

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

**FINANCIAL STATEMENTS  
AND  
SUPPLEMENTAL FINANCIAL INFORMATION**

**December 31, 2010 and 2009**

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

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## REPORT OF INDEPENDENT AUDITORS

We have audited the accompanying balance sheets of the New Jersey Health Care Facilities Financing Authority (the "Authority"), a component unit of the State of New Jersey, as of December 31, 2010, and the related statement of revenues, expenses and changes in fund net assets, and cash flows for the year then ended. This financial statement is the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audit. The financial statement of the Authority for the year ended December 31, 2009 were audited by other auditors whose report, dated February 26, 2010, expressed an unqualified opinion on those statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States 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 of material misstatement. We were not engaged to perform an audit of the Authority's internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing 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 over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Authority at December 31, 2010 and the changes in its financial position and its cash flows for the year then ended in conformity with U.S. generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 23, 2011, 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 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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## REPORTS OF INDEPENDENT AUDITORS (CONTINUED)

Management's discussion and analysis and the schedule of funding progress for the retiree healthcare plan, on pages 3 to 9, and page 23, respectively, are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding methods of measurement and presentation of this required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary financial information is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

*Mercaderes, PC*  
*Certified Public Accountants*

February 23, 2011

**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 on December 31, 2010. Please read it in conjunction with the Authority's financial statements and accompanying notes.

**Financial Highlights**

The Authority's total net assets increased \$588,000 or 6.8%  
 Cash and Cash Equivalents decreased \$1,015,000 or 22.0%  
 Operating Revenue increased \$169,000 or 4.4%  
 Operating Expenses decreased \$227,000 or 6.2%  
 Operating Income increased \$396,000 or 250.6%

**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 Assets** - The following table presents the changes in net assets between December 31, 2010, 2009 and 2008:

	<b>2010</b>	<b>2009</b>	<b>2008</b>	<b>Increase/ (Decrease) 2009-2010</b>	<b>%</b>
	<b>(\$000)</b>	<b>(\$000)</b>	<b>(\$000)</b>	<b>(\$000)</b>	<b>(%)</b>
Current assets	\$ 9,561	\$ 9,155	\$ 8,247	\$ 406	4.4
Noncurrent assets	1,561	1,204	1,745	357	29.7
Total assets	11,122	10,359	9,992	763	7.4
Current liabilities	1,823	1,648	1,536	175	10.6
Total liabilities	1,823	1,648	1,536	175	10.6
Total net assets	<u>\$ 9,299</u>	<u>\$ 8,711</u>	<u>\$ 8,456</u>	<u>\$ 588</u>	<u>6.8</u>

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**MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)**

Current Assets are comprised of Cash and Cash Equivalents (Operating Account and FQHC Loan Program), Administrative Fees and Other Receivables, Note Receivables, Note Interest Receivables and Prepaid Expenses. Current Assets increased 4.4% from December 31, 2009 to December 31, 2010. As of December 31, 2010, 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, 2010 and 2009 was 0.24% and 0.34%, respectively. Overall, the Operating Account Cash and Cash Equivalents decreased \$1,289,000 while the FQHC Loan Program Cash and Cash Equivalents increased \$274,000. The decrease was due in part to the fact that in 2010, \$1,741,876 was transferred from the Authority's Operating account to the Post-Retirement Health Benefits Trust established by the Authority in 2008 in order to fully fund the trust and satisfy the Authority's present liabilities and a \$2,000,000 loan was issued on January 29, 2010 from the Authority's Operating account to Lakewood Resource and Referral Center, a Federally Qualified Health Center ("FQHC"), under the Authority's FQHC loan program as further described in Note K to the financial statements. These disbursements were offset somewhat by the repayment in full on June 7, 2010 of the loan outstanding to Bayonne Medical Center/IJKG Propco LLC as further described in Note J to the financial statements. The FQHC Loan Program Cash and Cash Equivalents represent the principal and interest repaid on the FQHC loan and interest earned on the repayments as further described in Note K to the financial statements.

Administrative Fees and Other Receivables primarily represent the Authority's semi-annual fee billings that were disseminated on December 31, 2010 and 2009, in the amounts of \$1,942,754 and \$1,879,775, respectively, and represents a increase of \$62,979. The increase is due to the Authority financing activity increasing in 2010 after a year and a half of slowdown in activity which was due to the economic crisis/recession that not only impacted the Authority and the health care institutions, but also the bond markets. Also, adding to the overall increase in receivables was a \$139,881 receivable due from two institutions for the cost 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. Offsetting those increases slightly was the receivable for Trustee Fees which decreased \$18,091. This receivable fluctuates from year to year depending on the timing of invoices received from the Trustee and the timing of the payments received from the health care institutions with which the Authority has outstanding debt. The Note Receivable and Note Interest Receivable-designated FQHC loan program are further described in Note K to the financial statements.

Prepaid expenses increased due in part to the actuarial valuation of the Authority's Post-Retirement Health Benefits. A valuation has to be done every three years and the last one completed for the Authority was in 2007. The valuation in 2010 provided the Authority with the post-retirement liability cost for 2010, 2011 and 2012. As stated previously, after completion of the valuation the Authority

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**MANAGEMENT'S DISCUSSION AND ANALYSIS**

transferred \$1,741,876 from the Authority's Operating account to the Post-Retirement Health Benefits Trust established by the Authority to bring the fund back to a fully funded status. The prepaid recorded for the trust totals \$3,428,685.

When comparing Current Assets as of December 31, 2009 to December 31, 2008, Current Assets increased 11.0%. The increase in current assets during this period was due in part to an increase in cash and cash equivalents in the amount of \$1,419,000. In 2008 the Authority transferred \$3,738,403 to the Post-Retirement Health Benefits Trust in order to fully fund the trust at that time. No such transfer was made in 2009. In addition, the Authority continued to receive repayment on its Note Receivable to Bayonne Medical Center/IJKG Propco LLC.

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 outstanding from Bayonne Medical Center/IJKG Propco LLC 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 Notes J and K to the financial statements, respectively. In 2010, even though the Bayonne Medical Center/IJKG Propco LLC loan was paid in full on June 7, 2010, noncurrent assets increased due to the addition of note receivable-designated FQHC loan program. As stated previously, the loan was issued on January 29, 2010. Capital Assets purchased in 2010 included replacement computers and an overhead storage cabinet for an employee's office.

Noncurrent assets at December 31, 2009 decreased \$541,000 when compared to December 31, 2008. In this particular case, the decrease was due to repayments on the Bayonne Medical Center/IJKG Propco LLC note receivable. Capital Assets purchased in 2009 included replacement computers and upgrading of the telephone system.

Current Liabilities in 2010 are comprised of Accounts Payable, Accrued Expenses and Deferred Revenue. Accounts Payable and Accrued Expenses decreased \$18,000 or 3.8% compared to December 31, 2009. Even though the Authority's pension expense increased, the accounts payable expenses for legal fees and cost associated with a client institutions bankruptcy and legal fees associated with the creation of the FQHC loan program were minimal or did not exist at the end of 2010. Deferred Revenue increased \$193,000 or 16.4% compared to December 31, 2009. It represents the semi-annual fees billed on December 31, 2010 and 2009, which cover the periods January 1, 2011 to June 30, 2011, and January 1, 2010 to June 30, 2010, respectively. Financings completed since January 1, 2003 are billable in advance. As was the case with the Administrative Fees Receivable, the Deferred Revenue increase is due to Authority financing activity increasing in 2010 after a year and a half of a slowdown in activity which was due to the economic crisis/recession that not only impacted the Authority and the health care institutions but also the bond markets.



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**MANAGEMENT'S DISCUSSION AND ANALYSIS**

Current Liabilities in 2009 increased \$112,000 or 7.3% compared to December 31, 2008. Accounts Payable and Accrued Expenses increased \$21,000 or 4.7% due in part to the increase in the Authority's employer pension expense and the legal fees and costs mentioned above which had occurred at the end of 2009. In addition, Deferred Revenue increased \$91,000 or 8.4%.

**Changes in Net Assets** - The following table represents the changes in net assets between fiscal years 2010, 2009 and 2008:

	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>Increase/ (Decrease)</u>	<u>%</u>
	<u>(\$000)</u>	<u>(\$000)</u>	<u>(\$000)</u>	<u>2009-2010</u>	<u>(%)</u>
Operating revenues					
Administrative fees					
Annual fees	\$ 3,737	\$ 3,640	\$ 3,658	\$ 97	2.7
Initial fees	81	58	122	23	39.7
Per Series fees	65	55	80	10	18.2
Capital asset application fees	1	-	2	1	100.0
Mortgage servicing and					
Section 142 (d) fees	66	67	63	(1)	(1.5)
Note Interest Income Designated					
FQHC Loan Program	39	n/a	n/a	39	100.0
Total operating revenues	<u>3,989</u>	<u>3,820</u>	<u>3,925</u>	<u>169</u>	<u>4.4</u>
Operating expenses					
Salaries and related expenses	2,360	2,393	2,468	(33)	(1.4)
General and administrative	551	560	572	(9)	(1.6)
Provision for postemployment benefits	297	413	388	(116)	(28.1)
Professional fees and other	227	287	246	(60)	(20.9)
Bad debt expense	-	9	1	(9)	(100.0)
Total operating expenses	<u>3,435</u>	<u>3,662</u>	<u>3,675</u>	<u>(227)</u>	<u>(6.2)</u>
Operating income	<u>554</u>	<u>158</u>	<u>250</u>	<u>396</u>	<u>250.6</u>
Nonoperating revenues					
Interest income	25	77	242	(52)	(67.5)
Other	9	20	231	(11)	(55.0)
Total nonoperating revenues	<u>34</u>	<u>97</u>	<u>473</u>	<u>(63)</u>	<u>(64.9)</u>
Change in net assets	<u>588</u>	<u>255</u>	<u>723</u>	<u>333</u>	<u>130.6</u>
Net assets, beginning of year	<u>8,711</u>	<u>8,456</u>	<u>7,733</u>	<u>255</u>	<u>3.0</u>
Net assets, end of year	<u>\$ 9,299</u>	<u>\$ 8,711</u>	<u>\$ 8,456</u>	<u>\$ 588</u>	<u>6.8%</u>



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**MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)**

The Authority's Net Assets increased \$588,000 or 6.8% from the end of calendar year 2009 to December 31, 2010. When comparing the Change in Net Assets amount to the prior year, there was an increase of \$333,000 or 130.6% from 2009 to 2010. The increases in operating revenues and decreases in operating expenses are the main reason for the increase in the Authority's Change in Net Assets. The increases and decreases are described in the Operating revenue and expense sections below.

By contrast, the Authority's Net Assets increased \$255,000 or 3.0% from the end of calendar year 2008 to December 31, 2009. When comparing the Change in Net Assets amount, there was a decrease of \$468,000 or 64.7% from 2008 to 2009. The decrease in the Change in Net Assets was due in part to the slowdown of Authority financing activity during 2009 as a result of the economic crisis/recession.

Operating Revenues - During 2010, total Operating Revenues increased \$169,000 or 4.4%. Annual Fees, Initial Fees and Per Series Fees increased \$97,000, \$23,000 and \$10,000, respectively when compared to 2009. Concerning all three fee categories, the increases are attributable to an increase in Authority financing activity as mentioned previously. The Note Interest Income-Designated FQHC Loan program amount is the interest charged in 2010 to the Lakewood Resource and Referral Center on the loan issued on January 29, 2010 as further described in Note K to the financial statements.

When compared to 2008, Operating Revenues during 2009 decreased \$105,000 or 2.7%. During 2009, Annual Fees, Initial Fees and Per Series Fees decreased \$18,000, \$64,000 and \$25,000, respectively when compared to 2008. The decrease was due in part to the slowdown of Authority financing activity during 2009 as mentioned previously.

Operating Expenses - During 2010, operating expenses decreased \$227,000 or 6.2% when compared to 2009. The main area of decrease in operating expenses was in Provision for Postemployment Benefits due to the new actuarial valuation that was completed during 2010. As stated previously, a valuation has to be done every three years and the last one completed for the Authority was in 2007. The valuation in 2010 provided the Authority with the post-retirement liability cost for 2010, 2011 and 2012. As a result, the Annual Required Contribution ("ARC") for 2010 was less than the ARC which was required for 2009. Salaries and Related Expenses decreased due to a change in the composition of staff during 2010 and staff now contributing 1.5% of their salaries towards health benefits. Another area of decrease was in Professional Fees and Other. Legal fees and costs associated with a client institutions bankruptcy and legal fees associated with the creation of the FQHC loan program decreased along with a decrease in depreciation expense. The bankruptcy process for the client institution was winding down in 2010. Finally, General and Administrative expenses and Bad Debt expenses decreased. Regarding Bad Debt expenses, there were no receivables deemed uncollectible during 2010.

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**MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)**

When compared to 2008, Operating Expenses during 2009 decreased \$13,000 or 0.4%. In 2009, the main area of decrease in operating expenses was in Salaries and Related Expenses due to a change in the composition of staff during 2009. Another area of decrease was in General and Administrative expenses due in part to a slowdown in financing activity. Offsetting the decreases were increases in the areas of Professional Fees, Provision for Postemployment Benefits and Bad Debt expense. Professional Fees had increased due to the legal fees and costs associated with a client institutions bankruptcy and legal fees associated with the creation of the FQHC loan program. The provision for Postemployment Benefits increased due to the actuarial calculated Annual Required Contribution ("ARC"). Finally, Bad Debt expense in 2009 represented a portion of the annual fee that had been deemed uncollectible due to the client institution that was in bankruptcy. Bad debt expense in 2008 was for one (1) mortgage servicing fee which was uncollectible due to the bankruptcy and closure of another client institution.

Nonoperating Revenues – During 2010 Nonoperating Revenues decreased \$63,000 or 64.9%. Interest Income decreased \$52,000 while Other Income decreased \$11,000. Interest Income in 2010 and 2009 represented interest earned on the Authority's checking accounts and the operating funds invested in the New Jersey Cash Management Fund totaling \$11,000 in 2010 and \$28,000 in 2009. In addition, interest was earned on the Bayonne Medical Center/IJKG Propco LLC Note Receivable totaling \$14,000 in 2010 and \$49,000 in 2009, which is further described in Note J to the financial statements. Concerning interest exclusive of the interest on the note, interest decreased due to the transfer of \$1,741,876 from the Authority's Operating account to the Post-Retirement Health Benefits Trust, a \$2,000,000 loan from the Authority's Operating funds to Lakewood Resource and Referral Center as further described in Note K to the financial statements and the continued decrease in the monthly New Jersey Cash Management yield through December 31, 2010. Regarding Other Income, there was a decrease of \$11,000 or 55.0%. In 2010, \$8,400 was received from the auction of one of the Authority's two remaining 2005 Toyota Prius Hybrids. By contrast in 2009, \$4,000 was received through New Jersey's Alternative Fuel Vehicle Rebate Program for the Authority's 2008 Toyota Prius Hybrid, \$10,500 was received from the auction of one of the Authority's three 2005 Toyota Prius Hybrids and \$5,000 was received from an institution for a TEFRA hearing the Authority had to conduct for a financing that was being done by an out of state authority that would be using proceeds for a health care institution in New Jersey.

When compared to 2008, Nonoperating Revenues during 2009 decreased \$376,000 or 79.5%. Interest Income decreased \$165,000 while Other Income decreased \$211,000. Interest earned in 2009 totaled \$77,000 as described above. By contrast, interest earned in 2008 totaled \$242,000 and it represented interest earned on the Authority's checking accounts and the operating funds invested in the New Jersey Cash Management Fund totaling \$135,000 and interest on the Note Receivable totaling \$107,000. Concerning interest exclusive of the interest on the note, interest decreased due to the transfer of \$3,738,403 in 2008 to the Post-Retirement Health Benefits Trust. In addition, the monthly

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**MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)**

yields on the funds invested in New Jersey Cash Management Fund were greater in 2008 than in 2009. Regarding the decrease in Other Income, there were two one-time receipts which made up the majority of the \$231,000 that was received in 2008. One, the Authority received \$159,000 from the Mortgage Insurance Premium escrow held by the Authority, as servicer for an FHA-Insured client institution that went bankrupt and closed. The funds were transferred to the Authority's Operating account after Special Bankruptcy Counsel opined "that after reviewing the Regulations and the Department of Housing and Urban Development's (HUD'S) handling of the claim, the funds held in escrow belong to the Authority." Second, \$60,000 that was paid by the Authority to Special Bankruptcy Counsel in 2007 for work on the bankruptcy was reimbursed to the Authority out of the remaining trustee held funds in 2008. See above for what comprised Other Income in 2009.

**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](http://www.njhcffa.com).

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**BALANCE SHEETS**

	December 31,	
	2010	2009
	(\$000)	
Assets		
Current assets		
Cash and cash equivalents	\$ 3,319	\$ 4,608
Cash and cash equivalents - designated FQHC loan program	274	-
Administrative fees and other receivables	2,136	1,951
Note receivable	-	500
Note receivable - designated FQHC loan program	286	-
Note interest receivable	-	3
Note interest receivable - designated FQHC loan program	3	-
Prepaid expenses	3,543	2,093
Total current assets	9,561	9,155
Noncurrent assets		
Note receivable	-	1,083
Note receivable - designated FQHC loan program	1,476	-
Capital assets	773	769
Less accumulated depreciation	(688)	(648)
Total noncurrent assets	1,561	1,204
Total assets	\$ 11,122	\$ 10,359
Liabilities and Net Assets		
Current liabilities		
Accounts payable and accrued expenses	\$ 452	\$ 470
Deferred revenue	1,371	1,178
Total current liabilities	1,823	1,648
Net assets		
Unrestricted		
Undesignated	7,175	6,590
Designated - FQHC Loan Program	2,039	2,000
Invested in capital assets	85	121
Total liabilities and net assets	\$ 11,122	\$ 10,359

See accompanying notes.

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**STATEMENTS OF REVENUES, EXPENSES AND CHANGES**  
**IN FUND NET ASSETS**

	Year Ended December 31,	
	2010	2009
	(\$000)	
Operating revenues		
Administrative fees		
Annual fees	\$ 3,737	\$ 3,640
Initial fees	81	58
Per series fees	65	55
Capital asset program application fees	1	-
Mortgage servicing fees	41	42
Section 142 (d) fees	25	25
Note interest income - designated FQHC loan program	39	-
Total operating revenues	<u>3,989</u>	<u>3,820</u>
Operating expenses		
Salaries and related expenses	2,360	2,393
General and administrative expenses	551	560
Professional fees	168	218
Provision for postemployment benefits	297	413
Depreciation	59	69
Bad debt expense	-	9
Total operating expenses	<u>3,435</u>	<u>3,662</u>
Operating income	<u>554</u>	<u>158</u>
Nonoperating revenues		
Interest income from investments	11	28
Other income	1	9
Note interest income	14	49
Gain on disposal of assets	8	11
Total nonoperating revenues	<u>34</u>	<u>97</u>
Changes in net assets	588	255
Net assets, beginning of year	8,711	8,456
Net assets, end of year	<u>\$ 9,299</u>	<u>\$ 8,711</u>

See accompanying notes.

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**STATEMENTS OF CASH FLOWS**

	Year Ended December 31,	
	2010	2009
	(\$000)	
<b>Cash flows from operating activities</b>		
Cash received from customers	\$ 3,958	\$ 3,993
Cash payment to suppliers and employees	(3,102)	(3,146)
Cash payment to postemployment health benefits trust	(1,742)	-
Net cash (used in) provided by operating activities	<u>(886)</u>	<u>847</u>
<b>Cash flows from capital and related financing activities</b>		
Acquisition of capital assets	(24)	(28)
Cash received on disposal of assets	8	11
Net cash used in capital and related financial activities	<u>(16)</u>	<u>(17)</u>
<b>Cash flows from noncapital financing activities</b>		
Other	1	9
Note issued to client institution - designated FQHC loan program	(2,000)	-
Note repaid from client institution	1,583	500
Note repaid from client institution - designated FQHC loan program	238	-
Interest received on note	18	52
Interest received on note - designated FQHC loan program	36	-
Net cash (used in) provided by noncapital financial activities	<u>(124)</u>	<u>561</u>
<b>Cash flows from investing activities</b>		
Investment income	11	28
Net cash provided by investing activities	<u>11</u>	<u>28</u>
Net (decrease) increase in cash and cash equivalents	(1,015)	1,419
Cash and cash equivalents, beginning of year	4,608	3,189
Cash and cash equivalents, end of year	<u>\$ 3,593</u>	<u>\$ 4,608</u>
Other income	\$ 554	\$ 158
Adjustments		
Depreciation	59	69
Note interest income - designated FQHC loan program	(39)	-
Changes in assets and liabilities		
Accounts receivable	(185)	82
Prepaid expenses	(1,450)	426
Deferred revenue	193	91
Accounts payable	(18)	21
Total adjustments	<u>(1,440)</u>	<u>689</u>
Net cash (used in) provided by operating activities	<u>\$ (886)</u>	<u>\$ 847</u>

See accompanying notes.

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**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 and notes 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 and notes issued by the Authority are not a debt or liability of the State of New Jersey or any political subdivision other than the Authority 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.

The Authority is exempt from both federal and state taxes.



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**NOTES TO FINANCIAL STATEMENTS**

**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"). The Governmental Accounting Standards Board 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 the 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. The Authority's principal operating revenues are the administrative fees that it charges these entities as further explained below. 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.

*Administrative Fees* - The Authority charges an upfront fee comprised of an initial fee and per series 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 and/or notes. 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 and note sales 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 organizations to which it lends the proceeds of its bonds and notes. 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.

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NOTES TO FINANCIAL STATEMENTS

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

*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 per each low and moderate income unit located in each project financed by the Authority under Section 142(d) of the Internal Revenue Code in order 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:

	<u>Useful Lives</u>
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.

*Investments* - Investments are recorded at fair value based upon current market quotations.

**C. CASH AND INVESTMENTS**

The components of cash and investments at December 31, 2010 and 2009, are:

	<u>2010</u>	<u>2009</u>
	(\$000)	
Cash and cash equivalents		
Operating checking account	\$ 1	\$ 2
New Jersey Cash Management Fund	3,318	4,606
New Jersey Cash Management Fund - designated FQHC loan program	274	-
Total cash and cash equivalents	<u>\$ 3,593</u>	<u>\$ 4,608</u>

Currently there are no funds held in investment accounts, however, 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

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**NOTES TO FINANCIAL STATEMENTS**

**C. CASH AND INVESTMENTS (CONTINUED)**

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 asset value per share; and (3) has aggregate net assets 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 Governmental Accounting Standards Board Statement No. 40 *Deposit and Investment Risk Disclosures* (GASB 40) 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 and Investments.

- (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.

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**NOTES TO FINANCIAL STATEMENTS**

**C. CASH AND INVESTMENTS (CONTINUED)**

At December 31, 2010 and December 31, 2009, 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, 2010 and 2009, there were no investments in the Authority's portfolio. The majority of available funds were being held in the New Jersey Cash Management 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 5 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.
- (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 from time to time evaluate its investment portfolio to determine if based on the interest rate environment, other investment vehicles would provide higher yields that lower the cost and risk.

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**NOTES TO FINANCIAL STATEMENTS**

**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, 2010, 2009 and 2008 were \$1,734,231, \$1,764,127, and \$1,855,685, respectively. Pension costs for the years ended December 31, 2010, 2009 and 2008 were \$191,747, \$179,597, and \$145,016, 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 5.5% in 2010, 2009 and 2008.

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.

**E. POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS**

The Authority sponsors and administers a single employer defined benefit health care 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 10 years of service with the Authority.
- Retirement after age 65, 25 years of PERS service, and 6 years of service with the Authority.
- Retirement after age 62 and 15 years of service with the Authority.

Contributions and benefit provisions for the plan are established and amended through the Member's 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.

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**NOTES TO FINANCIAL STATEMENTS**

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

The Authority's annual 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, 2010 and 2009, and the related information for the plan are as follows (dollar amounts in thousands):

	2010	2009
	(\$000)	
Annual required contributions	\$ 297	\$ 413
Contributions made	(1,742)	-
(Decrease) Increase in net OPEB obligations	(1,445)	413
Net (prepaid) OPEB obligation - beginning of year	(1,985)	(2,398)
Net (prepaid) OPEB obligation - end of year	<u>\$ (3,430)</u>	<u>\$ (1,985)</u>

The Authority's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for fiscal years 2008, 2009 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, 2010	\$ 297	100%	\$ (3,430)
December 31, 2009	413	100%	(1,985)
December 31, 2008	388	100%	(2,398)

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, all of which was funded in the trust in the amount of \$5,394,615 as of December 31, 2010. The covered payroll (annual payroll of active employees covered by the plan) was \$1,734,231 for the year ended December 31, 2010, and the ratio of the funded actuarial accrued liability was 311%.



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**NOTES TO FINANCIAL STATEMENTS**

**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, 2010 and 2009, include approximately \$283,000 and \$269,000, respectively, relating to payment for goods and services provided by various State of New Jersey agencies.



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**NOTES TO FINANCIAL STATEMENTS**

**H. CONDUIT DEBT**

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 and 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 year ended December 31, 2010, the Authority issued \$906,972,666 in conduit debt. The amount of conduit debt outstanding at December 31, 2010, totaled \$6,706,429,569.

**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, 2010 through December 18, 2011, has a \$20 million liability limit with a retention level of \$175,000 at a premium cost of \$72,043.

**J. NOTE RECEIVABLE BAYONNE MEDICAL CENTER**

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. The court in considering whether IJKG met the court's contingencies relied on the Authority's willingness to provide a \$2.5 million loan to Bayonne Medical Center. The Authority's loan, along with a loan from the City of Bayonne, were needed for the Medical Center to continue operations until the facility's purchase. The sale was closed on February 1, 2008, and IJKG assumed the loan.

Consequently, on November 27, 2007, the Authority and the medical center entered into a loan agreement in the amount of \$2.5 million. The executed promissory note required that commencing on March 1, 2008, the outstanding principal amount of the Note shall be due in fifty-nine (59) equal monthly installments of \$41,666 with a final principal payment of \$41,706 due on February 1, 2013. Further, interest on the loan became payable commencing March 1, 2008. Interest was computed using the rate on the New Jersey Cash Management Fund plus 2% and applied to the outstanding balance of the loan plus any interest accrued to that point, for the number of days the loan is outstanding. On June 7, 2010 the outstanding balance on the loan was paid in full by IJKG.

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**NOTES TO FINANCIAL STATEMENTS**

**K. 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 assets 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 loan program is intended to be a revolving pool, so that as the principal and interest on each loan is repaid those 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 required that commencing March 1, 2010, the outstanding principal amount of the Note shall be due in eighty-three (83) 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% and applied to the outstanding balance of the loan plus any interest accrued to that point, for the number of days the loan is outstanding. Security for the loan is provided through accounts receivable of the Lakewood Resource and Referral Center. The following table summarizes the Authority's loan payments to be received under this agreement.

Fiscal Year Year Ending December 31,	Principal	Estimated Interest	Total
2011	\$ 285,708	\$ 32,619	\$ 318,327
2012	285,708	26,905	312,613
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	<u>\$1,761,910</u>	<u>\$110,122</u>	<u>\$1,872,032</u>

## **REQUIRED SUPPLEMENTARY INFORMATION**

**NEW JERSEY HEALTH CARE FACILITIES FINANCING AUTHORITY**  
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**REQUIRED SUPPLEMENTARY INFORMATION**

**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.

**SUPPLEMENTARY FINANCIAL INFORMATION –  
TRUSTEE HELD FUNDS**

**NEW JERSEY HEALTH CARE FACILITIES FINANCING AUTHORITY**  
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**STATEMENTS OF NET ASSETS FOR TRUSTEE HELD FUNDS**

	December 31,	
	2010	2009
	(\$000)	
Assets		
Mortgages and loans receivable, net	\$ 5,066,432	\$ 4,720,576
Lease receivable	185,585	192,110
State contract bonds receivable	440,815	445,985
Equipment revenue notes receivable, net	9,157	5,425
Capital Asset Program notes receivable, net	25,209	37,335
Construction/program accounts		
Cash and cash equivalents	217,984	292,528
Investments	384,399	394,246
Prepaid expenses	10	10
Debt service accounts		
Cash and cash equivalents	125,797	148,850
Investments	29,426	51,952
Receivable from master trustee/institution	20,199	16,423
Debt service reserve accounts		
Cash and cash equivalents	193,102	191,392
Investments	120,636	130,799
Mortgage servicing accounts		
Cash and cash equivalents	211	197
Mortgage payments receivable	578	239
Total assets	<u>\$ 6,819,540</u>	<u>\$ 6,628,067</u>
Liabilities and net assets		
Bonds payable	\$ 6,697,159	\$ 6,498,825
Revenue notes payable	9,270	11,282
Accrued interest payable	111,385	116,508
Accrued expenses	188	235
Mortgages and escrows payable	789	436
Deferred income	-	11
Capital Asset Program net assets	749	770
Total liabilities and Capital Asset Program net assets	<u>\$ 6,819,540</u>	<u>\$ 6,628,067</u>

See accompanying notes.

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**STATEMENTS OF CASH FLOWS FOR TRUSTEE HELD FUNDS**

	Year Ended December 31,	
	2010	2009
	(\$000)	
<b>Cash flows from operating activities</b>		
Payments received from institutions under agreements	\$ 425,245	\$ 391,893
Equity contributions from institutions	133,370	29,508
Disbursements for construction/acquisition and issuance expense	(500,379)	(463,376)
Other (disbursements) receipts	(113,268)	84,386
Net cash (used in) provided by operating activities	<u>(55,032)</u>	<u>42,411</u>
<b>Cash flows from noncapital financing activities</b>		
Face amount of revenue bonds	906,973	836,425
Less deductions at time of sale	(36,049)	(37,255)
Refunding of pre-existing debt/escrows fund deposit	(5,329)	(127,386)
Net proceeds from sale of revenue bonds	<u>865,595</u>	<u>671,784</u>
Principal/premium paid on revenue bonds	(691,832)	(232,004)
Interest paid on revenue bonds	(269,491)	(249,725)
Net cash (used in) provided by noncapital financing activities	<u>(95,728)</u>	<u>190,055</u>
<b>Cash flows from investing activities</b>		
Net investment in securities	43,165	(390,815)
Interest on investments	11,722	14,134
Net cash provided by (used in) investing activities	<u>54,887</u>	<u>(376,681)</u>
Net decrease in cash and cash equivalents	(95,873)	(144,215)
Cash and cash equivalents, beginning of year	632,967	777,182
Cash and cash equivalents, end of year	<u>\$ 537,094</u>	<u>\$ 632,967</u>

See accompanying notes.



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**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 and notes on behalf of healthcare organizations. Each of the Authority's issues of bonds and notes 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. The amounts reported in these supplemental financial statements include all Trustee Held Funds maintained by the Authority's various trustees.

Bonds and notes issued by the Authority are not a debt or liability of the State of New Jersey or any political subdivision other than the Authority 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. 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.

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**NOTES TO SUPPLEMENTAL FINANCIAL INFORMATION**

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

*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.

- 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 interest and principal.
- 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 interest and principal payable.
- 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.

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**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 interest and principal 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.

As of December 31, 2010 and 2009, mortgages and loans receivable were:

	2010	2009
	(\$000)	
<b>Mortgage</b>		
Robert Wood Johnson University Hospital	\$ -	\$ 132,675
Burdette Tomlin Memorial Hospital	22,215	22,770
Holy Name Hospital	60,000	109,670
Deborah Heart and Lung Center	21,215	22,280
Southern Ocean County Hospital	32,090	33,055
Somerset Medical Center	81,390	81,390
St. Ann's Home for the Aged	-	6,211
CentraState Assisted Living, Inc.	6,060	6,318
Total mortgages receivable	<u>222,970</u>	<u>414,369</u>

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**C. MORTGAGES AND LOANS RECEIVABLE (CONTINUED)**

	2010	2009
	(\$000)	
<b>Loans</b>		
Secured by pledge of collateral with trustees		
Care Institute, Inc. - Cherry Hill	\$ -	\$ 13,740
Shoreline Behavioral Health Center (currently Saint Barnabas Behavioral Health Center, a part of Saint Barnabas Health Care System)	11,195	11,590
Christian Health Care Center	6,725	6,825
The Avalon at Bridgewater Assisted Living Project	-	6,375
Holland Christian Home Association	-	2,500
Bartley Assisted Living LLC	5,927	6,247
Jersey City Medical Center	177,720	184,480
JFK Assisted Living	11,062	11,473
Meridian Hospitals Corporation	19,970	22,020
Wiley Mission Project	11,500	11,915
Englewood Hospital and Medical Center	86,475	89,035
The Matheny School and Hospital	2,600	2,800
Robert Wood Johnson University Hospital	60,080	62,660
St. Francis Medical Center	1,700	1,900
Virtua Health, Inc.	64,250	66,115
Rahway Hospital	11,000	11,000
Bayshore Community Hospital	3,480	4,290
South Jersey Hospital, Inc.	13,005	13,375
Children's Specialized Hospital	47,760	50,880
AtlantiCare Regional Medical Center	41,000	43,000
Recovery Management, Inc.	12,620	13,060
The Avalon at Hillsborough	11,730	11,905
East Orange General Hospital	10,060	10,840
FitnessFirst Oradell Center, LLC	6,460	6,650
MHAC I, LLC	31,035	31,820
Southern Ocean County Hospital	17,345	17,625
Somerset Medical Center	23,555	24,705
Underwood-Memorial Hospital	57,725	59,325
Kennedy Health Facilities	16,293	16,340
St. Ann's Home for the Aged	11,625	-
Bridgeway Assisted Living	5,424	-

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**C. MORTGAGES AND LOANS RECEIVABLE (CONTINUED)**

	2010	2009
	(\$000)	
<b>Loans (Continued)</b>		
Secured by pledge of gross receipts under Master Trust Indenture		
Hackensack Medical Center (currently Hackensack University Medical Center)	\$ 451,495	\$ 455,540
Saint Peter's Medical Center (currently Saint Peter's University Hospital)	163,395	163,395
Hunterdon Medical Center	50,015	51,375
Pascack Valley Hospital Association	28,538	28,692
Palisades Medical Center Obligated Group (current a part of Palisades Medical Center of New York Presbyterian Health Care System)	38,475	39,345
Shore Memorial Health Care System	70,910	59,225
South Jersey Hospital System	151,495	154,800
Raritan Bay Medical Center	42,700	44,000
Jersey Shore Medical Center (currently a part of Meridian Health System, Inc.)	17,750	18,875
Bayonne Hospital Obligated Group	27,355	29,470
Warren Hospital Obligated Group	44,255	45,085
St. Joseph's Hospital and Medical Center Obligated Group	241,685	244,545
AHS Hospital Corporation	341,840	348,180
Newton Memorial Hospital	22,535	24,005
Kennedy Health System Obligated Group	61,755	63,355
Christian Health Care Center	22,490	23,270
Community Medical Center/Kimball Medical Center/ Kensington Manor Center Obligated Group (currently parts of Saint Barnabas Health Care System)	20,175	25,870
Rahway Hospital Obligated Group	10,440	12,740

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**C. MORTGAGES AND LOANS RECEIVABLE (CONTINUED)**

	2010	2009
	( \$000 )	
<b>Loans (Continued)</b>		
Saint Barnabas Medical Center/West Hudson Hospital		
Obligated Group (currently parts of Saint Barnabas Health		
Care System)	\$ 30,190	\$ 32,400
CentraState Medical Center Obligated Group	115,875	118,025
Virtua Health, Inc.	660,375	674,025
Saint Barnabas Health Care System	641,105	655,650
Catholic Health East	133,545	128,875
Meridian Health System Obligated Group	536,095	543,300
RWJ Health Care Corp. at Hamilton, Obligated Group	113,845	116,960
Trinitas Hospital Obligated Group	130,400	130,400
The Society of the Valley Hospital Obligated Group	-	31,420
The House of the Good Shepherd	16,965	17,420
Bayshore Community Hospital	40,770	42,035
Atlantic City Medical Center	54,190	57,890
AtlantiCare Regional Medical Center	111,920	112,510
Chilton Memorial Hospital	39,195	39,195
Princeton Healthcare System	355,000	-
Holy Name Medical Center	55,280	-
Robert Wood Johnson Hospital	126,415	-
Total loans receivable	<u>5,747,789</u>	<u>5,346,362</u>
Total mortgages and loans receivable	<u>5,970,759</u>	<u>5,760,731</u>
Less cash and investments held by trustees	<u>904,327</u>	<u>1,040,155</u>
Mortgages and loans receivable, net	<u>\$ 5,066,432</u>	<u>\$ 4,720,576</u>

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**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, 2010 and 2009 Capital Asset Program notes receivable were:

	2010	2009
	<u>(\$000)</u>	
Community Medical Center (currently a part of Saint Barnabas Health Care System)	\$ -	\$ 127
Visiting Nurses Association of Central Jersey	-	212
Somerset Medical Center	1,876	5,093
 P.G. Chambers School (formerly Children's Center for Therapy and Learning, Inc.)	 1,118	 1,178
Saint Barnabas Corporation-Mega Care, Inc.	-	6,421
 Palisades Medical Center, Inc.	 2,560	 3,274
Cooper Health System	4,264	4,594
Meridian Nursing and Rehabilitation at Ocean Grove	6,229	6,479
South Jersey Hospital	9,160	10,877
CentraState Medical Center	10,000	-
Total Capital Asset Program notes receivable	<u>35,207</u>	<u>38,255</u>
Less cash and investments held by trustee	9,998	920
Capital Asset Program notes receivable, net	<u>\$ 25,209</u>	<u>\$ 37,335</u>



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**E. EQUIPMENT REVENUE NOTES RECEIVABLE**

Equipment revenue 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 Equipment Revenue 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.

	2010	2009
	(\$000)	
FitnessFirst Oradell Center	\$ 370	\$ 653
Children's Specialized Hospital	1,525	2,244
Christian Health Care Center	2,573	2,902
Somerset Medical Center	4,802	5,483
Total equipment notes receivable	9,270	11,282
Less cash and investment held by trustee	113	5,857
Equipments notes receivable, net	\$ 9,157	\$ 5,425

**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, 2010 and 2009, the lease receivable was in the amount of \$185,585,000 and \$192,110,000, respectively.

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**G. STATE CONTRACT BONDS RECEIVABLE**

The Hospital Asset Transformation Act (*PL. 2000. c.98*) amended the Act 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 Hospital Asset Transformation 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 Hospital Asset Transformation 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 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 the debt service on such bonds, subject to and dependent upon appropriation being made by the State Legislature for such purpose.

At December 31, 2010 and 2009, the State Contract Bonds Receivable was as follows:

	2010	2009
	(\$000)	
St. Mary's Hospital	\$ 42,390	\$ 43,945
St. Michael's Medical Center, Inc.	245,500	249,115
Solaris Health System	152,925	152,925
Total State contract bonds receivable	<u>\$ 440,815</u>	<u>\$ 445,985</u>

**H. CASH AND INVESTMENTS**

The components of cash and investments at December 31, 2010 and 2009, are as follows:

	2010	2009
	(\$000)	
Cash and cash equivalents		
Money Market Funds (which includes New Jersey Cash Management Fund)	\$ 537,094	\$ 632,967
Investments		
Investment agreements		
Collateralized	332,305	193,561
Uncollateralized	136,296	262,230
U.S. Treasury and Agency obligations	65,860	121,206
Total cash, cash equivalents and investments	<u>\$ 1,071,555</u>	<u>\$ 1,209,964</u>

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**H. 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 net assets 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.

**I. REVENUE BONDS AND NOTES**

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 and notes 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

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**I. REVENUE BONDS AND NOTES (CONTINUED)**

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.

Revenue bonds and notes outstanding are comprised of the following:

	Due in Varying Installments Ending	Range of Annual Interest Rate Percentages	Amount Outstanding December 31,	
			2010	2009
			( \$000)	
Revenue bonds				
Public issues				
Deborah Heart and Lung Center, Series 1993	2023	6.20 - 6.30	\$ 21,215	\$ 22,280
Saint Peter's Medical Center, Series F (currently Saint Peter's University Hospital)	2021	5.00	26,425	26,425
Shore Memorial Health Care System, Series 1993	2012	5.00	2,825	4,335
Raritan Bay Medical Center, Series 1994	2027	7.25	42,700	44,000
Jersey Shore Medical Center, Series 1994 (currently a part of Meridian Health Systems, Inc.)	2024	5.875 - 6.75	17,750	18,875
Bayonne Hospital Obligated Group, Series 1994	2012	6.25	4,630	6,745
Robert Wood Johnson University Hospital Series C	2010	5.125 - 5.25	*	3,035
Care Institute, Inc.-Cherry Hill, Series 1996	2027	7.75 - 8.00	*	13,740
Holy Name Hospital, Series 1997	2025	6.00	*	19,665
Shoreline Behavioral Health Center, Series 1997 (currently Saint Barnabas Behavioral Health Center, a part of Saint Barnabas Health Care System)	2027	5.30 - 5.50	11,195	11,590
Newton Memorial Hospital, Series 1997	2019	4.90 - 5.00	11,145	12,110
Kennedy Health System Obligated Group, Series 1997 A	2027	5.00 - 5.20	12,230	12,830
Southern Ocean County Hospital, Series 1997	2027	4.75 - 5.00 Weekly	10,355	10,735
Christian Health Care Center, Series 1997 B	2028	variable rate	8,000	8,300
Bayonne Hospital Obligated Group, Series 1998	2027	4.75	22,725	22,725
Community Medical Center/Kimball Medical Center/ Kensington Manor Care Center Obligated Group, Series 1998 (currently parts of Saint Barnabas Health Care System)	2019	5.00 - 5.50	20,175	25,870
Kennedy Health System Obligated Group, Series 1997 B	2015	5.00 - 5.75	5,635	6,635
Kennedy Health System Obligated Group, Series 1998	2014	5.00 - 5.125	10,440	12,740
Hackensack University Medical Center, Series 1998	2028	4.50 - 5.375	*	130,350

\*Defeased or paid off.

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**I. REVENUE BONDS AND NOTES (CONTINUED)**

	Due in Varying Installments Ending	Range of Annual Interest Rate Percentages	Amount Outstanding December 31.	
			2010	2009
			(\$000)	
Revenue bonds (continued)				
Public issues (continued)				
Saint Barnabas Medical Center/West Hudson Hospital Obligated Group, Series 1998A (currently parts of Saint Barnabas Health Care System)	2028	4.50 - 5.25 Weekly	\$ 30,190	\$ 32,400
Christian Health Care Center, Series 1998 A-3	2018	variable rate	400	500
CentraState Medical Center Obligated Group Series 1998	2028	4.20 - 4.65	45,500	47,120
Pascack Valley Hospital Association, Series 1998	2028	4.70 - 5.125	10,884	10,942
Virtua Health Inc., Series 1998	2028	4.375 - 5.25	79,630	88,295
Saint Barnabas Health Care System, Series 1998B	2028	0.00 - 5.25	346,255	356,480
Catholic Health East, Series 1998E	2029	4.30 - 5.25	5,445	29,275
Palisades Medical Center of New York Presbyterian Health Care System Obligated Group Series 1999	2028	4.65 - 5.25	27,345	28,005
The Avalon at Bridgewater Assisted Living Project, Series 1999A	2029	6.625 - 6.75	*	6,375
Burdette Tomlin Memorial Hospital, Series 1999	2029	5.10 - 5.60	22,215	22,770
Meridian Health System Obligated Group, Series 1999	2029	5.00 - 5.625 Weekly	194,470	201,175
Holland Christian Home Association, Series 1999A-2	2019	variable rate	*	2,500
Hackensack University Medical Center, Series 2000	2034	5.60 - 6.125	*	78,170
Saint Barnabas Health Care System, Series 1998C	2018	5.00 - 5.25	9,075	10,075
Robert Wood Johnson University Hospital, Series 2000	2031	5.20 - 5.75	*	129,640
The Society of the Valley Hospital Obligated Group, Series 2000	2031	4.75 - 5.75	*	31,420
Saint Peter's University Hospital Obligated Group, Series 2000 A	2030	6.875 Weekly	36,795	36,795
Saint Peter's University Hospital Obligated Group, Series 2000 B	2030	variable rate Weekly	29,280	29,280
Saint Peter's University Hospital Obligated Group, Series 2000 C	2030	variable rate Weekly	5,720	5,720
Southern Ocean County Hospital, Series 2001 (currently a part of Meridian Health System)	2031	4.25 - 5.125	21,735	22,320
The House of the Good Shepherd Obligated Group, Series 2001	2031	4.20 - 5.20	16,965	17,420
Jersey City Medical Center, Series 2001	2041	3.85 - 5.00	163,860	170,140
Kennedy Health System Obligated Group, Series 2001	2031	5.50 - 5.625 Weekly	43,890	43,890
St. Barnabas Health Care System, Series 2001 A	2031	variable rate	33,030	34,400
St. Barnabas Health Care System, Series 2001 B	2031	Auction rate	64,675	66,625

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**I. REVENUE BONDS AND NOTES (CONTINUED)**

	Due in Varying Installments Ending	Range of Annual Interest Rate Percentages	Amount Outstanding December 31.	
			2010	2009
(5000)				
Revenue bonds (continued)				
Public issues (continued)				
Newton Memorial Hospital, Series 2001	2026	3.70 - 5.25 Weekly	\$ 11,390	\$ 11,895
Meridian Hospital Corp., Series 2001 A-1	2016	variable rate	1,800	3,500
Bayshore Community Hospital, Series 2002	2032	4.00 - 5.125	40,770	42,035
Atlantic City Medical Center, Series 2002	2025	5.25 - 6.25	54,190	57,890
Palisades Medical Center of NY Presbyterian Health Care System Obligated Group, Series 2002	2031	5.50 - 6.625	11,130	11,340
South Jersey Hospital, Series 2002	2032	5.875 - 6.00 Weekly	7,210	10,515
RWJ Health Corp. at Hamilton, Series 2002	2032	variable rate Weekly	26,165	27,140
Wiley Mission Project, Series 2002	2029	variable rate	11,500	11,915
Englewood Hospital and Medical Center, Series 2002	2031	3.35 - 5.25 Weekly	86,475	89,035
Meridian Health System Obligated Group, Series 2003 A	2033	variable rate Weekly	60,000	60,000
Meridian Health System Obligated Group, Series 2003 B	2033	variable rate Weekly	40,000	40,000
Pascack Valley Hospital Association, Series 2003	2036	6.00 - 6.625	17,654	17,749
Somerset Medical Center, Series 2003	2033	5.50 - 5.75 Weekly	81,390	81,390
The Matheny School and Hospital Inc., Series 2003 A-2	2023	variable rate Weekly	2,600	2,800
Robert Wood Johnson University Hospital, Inc., Series 2003 A-3	2023	variable rate Weekly	17,900	19,000
St. Francis Medical Center, Series 2003 A-5	2018	variable rate Weekly	1,700	1,900
Virtua Health Inc., Series 2003 A-7	2018	variable rate	6,500	7,200
Shore Memorial Health Care System, Obligated Group, Series 2003	2023	3.00 - 5.00 Weekly	23,685	24,980
Rahway Hospital, Series 2003 A-8	2023	variable rate	11,000	11,000
Jersey City Medical Center, Series 2003	2030	2.625 - 4.80	13,860	14,340
Greystone Park Psychiatric Hospital Project, Series 2003	2025	2.80 - 5.00 Weekly	15,590	16,335
Bayshore Community Hospital, Series 2004 A-1	2014	variable rate Weekly	3,480	4,290
Meridian Nursing and Rehab, Series 2004 A-3	2035	variable rate Weekly	13,070	13,420
South Jersey Hospital, Inc., Series 2004 A-4	2034	variable rate Weekly	13,005	13,375
Robert Wood Johnson Univ. Hospital, Series 2004	2029	variable rate Weekly	42,180	43,660
Virtua Health, Series 2004	2033	variable rate	57,750	58,915

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**I. REVENUE BONDS AND NOTES (CONTINUED)**

REVENUE BONDS AND NOTES (CONTINUED)				
	Due in Varying Installments Ending	Range of Annual Interest Rate Percentages	Amount Outstanding December 31,	
			2010	2009
			(\$000)	
Revenue bonds (continued)				
Public issues (continued)				
		Weekly		
Recovery Management Sys. Inc. Series 2005	2030	variable rate	\$ 12,620	\$ 13,060
The Avalon at Hillsborough, Series 2005 A	2035	6.15 - 6.625	10,880	10,880
RWJ Health Care Corp. @ Hamilton, Series 2005 A	2024	Auction rate	25,150	26,300
RWJ Health Care Corp. @ Hamilton, Series 2005 B	2035	4.00 - 5.00	62,530	63,520
Greystone Park Psychiatric Hospital Project, Series 2005	2028	3.50 - 5.00	169,995	175,775
Children's Specialized Hospital, Proj., Series 2005 A	2036	5.00 - 5.50	31,540	32,010
Children's Specialized Hospital, Proj., Series 2005 B	2036	Weekly variable rate	16,220	18,870
AtlantiCare Regional Med. Ctr., Series 2005 A-1	2030	Weekly variable rate	20,000	21,000
Christian Health Care Center, Series 2005 A-2	2035	Weekly variable rate	6,325	6,325
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	17,345	17,625
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	21,000	22,000
East Orange General Hospital, Series 2006 A-2	2021	Weekly variable rate	10,060	10,840
Meridian Nursing and Rehabilitation, Series 2006 A-3	2031	Weekly variable rate	5,100	5,100
MHAC I, LLC, Series 2006 A-4	2027	Weekly variable rate	20,120	20,905
MHACI, 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	6,460	6,650
CentraState Medical Center, Series 2006 A	2021	3.65 - 5.00	40,775	41,180
CentraState Medical Center, Series 2006 B	2037	Weekly variable rate	29,600	29,725



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

**NOTES TO SUPPLEMENTAL FINANCIAL INFORMATION**

**I. REVENUE BONDS AND NOTES (CONTINUED)**

	Due in Varying Installments Ending	Range of Annual Interest Rate Percentages	Amount Outstanding December 31,	
			2010	2009
			(\$000)	
Revenue bonds (continued)				
Public issues (continued)				
Saint Barnabas Health Care System, Series 2006 A	2029	5.00	\$ 63,070	\$ 63,070
Saint Barnabas Health Care System, Series 2006 B	2038	0.00	125,000	125,000
Hunterdon Medical Center, Series 2006 B	2036	4.00 - 5.00	17,040	17,085
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	5.00	14,465	16,020
Catholic Health East Health System, Series 2007 E	2033	Indexed rate	1,455	99,600
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	65,350	65,350
AtlantiCare Regional Medical Center, Series 2007	2037	4.00 - 5.00	111,920	112,510
Meridian Health System Obligated Group, Series 2007	2038	5.00 and Weekly variable rate	241,625	242,125
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	4.0 - 5.375	243,960	247,020
AHS Hospital Corp., Series 2008 A	2023	3.50 - 5.125 Weekly	164,730	171,070
AHS Hospital Corp., Series 2008 B	2036	variable rate Weekly	88,555	88,555
AHS Hospital Corp., Series 2008 C	2036	variable rate Weekly	88,555	88,555
Underwood-Memorial Hospital, Series 2008	2033	variable rate	57,725	59,325
St. Michael's Medical Center (HATP), Series 2008 A	2038	5.00 - 5.50	245,500	249,115

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

**NOTES TO SUPPLEMENTAL FINANCIAL INFORMATION**

**I. REVENUE BONDS AND NOTES (CONTINUED)**

	Due in Varying Installments Ending	Range of Annual Interest Rate Percentages	Amount Outstanding December 31,	
			2010	2009
			(\$000)	
Revenue bonds (continued)				
Public issues (continued)				
Somerset Medical Center, Series 2008	2024	Weekly variable rate	\$ 23,555	\$ 24,705
St. Joseph's Healthcare System Obligated Group, Series 2008	2038	5.75 - 6.625	241,685	244,545
Christian Health Care Center, Series 2009	2038	Weekly variable rate	14,490	14,970
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 2009D	2043	Weekly variable rate	65,000	65,000
Virtua Health, Series 2009E	2043	Weekly variable rate	20,000	20,000
Solaris (HATP), Series 2009A	2032	4.00 - 5.75	152,925	152,925
Chilton Memorial Hospital, Series 2009	2039	4.00 - 5.75	39,195	39,195
Catholic Health East, Series 2010	2033	2.0-5.25	126,645	-
Princeton HealthCare System, Series 2010A	2041	Weekly variable rate	125,000	-
Princeton HealthCare System, Series 2010B	2041	Weekly variable rate	55,000	-
Hackensack University Medical Center, Series 2010	2034	3.0-5.0	86,295	-
Holy Name Medical Center, Series 2010	2025	3.0-5.0	55,280	-
Robert Wood Johnson University Hospital, Series 2010	2031	2.0-5.0	126,415	-
Hackensack University Medical Center, Series 2010B	2028	4.0-5.0	121,240	-
Total public issues			6,248,713	6,212,361

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

**NOTES TO SUPPLEMENTAL FINANCIAL INFORMATION**

**I. REVENUE BONDS AND NOTES (CONTINUED)**

REVENUE BONDS AND NOTES (CONTINUED)				
	Due in Varying Installments Ending	Range of Annual Interest Rate Percentages	Amount Outstanding December 31,	
			2010	2009
( \$000 )				
Revenue bonds (continued)				
Private placements				
St. Ann's Home for the Aged, Series 1996	2011	3.40 4.37	\$ *	\$ 6,211
CentraState Assisted Living, Inc., Series 1998	2018	reset in 2018 Monthly	6,060	6,318
Bartley Assisted Living LLC, Series 2000	2025	variable rate 5.65	5,927	6,247
JFK Assisted Living Series 2001	2026	reset in 2011	11,062	11,473
The Avalon at Hillsborough, Series 2005 B	2014	9.00 Weekly	850	1,025
Virtua Health, Inc., Series 2006	2013	variable rate	16,100	21,085
Warren Hospital Oblig. Group, Series 2008 A	2038	7.25	33,840	33,840
Warren Hospital Oblig. Group, Series 2008 B	2018	10.00	10,415	11,245
Holy Name Hospital Series 2008	2020	Indexed rate	*	30,005
Shore Memorial Hospital Obligated Group, Series 2009	2039	Indexed rate Weekly	29,550	29,910
Kennedy Health Facilities, Inc. Series 2009	2039	variable rate	16,293	16,340
Hunterdon Medical Center, Series 2009	2036	Indexed rate	11,450	12,765
Shore Memorial Hospital Obligated Group, Series 2010	2039	Indexed rate	14,850	-
St. Ann's Home for the Aged, Series 2010	2040	Indexed rate	11,625	-
Princeton HealthCare System, Series 2010C	2041	Indexed rate	100,000	-
Princeton HealthCare System, Series 2010D	2041	Indexed rate	75,000	-
Bridgeway Assisted Living L.L.C., Series 2010	2020	Indexed rate	5,424	-
Total private placements			348,446	186,464
Capital asset program				
Capital Asset Program, Series A, B, C, D			100,000	100,000
Total Capital Asset Program			100,000	100,000
Equipment revenue notes				
FitnessFirst Oradell Center, LLC, Series 2007	2012	3.92	370	653
Children's Specialized Hospital, Series 2007	2012	3.92	1,525	2,244
Christian Health Care Center, Series 2008	2013	3.60	2,527	2,835
Christian Health Care Center, Series 2008	2013	3.60	46	67
Christian Health Care Center, Series 2009	2016	5.45	4,802	5,483
Total equipment revenue notes			9,270	11,282
Total revenue bonds and notes			\$ 6,706,429	\$ 6,510,107

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

**NOTES TO SUPPLEMENTAL FINANCIAL INFORMATION**

**I. REVENUE BONDS AND NOTES (CONTINUED)**

The aggregate maturities and interest payments of outstanding bonds and notes for the next five years and thereafter are:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2011	\$ 148,687	\$ 273,539	\$ 422,226
2012	157,862	275,323	433,185
2013	177,163	267,940	445,103
2014	180,008	260,231	440,239
2015	188,345	251,861	440,206
Thereafter	5,854,364	2,994,435	8,848,799
	<u>\$ 6,706,429</u>	<u>\$ 4,323,329</u>	<u>\$ 11,029,758</u>

Several Authority bonds issued 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, 2010.

**J. 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, 2010, there were the following Events of Default of the Authority's bond issues:

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

**NOTES TO SUPPLEMENTAL FINANCIAL INFORMATION**

**J. 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 continues to pay to the Bondholders interest and principal according to the debt service schedules.

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 settlement was made to Bondholders on September 30, 2008, March 18, 2009, September 9, 2009 and March 30, 2010.

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.

**K. 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 the liability 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**

**J. DEFEASED ISSUES (CONTINUED)**

A summary of outstanding balances as of December 31, 2010 and 2009, by issue, is as follows:

	Due in Varying Installments Ending	Range of Annual Interest Rate Percentages	Amount Outstanding December 31,	
			2010	2009
			(\$000)	
Defeased public issues				
The Overlook Hospital Association, Series C (currently a part of AHS Hospital Corporation)	2011	6.90	\$ 1,405	\$ 2,720
St. Francis Hospital, Series A (currently a part of Bon Secours Health System, Inc.)	2012	8.00	3,295	4,765
Bridgeton Hospital Association, Series B (currently a part of South Jersey Hospital System)	2013	6.00 - 10.50	4,370	4,370
Saint Barnabas Medical Center, Series A (currently a part of Saint Barnabas Health Care System)	2011	7.00	765	1,530
Burlington County Memorial Hospital, Series C (currently a part of Virtua Health, Inc.)	2012	6.00	10,500	10,500
Point Pleasant Hospital, Series A (currently a part of Meridian Health System, Inc.)	2010	7.30	-	900
The General Hospital Center at Passaic, Series 1994 (currently a part of AHS Hospital Corporation)	2019	6.00 - 6.75	40,375	43,630
Allegany Health-Our Lady of Lourdes, Series 1993 (currently a part of Catholic Health East)	2018	5.00 - 5.20	23,570	25,890
Riverview Medical Center, Series 1994 (currently a part of Meridian Health System, Inc.)	2011	5.50 - 6.25	3,120	6,055
St. Mary Hospital, Series 1993 (currently a part of Bon Secours Health System, Inc.)	2012	5.875	4,740	6,915

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

**NOTES TO SUPPLEMENTAL FINANCIAL INFORMATION**

**J. DEFEASED ISSUES (CONTINUED)**

	Due in Varying Installments Ending	Range of Annual Interest Rate Percentages	Amount Outstanding December 31,	
			2010	2009
			(\$000)	
Defeased public issues (Continued)				
New Seasons of Mt. Arlington Assisted Living Project, Series 2000 B	2010	10.75	\$ -	\$ 180
AHS Hospital Corporation, Series 1997 A	2027	5.00 - 6.00	15,420	19,990
Trinitas Hospital Obligated Group, Series 2000	2010	7.375 - 7.50	-	54,420
Catholic Health East, Series 2003 A	2012	3.20 - 5.375	44,030	44,600
Cathedral Health Services, Inc., Series 1998	2011	4.70 - 5.50	3,660	3,660
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	22,765	26,765
St. Joseph's Hospital and Medical Center, Series 1996 B	2011	7.70	480	925
Muhlenberg Regional Medical Center, Series 2000	2010	4.85 - 5.50	-	15,905
Capital Health System Obligated Group, Series 2003 A	2033	4.00 - 5.75	85,485	88,345
Hunterdon Medical Center, Series A	2010	7.00	-	7,755
Total defeased public issues			322,980	428,820
Partially defeased public issues				
Saint Barnabas Health Care System, Series 1998 B	2023	0.00 - 5.25	17,413	17,413
South Jersey Hospital, Series 2002	2012	4.375 - 6.00	143,415	143,415
Atlantic City Medical Center, Series 2002 (currently AtlantiCare Health System)	2012	4.85 - 6.25	36,775	36,775
Total partially defeased public issues			197,603	197,603
Total defeased issues			\$ 520,583	\$ 626,423



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

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

We have audited the financial statements of the New Jersey Health Care Facilities Financing Authority (the "Authority") as of and for the year ended December 31, 2010, and have issued our report thereon dated February 23, 2011. 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.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the Authority's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control over financial reporting.

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 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.

Our consideration of internal control over financial reporting 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 financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

- AN INDEPENDENTLY OWNED MEMBER  
OF THE RSM MCGILDRAY NETWORK
- AMERICAN INSTITUTE OF  
CERTIFIED PUBLIC ACCOUNTANTS
- NEW JERSEY SOCIETY OF  
CERTIFIED PUBLIC ACCOUNTANTS
- NEW YORK SOCIETY OF  
CERTIFIED PUBLIC ACCOUNTANTS
- PENNSYLVANIA INSTITUTE OF  
CERTIFIED PUBLIC ACCOUNTANTS
- AICPA'S PRIVATE COMPANIES PRACTICE  
SECTION
- AICPA'S CENTER FOR AUDIT QUALITY
- REGISTERED WITH THE PCAOB

INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL  
REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE  
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 of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, and contracts noncompliance with which could have a direct and material effect on 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*.

This report is intended solely for the information and use of management, Members of the New Jersey Health Care Facilities Financing Authority, and others within the entity and is not intended to be and should not be used by anyone other than these specified parties.

*Miscation, PC*  
*Certified Public Accountants*

February 23, 2011