Financial Statements and Supplemental Financial Information

New Jersey Health Care Facilities Financing Authority
(A Component Unit of the State of New Jersey)
December 31, 2008

Ernst & Young LLP

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Contents

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Report of Independent Auditors

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

We have audited the accompanying balance sheets of the New Jersey Health Care Facilities Financing Authority, a component unit of the State of New Jersey, as of December 31, 2008 and 2007 and the related statements of revenues, expenses and changes in fund net assets, and cash flows for the years then ended. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits 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. An audit includes 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 audits provide 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, 2008 and 2007 and the changes in its financial position and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 6, 2009, on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on 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.

Management's discussion and analysis and the schedule of funding progress, on pages 3 to 8, and page 23, respectively, are not a required part of the 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 audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplemental 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.

Ernst + Young LLP

March 6, 2009

New Jersey Health Care Facilities
Financing Authority
(A Component Unit of the State of New Jersey)

Management's Discussion and Analysis

Year Ended December 31, 2008

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, 2008. Please read it in conjunction with the Authority's financial statements and accompanying notes.

Financial Highlights

The Authority's total net assets increased $723,000 or 9.3%
Cash and Cash Equivalents decreased $2,052,000 or 39.2%
Operating Revenue decreased $568,000 or 12.6%
Operating Expenses decreased $727,000 or 16.5%
Operating Income increased $159,000 or 174.7%

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 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, 2008, 2007 and 2006:

	2008 ($000)	2007 ($000)	2006 ($000)	Increase/ (Decrease) 2007-2008 ($000)	Increase/ (Decrease) 2007-2008 (%)
Current assets	**$ 8,247**	$ 7,809	$ 8,699	$ 438	5.6%
Noncurrent assets	**1,745**	2,287	221	(542)	(23.7)
Total assets	**9,992**	10,096	8,920	(104)	(1.0)
Current liabilities	**1,536**	1,411	1,092	125	8.9
Noncurrent liabilities		952	614	(952)	(100.0)
Total liabilities	**1,536**	2,363	1,706	(827)	(35.0)
Total net assets	**$ 8,456**	$ 7,733	$ 7,214	$ 723	9.3%

Current Assets are comprised of Cash and Cash Equivalents, Administrative Fees and Other Receivables, a Note Receivable, Note Interest Receivable and Prepaid Expenses. As of December 31, 2008, the majority of available funds 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, 2008 and 2007 was 1.32% and 4.52%, respectively. Overall, Cash and Cash Equivalents decreased due in part to the transfer of $3,738,403 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 and future liabilities. A majority of the transfer has been recorded as a prepaid expense. Regarding the Note Receivable in the amounts of $500,000 and $417,000 as of December 31, 2008 and 2007, respectively, the amounts represent the current portion of the loan outstanding to Bayonne Medical Center/IJKG Propco LLC. The receivable is further described in Note 10 to the financial statements. Administrative Fees and Other Receivables primarily represent the Authority's semi-annual fee billings that were disseminated on December 31, 2008 and 2007. It should be noted, that the Authority's overall receivables increased while the Administrative Fees portion of the receivables decreased due to a change made in the Authority's fee structure wherein the fees are now calculated on the declining outstanding balance of the bond issue instead of the par amount of the bond issue. This change was approved by the Member's of the Authority at its meeting in June 2007 and became effective with the December 31, 2007 billing. In addition, several series of auction rate bonds were refinanced in 2008 into one series which eliminated several administrative fees. Further, the economic crisis which is affecting the bond markets has slowed new financing activity which impacts the ability to add additional administrative fees to the Authority's billings.

When comparing Current Assets as of December 31, 2007 to December 31, 2006, Current Assets decreased 10.2%. The decrease in current assets during this period was due in part to the elimination in 2007 of the Note Receivable in the amount of $1,500,000 to Passaic Beth Israel Hospital Association (PBI). The Note was repaid in full in February of 2007. Further information on this receivable can be found in Note 10 to the financial statements. Looking at Cash and Cash Equivalents during this period, there was an increase of $310,000 or 6.3% due in part to the revenues generated during 2007 and the interest earned on the Authority's invested funds.

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 that exceeds one year as further described in Note 10 to the financial statements. In 2008, noncurrent assets decreased due in part to the time period remaining on the note receivable. Capital Assets purchased in 2008 included replacement computers and one replacement vehicle.

Noncurrent assets at December 31, 2007 increased $2,066,000 when compared to December 31, 2006. This was due in part to the addition in November 2007 of the noncurrent portion of the note receivable described previously. Capital Assets purchased in 2007 included replacement computers, two replacement vehicles and replacement file cabinets.

Current Liabilities in 2008 are comprised of Accounts Payable, Accrued Expenses and Deferred Revenue. Accounts Payable and Accrued Expenses increased $66,000 or 17.2% compared to December 31, 2007. This was due in part to the increase in the Authority's pension expense and the related percentage due. Chapter 108, P.L. 2003 called for the return of employer pension contributions on a phase-in basis with 20% of the actuarially calculated amount due in 2005, 40% was due in 2006, 60% was due in 2007, 80% was due in 2008 and 100% will be due in 2009 unless the legislature approves a new pension deferral plan. Deferred Revenue increased $59,000 or 5.7% compared to December 31, 2007. It represents the semi-annual fees billed on December 31, 2008 and 2007 which cover the periods January 1, 2009 to June 30, 2009 and January 1, 2008 to June 30, 2008, respectively. Financings completed since January 1, 2003 are billable in advance.

Current Liabilities in 2007 increased $319,000 or 29.2% compared to December 31, 2006. Accounts Payable and Accrued Expenses increased $86,000 or 29.0% due in part to the continued increase in the Authority's employer pension expense and the percentage due. In addition, Deferred Revenue increased $233,000 or 29.3%.

Noncurrent liabilities represents the Authority's unfunded actuarial accrued liability for postemployment benefits other than pensions in accordance with GASB No. 45, *Accounting and Reporting by Employees for Postemployment Benefits Other Than Pensions*. As stated previously, the Authority in 2008 established a Post-Retirement Health Benefits Trust and fully funded the Trust and as such no liability exists at December 31, 2008. As of December 31, 2007 and 2006, the net OPEB obligation totaled $952,000 and $614,000, respectively. Further information regarding this liability can be found in Note 5 to the financial statements.

Changes in Net Assets – The following table represents the changes in net assets between fiscal years 2008, 2007 and 2006:

	2008	2007	2006	Increase/ (Decrease) 2007-2008	Increase/ (Decrease) 2007-2008
	($000)	($000)	($000)	($000)	(%)
Operating revenues:					
Administrative fees:					
Annual fees	**$ 3,658**	$ 4,428	$ 4,140	$ (770)	(17.4)%
Initial fees	**122**	–	–	122	100.0
Per Series fees	**80**	–	–	80	100.0
Capital asset application fees	**2**	1	1	1	100.0
Mortgage servicing and Section 142 (d) fees	**63**	64	62	(1)	(1.6)
Total operating revenues	**3,925**	4,493	4,203	(568)	(12.6)
Operating expenses:					
Salaries and related expenses	**2,468**	2,343	2,216	125	5.3
General and administrative	**572**	623	597	(51)	(8.2)
Provision for postemployment benefits	**388**	354	334	34	9.6
Professional fees and other	**246**	1,045	256	(799)	(76.5)
Bad debt expense	**1**	37	–	(36)	(97.3)
Total operating expenses	**3,675**	4,402	3,403	(727)	(16.5)
Operating income	**250**	91	800	159	174.7
Nonoperating revenues (expenses):					
Interest income	**242**	414	290	(172)	(41.5)
Other	**231**	14	17	217	1550.0
Total nonoperating revenues (expenses)	**473**	428	307	45	10.5
Change in net assets	**723**	519	1,107	204	39.3
Net assets, beginning of year	**7,733**	7,214	6,107	519	7.2
Net assets, end of year	**$ 8,456**	$ 7,733	$ 7,214	$ 723	9.3%

The Authority's Net Assets increased $723,000 or 9.3% from the end of calendar year 2007 to December 31, 2008. Further, when comparing the Change in Net Assets amount to the prior year, there was an increase of $204,000 or 39.3% from 2007 to 2008. The decrease in operating expenses is the main reason for the increase in the Authority's Change in Net Assets. This decrease is described in the Operating expense section below.

The Authority's Net Assets increased $519,000 or 7.2% from the end of calendar year 2006 to December 31, 2007. When comparing the Change in Net Assets amount, there was a decrease of $588,000 or 53.1% from 2006 to 2007.

Operating Revenues - During 2008, total Operating Revenues decreased $568,000. Annual Fees decreased $770,000 while Initial Fees and Per Series Fees increased $122,000 and $80,000, respectively when compared to 2007. Concerning Annual Fees, part of the decrease is attributable to a change in the Authority's fee structure which took effect January 1, 2008. Prior to the change, the Authority collected an upfront fee equal to one-half the annual fee upon the execution of a Memorandum of Understanding (MOU). This upfront fee was replaced with an Initial Fee and one Per Series Fee. Any additional Per Series fees are collected upon completion of a financing. For informational purposes only, in 2007, $479,625 in first half annual fees were received upon the execution of sixteen (16) MOU's with a total estimated bond size of $1,854,000,000. Regarding annual fee billings, the Authority recorded revenue from the annual fee billings totaling $3,658,393 in 2008 compared to $3,948,262 in 2007 or a decrease of $289,869. The decrease in billings is due in part to the refinancing of several series of auction rate bonds into one series, the fee calculation being based on the declining outstanding balance and a slow down in financing activity due to the economic crisis which has affected the bond market. Finally, ten (10) initial fees totaling $122,000 and eleven (11) per series fees totaling $80,000 were received in 2008 based upon a total actual/estimated bond size of $924,593,000.

When compared to 2006, Operating Revenues during 2007 increased $290,000 or 6.9%. During 2007, Annual Fees increased $288,000 when compared to 2006. The Authority recorded revenue from the annual fee billings totaling $3,948,262 compared to $3,818,033 in 2006 or an increase of $130,229. Also, as stated previously, $479,625 in first half annual fees were received upon the execution of sixteen (16) MOU's with a total estimated bond size of $1,854,000,000. By comparison, $322,265 in first half fees were received in 2006 upon the execution of seventeen (17) MOU's with a total estimated bond size of $771,129,653.

Operating Expenses – During 2008, operating expenses decreased $727,000 or 16.5% when compared to 2007. The main area of decrease in operating expenses was in Professional Fees. In 2007, the Authority incurred expenditures for the consultant that was hired to assist the Commission on Rationalizing Health Care Resources in New Jersey that was established by Governor Corzine. The consultants work occurred in 2007 and their professional fees along with other expenses associated with the work of the Commission totaled $705,000. Other areas of decrease were in General and Administrative expenses and Bad Debt expense. Under General and Administrative expenses there were decreases in several line items, two of which, insurance and archiving documents decreased $23,000 and $24,000, respectively. The Authority's Directors and Officers Liability premium decreased and as the result of a Request for Proposal (RFP) conducted in 2008 for archiving services, the archiving contract is significantly less than the previous contract. Concerning the decrease in Bad Debt expense, in 2008, there was one (1) mortgage servicing fee which was uncollectible due to the bankruptcy and closure of the client institution. By comparison, in 2007, annual fees for two (2) client institutions were deemed uncollectible due to their financial distress. Offsetting the decrease slightly were increases in Salary and Related Expenses resulting from salary and health benefit premium increases effective January 1, 2008 and April 1, 2008, respectively and the provision for postemployment benefits.

When compared to 2006, Operating Expenses during 2007 increased $999,000 or 29.4%. The main area of increase was in Professional Fees for the expenditures incurred for the consultant described above. Other areas of increase were in Salaries and Related Expenses resulting from salary and health benefit premium increases effective January 1, 2007 and the addition of the Bad Debt expense as described above.

Nonoperating Revenues (Expenses) – Interest income in 2008 and 2007 represented interest earned on the Authority's checking accounts and the operating funds invested in the New Jersey Cash Management Fund totaling $135,000 in 2008 and $374,000 in 2007. In addition, interest was earned on the Note Receivable totaling $107,000 in 2008 and $40,000 in 2007, which is further described in Note 10 to the financial statements. Concerning the Other line item, two main receipts make up the $231,000 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.

When compared to 2006, Nonoperating Revenues (Expenses) during 2007 increased $121,000 or 39.4%. Interest income increased $124,000. Interest earned in 2007 totaled $414,000 as described above. By contrast, interest earned in 2006 totaled $290,000 and it represented interest earned on the Authority's checking accounts and the operating funds invested in U.S. Agency and/or Treasury securities and in the New Jersey Cash Management Fund totaling $279,000 and interest on the Note Receivable totaling $11,000.

Contacting the Authority's Financial Management

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

New Jersey Health Care Facilities
Financing Authority
(A Component Unit of the State of New Jersey)

Balance Sheets

	December 31 2008	December 31 2007
	($000)	
Assets		
Current assets:		
Cash and cash equivalents	**$ 3,189**	$ 5,241
Administrative fees and other receivables	**2,033**	2,011
Note receivable	**500**	417
Note interest receivable	**6**	16
Prepaid expenses	**2,519**	124
Total current assets	**8,247**	7,809
Noncurrent assets:		
Note receivable	**1,583**	2,083
Capital assets	**798**	762
Less accumulated depreciation	**(636)**	(558)
Total noncurrent assets	**1,745**	2,287
Total assets	**$ 9,992**	$ 10,096
Liabilities and net assets		
Current liabilities:		
Accounts payable and accrued expenses	**$ 449**	$ 383
Deferred revenue	**1,087**	1,028
Total current liabilities	**1,536**	1,411
Noncurrent liabilities:		
Postemployment benefits other than pension	**–**	952
Total liabilities	**1,536**	2,363
Net assets:		
Unrestricted	**8,294**	7,529
Invested in capital assets	**162**	204
	8,456	7,733
Total liabilities and net assets	**$ 9,992**	$ 10,096

See accompanying notes.

New Jersey Health Care Facilities Financing Authority

(A Component Unit of the State of New Jersey)

Statements of Revenues, Expenses and Changes in Fund Net Assets

	Year Ended December 31 2008	2007
	($000)	
Operating revenues:		
Administrative fees:		
Annual fees	$ **3,658**	$ 4,428
Initial fees	**122**	–
Per series fees	**80**	–
Capital asset program application fees	**2**	1
Mortgage servicing fees	**38**	39
Section 142 (d) fees	**25**	25
Total operating revenues	**3,925**	4,493
Operating expenses:		
Salaries and related expenses	**2,468**	2,343
General and administrative expenses	**572**	623
Professional fees	**166**	960
Provision for postemployment benefits	**388**	354
Depreciation	**80**	85
Bad debt expense	**1**	37
Total operating expenses	**3,675**	4,402
Operating income	**250**	91
Nonoperating revenues:		
Interest income	**135**	374
Other income	**231**	1
Note interest income	**107**	40
Gain on disposal of assets	**–**	13
Total nonoperating revenues	**473**	428
Changes in net assets	**723**	519
Net assets, beginning of year	**7,733**	7,214
Net assets, end of year	$ **8,456**	$ 7,733

See accompanying notes.

New Jersey Health Care Facilities Financing Authority

(A Component Unit of the State of New Jersey)

Statements of Cash Flows

	Year Ended December 31 2008	2007
	($000)	
Cash flows from operating activities		
Cash received from customers	$ 3,962	$ 4,829
Cash payment to suppliers and employees	(3,138)	(3,872)
Cash payment to postemployment health benefits trust	(3,738)	–
Net cash (used in) provided by operating activities	(2,914)	957
Cash flows from capital and related financing activities		
Acquisition of capital assets	(37)	(75)
Cash received on disposal of asset	–	19
Net cash used in capital and related financing activities	(37)	(56)
Cash flows from noncapital financing activities		
Other	231	1
Note issued to client institution	–	(2,500)
Note repaid from client institution	417	1,500
Interest received on note	116	34
Net cash provided by (used in) noncapital financial activities	764	(965)
Cash flows from investing activities		
Investment income	135	374
Net cash provided by investing activities	135	374
Net (decrease) increase in cash and cash equivalents	(2,052)	310
Cash and cash equivalents, beginning of year	5,241	4,931
Cash and cash equivalents, end of year	$ 3,189	$ 5,241
Operating income	$ 250	$ 91
Adjustments:		
Depreciation	80	85
Changes in asset and liabilities:		
Accounts receivable	(22)	103
Prepaid expenses	(2,395)	21
Deferred revenue	59	233
Accounts payable	66	86
Liability for postemployment benefits	(952)	338
Total adjustments	(3,164)	866
Net cash (used in) provided by operating activities	$ (2,914)	$ 957

See accompanying notes.

1. 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. 26:2I: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.

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.

1. Organization (continued)

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.

2. 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). Private-sector standards of accounting and financial reporting issued prior to December 1, 1989 are followed by the Authority to the extent that those standards do not conflict with or contradict guidance of the GASB.

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 – Prior to January 1, 2008, the Authority charged an upfront fee equal to one-half of the annual 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. Due to a change in the Authority's fee structure, effective January 1, 2008 an initial fee and a per series fee are now collected as the upfront fee. A separate application fee is charged to those health care organizations who wish to finance a

2. Summary of Significant Accounting Policies (continued)

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.

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.

Depreciation – Capital assets as listed below, are depreciated over their estimated useful lives using the straight-line method as follows:

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

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

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

3. Cash and Investments

The components of cash and investments at December 31, 2008 and 2007 are:

	2008	2007
	(000's)	
Cash and cash equivalents:		
Operating checking account	**$ 1**	$ 1
New Jersey Cash Management Fund	**3,188**	5,240
Total cash and cash equivalents	**$ 3,189**	$ 5,241

The Authority's bank balance at December 31, 2008 and 2007 amounted to $39,329 and $6,444, respectively, all of which was covered by FDIC insurance.

The Authority's investment policy permits the following securities and investment vehicles; (i) Obligations of or guaranteed by the State of New Jersey or the United States of America (including obligations which have been stripped of their unmatured interest coupons, and interest coupons which have been stripped from such obligations); (ii) Obligations issued or guaranteed by any instrumentality or agency of the United States of America, whether now existing or hereafter organized; (iii) Obligations issued or guaranteed by any State of the United States or District of Columbia, so long as such obligations are rated at the time of purchase in either of the highest two credit rating categories by any two nationally recognized securities rating agencies; (iv) Repurchase agreements and guaranteed investment contracts with any banking institution, where such agreement or contract is fully secured by obligations of the kind specified in (i), (ii) or (iii) above, provided that such security is held by a third party and that the seller of such obligations represents that such obligations are free and clear of claims by any other party; (v) Interest-bearing deposits in any bank or trust company provided that all such deposits shall, to the extent not insured, be secured by a pledge of obligations of the kind in (i), (ii) or (iii); (vi) Units of participation in the New Jersey Cash Management Fund, or any similar common trust fund which is established pursuant to law as a legal depository of public moneys and for which the New Jersey State Treasurer is custodian; and (vii) Shares of an open-end, diversified investment company which is registered under the Investment Company Act of 1940, as amended, and which (1) invests its assets exclusively in obligations of or guaranteed by the United States of America or any instrumentality or agency thereof having in each instance a final maturity date of less than one year from their date of purchase; (2) seeks to maintain a constant

3. Cash and Investments (continued)

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 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.

As of December 31, 2004, the Authority implemented disclosure requirements of 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.

    At December 31, 2008 and December 31, 2007, the Authority's bank balance was not exposed to custodial credit risk since the full amount was covered by FDIC insurance. The New Jersey Cash Management 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.

3. Cash and Investments (continued)

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, 2008 and 2007, 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 – GASB 40 requires that disclosure be made as to the credit rating of all debt security investments except for obligations of the U.S. government or obligations explicitly guaranteed by the U.S. government. 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.

4. 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, 2008, 2007 and 2006 were $1,855,685, $1,760,430, and $1,709,604, respectively. Pension costs for the years ended December 31, 2008, 2007 and 2006 were $145,016, $133,373, and $68,918, 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 2008, 5.00% for the 1st half of 2007, 5.5% for the 2nd half of 2007, and 5.00% in 2006.

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.

5. 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 the Public Employees Retirement System (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.

5. Postemployment Benefits Other Than Pensions (continued)

- 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.

The Authority's annual OPEB cost for the plan is calculated based on the annual required contribution "ARC", an amount actuarially determined in accordance with the parameters of GASB Statement 45. 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 for the year ended December 31, 2008 and 2007 and the related information for the plan are as follows (dollar amounts in thousands):

	2008	**2007**
Annual required contribution	**$ 388**	$ 354
Contributions made (payment for benefits during year)	**(3,738)**	(16)
(Decrease) increase in net OPEB obligation	**(3,350)**	338
Net OPEB obligation – beginning of year	**952**	614
(Prepaid) Net OPEB obligation – end of year	**$ (2,398)**	$ 952

The Authority's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for fiscal years 2007 and 2008 were as follows (dollar amounts in thousands):

Fiscal Year Ended	**Annual OPEB Cost**	**Percentage of Annual OPEB Cost Contributed**	**Net OPEB Obligation/ (Prepaid)**
December 31, 2007	$ 354	4.5%	$ 952
December 31, 2008	388	100%	(2,398)

5. Postemployment Benefits Other Than Pensions (continued)

At January 1, 2008, the actuarial accrued liability for benefits was $3,441,719, all of which was funded. The covered payroll (annual payroll of active employees covered by the plan) was $1,855,685 for the year ended December 31, 2008, and the ratio of the funded actuarial accrued liability was 108%.

The most recent actuarial valuation date is January 1, 2007. 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, 2007 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 9% medical grading down to an ultimate rate of 5%.

6. 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.

7. Related Party Transactions

Operating expenses for the years ended December 31, 2008 and 2007 include approximately $283,000 and $296,000, respectively, relating to payment for goods and services provided by various State of New Jersey agencies.

8. 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, 2008, the Authority issued $1,272,380,000 in conduit debt. The amount of conduit debt outstanding at December 31, 2008 totaled $6,141,450,000.

9. 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, 2008 through December 18, 2009 has a $20 million liability limit with a retention level of $175,000 at a premium cost of $78,799.

10. Note Receivable Passaic Beth Israel and Bayonne Medical Center

On July 10, 2006, Passaic Beth Israel Hospital Association (PBI) filed for protection under Chapter 11 of the U.S. Bankruptcy Code. The bankruptcy court conducted an auction for the sale of PBI and on December 11, 2006, St. Mary's Hospital of Passaic (St. Mary's) was declared the winner of the auction with a bid of $36,700,000. St. Mary's agreed that it would close its facility and move the operations to PBI. This qualified it for financing through the Hospital Asset Transformation Program, which allows the State of New Jersey to support a portion or all of the debt issued for the transaction.

10. Note Receivable Passaic Beth Israel and Bayonne Medical Center (continued)

Further, on November 13, 2006, the Bankruptcy Court entered an order authorizing a debtor in possession financing from Commerce Bank, N.A. to PBI in the amount of $5,000,000. The order also stated that the loan would be a senior lien to all other liens in the bankruptcy.

Consequently, on December 4, 2006, the Authority became a party to the debtor-in-possession loan with Commerce Bank, N.A. The Authority's participation in the loan was in the amount of $1,500,000 with interest at prime which was 8.25% plus 2%.

During 2007, the Authority completed a conduit bond issue under the Hospital Asset Transformation Program and the debtor-in-possession note receivable was repaid on February 28, 2007.

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 is 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. The following table summarizes the Authority's remaining loan payments to be received under this agreement.

Year Ended December 31	Principal	Estimated Interest	Total
2009	$ 499,992	$ 124,972	$ 624,964
2010	499,992	91,272	591,264
2011	499,992	57,573	557,565
2012	499,992	23,873	523,865
2013	83,372	703	84,075

Required Supplementary Information

New Jersey Health Care Facilities Financing Authority

(A Component Unit of the State of New Jersey)

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, 2007	$ –	$ 3,153	$ 3,153	0%	$ 1,760	179%
January 1, 2006	–	2,760	2,760	0	1,710	161

Supplemental Financial Information

New Jersey Health Care Facilities Financing Authority
(A Component Unit of the State of New Jersey)

Statements of Net Assets for Trustee Held Funds

	December 31 2008	December 31 2007
	($000)	
Assets		
Mortgages and loans receivable	**$ 4,657,421**	$ 4,809,893
Lease receivable	**198,355**	204,330
State contract bond receivable	**297,970**	45,425
Equipment revenue notes receivable	**5,416**	3,574
Capital Asset Program notes receivable	**33,634**	36,560
Construction/program accounts:		
Cash and cash equivalents	**400,933**	471,683
Investments	**175,273**	1,453
Prepaid expenses	**10**	10
Debt service accounts:		
Cash and cash equivalents	**159,127**	164,609
Investments	**130**	5,291
Receivable from master trustee/institution	**11,723**	8,022
Debt service reserve accounts:		
Cash and cash equivalents	**216,940**	162,384
Investments	**89,802**	142,873
Mortgage servicing accounts:		
Cash and cash equivalents	**182**	626
Mortgage payments receivable	**231**	693
Total assets	**$ 6,247,147**	$ 6,057,426
Liabilities and net assets		
Bonds payable	**$ 6,134,371**	$ 5,952,854
Revenue notes payable	**7,079**	6,484
Accrued interest payable	**104,511**	96,096
Accrued expenses	**222**	41
Mortgages and escrows payable	**413**	1,319
Deferred income	**–**	1
Capital Asset Program net assets	**551**	631
Total liabilities and Capital Asset Program net assets	**$ 6,247,147**	$ 6,057,426

See accompanying notes.

New Jersey Health Care Facilities
Financing Authority
(A Component Unit of the State of New Jersey)

Statements of Cash Flows for Trustee Held Funds

	Year Ended December 31 2008	2007
	($000)	
Cash flows from operating activities		
Payments received from institutions under agreements	**$ 764,115**	$ 469,342
Equity contribution from institutions	**45,904**	12,441
Disbursements for construction/acquisition and issuance expense	**(373,140)**	(619,019)
Other receipts / (disbursements)	**(122,931)**	51,838
Net cash provided by (used in) operating activities	**313,948**	(85,398)
Cash flows from noncapital financing activities		
Face amount of revenue bonds	**1,272,380**	849,066
Less deductions at time of sale	**(374,575)**	(60,136)
Refunding of pre-existing debt/escrow fund deposit	**(174,521)**	(288,712)
Net proceeds from sale of revenue bonds	**723,284**	500,218
Principal/premium paid on revenue bonds	**(765,860)**	(292,581)
Interest paid on revenue bonds	**(268,668)**	(267,723)
Net cash used in noncapital financing activities	**(311,244)**	(60,086)
Cash flows from investing activities		
Net proceeds from sale and maturities of securities	**(52,563)**	(11,113)
Interest on investments	**27,739**	49,563
Net cash (used in) provided by investing activities	**(24,824)**	38,450
Net decrease in cash and cash equivalents	**(22,120)**	(107,034)
Cash and cash equivalents, beginning of year	**799,302**	906,336
Cash and cash equivalents, end of year	**$ 777,182**	$ 799,302

See accompanying notes.

1. Background

As indicated in Note 1 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.

2. 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.

2. 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.

3. 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, 2008 and 2007, mortgages and loans receivable were:

	2008	2007
	($000)	
Mortgages		
The Society of the Valley Hospital	$ –	$ 12,735
Robert Wood Johnson University Hospital	**135,560**	138,305
Chilton Memorial Hospital	**14,905**	17,475
Burdette Tomlin Memorial Hospital	**23,280**	23,750
Holy Name Hospital	**109,920**	110,486
Columbus Hospital	–	25,500
Deborah Heart and Lung Center	**23,280**	24,225
Southern Ocean County Hospital	**33,980**	34,870
Somerset Medical Center	**81,390**	108,580
St. Ann's Home for the Aged	**6,543**	6,855
CentraState Assisted Living, Inc.	**6,566**	6,798
Total mortgages receivable	**435,424**	509,579

3. Mortgages and Loans Receivable (continued)

	2008	2007
	($000)	
Loans		
Secured by pledge of collateral with trustees:		
Barnert Hospital	$ –	26,175
Cathedral Health Services, Inc.	–	60,329
Care Institute, Inc. – Cherry Hill	**14,080**	14,395
Shoreline Behavioral Health Center (currently Saint Barnabas Behavioral Health Center, a part of Saint Barnabas Health Care System)	**11,965**	12,320
Christian Health Care Center	**7,100**	7,200
The Avalon at Bridgewater Assisted Living Project	**6,525**	6,665
Holland Christian Home Association	**2,700**	2,900
Bartley Assisted Living LLC	**8,055**	8,413
Muhlenberg Regional Medical Center	**17,275**	18,580
Jersey City Medical Center	**191,980**	197,330
Hartwyck West Nursing Home	–	211
JFK Assisted Living	**11,861**	12,228
Meridian Hospitals Corporation	**23,960**	25,790
Wiley Mission Project	**12,315**	12,700
Englewood Hospital and Medical Center	**91,505**	94,295
The Community Hospital Group	**33,135**	34,200
The Matheny School and Hospital	**3,000**	3,100
Robert Wood Johnson University Hospital	**65,185**	67,655
St. Francis Medical Center	**2,100**	2,300
St. Joseph's –Wayne Hospital	–	4,900
Virtua Health, Inc.	**67,900**	68,600
Rahway Hospital	**11,000**	11,000

3. Mortgages and Loans Receivable (continued)

	2008	2007
	($000)	
Loans (continued)		
Secured by pledge of collateral with trustees (continued):		
Bayshore Community Hospital	$ **5,075**	$ 5,840
South Jersey Hospital, Inc.	**13,735**	14,085
Children's Specialized Hospital	**56,080**	56,895
AtlantiCare Regional Medical Center	**45,000**	47,000
Recovery Management, Inc.	**13,485**	13,485
The Avalon at Hillsborough	**12,055**	12,055
East Orange General Hospital	**11,595**	12,320
FitnessFirst Oradell Center, LLC	**6,830**	7,000
MHAC I, LLC	**32,570**	32,570
Southern Ocean County Hospital	**17,895**	18,150
Somerset Medical Center	**25,930**	15,000
Underwood-Memorial Hospital	**60,850**	–
Secured by pledge of gross receipts under Master Trust Indentures:		
Hackensack Medical Center (currently Hackensack University Medical Center)	**463,085**	365,950
Saint Peter's Medical Center (currently Saint Peter's University Hospital)	**163,395**	163,395
Hunterdon Medical Center	**47,035**	47,675
JFK Health Systems Obligated Group	**32,335**	33,560
Pascack Valley Hospital Association	**30,931**	81,235
Palisades Medical Center Obligated Group (currently a part of Palisades Medical Center of New York Presbyterian Health Care System)	**40,175**	40,960
Shore Memorial Health Care System	**32,520**	35,740
South Jersey Hospital System	**157,915**	160,855
Raritan Bay Medical Center	**45,300**	46,400

3. Mortgages and Loans Receivable (continued)

	2008	2007
	($000)	
Loans (continued)		
Secured by pledge of gross receipts under Master Trust Indentures (continued):		
Jersey Shore Medical Center (currently a part of Meridian Health System, Inc.)	$ **26,090**	$ 27,010
Bayonne Hospital Obligated Group	**30,865**	32,610
Warren Hospital Obligated Group	**45,840**	21,640
St. Joseph's Hospital and Medical Center Obligated Group	**248,910**	56,170
AHS Hospital Corporation	**354,220**	334,775
Newton Memorial Hospital	**25,405**	26,755
Kennedy Health System Obligated Group	**67,860**	72,135
Capital Health System Obligated Group	**157,195**	162,050
Christian Health Care Center	**20,540**	21,730
Community Medical Center/Kimball Medical Center/ Kensington Manor Care Center Obligated Group (currently parts of Saint Barnabas Health Care System)	**30,050**	35,630
Rahway Hospital Obligated Group	**14,930**	17,015
JFK Medical Center/Hartwyck at Oak Tree Obligated Group	**41,565**	43,010
Saint Barnabas Medical Center/West Hudson Hospital Obligated Group (currently parts of Saint Barnabas Health Care System)	**34,610**	36,820
CentraState Medical Center Obligated Group	**120,095**	121,585
Virtua Health, Inc.	**122,450**	134,975
Saint Barnabas Health Care System	**667,310**	675,904
Catholic Health East	**130,990**	133,015
Meridian Health System Obligated Group	**549,675**	555,775
RWJ Health Care Corp. at Hamilton, Obligated Group	**119,770**	122,730

3. Mortgages and Loans Receivable (continued)

	2008	2007
	($000)	
Loans (continued)		
Secured by pledge of gross receipts under Master Trust Indentures (continued):		
Trinitas Hospital Obligated Group	**$ 130,400**	$ 130,400
The Society of the Valley Hospital Obligated Group	**32,850**	34,280
The House of the Good Shepherd	**17,860**	18,280
Bayshore Community Hospital	**43,255**	44,425
Atlantic City Medical Center	**61,380**	64,685
St. Clare's Hospital	**–**	93,240
Underwood Memorial Hospital	**–**	62,000
Atlanticare Regional Medical Center	**113,075**	113,420
Total loans receivable	**5,102,622**	5,093,520
Total mortgages and loans receivable	**5,538,046**	5,603,099
Less cash and investments held by trustees	**880,625**	793,206
Net mortgages and loans receivable	**$ 4,657,421**	$ 4,809,893

4. 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.

4. Capital Asset Program Notes Receivable (continued)

As of December 31, 2008 and 2007 Capital Asset Program notes receivable were:

	2008	2007
	($000)	
Matheny School	**$ 204**	$ 390
Community Medical Center (currently a part of Saint Barnabas Health Care System)	**317**	507
Visiting Nurses Association of Central Jersey	**327**	433
Somerset Medical Center	**9,440**	14,014
Underwood Memorial Hospital	**–**	303
New Jersey Organ and Tissue Sharing Network	**933**	1,091
P.G. Chambers School (formerly Children's Center for Therapy and Learning, Inc.)	**1,237**	1,297
Saint Barnabas Corporation-Mega Care, Inc.	**7,903**	9,385
Cerebral Palsy Center, Bergen County, NJ	**–**	335
Palisades Medical Center, Inc.	**3,988**	4,702
Cooper Health System	**4,985**	5,225
Meridian Nursing and Rehabilitation at Ocean Grove	**6,729**	6,979
Total Capital Asset Program notes receivable	**36,063**	44,661
Less cash and investments held by trustee	**2,429**	8,101
Net Capital Asset Program notes receivable	**$ 33,634**	$ 36,560

5. 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.

	2008	2007
	($000)	
Barnert Hospital	$ –	$ 1,698
FitnessFirst Oradell Center	**925**	1,186
Children's Specialized Hospital	**2,935**	3,600
Christian Health Care Center	**3,219**	–
Total equipment notes receivable	**7,079**	6,484
Less cash and investment held by trustee	**1,663**	2,910
Net equipments notes receivable	**$ 5,416**	$ 3,574

6. 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

6. Lease Receivable: Greystone Park Psychiatric Hospital (continued)

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, 2008 and 2007, the lease receivable was in the amount of $198,355,000 and $204,330,000, respectively.

7. State Contract Bonds Receivable

The Hospital Asset Transformation Act (P.L. 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 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 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 appropriations being made by the State Legislature for such purpose.

At December 31, 2008 and 2007, the State Contract Bond Receivable was as follows:

	2008	**2007**
	($000)	
St. Mary's Hospital	**$ 45,425**	$ 45,425
St. Michael's Medical Center, Inc.	**252,545**	–
Total State contract bonds receivable	**$ 297,970**	$ 45,425

8. Cash and Investments

The components of cash and investments at December 31, 2008 and 2007 are:

	2008	2007
	($000)	
Cash and cash equivalents:		
Money Market Funds (which includes New Jersey Cash Management Fund)	**$ 777,182**	$ 799,302
Investments:		
Investment agreements:		
Collateralized	**238,055**	60,437
Uncollateralized	**–**	3,806
U.S. Treasury and Agency obligations	**27,150**	85,374
Total cash, cash equivalents and investments	**$ 1,042,387**	$ 948,919

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; (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.

8. Cash and Investments (continued)

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.

9. Revenue Bonds and Notes

The security for the revenue bonds and notes of the Authority is described in Note 3 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 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 7.

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 2008	2007
			($000)	
Revenue bonds				
Public issues:				
The Society of the Valley Hospital, Series C	2014	6.00 – 6.625%	$ *	$ 12,735
Hunterdon Medical Center, Series A	2020	7.00	**8,090**	8,090
Columbus Hospital, Series A	2021	7.50	*	25,500
JFK Health Systems Obligated Group, Series 1993	2023	5.40 – 5.50	**11,720**	12,305
Deborah Heart and Lung Center, Series 1993	2023	6.20 – 6.30	**23,280**	24,225
Saint Peter's Medical Center, Series F (currently Saint Peter's University Hospital)	2021	4.80 – 5.00	**26,425**	26,425
Chilton Memorial Hospital, Series D	2013	5.00	**14,905**	17,475
Shore Memorial Health Care System, Series 1993	2012	5.00	**6,285**	8,285

* Defeased or paid off.

9. Revenue Bonds and Notes (continued)

	Due in Varying Installments Ending	Range of Annual Interest Rate Percentages	Amount Outstanding December 31 2008	2007
			($000)	
Revenue bonds (continued)				
Public issues (continued):				
Somerset Medical Center, Series A	2024	5.00 – 5.20	$ *	$ 27,190
Raritan Bay Medical Center, Series 1994	2027	7.25	**45,300**	46,400
Jersey Shore Medical Center, Series 1994 (currently a part of Meridian Health System, Inc.)	2024	5.875 – 6.75	**26,090**	27,010
Bayonne Hospital Obligated Group, Series 1994	2012	6.25	**8,140**	9,885
JFK Health Systems Obligated Group, Series 1995	2025	5.40 – 5.70	**20,615**	21,255
Warren Hospital Obligated Group, Series 1995	2018	5.25 – 5.875	*	8,520
Robert Wood Johnson University Hospital, Series C	2010	5.125 – 5.25	**5,920**	8,665
St. Joseph's Hospital and Medical Center Obligated Group, Series 1996A	2026	5.70 – 6.00	*	54,445
St. Joseph's Hospital and Medical Center Obligated Group, Series 1996B	2011	7.70	*	1,725
Care Institute, Inc. – Cherry Hill, Series 1996	2027	7.75 – 8.00	**14,080**	14,395
Holy Name Hospital, Series 1997	2025	6.00	**19,665**	50,486
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	**11,965**	12,320
Newton Memorial Hospital, Series 1997	2019	4.90 – 5.00	**13,025**	13,905
Kennedy Health System Obligated Group, Series 1997 A	2027	5.00 – 5.20	**13,395**	13,940
Southern Ocean County Hospital, Series 1997	2027	4.75 – 5.00	**11,100**	11,450
Capital Health System Obligated Group, Series 1997	2027	5.125 – 5.25	**36,635**	38,805
Christian Health Care Center, Series 1997 A	2018	5.25 – 5.50	**11,940**	12,830
Christian Health Care Center, Series 1997 B	2028	Weekly variable rate	**8,600**	8,900

9. Revenue Bonds and Notes (continued)

	Due in Varying Installments Ending	Range of Annual Interest Rate Percentages	Amount Outstanding December 31 2008	Amount Outstanding December 31 2007
Revenue bonds (continued)			*($000)*	
Public issues (continued):				
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	**30,050**	35,630
Cathedral Health Services, Inc., Series 1998	2021	4.70 – 5.50	*	55,700
Kennedy Health System Obligated Group, Series 1997 B	2015	5.00 – 5.75	**10,575**	14,305
Rahway Hospital Obligated Group, Series 1998	2014	5.00 – 5.125	**14,930**	17,015
Hackensack University Medical Center, Series 1998	2028	4.50 – 5.375	**134,380**	138,240
JFK Medical Center/Hartwyck at Oak Tree Obligated Group, Series 1998	2025	4.60 – 5.00	**41,565**	43,010
Saint Barnabas Medical Center/West Hudson Hospital Obligated Group, Series 1998A (currently parts of Saint Barnabas Health Care System)	2028	4.50 – 5.25	**34,610**	36,820
Christian Health Care Center, Series 1998 A-3	2018	Weekly variable rate	**500**	600
CentraState Medical Center Obligated Group, Series 1998	2028	4.20 – 4.65	**48,670**	50,160
Pascack Valley Hospital Association, Series 1998	2028	4.70 – 5.125	**11,797**	31,720
Virtua Health Inc., Series 1998	2028	4.375 – 5.25	**96,560**	104,450
Saint Barnabas Health Care System, Series 1998B	2028	0.00 – 5.25	**365,845**	371,690
Catholic Health East, Series 1998E	2029	4.30 – 5.25	**30,735**	32,135
Barnert Hospital, Series 1999	2025	4.20 – 5.00	*	26,175
Palisades Medical Center of New York Presbyterian Health Care System Obligated Group, Series 1999	2028	4.65 – 5.25	**28,630**	28,630
The Avalon at Bridgewater Assisted Living Project, Series 1999A	2029	6.625 – 6.75	**6,525**	6,630

9. Revenue Bonds and Notes (continued)

	Due in Varying Installments Ending	Range of Annual Interest Rate Percentages	Amount Outstanding December 31 2008	2007
Revenue bonds (continued)			($000)	
Public issues (continued):				
The Avalon at Bridgewater Assisted Living Project, Series 1999B	2008	9.75	$ *	$ 35
Burdette Tomlin Memorial Hospital, Series 1999	2029	5.10 – 5.60	**23,280**	23,750
Meridian Health System Obligated Group, Series 1999	2029	5.00 – 5.625	**207,550**	213,650
Holland Christian Home Association, Series 1999A-2	2019	Weekly variable rate	**2,700**	2,900
Hackensack University Medical Center, Series 2000	2034	5.60 – 6.125	**79,525**	80,810
Saint Barnabas Health Care System, Series 1998C	2018	5.00 – 5.25	**10,495**	11,495
Robert Wood Johnson University Hospital, Series 2000	2031	5.20 – 5.75	**129,640**	129,640
Muhlenberg Regional Medical Center, Series 2000	2018	4.85 – 5.50	**17,275**	18,580
The Society of the Valley Hospital Obligated Group, Series 2000	2031	4.75 – 5.75	**32,850**	34,280
Saint Peter's University Hospital Obligated Group, Series 2000A	2030	6.875	**36,795**	36,795
Saint Peter's University Hospital Obligated Group, Series 2000B	2030	Weekly variable rate	**29,280**	29,280
Saint Peter's University Hospital Obligated Group, Series 2000C	2030	Weekly variable rate	**5,720**	5,720
Southern Ocean County Hospital, Series 2001	2031	4.25 – 5.125	**22,880**	23,420
The House Of The Good Shepherd Obl. Grp., Series 2001	2031	4.20 – 5.20	**17,860**	18,280
Jersey City Medical Center, Series 2001	2041	3.85 – 5.00	**177,175**	182,070
Kennedy Health System Obl. Grp., Series 2001	2031	5.50 – 5.625	**43,890**	43,890
St. Barnabas Health Care System, Series 2001A	2031	Weekly variable rate	**34,400**	34,400
St. Barnabas Health Care System, Series 2001B	2031	Auction rate	**68,500**	70,250

9. Revenue Bonds and Notes (continued)

	Due in Varying Installments Ending	Range of Annual Interest Rate Percentages	Amount Outstanding December 31 2008	Amount Outstanding December 31 2007
			($000)	
Revenue bonds (continued)				
Public issues (continued):				
Newton Memorial Hospital, Series 2001	2026	3.70 – 5.25	**$ 12,380**	$ 12,850
Meridian Hospital Corp,. Series 2001 A-1	2016	Weekly variable rate	**5,100**	6,600
Bayshore Community Hospital, Series 2002	2032	4.00 – 5.125	**43,255**	44,425
Atlantic City Medical Center, Series 2002	2025	5.25 – 6.25	**61,380**	64,685
Palisades Medical Center of NY Présbyterian Health Care System Obl. Grp., Series 2002	2031	5.50 – 6.625	**11,545**	12,330
South Jersey Hospital, Series 2002	2032	5.875 – 6.00	**13,630**	16,570
RWJ Health Corp. at Hamilton, Series 2002	2032	Weekly variable rate	**27,910**	28,930
Wiley Mission Project, Series 2002	2029	Weekly variable rate	**12,315**	12,700
Englewood Hospital and Medical Center, Series 2002	2031	3.35 – 5.25	**91,505**	94,295
Meridian Health System Obligated Group, Series 2003A	2033	Weekly variable rate	**60,000**	60,000
Meridian Health System Obligated Group, Series 2003B	2033	Weekly variable rate	**40,000**	40,000
Pascack Valley Hospital Association, Series 2003	2036	6.00 – 6.625	**19,134**	49,515
Somerset Medical Center, Series 2003	2033	5.50 – 5.75	**81,390**	81,390
The Community Hospital Group, Inc., Series 2003A-1	2020	Weekly variable rate	**15,200**	16,200
The Matheny School and Hospital Inc., Series 2003 A-2	2023	Weekly variable rate	**3,000**	3,100
Robert Wood Johnson University Hospital, Inc., Series 2003 A-3	2023	Weekly variable rate	**20,100**	21,200
St. Francis Medical Center, Series 2003 A-5	2018	Weekly variable rate	**2,100**	2,300
St. Joseph's Wayne Hospital, Inc., Series 2003 A-6	2018	Weekly variable rate	*	4,900
Virtua Health Inc., Series 2003 A-7	2018	Weekly variable rate	**7,900**	8,600

9. Revenue Bonds and Notes (continued)

	Due in Varying Installments Ending	Range of Annual Interest Rate Percentages	Amount Outstanding December 31 2008	2007
			($000)	
Revenue bonds (continued)				
Public issues (continued):				
Shore Memorial Health Care System, Obligated Group, Series 2003	2023	3.00 – 5.00	$ **26,235**	$ 27,455
Rahway Hospital, Series 2003 A-8	2023	Weekly variable rate	**11,000**	11,000
AHS Hospital Corporation, Series 2003	2025	Auction rate	*	61,875
Capital Health System Obligated Group, Series 2003 A	2033	4.00 – 5.75	**91,060**	93,645
Capital Health System Obligated Group, Series 2003 B	2033	Weekly variable rate	**29,500**	29,600
Jersey City Medical Center, Series 2003	2030	2.625 – 4.80	**14,805**	15,260
Greystone Park Psychiatric Hospital Project, Series 2003	2025	2.80 – 5.00	**17,060**	17,765
Underwood Memorial Hospital, Series 2004	2033	Auction rate	*	62,000
Hackensack University Medical Center, Series 2004	2036	Auction rate	*	146,900
AHS Hospital Corp, Series 2004	2016	Auction rate	*	21,900
Bayshore Community Hospital, Series 2004 A-1	2014	Weekly variable rate	**5,075**	5,840
Meridian Nursing and Rehab, Series 2004 A-3	2035	Weekly variable rate	**13,760**	14,090
South Jersey Hospital, Inc., Series 2004 A-4	2034	Weekly variable rate	**13,735**	14,085
Robert Wood Johnson Univ. Hospital, Series 2004	2029	Weekly variable rate	**45,085**	46,455
St. Clare's Hospital, Series 2004A	2025	4.25 – 5.25	*	59,000

9. Revenue Bonds and Notes (continued)

	Due in Varying Installments Ending	Range of Annual Interest Rate Percentages	Amount Outstanding December 31 2008	2007
			($000)	
Revenue bonds (continued)				
Public issues (continued):				
St. Clare's Hospital, Series 2004B	2015	2.85 – 5.25	$ *	$ 34,240
Virtua Health, Series 2004	2033	Weekly variable rate	**60,000**	60,000
Recovery Management Sys, Inc. Series 2005	2030	Weekly variable rate	**13,485**	13,485
The Avalon at Hillsborough, Series 2005A	2035	6.15 – 6.625	**10,880**	10,880
RWJ Health Care Corp. @ Hamilton, Series 2005A	2024	Auction rate	**27,400**	28,425
RWJ Health Care Corp. @ Hamilton, Series 2005 B	2035	3.10 – 5.00	**64,460**	65,375
Greystone Park Psychiatric Hospital Project, Series 2005	2028	3.50 – 5.00	**181,295**	186,565
Children's Specialized Hospital, Proj., Series 2005 A	2036	4.00 – 5.50	**32,460**	32,895
Children's Specialized Hospital, Proj., Series 2005 B	2036	Weekly variable rate	**23,620**	24,000
AtlantiCare Regional Med. Ctr., Series 2005 A-1	2030	Weekly variable rate	**22,000**	23,000
Christian Health Care Center, Series 2005 A-2	2035	Weekly variable rate	**6,600**	6,600
The Community Hospital Group, (t/a JFK), Series A-3	2030	Weekly variable rate	**17,935**	18,000
Hunterdon Medical Center, Series 2006A	2035	4.50 – 5.25	**21,860**	22,500
AHS Hospital Corp., Series 2006	2036	Auction rate	*	150,000
Southern Ocean County Hospital, Series 2006	2036	Weekly variable rate	**17,895**	18,150
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	**23,000**	24,000
East Orange General Hospital, Series 2006 A-2	2021	Weekly variable rate	**11,595**	12,320
Meridian Nursing and Rehabilitation, Series 2006 A-3	2031	Weekly variable rate	**5,100**	5,100

9. Revenue Bonds and Notes (continued)

	Due in Varying Installments Ending	Range of Annual Interest Rate Percentages	Amount Outstanding December 31 2008	2007
			($000)	
Revenue bonds (continued)				
Public issues (continued):				
MHAC I, LLC, Series 2006 A-4	2027	Weekly variable rate	$ **21,655**	$ 21,655
MHAC I, LLC, Series 2006 A-5	2036	Weekly variable rate	**10,915**	10,915
FitnessFirst Oradell Center, LLC, Series 2006 A-6	2031	Weekly variable rate	**6,830**	7,000
CentraState Medical Center, Series 2006 A	2021	3.50 – 5.00	**41,575**	41,575
CentraState Medical Center, Series 2006 B	2037	Weekly variable rate	**29,850**	29,850
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 2006B	2036	4.00 – 5.00	**17,085**	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	5.073 – 5.265	**17,500**	17,500
AHS Hospital Corp., Series 2007	2036	Auction rate	*	101,000
Catholic Health East Health System, Series 2007E	2033	Indexed rate	**100,255**	100,880
Trinitas Hospital Obligated Group, Series 2007A	2030	4.75 – 5.25	**65,050**	65,050
Trinitas Hospital Obligated Group, Series 2007B	2023	5.25 – 8.08	**65,350**	65,350
AtlantiCare Regional Medical Center, Series 2007	2037	4.00 – 5.00	**113,075**	113,420
Meridian Health System Obligated Group, Series 2007	2038	5.00 and Weekly variable rate	**242,125**	242,125
Saint Peter's University Hospital Obligated Group, Series 2007	2037	5.25 – 5.75	**65,175**	65,175

9. Revenue Bonds and Notes (continued)

	Due in Varying Installments Ending	Range of Annual Interest Rate Percentages	Amount Outstanding December 31 2008	2007
			($000)	
Revenue bonds (continued)				
Public issues (continued):				
Hackensack University Medical Center, Series 2008	2041	3.50 – 5.375	$ **249,180**	$ –
AHS Hospital Corp., Series 2008A	2023	3.50 – 5.125	**177,110**	–
AHS Hospital Corp., Series 2008B	2036	Weekly variable rate	**88,555**	–
AHS Hospital Corp., Series 2008C	2036	Weekly variable rate	**88,555**	–
Underwood-Memorial Hospital, Series 2008	2033	Weekly variable rate	**60,850**	–
St. Michael's Medical Center (HATP), Series 2008A	2038	5.00 – 5.50	**252,545**	–
Somerset Medical Center, Series 2008	2024	Weekly variable rate	**25,930**	–
St. Joseph's Healthcare System Obligated Group, Series 2008	2038	5.75 – 6.625	**248,910**	–
Total public issues			**5,898,186**	5,753,901
Private placements:				
St. Ann's Home for the Aged, Series 1996	2011	3.40	**6,543**	6,855
CentraState Assisted Living, Inc., Series 1998	2018	4.37 reset in 2018	**6,566**	6,798
Bartley Assisted Living LLC, Series 2000	2025	3.698% for current 5 year period-then a fixed rate based on weekly average yield on U.S. Treasury Securities adjusted every 5 years	**8,055**	8,413

9. Revenue Bonds and Notes (continued)

	Due in Varying Installments Ending	Range of Annual Interest Rate Percentages	Amount Outstanding December 31 2008	Amount Outstanding December 31 2007
			($000)	
Revenue bonds (continued)				
Private placements (continued):				
JFK Assisted Living Series 2001	2026	Then a fixed rate per annum equal to the then-in-effect weekly average yield on U.S. Treasury Securities adjusted to a constant maturity of ten years	$ **11,861**	$ 12,228
Hartwyck West Nursing Home Series 2001	2008	5.65	*	211
Warren Hospital Obligated Group, Series 2002	2027	Fixed rate based on the 7-Year Treasury Index plus 150 basis pts until maturity	*	13,120
Cathedral Health Services, Inc. Series 2002A	2008	4.69	*	244
Cathedral Health Services, Inc. Series 2002B	2008	4.69	*	986
Cathedral Health Services, Inc. Series 2002C	2017	5.85	*	3,398
The Avalon at Hillsborough, Series 2005 B	2014	9.00	**1,175**	1,175
Virtua Health, Inc., Series 2006	2013	Weekly BMA plus 50 bp	**25,890**	30,525
Somerset Medical Center, Series 2006	2032	4.42% for a 10 year period-then a fixed rate 220 bp over the monthly average yield on U.S. Treasury Securities adjusted to a constant maturity of 5 years, reset every 5 years	*	15,000

9. Revenue Bonds and Notes (continued)

	Due in Varying Installments Ending	Range of Annual Interest Rate Percentages	Amount Outstanding December 31 2008	2007
			($000)	
Revenue bonds (continued)				
Private placements (continued):				
Warren Hospital Oblig. Group, Series 2008 A	2038	7.25	**$ 33,840**	$ –
Warren Hospital Oblig, Group, Series 2008 B	2018	10.00	**12,000**	–
Holy Name Hospital Series 2008	2020	SIFMA + 1.45%	**30,255**	–
Total private placements			**136,185**	98,953
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:				
Barnert Hospital, Series 2003	2009	4.77	*	1,698
FitnessFirst Oradell Center, LLC, Series 2007	2012	3.92	**925**	1,186
Children's Specialized Hospital, Series 2007	2012	3.92	**2,935**	3,600
Christian Health Care Center, Series 2008	2013	3.60	**3,132**	–
Christian Health Care Center, Series 2008	2013	3.60	**87**	–
Total equipment revenue notes			**7,079**	6,484
Total revenue bonds			**$ 6,141,450**	$ 5,959,338

9. Revenue Bonds and Notes (continued)

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

	Principal	Interest	Total
		($000)	
2009	$ 161,182	$ 232,294	$ 393,476
2010	139,897	235,297	375,194
2011	151,725	227,920	379,645
2012	151,115	220,457	371,572
2013	164,416	212,925	377,341
Thereafter	5,373,115	2,551,966	7,925,081
	$ 6,141,450	$ 3,680,859	$ 9,822,309

10. 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.

10. Compliance with Bond Provisions (continued)

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, 2008, there were the following Events of Default of the Authority's bond issues:

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 is responsible for making the bondholders whole.

On August 15. 2007, Barnert Hospital filed for protection under Chapter 11 of the U.S. Bankruptcy Code. Debt service payments were made through January 31, 2008 on the 1999 bond issue. Bondholders were paid in full by FHA Insurance on August 1, 2008.

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.

11. 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.

11. Defeased Issues (continued)

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.

A summary of outstanding balances as of December 31, 2008 and 2007, by issue, is as follows:

	Due in Varying Installments Ending	Range of Annual Interest Rate Percentages	Amount Outstanding December 31 2008	2007
			($000)	
Defeased public issues:				
Community Memorial Hospital Association (Toms River), Series A (currently Community Medical Center, a part of Saint Barnabas Health Care System)	2009	6.75%	$ **965**	$ 1,865
The Overlook Hospital Association, Series C (currently a part of AHS Hospital Corporation)	2011	6.90	**3,950**	5,100
Hackensack Hospital, Series A (currently Hackensack University Medical Center)	2009	6.70	**1,615**	3,240
Mercer Medical Center, Series B (currently a part of Capital Health System)	2008	7.00	**–**	1,065
Monmouth Medical Center, Series A (currently a part of Saint Barnabas Health Care System)	2009	6.70	**745**	1,480
St. Francis Hospital, Series A (currently a part of Capital Health East)	2012	8.00	**6,130**	7,395
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	**2,305**	3,080
Burlington County Memorial Hospital, Series C (currently a part of Virtua Health, Inc.)	2012	6.00	**10,500**	10,500

11. Defeased Issues (continued)

	Due in Varying Installments Ending	Range of Annual Interest Rate Percentages	Amount Outstanding December 31 2008	2007
			($000)	
Defeased public issues (continued):				
Point Pleasant Hospital, Series A (currently a part of Meridian Health System, Inc.)	2010	7.30	**$ 1,740**	$ 2,525
The General Hospital Center at Passaic, Series 1994 (currently a part of Beth Israel Hospital Association of Passaic)	2019	6.00 – 6.75	**46,685**	49,555
Allegany Health-Our Lady of Lourdes, Series 1993 (currently a part of Catholic Health East)	2018	5.00 – 5.20	**28,095**	30,180
Riverview Medical Center, Series 1994 (currently a part of Meridian Health System, Inc.)	2011	5.50 – 6.25	**8,840**	11,480
St. Mary Hospital, Series 1993 (currently a part of Capital Health East)	2012	5.875	**8,965**	10,900
Bayshore Community Hospital, Series 1989 A&B	2009	0.00	**281**	581
New Seasons of Mt. Arlington Assisted Living Project, Series 2000B	2010	10.75	**340**	485
AHS Hospital Corporation, Series 1997 A	2027	5.00 – 6.00	**24,300**	28,365
The Medical Center at Princeton, New Jersey Obligated Group, Series 1998	2008	4.50 – 5.125	**–**	54,185
Trinitas Hospital Obligated Group, Series 2000	2010	7.375 – 7.50	**55,630**	56,760
Catholic Health East, Series 2003A	2012	3.20 – 5.375	**45,150**	45,685
Cathedral Health Services, Inc., Series 1998	2011	4.70 – 5.50	**3,660**	–
St. Clare's Hospital, Inc., Series 2004A	2025	4.25 – 5.25	**59,000**	–
St. Clare's Hospital, Inc., Series 2004B	2015	2.85 – 4.00	**30,585**	–
St. Joseph's Hospital and Medical Center, Series 1996B	2011	7.70	**1,340**	–
Total defeased public issues			**345,191**	328,796
Defeased private placements:				
Saint Peter's Medical Center, Series A (currently Saint Peter's University Hospital)	2009	7.125	**160**	306
St. Elizabeth Hospital, Series A (currently Trinitas Hospital)	2009	6.00	**4,225**	5,140
Total defeased private placements			**4,385**	5,446

11. Defeased Issues (continued)

	Due in Varying Installments Ending	Range of Annual Interest Rate Percentages	Amount Outstanding December 31 2008	2007
			($000)	
Partially defeased public issues				
Community Medical Center/Kimball Medical Center/Kensington Manor Care Center Obligated Group, Series 1998 (currently a part of Saint Barnabas Health Care System)	2008	4.30 – 5.50	$ –	$ 12,715
Saint Barnabas Medical Center/West Hudson Hospital Obligated Group, Series 1998A (currently a part of Saint Barnabas Health Care System)	2008	4.50 – 5.25	–	10,710
Saint Barnabas Health Care System, Series 1998B	2009	0.00 – 5.25	**78,768**	81,178
Saint Barnabas Health Care System, Series 1998C	2009	5.00 – 5.25	**580**	580
South Jersey Hospital, Series 2002	2012	4.375 – 6.00	**143,415**	143,415
St. Peter's Medical Center, Series F (currently St. Peter's University Hospital)	2021	4.80 – 5.00	–	14,075
Catholic Health East, Series 1998E	2029	4.10 – 5.25	**25,915**	25,915
Atlantic City Medical Center, Series 2002 (currently AtlantiCare Health System)	2025	4.85 – 6.25)	**36,775**	36,775
Total partially defeased public issues			**285,453**	325,363
Total defeased issues			**$ 635,029**	$ 659,605

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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 as of and for the year ended December 31, 2008, and have issued our report thereon dated March 6, 2009. 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.

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 control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be 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.

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, contracts, and grant agreements, for which noncompliance 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.

Ernst + Young LLP

March 6, 2009

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