 14, 2012 | 2017 | 1.81 | 1,772 | - |
| Total Master Leases | | | 22,201 | - |
| Total revenue bonds, equipment revenue notes and master leases | | | $ 6,091,887 | $ 6,634,099 |

## J. REVENUE BONDS, NOTES AND MASTER LEASES (CONTINUED)

The aggregate maturities and interest payments of outstanding revenue bonds, revenue notes and master leases for the next five years and then in five-year sequences are as follows:

| | Principal | Interest | Total |
|---|---|---|---|
| 2013 | $ 203,760 | $ 744,808 | $ 948,568 |
| 2014 | 174,511 | 623,357 | 797,868 |
| 2015 | 178,595 | 495,919 | 674,514 |
| 2016 | 181,944 | 365,262 | 547,206 |
| 2017 | 184,139 | 242,955 | 427,094 |
| 2018-2022 | 1,038,107 | 1,018,362 | 2,056,469 |
| 2023-2027 | 1,198,633 | 773,568 | 1,972,201 |
| 2028-2032 | 1,166,234 | 485,501 | 1,651,735 |
| 2033-2037 | 1,154,293 | 246,324 | 1,400,617 |
| 2038-2042 | 519,971 | 48,673 | 568,644 |
| 2043-2047 | 85,425 | 8,969 | 94,394 |
| 2048-2052 | 6,275 | 462 | 6,737 |
| | $ 6,091,887 | $ 5,054,160 | $ 11,146,047 |

Several Authority bond issues are subject to periodic interest rate reset. Interest expense in future years, as reflected on this schedule for variable rate bonds, is estimated based on rates in effect at or close to December 31, 2012.

## K. COMPLIANCE WITH BOND PROVISIONS

Each bond issue has covenants stipulating certain financial ratios and permitted indebtedness limits with which the health care organizations must comply throughout the term of the related debt. The Authority has developed a compliance program to monitor the borrower's compliance with the terms and provisions of the related bond documents.

In the event an organization violates any of the said covenants, the bond documents outline various actions to be taken by the borrower, trustee and/or the Authority ranging from requiring an independent consultant's report related to the reasons for violations, to the appointment of a third-party to take over the management of the organization, If an Event of Default, as defined in the Series Resolution, or the Authority's General Resolution does occur, the trustee may, and upon request of the required percentage of holders in principal amount of the outstanding bonds of the applicable series, shall declare the principal immediately due and payable from the respective borrower within thirty days of written notification to the Authority or the trustee.

The Authority routinely monitors the financial condition of all borrowers to determine compliance with the requirements pursuant to related bond documents. As of December 31, 2012, there were the following Events of Default of the Authority's bond issues:

## K. COMPLIANCE WITH BOND PROVISIONS (CONTINUED)

On April 16, 2007, Bayonne Medical Center filed for protection under Chapter 11 of the U.S. Bankruptcy Code. The bankruptcy court conducted an auction for the sale of Bayonne Medical Center and on November 2, 2007, IJKG, Inc. was declared the winner of the auction and the sale was closed on February 1, 2008. Since the auction sale price was insufficient to pay the outstanding bond debt, the bond insurer, FSA, continued to pay to the bondholders interest and principal according to the debt service schedules. However, on September 27, 2012, the remaining outstanding bonds were accelerated and the bondholders were paid in full.

On September 24, 2007, Pascack Valley Hospital filed for protection under Chapter 11 of the U.S. Bankruptcy Code and ceased operations in November 2007. Partial settlements were made to bondholders on September 30, 2008, March 18, 2009, September 9, 2009, and March 30, 2010. In 2012 and 2011, no principal was paid to bondholders from the bankruptcy estate due to insufficient funds. If and when the bankruptcy estate determines there are no longer any funds to satisfy the bondholders or any other creditors, the remaining principal and interest due the bondholders will be cancelled.

On March 9, 2009, St. Mary's Hospital in Passaic filed for protection under Chapter 11 of the U.S. Bankruptcy Code. On February 2, 2010, the bankruptcy court approved St. Mary's reorganization plan which went into effect on February 26, 2010. Under the plan, St. Mary's will pay annual debt service of $2.2 million for 30 years, and the State of New Jersey will pay approximately $1.5 million for 18 years subject to annual appropriations. (See subsequent events Note M).

## L. DEFEASED ISSUES

When conditions have warranted, the Authority has sold various issues of bonds to provide for the refunding of previously issued obligations.

The proceeds received from the sales of these bond issues are used to refund the outstanding bond issues or to deposit in an irrevocable escrow account held by an escrow agent, an amount which, when combined with interest earnings thereon, is sufficient to pay the principal and interest on the defeased bonds when due. The escrow accounts meet the criteria under generally accepted accounting principles for a refunding and, accordingly, the escrow account assets and liabilities for refunded bonds are not included in the Authority's financial statements.

Certain refundings result in annual debt service savings compared to the original debt service requirements. The debt service savings, together with any accounting gain or loss to be deferred, accrue to the respective organizations.

**NEW JERSEY HEALTH CARE FACILITIES FINANCING AUTHORITY**
**(A Component Unit of the State of New Jersey)**

NOTES TO SUPPLEMENTAL FINANCIAL INFORMATION

## L. DEFEASED ISSUES (CONTINUED)

A summary of outstanding balances as of December 31, 2012 and 2011, by issue, is as follows:

| | Due in Varying Installments Ending | Range of Annual Interest Rate Percentages | Amount Outstanding December 31, 2012 | 2011 |
|---|---|---|---|---|
| | | | ($000) | |
| **Defeased public issues** | | | | |
| St. Francis Hospital, Series A | 2012 | 8.00 | $ - | $ 1,710 |
| Bridgeton Hospital Association, Series B (currently a part of South Jersey Hospital System) | 2013 | 6.00 - 10.50 | 1,545 | 3,000 |
| Burlington County Memorial Hospital, Series C (currently a part of Virtua Health, Inc.) | 2012 | 6.00 | - | 5,560 |
| The General Hospital Center at Passaic, Series 1994 (currently a part of AHS Hospital Corporation) | 2019 | 6.00 - 6.75 | 33,215 | 36,905 |
| Allegany Health-Our Lady of Lourdes, Series 1993 (currently a part of Catholic Health East) | 2018 | 5.00 - 5.20 | 18,555 | 21,125 |
| St. Mary's Hospital, Series 1994 | 2012 | 5.875 | - | 2,440 |
| AHS Hospital Corporation, Series 1997 A | 2027 | 5.00 - 6.00 | 5,440 | 10,575 |
| Catholic Health East, Series 2003 A | 2012 | 3.20 - 5.375 | - | 43,440 |
| St. Clare's Hospital, Inc. Series 2004 A | 2025 | 4.25 - 5.25 | 59,000 | 59,000 |
| St. Clare's Hospital, Inc. Series 2004 B | 2015 | 2.85 - 4.00 | 14,250 | 18,590 |
| Capital Health System Obligated Group, Series 2003 A | 2033 | 4.00 - 5.75 | 79,370 | 82,515 |
| Jersey Shore Medical Center Series 1994 (part of Meridian Health System) | 2012 | 5.875-6.75 | - | 16,555 |
| Southern Ocean County Hospital, Series 1997 (part of Meridian Health System) | 2012 | 4.75-5.0 | - | 9,955 |
| Meridian Health System Obligated Group, Series 1999 | 2012 | 5.0-5.625 | - | 187,405 |
| Southern Ocean County Hospital, Series 2001 (part of Meridian Health System) | 2012 | 4.25-5.125 | - | 21,125 |
| Total defeased public issues | | | 211,375 | 519,900 |
| **Partially defeased public issues** | | | | |
| Saint Barnabas Health Care System, Series 1998 B (currently Barnabas Health, Inc.) | 2023 | 0.00 | 17,413 | 148,098 |
| South Jersey Hospital, Series 2002 | 2012 | 4.375 - 6.00 | - | 143,415 |
| Atlantic City Medical Center, Series 2002 (currently AtlantiCare Health System) | 2012 | 4.85 - 6.25 | - | 36,775 |
| Saint Barnabas Medical Center/West Hudson Hospital Obligated Group, Series 1998 A (currently part of Barnabas Health, Inc.) | 2012 | 4.75-5.25 | - | 15,835 |
| Total partially defeased public issues | | | 17,413 | 344,123 |
| Total defeased issues | | | $ 228,788 | $ 864,023 |

## M. SUBSEQUENT EVENTS

In February 2013, St. Mary's Hospital and St. Michael's Medical Center, both of which have tax-exempt bonds financed through the Authority, are in negotiations to be sold to a for-profit entity for an amount less than the current outstanding bond debt. The difference between the proceeds and outstanding debt will be remedied by the State of New Jersey to the bondholders. However, the remedy terms are still under review by attorneys due to the complex nature of their transaction.

MERCADIEN, P.C.
CERTIFIED PUBLIC ACCOUNTANTS

# INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

To the Members of
the New Jersey Health Care Facilities Financing Authority

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the business-type activities, of the Authority, as of and for the year ended December 31, 2012, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements, and have issued our report thereon dated March 12, 2013.

## Internal Control Over Financial Reporting

In planning and performing our audit of the basic financial statements, we considered the Authority's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purposes of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the Authority's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.



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## INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS (CONTINUED)

### Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Authority's financial statements are free from material misstatements, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect of the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards.*

### Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control over compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Authority's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Mercadien, P.C.
Certified Public Accountants

**MERCADIEN, P.C.**
**CERTIFIED PUBLIC ACCOUNTANTS**

March 12, 2013

MERCADIEN, P.C.
CERTIFIED PUBLIC ACCOUNTANTS

## INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM; REPORT ON INTERNAL CONTROL OVER COMPLIANCE; AND REPORT ON THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS REQUIRED BY OMB CIRCULAR A-133

To the Members of
the New Jersey Health Care Facilities Financing Authority

We have audited New Jersey Health Care Facilities Financing Authority's (the "Authority") compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on the Authority's major federal program for the year ended December 31, 2012. The Authority's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

### Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal program.

### Auditors' Responsibility

Our responsibility is to express an opinion on compliance for the Authority's major federal program based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Authority's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for the major federal program. However, our audit does not provide a legal determination of the Authority's compliance.

### Opinion on the Major Federal Program

In our opinion, the Authority complied, in all material respects, with the type of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended December 31, 2012.



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# INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM; REPORT ON INTERNAL CONTROL OVER COMPLIANCE; AND REPORT ON THE SCHEDULE OF EXPENDITURE OF FEDERAL AWARDS REQUIRED BY OMB CIRCULAR A-133 (CONTINUED)

## Report on Internal Control Over Compliance

Management of the Authority is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Authority's internal control over compliance with the types of requirements that could have a direct and material effect on its major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for its major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control over compliance.

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be a material weakness. However, a material weakness may exist that has not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Mercadien, P C
Certified Public Accountants

**MERCADIEN, P.C.**
**CERTIFIED PUBLIC ACCOUNTANTS**

March 12, 2013