Financial Statements and Supplemental Financial Information

New Jersey Health Care Facilities Financing Authority
(A Component Unit of the State of New Jersey)
December 31, 2007

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(A Component Unit of the State of New Jersey)

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and Supplemental Financial Information

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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, 2007 and 2006 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, 2007 and 2006 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 13, 2008, 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 13, 2008

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, 2007

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, 2007. Please read it in conjunction with the Authority's financial statements and accompanying notes.

Financial Highlights

The Authority's total net assets increased $519,000 or 7.2%
Cash and Cash Equivalents increased $310,000 or 6.3%
Operating Revenue increased $290,000 or 6.9%
Operating Expenses increased $999,000 or 29.4%
Operating Income decreased $709,000 or 88.6%

Overview of the Financial Statements

This annual financial report consists of four parts – Management's Discussion and Analysis (this section), the basic financial statements, required supplementary information 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 represents the changes in net assets between December 31, 2007, 2006 and 2005:

	2007	**2006**	**2005**	**Increase/ (Decrease) 2006-2007**	**Increase/ (Decrease) 2006-2007**
	($000)	**($000)**	**($000)**	**($000)**	**(%)**
Current assets	**$ 7,809**	$ 8,699	$ 7,084	$ (890)	(10.2)%
Noncurrent assets	**2,287**	221	286	2,066	934.8
Total assets	**10,096**	8,920	7,370	1,176	13.2
Current liabilities	**1,411**	1,092	967	319	29.2
Noncurrent liabilities	**952**	614	296	338	55.0
Total liabilities	**2,363**	1,706	1,263	657	38.5
Total net assets	**$ 7,733**	$ 7,214	$ 6,107	$ 519	7.2%

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, 2007, 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, 2007 and 2006 was 4.52% and 5.l7%, respectively. Overall, Cash and Cash Equivalents increased due in part to the revenues generated during 2007 and the interest earned on the Authority's invested funds. As of December 31, 2007 there was a Note Receivable in the amount of $417,000 to Bayonne Medical Center representing the current portion of the loan outstanding. As of December 31, 2006 there was a Note Receivable in the amount of $1,500,000 to Passaic Beth Israel Hospital Association (PBI) which was paid off on February 28, 2007. Both receivables are 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 done on December 31, 2007 and 2006. It should be noted, that Authority's overall receivables decreased with the Administrative Fees portion of the receivables decreasing 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.

When comparing Current Assets as of December 31, 2006 to December 31, 2005, Current Assets increased 22.8%. Overall, Cash and Investments increased only $78,000 or 1.6% due in part to the Note Receivable in the amount of $1,500,000 to Passaic Beth Israel Hospital Association (PBI). The increase in Administrative Fees and Other Receivables totaled $36,000. The Administrative Fees receivable portion which represents the Authority's semi-annual fee billing that was done on December 31, 2006 increased $79,329 when compared to the semi-annual fee billing that was done on December 31, 2005. Offsetting that increase was an overall decrease in the category Other Receivables.

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 loan receivable outstanding from Bayonne Medical Center that exceeds one year as further described in Note 10 to the financial statements. Thus, in 2007, noncurrent assets shows a significant increase due to the note receivable from Bayonne Medical Center. Capital Assets purchased in 2007 included, replacement computers, two replacement vehicles and replacement file cabinets.

Noncurrent assets at December 31, 2006 decreased $65,000 or 22.7%, when compared to December 31, 2005, due in part to an increase in accumulated depreciation. Accumulated depreciation increased as a result of the replacement of the Authority's office furniture in 2004 and 2005 and the purchase of four (4) Authority vehicles at the end of 2005.

Current Liabilities in 2007 are comprised of Accounts Payable, Accrued Expenses and Deferred Revenue. Accounts Payable and Accrued Expenses increased $86,000 or 29.0% compared to December 31, 2006. 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% will be due in 2008 and 100% will be due in 2009. Deferred Revenue increased $233,000 or 29.3% compared to December 31, 2006. It represents the semi-annual fees billed on December 31, 2007 and 2006 which cover the periods January 1, 2008 to June 30, 2008 and January 1, 2007 to June 30, 2007, respectively. Deferred Revenue will increase from year to year as a result of completed financings being added to the semi-annual fee billing schedule. Financings completed since January 1, 2003 are billable in advance.

Current Liabilities in 2006 increased $125,000 or 12.9% compared to December 31, 2005. Accounts Payable and Accrued Expenses increased $13,000 or 4.6% due in part to the continued increase in the Authority's employer pension expense and the percentage due. In addition, Deferred Revenue increased $112,000 or 16.4%.

Noncurrent liabilities in 2007 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 of December 31, 2007, the net OPEB obligation totals $952,000. Further information regarding this liability can be found in Note 5 to the financial statements.

Noncurrent liabilities in 2006 increased by $318,000 or 107.4% compared to December 31, 2005 as a result of an increase in the Authority's unfunded actuarial accrued liability for postemployment benefits other than pensions.

Changes in Net Assets – The following table represents the changes in net assets between fiscal years 2007, 2006 and 2005:

	2007	2006	2005	Increase/ (Decrease) 2006-2007	Increase/ (Decrease) 2006-2007
	($000)	($000)	($000)	($000)	(%)
Operating revenues:					
Administrative fees:					
Annual fees	**$ 4,428**	$ 4,140	$ 3,663	$ 288	7.0%
Initial fees	**–**	–	285	N/A	N/A
Capital asset application fees	**1**	1	–	–	0.0%
Mortgage servicing and Section 142 (d) fees	**64**	62	65	2	3.2%
Total operating revenues	**4,493**	4,203	4,013	290	6.9%
Operating expenses:					
Salaries and related expenses	**2,343**	2,216	2,053	127	5.7%
General and administrative	**623**	597	626	26	4.4%
Provision for postemployment benefits	**354**	334	311	20	6.0%
Professional fees and other	**1,045**	256	238	789	308.2%
Bad debt expense	**37**	–	–	37	100.0%
Total operating expenses	**4,402**	3,403	3,228	999	29.4%
Operating income	**91**	800	785	(709)	(88.6)%
Nonoperating revenues (expenses):					
Interest income	**414**	290	119	124	42.8%
Other	**14**	17	–	(3)	(17.6)%
Total nonoperating revenues (expenses)	**428**	307	119	121	39.4%
Change in net assets	**519**	1,107	904	(588)	(53.1)%
Net assets, beginning of year	**7,214**	6,107	5,203	1,107	18.1%
Net assets, end of year	**$ 7,733**	$ 7,214	$ 6,107	$ 519	7.2%

The Authority’s Net Assets increased $519,000 or 7.2% from the end of calendar year 2006 to 2007. However, when comparing the Change in Net Assets amount to the prior year, there was a decrease of $588,000 or 53.1% from 2006 to 2007. The significant increase in operating expenses is the main reason for the decrease in the Authority’s Change in Net Assets. This increase is described in the Operating expense section below.

The Authority’s Net Assets increased $1,107,000 or 18.1% from the end of calendar year 2005 to December 31, 2006. When comparing the Change in Net Assets amount, there was an increase of $203,000 or 22.5% from 2005 to 2006.

Operating Revenues - During 2007, Annual Fees increased $288,000 when compared to 2006. Concerning Annual Fees, in 2007 the Authority recorded revenue from the annual fee billings totaling $3,948,262 compared to $3,818,033 in 2006. In addition, $479,625 in first half annual fees were received upon the execution of sixteen (16) Memorandum of Understandings (MOU's) with a total estimated bond size of $1,854,000,000 in 2007. This compares to $322,265 in first half fees received in 2006 upon the execution of seventeen (17) MOU's with a total estimated bond size of $771,129,653. An MOU is executed signifying the organization's intentions to have the Authority finance a project through the issuance of bonds and or notes. The first half annual fee is considered an upfront fee and is earned upon billing.

When compared to 2005, Operating Revenues during 2006 increased $190,000 or 4.7%. During 2006, Annual Fees increased $477,000 while Initial Fees decreased $285,000 when compared to 2005. Concerning Annual Fees, in 2006 the Authority completed seventeen (17) financings compared to nine (9) in 2005. In addition, effective in 2006, initial fees were eliminated and were replaced with an upfront fee equal to one-half of the annual fee which is charged 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 bonds and/or notes.

Operating Expenses – During 2007, operating expenses increased $999,000 or 29.4% when compared to 2006. The main area of increase in operating expenses was in Professional Fees for the cost incurred 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 Commission totaled $705,000. 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 Bad Debt expense for annual fees for two (2) client institutions which have been deemed uncollectible due to their financial distress.

When compared to 2005, Operating Expenses during 2006 increased $175,000 or 5.4%. There were salary and health benefit premium increases effective January 1, 2006. In addition, there were increases in the line items Professional Fees and other and the Provision for postemployment benefits. Slightly offsetting the increases in those line items was an overall decrease in the line item general and administrative expenses.

Nonoperating Revenues (Expenses) – Interest income in 2007 represented interest earned on the Authority's checking accounts and the operating funds invested in the New Jersey Cash Management Fund. Interest earned in 2007 totaled $414,000. By contrast, interest income in 2006 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. Interest earned in 2006 totaled $290,000 after taking into account the adjustment for the increase in the fair value of investments held of $18,000. It should also be noted, that included in the interest income for 2007 and 2006 is the interest earned on the Note Receivable in the amounts of $40,000 and $11,000, respectively, and which is further described in Note 10 to the financial statements.

When compared to 2005, Nonoperating Revenues (Expenses) during 2006 increased $188,000 or 158.0%. Interest income earned in 2006 totaled $290,000 when taking into account the adjustment for the increase in the fair value in investments of $18,000. By comparison, interest earned in 2005 totaled $119,000 when taking into account the adjustment for the decrease in the fair value in investments of $21,000.

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 2007	December 31 2006
	($000)	
Assets		
Current assets:		
Cash and cash equivalents	**$ 5,241**	$ 4,931
Administrative fees and other receivables	**2,011**	2,114
Note receivable	**417**	1,500
Note interest receivable	**16**	9
Prepaid expenses	**124**	145
Total current assets	**7,809**	8,699
Noncurrent assets:		
Note receivable	**2,083**	–
Capital assets	**762**	731
Less accumulated depreciation	**(558)**	(510)
Total noncurrent assets	**2,287**	221
Total assets	**$ 10,096**	$ 8,920
Liabilities and net assets		
Current liabilities:		
Accounts payable and accrued expenses	**$ 383**	$ 297
Deferred revenue	**1,028**	795
Total current liabilities	**1,411**	1,092
Noncurrent liabilities:		
Postemployment benefits other than pension	**952**	614
Total liabilities	**2,363**	1,706
Net assets:		
Unrestricted	**7,529**	6,993
Invested in capital assets	**204**	221
	7,733	7,214
Total liabilities and net assets	**$ 10,096**	$ 8,920

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	
	2007	**2006**
	($000)	
Operating revenues:		
Administrative fees:		
Annual fees	**$ 4,428**	$ 4,140
Capital asset program application fees	**1**	1
Mortgage servicing fees	**39**	44
Section 142 (d) fees	**25**	18
Total operating revenues	**4,493**	4,203
Operating expenses:		
Salaries and related expenses	**2,343**	2,216
General and administrative expenses	**623**	597
Professional fees	**960**	168
Provision for postemployment benefits	**354**	334
Depreciation	**85**	88
Bad debt expense	**37**	–
Total operating expenses	**4,402**	3,403
Operating income	**91**	800
Nonoperating revenues:		
Interest income	**374**	279
Other income	**1**	17
Note interest income	**40**	11
Gain on disposal of assets	**13**	–
Total nonoperating revenues	**428**	307
Changes in net assets	**519**	1,107
Net assets, beginning of year	**7,214**	6,107
Net assets, end of year	**$ 7,733**	$ 7,214

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 2007	2006
	($000)	
Cash flows from operating activities		
Cash received from customers	**$ 4,829**	$ 4,288
Cash payment to suppliers and employees	**(3,872)**	(2,985)
Net cash provided by operating activities	**957**	1,303
Cash flows from capital and related financing activities		
Acquisition of capital assets	**(75)**	(23)
Cash received on disposal of asset	**19**	–
Net cash used in capital and related financing activities	**(56)**	(23)
Cash flows from noncapital financing activities		
Other	**1**	17
Note issued to client institution	**(2,500)**	(1,500)
Note repaid from client institution	**1,500**	–
Interest received on note	**34**	2
Net cash used in noncapital financial activities	**(965)**	(1,481)
Cash flows from investing activities		
Proceeds from sale and maturities of securities	**–**	3,935
Investment income	**374**	282
Net cash provided by investing activities	**374**	4,217
Net increase in cash and cash equivalents	**310**	4,016
Cash and cash equivalents, beginning of year	**4,931**	915
Cash and cash equivalents, end of year	**$ 5,241**	$ 4,931
Operating income	**$ 91**	$ 800
Adjustments:		
Depreciation	**85**	88
Changes in asset and liabilities:		
Accounts receivable	**103**	(27)
Prepaid expenses	**21**	(1)
Deferred revenue	**233**	112
Accounts payable	**86**	13
Liability for postemployment benefits	**338**	318
Total adjustments	**866**	503
Net cash provided by operating activities	**$ 957**	$ 1,303
Supplemental schedule of noncash investing activities		
Change in fair value of investments	**$ –**	$ 18

See accompanying notes.

1. Organization

The New Jersey Health Care Facilities Financing Authority (the Authority) is a public body corporate and politic and a political subdivision of the State of New Jersey. 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.

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

1. Organization (continued)

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-section 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. 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 – For 2007 and 2006, 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 will be collected as the upfront fee. A separate application fee is charged to those health care organizations who wish to finance a project through the issuance of a Capital Asset Program Loan. An annual fee is also charged to those health care organizations for which bond and note sales have been completed. Such fees are charged for the processing of project costs, investment management of bond proceeds,

2. Summary of Significant Accounting Policies (continued)

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, 2007 and 2006 are:

	2007	2006
	(000's)	
Cash and cash equivalents:		
Operating checking account	**$ 1**	$ 11
New Jersey Cash Management Fund	**5,240**	4,920
Total cash and cash equivalents	**$ 5,241**	$ 4,931

The Authority's bank balance at December 31, 2007 and 2006 amounted to $6,444 and $16,027, 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. As of December 31, 2007 and 2006, all investments were made in accordance with the Authority's investment policy.

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, 2007 and December 31, 2006, 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

3. Cash and Investments (continued)

Paper, U.S. Government Agency Bonds, Corporate Bonds, and Certificates of Deposits. Agencies that are part of the Fund typically earn returns that mirror short-term interest rates. The Fund is considered an investment pool and as such is not exposed to custodial credit risk. The Authority does not have a formal policy for deposit custodial credit risk other than to maintain sufficient funds in the checking account to cover checks that have not cleared the account as of a specific date.

As of December 31, 2007 and 2006, 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. At December 31, 2007 and 2006 there were no investments in the Authority's portfolio.

(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 based upon an actuarial computation performed by the PERS.

The Authority's total and covered payroll for the years ended December 31, 2007, 2006 and 2005 were $1,760,430, $1,709,604 and $1,611,042, respectively. Pension costs for the years ended December 31, 2007, 2006 and 2005 were $133,373, $68,918 and $40,488, 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 2007 and 5.00% in 2006 and 2005. The 5.5% rate took effect July 1, 2007. The rate was 5.00% for the 1st half of 2007.

5. Postemployment Benefits Other Than Pensions

The Authority sponsors and administers a single employer 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.
- 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, which is funded on a pay-as-you-go basis, is a non contributory plan with all payments for plan benefits being funded by the Authority.

5. Postemployment Benefits Other Than Pensions (continued)

The Authority's annual OPEB cost for the plan is calculated based on the annual required contribution "ARC", an amount actuarially determined 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's annual OPEB cost for the year ended December 31, 2007 and 2006 and the related information for the plan are as follows (dollar amounts in thousands):

	2007	**2006**
Annual required contribution	**$ 354**	$ 334
Contributions made (payment for benefits during year)	**(16)**	(16)
Increase in net OPEB obligation	**338**	318
Net OPEB obligation – beginning of year	**614**	296
Net OPEB obligation – end of year	**$ 952**	$ 614

The Authority's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for fiscal years 2006 and 2007 were as follows (dollar amounts in thousands):

Fiscal Year Ended	**Annual OPEB Cost**	**Percentage of Annual OPEB Cost Contributed**	**Net OPEB Obligation**
December 31, 2006	$ 334	4.8%	$ 614
December 31, 2007	354	4.5	952

January 1, 2007 and 2006, the actuarial accrued liability for benefits was $3,153,268 and $2,760,222, respectively, all of which was unfunded. The covered payroll (annual payroll of active employees covered by the plan) was $1,760,430 for the year ended December 31, 2007, and the ratio of the unfunded actuarial accrued liability to the covered payroll was 179%.

5. Postemployment Benefits Other Than Pensions (continued)

The 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%. The unfunded actuarial accrued liability is being amortized over 30 years as a level dollar on an open basis. The remaining amortization period at January 1, 2007 was 29 years.

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, 2007 and 2006 include approximately $296,000 and $192,000, 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, 2007, the Authority issued $849,066,000 in conduit debt. The amount of conduit debt outstanding at December 31, 2007 totaled $5,959,338,000.

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, 2007 through December 18, 2008 has a $20 million limit of liability with a retention level of $175,000 at a premium cost of $83,736.

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.

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.

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

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 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 assumes 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 requires 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 is 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 loan payments to be received under this agreement.

Year Ended December 31	Principal	Estimated Interest	Total
2008	$ 416,660	$ 159,373	$ 576,033
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, 2006	$ –	$ 2,760	$ 2,760	0%	$ 1,710	161%
January 1, 2007	–	3,153	3,153	0	1,760	179

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	
	2007	**2006**
	($000)	
Assets		
Mortgages and loans receivable	**$ 4,809,893**	$ 4,466,814
Lease receivable	**204,330**	205,015
State contract bond receivable	**45,425**	–
Equipment revenue notes receivable	**3,574**	2,285
Capital Asset Program notes receivable	**36,560**	60,970
Construction/program accounts:		
Cash and cash equivalents	**471,683**	579,675
Investments	**1,453**	30,926
Prepaid expenses	**10**	8
Debt service accounts:		
Cash and cash equivalents	**164,609**	162,474
Investments	**5,291**	17,495
Receivable from master trustee/institution	**8,022**	6,391
Debt service reserve accounts:		
Cash and cash equivalents	**162,384**	162,731
Investments	**142,873**	131,844
Mortgage servicing accounts:		
Cash and cash equivalents	**626**	1,456
Mortgage payments receivable	**693**	714
Total assets	**$ 6,057,426**	$ 5,828,798
Liabilities and net assets		
Bonds payable	**$ 5,952,854**	$ 5,725,399
Revenue notes payable	**6,484**	2,458
Accrued interest payable	**96,096**	97,820
Accrued expenses	**41**	251
Mortgages and escrows payable	**1,319**	2,170
Deferred income	**1**	–
Capital Asset Program net assets	**631**	700
Total liabilities and Capital Asset Program net assets	**$ 6,057,426**	$ 5,828,798

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	
	2007	**2006**
	($000)	
Cash flows from operating activities		
Payments received from institutions under agreements	**$ 469,342**	$ 390,326
Equity contribution from institutions	**12,441**	30,944
Disbursements for construction/acquisition and issuance expense	**(619,019)**	(466,236)
Other receipts	**51,838**	1,165
Net cash used in operating activities	**(85,398)**	(43,801)
Cash flows from noncapital financing activities		
Face amount of revenue bonds	**849,066**	813,675
Less deductions at time of sale	**(60,136)**	(64,936)
Accrued interest to date of delivery	**–**	132
Refunding of pre-existing debt/escrow fund deposit	**(288,712)**	(186,946)
Net proceeds from sale of revenue bonds	**500,218**	561,925
Principal/premium paid on revenue bonds	**(292,581)**	(183,322)
Interest paid on revenue bonds	**(267,723)**	(266,322)
Net cash (used in) provided by noncapital financing activities	**(60,086)**	112,281
Cash flows from investing activities		
Net proceeds from sale and maturities of securities	**(11,113)**	35,848
Interest on investments	**49,563**	43,808
Net cash provided by investing activities	**38,450**	79,656
Net (decrease) increase in cash and cash equivalents	**(107,034)**	148,136
Cash and cash equivalents, beginning of year	**906,336**	758,200
Cash and cash equivalents, end of year	**$ 799,302**	$ 906,336

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, 2007 and 2006, mortgages and loans receivable were:

	2007	2006
	($000)	
Mortgages		
The Society of the Valley Hospital	**$ 12,735**	$ 14,965
Robert Wood Johnson University Hospital	**138,305**	140,900
Chilton Memorial Hospital	**17,475**	19,920
Burdette Tomlin Memorial Hospital	**23,750**	25,660
Holy Name Hospital	**110,486**	115,630
Columbus Hospital	**25,500**	26,500
Deborah Heart and Lung Center	**24,225**	25,115
Southern Ocean County Hospital	**34,870**	35,720
Somerset Medical Center	**108,580**	109,575
St. Ann's Home for the Aged	**6,855**	7,147
CentraState Assisted Living, Inc.	**6,798**	7,019
Total mortgages receivable	**509,579**	528,151

3. Mortgages and Loans Receivable (continued)

	2007	2006
	($000)	
Loans		
Secured by pledge of collateral with trustees:		
Spectrum for Living	**$ –**	$ 2,070
Barnert Hospital	**26,175**	27,180
Cathedral Health Services, Inc.	**60,329**	65,815
Care Institute, Inc. – Cherry Hill	**14,395**	14,690
Shoreline Behavioral Health Center (currently Saint Barnabas Behavioral Health Center, a part of Saint Barnabas Health Care System)	**12,320**	12,660
Christian Health Care Center	**7,200**	7,200
United Methodist Homes of New Jersey Foundation, Inc.	**–**	500
The Avalon at Bridgewater Assisted Living Project	**6,665**	6,795
Holland Christian Home Association	**2,900**	3,100
St. Mary's Hospital, Passaic, New Jersey	**–**	7,400
Bartley Assisted Living LLC	**8,413**	8,758
Muhlenberg Regional Medical Center	**18,580**	19,825
Jersey City Medical Center	**197,330**	203,275
Hartwyck West Nursing Home	**211**	452
JFK Assisted Living	**12,228**	12,575
Meridian Hospitals Corporation	**25,790**	27,610
Wiley Mission Project	**12,700**	13,070
Englewood Hospital and Medical Center	**94,295**	96,610
The Community Hospital Group	**34,200**	35,200
The Matheny School and Hospital	**3,100**	3,200
Robert Wood Johnson University Hospital	**67,655**	69,975
St. Francis Medical Center	**2,300**	2,500
St. Joseph's –Wayne Hospital	**4,900**	5,300
Virtua Health, Inc.	**68,600**	69,200
Rahway Hospital	**11,000**	11,000

3. Mortgages and Loans Receivable (continued)

	2007	2006
	($000)	
Loans (continued)		
Secured by pledge of collateral with trustees (continued):		
Bayshore Community Hospital	**$ 5,840**	$ 6,580
South Jersey Hospital, Inc.	**14,085**	14,425
Children's Specialized Hospital	**56,895**	56,895
AtlantiCare Regional Medical Center	**47,000**	50,000
Recovery Management, Inc.	**13,485**	13,860
The Avalon at Hillsborough	**12,055**	12,055
East Orange General Hospital	**12,320**	13,200
FitnessFirst Oradell Center, LLC	**7,000**	7,000
MHAC I, LLC	**32,570**	32,570
Southern Ocean County Hospital	**18,150**	18,390
Somerset Medical Center	**15,000**	15,000
Secured by pledge of gross receipts under Master Trust Indentures:		
Hackensack Medical Center (currently Hackensack University Medical Center)	**365,950**	372,345
Saint Peter's Medical Center (currently Saint Peter's University Hospital)	**163,395**	114,725
Hunterdon Medical Center	**47,675**	48,380
St. Elizabeth Hospital (currently Trinitas Hospital)	**–**	51,790
JFK Health Systems Obligated Group	**33,560**	34,755
Pascack Valley Hospital Association	**81,235**	82,675
Palisades Medical Center Obligated Group (currently a part of Palisades Medical Center of New York Presbyterian Health Care System)	**40,960**	41,705
Shore Memorial Health Care System	**35,740**	38,955
South Jersey Hospital System	**160,855**	163,670
Raritan Bay Medical Center	**46,400**	47,400

3. Mortgages and Loans Receivable (continued)

	2007	2006
	($000)	
Loans (continued)		
Secured by pledge of gross receipts under Master Trust Indentures (continued):		
Jersey Shore Medical Center (currently a part of Meridian Health System, Inc.)	**$ 27,010**	$ 27,795
Bayonne Hospital Obligated Group	**32,610**	34,210
Warren Hospital Obligated Group	**21,640**	22,562
St. Joseph's Hospital and Medical Center Obligated Group	**56,170**	62,410
AHS Hospital Corporation	**334,775**	332,525
Newton Memorial Hospital	**26,755**	28,045
Kennedy Health System Obligated Group	**72,135**	76,180
Capital Health System Obligated Group	**162,050**	166,695
Christian Health Care Center	**21,730**	22,775
Community Medical Center/Kimball Medical Center/ Kensington Manor Care Center Obligated Group (currently parts of Saint Barnabas Health Care System)	**35,630**	39,855
The Medical Center at Princeton, New Jersey Obligated Group	**–**	56,485
Rahway Hospital Obligated Group	**17,015**	19,000
JFK Medical Center/Hartwyck at Oak Tree Obligated Group	**43,010**	44,390
Saint Barnabas Medical Center/West Hudson Hospital Obligated Group (currently parts of Saint Barnabas Health Care System)	**36,820**	37,710
CentraState Medical Center Obligated Group	**121,585**	123,015
Virtua Health, Inc.	**134,975**	146,980
Saint Barnabas Health Care System	**675,904**	686,974
Catholic Health East	**133,015**	105,600
Meridian Health System Obligated Group	**555,775**	319,440
RWJ Health Care Corp. at Hamilton, Obligated Group	**122,730**	124,285

3. Mortgages and Loans Receivable (continued)

	2007	2006
	($000)	
Loans (continued)		
Secured by pledge of gross receipts under Master Trust Indentures (continued):		
Trinitas Hospital Obligated Group	**$ 130,400**	$ 78,280
The Society of the Valley Hospital Obligated Group	**34,280**	35,710
The House of the Good Shepherd	**18,280**	18,685
Bayshore Community Hospital	**44,425**	45,555
Beth Israel Hospital Association of Passaic	**–**	10,492
Atlantic City Medical Center	**64,685**	104,595
St. Clare's Hospital	**93,240**	96,775
Underwood Memorial Hospital	**62,000**	62,875
Atlanticare Regional Medical Center	**113,420**	–
Total loans receivable	**5,093,520**	4,892,233
Total mortgages and loans receivable	**5,603,099**	5,420,384
Less cash and investments held by trustees	**793,206**	953,570
Net mortgages and loans receivable	**$ 4,809,893**	$ 4,466,814

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, 2007 and 2006 Capital Asset Program notes receivable were:

	2007	2006
	($000)	
Matheny School	**$ 390**	$ 611
Community Medical Center (currently a part of Saint Barnabas Health Care System)	**507**	697
Visiting Nurses Association of Central Jersey	**433**	540
Somerset Medical Center	**14,014**	18,587
Underwood Memorial Hospital	**303**	1,029
New Jersey Organ and Tissue Sharing Network	**1,091**	1,248
Atlantic City Medical Center	**–**	4,283
P.G. Chambers School (formerly Children's Center for Therapy and Learning, Inc.)	**1,297**	1,357
Saint Barnabas Corporation-Mega Care, Inc.	**9,385**	10,867
Cerebral Palsy Center, Bergen County, NJ	**335**	700
AtlantiCare Regional Medical Center	**–**	21,093
Palisades Medical Center, Inc.	**4,702**	–
Cooper Health System	**5,225**	–
Meridian Nursing and Rehabilitation at Ocean Grove	**6,979**	–
Total Capital Asset Program notes receivable	**44,661**	61,012
Less cash and investments held by trustee	**8,101**	42
Net Capital Asset Program notes receivable	**$ 36,560**	$ 60,970

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.

	2007	2006
	($000)	
Barnert Hospital	**$ 1,698**	$ 2,458
FitnessFirst Oradell Center	**1,186**	–
Children's Specialized Hospital	**3,600**	–
Total equipment notes receivable	**6,484**	2,458
Less cash and investment held by trustee	**2,910**	173
Net equipments notes receivable	**$ 3,574**	$ 2,285

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 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

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

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, 2007 and 2006, the lease receivable was in the amount of $204,330,000 and $205,015,000, respectively.

7. The Hospital Asset Transformation Program: St. Mary's Hospital, Passaic, N.J.

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. In the case of St. Mary's Hospital, Series 2007-1 and 2007-2, it is anticipated that the State Treasurer will be reimbursed by St. Mary's Hospital for the debt service on such bonds before payment is made to the bondholders. As of December 31, 2007, the State Contract Bonds receivable was in the amount of $45,425,000.

8. Cash and Investments

The components of cash and investments at December 31, 2007 and 2006 are:

	2007	2006
	($000)	
Cash and cash equivalents:		
Money Market Funds (which includes New Jersey Cash Management Fund)	**$ 799,302**	$ 906,336
Investments:		
Investment agreements:		
Collateralized	**60,437**	52,273
Uncollateralized	**3,806**	31,955
U.S. Treasury and Agency obligations	**85,374**	96,037
Total cash, cash equivalents and investments	**$ 948,919**	$ 1,086,601

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 2007	2006
			($000)	
Revenue bonds				
Public issues:				
The Society of the Valley Hospital, Series C	2014	6.00 – 6.625%	**$ 12,735**	$ 14,965
Hunterdon Medical Center, Series A	2020	7.00	**8,090**	8,795
Burdette Tomlin Memorial Hospital, Series D	2012	6.50	*****	1,475
Columbus Hospital, Series A	2021	7.50	**25,500**	26,500
Spectrum for Living, Series B	2022	6.50	*****	2,070
JFK Health Systems Obligated Group, Series 1993	2023	5.20 – 5.50	**12,305**	12,825
Deborah Heart and Lung Center, Series 1993	2023	6.20 – 6.30	**24,225**	25,115
Saint Peter's Medical Center, Series F (currently Saint Peter's University Hospital)	2021	4.80 – 5.00	**26,425**	42,930
Chilton Memorial Hospital, Series D	2013	5.00	**17,475**	19,920
Shore Memorial Health Care System, Series 1993	2012	5.00	**8,285**	10,315

* 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 2007	2006
			($000)	
Revenue bonds (continued)				
Public issues (continued):				
Somerset Medical Center, Series A	2024	5.00 – 5.20	**$ 27,190**	$ 28,185
Raritan Bay Medical Center, Series 1994	2027	7.25	**46,400**	47,400
Jersey Shore Medical Center, Series 1994 (currently a part of Meridian Health System, Inc.)	2024	5.90 – 6.75	**27,010**	27,795
Bayonne Hospital Obligated Group, Series 1994	2012	6.25	**9,885**	11,485
JFK Health Systems Obligated Group, Series 1995	2025	5.375 – 5.70	**21,255**	21,930
Warren Hospital Obligated Group, Series 1995	2018	5.25 – 5.875	**8,520**	9,070
Robert Wood Johnson University Hospital, Series C	2010	5.00 – 5.25	**8,665**	11,260
St. Joseph's Hospital and Medical Center Obligated Group, Series 1996A	2026	5.70 – 6.00	**54,445**	60,330
St. Joseph's Hospital and Medical Center Obligated Group, Series 1996B	2011	7.70	**1,725**	2,080
St. Elizabeth Hospital Obligated Group, Series 1997 (currently Trinitas Hospital)	2007	5.65 – 6.00	*****	51,790
Care Institute, Inc. – Cherry Hill, Series 1996	2027	7.75 – 8.00	**14,395**	14,690
Holy Name Hospital, Series 1997	2025	5.125 – 6.00	**50,486**	55,630
Shoreline Behavioral Health Center, Series 1997 (currently Saint Barnabas Behavioral Health Center, a part of Saint Barnabas Health Care System)	2027	5.20 – 5.50	**12,320**	12,660
AHS Hospital Corporation, Series 1997 A	2027	5.00 – 6.00	*****	93,950
Newton Memorial Hospital, Series 1997	2019	4.85 – 5.00	**13,905**	14,740
Kennedy Health System Obligated Group, Series 1997 A	2027	4.875 – 5.20	**13,940**	14,455
Southern Ocean County Hospital, Series 1997	2027	4.70 – 5.00	**11,450**	11,785
Capital Health System Obligated Group, Series 1997	2027	5.125 – 5.25	**38,805**	40,885
Christian Health Care Center, Series 1997 A	2018	5.25 – 5.50	**12,830**	13,675
Christian Health Care Center, Series 1997 B	2028	Weekly variable rate	**8,900**	9,100

9. Revenue Bonds and Notes (continued)

	Due in Varying Installments Ending	Range of Annual Interest Rate Percentages	Amount Outstanding December 31 2007	2006
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	4.30 – 5.50	**35,630**	39,855
Cathedral Health Services, Inc., Series 1998	2021	4.70 – 5.50	**55,700**	58,835
Kennedy Health System Obligated Group, Series 1997 B	2015	5.00 – 5.75	**14,305**	17,835
The Medical Center at Princeton, New Jersey Obligated Group, Series 1998	2008	4.50 – 5.125	*****	56,485
Rahway Hospital Obligated Group, Series 1998	2014	5.00 – 5.125	**17,015**	19,000
Hackensack University Medical Center, Series 1998	2028	4.40 – 5.375	**138,240**	141,940
JFK Medical Center/Hartwyck at Oak Tree Obligated Group, Series 1998	2025	4.50 – 5.00	**43,010**	44,390
Saint Barnabas Medical Center/West Hudson Hospital Obligated Group, Series 1998A (currently parts of Saint Barnabas Health Care System)	2028	4.50 – 5.25	**36,820**	37,710
Christian Health Care Center, Series 1998 A-3	2018	Weekly variable rate	**600**	600
United Methodist Homes of NJ Foundation, Inc., Series 1998 A-6	2007	Weekly variable rate	*****	500
CentraState Medical Center Obligated Group, Series 1998	2028	4.15 – 4.65	**50,160**	51,590
Pascack Valley Hospital Association, Series 1998	2028	4.70 – 5.125	**31,720**	32,565
Virtua Health Inc., Series 1998	2028	4.30 – 5.25	**104,450**	111,980

9. Revenue Bonds and Notes (continued)

	Due in Varying Installments Ending	Range of Annual Interest Rate Percentages	Amount Outstanding December 31 2007	2006
Revenue bonds (continued)			*($000)*	
Public issues (continued):				
Saint Barnabas Health Care System, Series 1998B	2028	0.00 – 5.25	**$ 371,690**	$ 371,985
Catholic Health East, Series 1998E	2029	4.10 – 5.25	**32,135**	59,400
Barnert Hospital, Series 1999	2025	4.20 – 5.00	**26,175**	27,180
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	**6,630**	6,630
The Avalon at Bridgewater Assisted Living Project, Series 1999B	2008	9.75	**35**	165
Burdette Tomlin Memorial Hospital, Series 1999	2029	5.05 – 5.60	**23,750**	24,185
Meridian Health System Obligated Group, Series 1999	2029	4.875 – 5.625	**213,650**	219,440
Holland Christian Home Association, Series 1999A-2	2019	Weekly variable rate	**2,900**	3,100
St. Mary's Hospital, Passaic, New Jersey, Series 1999A-4	2019	Weekly variable rate	*****	7,400
Trinitas Hospital Obligated Group, Series 2000	2030	6.625 – 7.50	*****	78,280
Hackensack University Medical Center, Series 2000	2034	5.50 – 6.125	**80,810**	82,030
Saint Barnabas Health Care System, Series 1998C	2018	5.00 – 5.25	**11,495**	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	4.75 – 5.50	**18,580**	19,825
The Society of the Valley Hospital Obligated Group, Series 2000	2031	4.75 – 5.75	**34,280**	35,710
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	4.125 – 5.125	**23,420**	23,935

9. Revenue Bonds and Notes (continued)

	Due in Varying Installments Ending	Range of Annual Interest Rate Percentages	Amount Outstanding December 31 2007	2006
			($000)	
Revenue bonds (continued)				
Public issues (continued):				
The House Of The Good Shepherd Obl. Grp., Series 2001	2031	4.10 – 5.20	**$ 18,280**	$ 18,685
Jersey City Medical Center, Series 2001	2041	3.70 – 5.00	**182,070**	187,570
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	**70,250**	71,975
Newton Memorial Hospital, Series 2001	2026	3.55 – 5.25	**12,850**	13,305
Meridian Hospital Corp,. Series 2001 A-1	2016	Weekly variable rate	**6,600**	8,100
Bayshore Community Hospital, Series 2002	2032	3.825 – 5.125	**44,425**	45,555
Atlantic City Medical Center, Series 2002	2025	4.85 – 6.25	**64,685**	104,595
Palisades Medical Center of NY Presbyterian Health Care System Obl. Grp., Series 2002	2031	5.40 – 6.625	**12,330**	13,075
South Jersey Hospital, Series 2002	2032	5.875 – 6.00	**16,570**	19,385
RWJ Health Corp. at Hamilton, Series 2002	2032	Weekly variable rate	**28,930**	29,510
Wiley Mission Project, Series 2002	2029	Weekly variable rate	**12,700**	13,070
Englewood Hospital and Medical Center, Series 2002	2031	3.125 – 5.25	**94,295**	96,610
Catholic Health East, Series 2003A	2033	2.80 – 5.375	*****	46,200
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	**49,515**	50,110
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	**16,200**	17,200

9. Revenue Bonds and Notes (continued)

	Due in Varying Installments Ending	Range of Annual Interest Rate Percentages	Amount Outstanding December 31 2007	2006
			($000)	
Revenue bonds (continued)				
Public issues (continued):				
The Matheny School and Hospital Inc., Series 2003 A-2	2023	Weekly variable rate	**$ 3,100**	$ 3,200
Robert Wood Johnson University Hospital, Inc., Series 2003 A-3	2023	Weekly variable rate	**21,200**	22,200
St. Francis Medical Center, Series 2003 A-5	2018	Weekly variable rate	**2,300**	2,500
St. Joseph's Wayne Hospital, Inc., Series 2003 A-6	2018	Weekly variable rate	**4,900**	5,300
Virtua Health Inc., Series 2003 A-7	2018	Weekly variable rate	**8,600**	9,200
Shore Memorial Health Care System, Obligated Group, Series 2003	2023	3.00 – 5.00	**27,455**	28,640
Rahway Hospital, Series 2003 A-8	2023	Weekly variable rate	**11,000**	11,000
AHS Hospital Corporation, Series 2003	2025	Auction rate	**61,875**	65,075
Capital Health System Obligated Group, Series 2003 A	2033	4.00 – 5.75	**93,645**	96,110
Capital Health System Obligated Group, Series 2003 B	2033	Weekly variable rate	**29,600**	29,700
Jersey City Medical Center, Series 2003	2030	2.375 – 4.80	**15,260**	15,705
Greystone Park Psychiatric Hospital Project, Series 2003	2025	2.60 – 5.00	**17,765**	18,450
Underwood Memorial Hospital, Series 2004	2033	Auction rate	**62,000**	62,875
Hackensack University Medical Center, Series 2004	2036	Auction rate	**146,900**	148,375
AHS Hospital Corp, Series 2004	2016	Auction rate	**21,900**	23,500
Bayshore Community Hospital, Series 2004 A-1	2014	Weekly variable rate	**5,840**	6,580
Meridian Nursing and Rehab, Series 2004 A-3	2035	Weekly variable rate	**14,090**	14,410
South Jersey Hospital, Inc., Series 2004 A-4	2034	Weekly variable rate	**14,085**	14,425
Robert Wood Johnson Univ. Hospital, Series 2004	2029	Weekly variable rate	**46,455**	47,775
St. Clare's Hospital, Series 2004A	2025	4.25 – 5.25	**59,000**	59,000

9. Revenue Bonds and Notes (continued)

	Due in Varying Installments Ending	Range of Annual Interest Rate Percentages	Amount Outstanding December 31 2007	2006
			($000)	
Revenue bonds (continued)				
Public issues (continued):				
St. Clare's Hospital, Series 2004B	2015	2.85 – 5.25	**$ 34,240**	$ 37,775
Virtua Health, Series 2004	2033	Weekly variable rate	**60,000**	60,000
Recovery Management Sys, Inc. Series 2005	2030	Weekly variable rate	**13,485**	13,860
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	**28,425**	29,400
RWJ Health Care Corp. @ Hamilton, Series 2005 B	2035	3.00 – 5.00	**65,375**	65,375
Greystone Park Psychiatric Hospital Project, Series 2005	2028	3.50 – 5.00	**186,565**	186,565
Children's Specialized Hospital, Proj., Series 2005 A	2036	4.00 – 5.50	**32,895**	32,895
Children's Specialized Hospital, Proj., Series 2005 B	2036	Weekly variable rate	**24,000**	24,000
AtlantiCare Regional Med. Ctr., Series 2005 A-1	2030	Weekly variable rate	**23,000**	25,000
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	**18,000**	18,000
Hunterdon Medical Center, Series 2006A	2035	4.50 – 5.25	**22,500**	22,500
AHS Hospital Corp., Series 2006	2036	Auction rate	**150,000**	150,000
Southern Ocean County Hospital, Series 2006	2036	Weekly variable rate	**18,150**	18,390
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	**24,000**	25,000
East Orange General Hospital, Series 2006 A-2	2021	Weekly variable rate	**12,320**	13,200
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 2007	2006
			($000)	
Revenue bonds (continued)				
Public issues (continued):				
MHAC I, LLC, Series 2006 A-4	2027	Weekly variable rate	**$ 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	**7,000**	7,000
CentraState Medical Center, Series 2006 A	2021	3.50 – 5.00	**41,575**	41,575
CentraState Medical Center, Series 2006 B	2037	Auction rate	**29,850**	29,850
Saint Barnabas Health Care System, Series 2006 A	2029	5.00	**63,070**	72,120
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**	
St. Mary's Hospital, Passaic, New Jersey, Series 2007-2	2018	5.073 – 5.265	**17,500**	
AHS Hospital Corp., Series 2007	2036	Auction rate	**101,000**	
Catholic Health East Health System, Series 2007E	2033	Indexed rate	**100,880**	
Trinitas Hospital Obligated Group, Series 2007A	2030	4.75 – 5.25	**65,050**	
Trinitas Hospital Obligated Group, Series 2007B	2023	5.25 – 8.08	**65,350**	
AtlantiCare Regional Medical Center, Series 2007	2037	4.00 – 5.00	**113,420**	
Meridian Health System Obligated Group, Series 2007	2038	Auction rate	**242,125**	
Saint Peter's University Hospital Obligated Group, Series 2007	2037	5.25 – 5.75	**65,175**	
Total public issues			**5,753,901**	5,507,310

9. Revenue Bonds and Notes (continued)

	Due in Varying Installments Ending	Range of Annual Interest Rate Percentages	Amount Outstanding December 31 2007	Amount Outstanding December 31 2006
			($000)	
Private placements:				
St. Ann's Home for the Aged, Series 1996	2011	3.40	**$ 6,855**	$ 7,147
CentraState Assisted Living, Inc., Series 1998	2018	4.57% through 2008 then 10 Year Treasury Index	**6,798**	7,019
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	**8,413**	8,758
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	**12,228**	12,575
Hartwyck West Nursing Home Series 2001	2008	5.65	**211**	452
Warren Hospital Obligated Group, Series 2002	2027	Fixed rate based on the 7-Year Treasury Index plus 150 basis pts until maturity	**13,120**	13,491
Cathedral Health Services, Inc. Series 2002A	2008	4.69	**244**	920
Cathedral Health Services, Inc. Series 2002B	2008	4.69	**986**	2,408
Cathedral Health Services, Inc. Series 2002C	2017	5.85	**3,398**	3,652
Beth Israel Hospital Association, Series 2003	2007	5.00% through December 31, 2006 then fixed rate equal to the greater of 5.0% or the rate equal to the 3-Year Treasury Note plus 250 basis pts.	*****	10,492

9. Revenue Bonds and Notes (continued)

	Due in Varying Installments Ending	Range of Annual Interest Rate Percentages	Amount Outstanding December 31 2007	2006
			($000)	
Revenue bonds (continued)				
Private placements (continued):				
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	**30,525**	35,000
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**	15,000
Total private placements			**98,953**	118,089
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**	2,458
FitnessFirst Oradell Center, LLC, Series 2007	2012	3.92	**1,186**	–
Children's Specialized Hospital, Series 2007	2012	3.92	**3,600**	–
Total equipment revenue notes			**6,484**	2,458
Total revenue bonds			**$ 5,959,338**	$ 5,727,857

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)	
2008	$ 151,338	$ 205,398	$ 356,736
2009	159,508	198,833	358,341
2010	164,970	194,082	359,052
2011	179,887	186,837	366,724
2012	173,207	178,001	351,208
Thereafter	5,130,428	1,986,251	7,116,679
	$ 5,959,338	$ 2,949,402	$ 8,908,740

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, 2007, 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 have been made through January 31, 2008 on the 1999 bond issue. It is anticipated that an event of default will occur due to nonpayment after February 29, 2008. No debt service payments have been made on the 2003 private placement issue since August 15, 2007, creating an event of default on the 2003 issue.

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. An auction of the hospital's assets is scheduled during March, 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, 2007 and 2006, by issue, is as follows:

	Due in Varying Installments Ending	Range of Annual Interest Rate Percentages	Amount Outstanding December 31 2007	Amount Outstanding December 31 2006
			($000)	
Defeased public issues:				
Community Memorial Hospital Association (Toms River), Series A (currently Community Medical Center, a part of Saint Barnabas Health Care System)	2009	6.75%	**$ 1,865**	$ 2,710
The Overlook Hospital Association, Series C (currently a part of AHS Hospital Corporation)	2011	6.90	**5,100**	6,180
Hackensack Hospital, Series A (currently Hackensack University Medical Center)	2009	6.70	**3,240**	4,865
Mercer Medical Center, Series B (currently a part of Capital Health System)	2008	7.00	**1,065**	2,170
Monmouth Medical Center, Series A (currently a part of Saint Barnabas Health Care System)	2009	6.70	**1,480**	2,215
St. Francis Hospital, Series A (currently a part of Capital Health East)	2012	8.00	**7,395**	8,570
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	**3,080**	3,855
Burlington County Memorial Hospital, Series C (currently a part of Virtua Health, Inc.)	2012	6.00	**10,500**	10,500
East Orange General Hospital, Series A	2007	6.70		450

11. Defeased Issues (continued)

	Due in Varying Installments Ending	Range of Annual Interest Rate Percentages	Amount Outstanding December 31 2007	Amount Outstanding December 31 2006
			($000)	
Defeased public issues (continued):				
Point Pleasant Hospital, Series A (currently a part of Meridian Health System, Inc.)	2010	7.30	**$ 2,525**	$ 3,260
The General Hospital Center at Passaic, Series 1994 (currently a part of Beth Israel Hospital Association of Passaic)	2019	6.00 – 6.75	**49,555**	52,250
Allegany Health-Our Lady of Lourdes, Series 1993 (currently a part of Catholic Health East)	2018	5.00 – 5.20	**30,180**	32,170
Riverview Medical Center, Series 1994 (currently a part of Meridian Health System, Inc.)	2011	5.50 – 6.25	**11,480**	13,980
St. Mary Hospital, Series 1993 (currently a part of Capital Health East)	2012	5.875	**10,900**	12,735
Bayshore Community Hospital, Series 1989 A&B	2009	0.00	**581**	902
New Seasons of Mt. Arlington Assisted Living Project, Series 2000B	2010	10.75	**485**	615
East Orange General Hospital, Series B	2007	7.75		8,655
AHS Hospital corporation, Series 1997 A	2027	5.00 – 6.00	**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	**56,760**	
Catholic Health East, Series 2003A	2012	3.20 – 5.375	**45,685**	
Total defeased public issues			**328,796**	170,452
Defeased private placements:				
Saint Peter's Medical Center, Series A (currently Saint Peter's University Hospital)	2009	7.125	**306**	453
St. Elizabeth Hospital, Series A (currently Trinitas Hospital)	2009	6.00	**5,140**	6,000
Total defeased private placements			**5,446**	6,453

11. Defeased Issues (continued)

	Due in Varying Installments Ending	Range of Annual Interest Rate Percentages	Amount Outstanding December 31 2007	2006
			($000)	
Partially defeased public issues				
Community Medical Center/Kimball Medical Center/Kensington Manor Care Center Obligated Group, Series 1998 (currently a part of Saint Barnabas Health Care System)	2008	4.30 – 5.50	**$ 12,715**	$ 13,925
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**	12,945
Saint Barnabas Health Care System, Series 1998B	2009	0.00 – 5.25	**81,178**	82,963
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**	–
Atlantic City Medical Center, Series 2002 (currently AtlantiCare Health System)	2025	4.85 – 6.25)	**36,775**	–
Total partially defeased public issues			**325,363**	253,828
Total defeased issues			**$ 659,605**	$ 430,733

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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, 2007, and have issued our report thereon dated March 13, 2008. 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, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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

Ernst & Young LLP

March 13, 2008