# NEW JERSEY HEALTH CARE FACILITIES FINANCING AUTHORITY (A COMPONENT UNIT OF THE STATE OF NEW JERSEY)

ANNUAL FINANCIAL REPORT AND
SUPPLEMENTARY INFORMATION

DECEMBER 31, 2017

**NEW JERSEY HEALTH CARE FACILITIES FINANCING AUTHORITY**
**(A COMPONENT UNIT OF THE STATE OF NEW JERSEY)**

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December 31, 2017

MERCADIEN, P.C.
CERTIFIED PUBLIC ACCOUNTANTS

## INDEPENDENT AUDITORS' REPORT

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

### Report on the Financial Statements

We have audited the accompanying financial statements of the New Jersey Health Care Facilities Financing Authority (the "Authority"), as of and for the years ended December 31, 2017 and 2016, and the related notes to financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

### Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### Auditors' Responsibility

Our responsibility is to express 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 of America and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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



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## INDEPENDENT AUDITORS' REPORT (CONTINUED)

### Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Authority, as of December 31, 2017 and 2016, and the respective changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

### Other Matters

*Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4 - 9 and the schedules of funding progress for the retiree healthcare plan, schedules of proportionate share of net pension liability, and the schedules of contributions on page 28, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

*Other Supplementary Information*

Our audits were conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Authority's basic financial statements. The accompanying other supplementary information - trustee held funds section is presented for the purpose of additional analysis and is not a required part of the basic financial statements. The trustee held funds statements are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the trustee held funds statements are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

## INDEPENDENT AUDITORS' REPORT (CONTINUED)

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

In accordance with *Government Auditing Standards*, we have also issued our reports dated June 14, 2018, on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control over financial reporting and compliance.

*Mercadien, P.C.*
*Certified Public Accountants*

June 14, 2018

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 years ended December 31, 2017 and 2016. Please read it in conjunction with the Authority's financial statements and accompanying notes.

## Financial Highlights

The Authority's total net position increased $712,000 or 8.8%
Cash and cash equivalents decreased $499,000 or 6.1%
Operating revenue decreased $195,000 or 4.7%
Operating expenses decreased $565,000 or 14.7%
Operating income increased $370,000 or 140.2%

## 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 other supplementary information - trustee held funds. The Authority is a self-supporting entity and follows enterprise fund reporting. Accordingly, the financial statements are presented using the accrual basis of accounting.

## Financial Analysis of the Authority

**Net Position** – The following table presents the changes in net position from December 31, 2017, 2016 and 2015:

| | 2017 | 2016 | 2015 | Change 2017-2016 | % Change |
|---|---|---|---|---|---|
| | ($000) | ($000) | ($000) | ($000) | (%) |
| Current assets | $ 13,162 | $ 13,836 | $ 13,053 | $ (674) | -4.9% |
| Noncurrent assets | 2,702 | 1,175 | 1,484 | 1,527 | 130.0% |
| Total assets | 15,864 | 15,011 | 14,537 | 853 | 5.7% |
| Deferred outflows of resources | 1,446 | 2,085 | 1,220 | (639) | -30.6% |
| Current liabilities | 1,941 | 1,948 | 2,191 | (7) | -0.4% |
| Long-term liabilities | 5,094 | 6,498 | 5,679 | (1,404) | -21.6% |
| Total liabilities | 7,035 | 8,446 | 7,870 | (1,411) | -16.7% |
| Deferred inflows of resources | 1,460 | 547 | 91 | 913 | 166.9% |
| Total net position | $ 8,815 | $ 8,103 | $ 7,796 | $ 712 | 8.8% |

Current assets are comprised of cash and cash equivalents (operating account and Federally Qualified Health Centers ("FQHC") loan program), administrative fees and other receivables, notes receivable, notes interest receivable and prepaid expenses. Current assets decreased 4.9% from December 31, 2016 to December 31, 2017. As of December 31, 2017, the majority of the cash and cash equivalents were held in the New Jersey Cash Management Fund ("NJCMF"),

**Financial Analysis of the Authority (Continued)**

a liquid short-term investment vehicle. The yield on the NJCMF at December 31, 2017 and 2016 was 1.25% and 0.53%, respectively. Overall, the operating account cash and cash equivalents increased $185,000 while the FQHC loan program cash and cash equivalents decreased $684,000.

The operating account cash and cash equivalents increased due to the collection of semi-annual fees, initial fees and per series fees. The decrease in the FQHC loan program cash and cash equivalents was due to a new $2,000,000 loan from the program in 2017, partially offset by the collection of principal and interest payments on two (2) loans in 2017. The FQHC loan program is further described in Note D to the financial statements.

Administrative fees and other receivables decreased overall by $46,000. The majority of the receivables consist of the Authority's semi-annual fee billings which had an overall decrease of $121,000. The semi-annual fee billings invoiced on December 31, 2017 and 2016, totaled $1,847,000 and $1,822,000, respectively, or an increase of $25,000. There were five (5) new financings added to the Authority's portfolio, three of which were refinancing other issues including one due to the merger of a large health care system and subsequent refinancing of outstanding bond issues. Also increasing was other receivables for trustee fees and reimbursement due from the New Jersey Department of Health ("DOH") and the New Jersey Department of Human Services ("DHS") for services that the Authority provides to those departments partially due to the renewal of a one-year contract for construction compliance services through June 30, 2018. The trustee fees receivable fluctuates from year to year depending on the timing of the invoices received from the trustees and the timing of the payments received from the health care institutions with which the Authority has outstanding debt. Finally, the note receivables-designated FQHC loan program increased due to the issuance of a new $2,000,000 loan in November 2017.

Prepaid expenses from December 31, 2016 to December 31, 2017, decreased in part due to the recording of the expense for the Authority's Annual Required Contribution ("ARC") for its post-retirement health benefits. Those amounts were $358,000 and $564,000 as of December 31, 2017 and 2016, respectively. The post-retirement health benefits prepaid balance as of December 31, 2017 and 2016 was $2,906,000 and $3,265,000, respectively. For more information on the Authority's post-retirement health benefits refer to Note F to the financial statements. Also, decreasing slightly was prepaid equipment/software maintenance and prepaid computer services/software.

When comparing current assets as of December 31, 2015 to December 31, 2016, current assets increased 6.0%. Overall, the operating account cash and cash equivalents increased $96,000 while the FQHC loan program cash and cash equivalents increased $432,000. The increase in the FQHC loan program cash and cash equivalents was due the issuance of the 2$^{nd}$ loan in 2015 offset by the repayment of principal in 2016. Administrative fees and other receivables decreased overall by $11,000. The semi-annual fee billings invoiced on December 31, 2016 and 2015, totaled $1,822,000 and $1,827,000, respectively, or a decrease of $5,000.

**Financial Analysis of the Authority (Continued)**

Prepaid expenses from December 31, 2015 to December 31, 2016, increased in part due to the recording of the expense for the ARC for its post-retirement health benefits. Those amounts were $564,000 and $307,000 as of December 31, 2016 and 2015, respectively. The post-retirement health benefits prepaid balance as of December 31, 2016 and 2015 was $3,265,000 and $2,906,000, respectively.

Noncurrent assets represent the Authority's capital assets which include furniture, leasehold improvements, equipment and automobiles whose costs are in excess of $1,000, net of accumulated depreciation, and the portion of the two note receivables dated January 29, 2010 and July 27, 2015 outstanding from Lakewood Resource and Referral Center, Inc. that exceeds one year as further described in Note D to the financial statements.

Noncurrent assets at December 31, 2017, increased $1,527,000 when compared to December 31, 2016. The majority of the increase is due to the issuance of a new FQHC loan of $2,000,000 partially offset by the principal payments of the two FQHC loans to Lakewood Resource and Referral Center, Inc. In addition, capital asset equipment and furniture were purchased in 2017. It should be noted that a majority of the Authority's capital assets have been fully depreciated.

Deferred outflows of resources is a result of the implementation of the Governmental Accounting Standards Board ("GASB") Statement 68, *Accounting and Financial Reporting for Pensions*.

Deferred outflows of resources at December 31, 2017 and 2016 totaled $1,446,000 and $2,085,000, respectively, which is a decrease of $639,000 or 31%.

Current liabilities in 2017 are comprised of accounts payable, accrued expenses, unearned revenue-annual fees and section 142(d) fees. When compared to December 31, 2016, current liabilities decreased $7,000 or 0.4%. Accounts payable and accrued expenses decreased $16,000 or 9.5%. Since there were no extraordinary fees to be accrued, there was a small decrease in accounts payable and accrued expenses partially offset by an increase in unearned revenue-annual fees. The decrease in unearned revenue-142(d) fees is due to the amortization of the prepayment from a client for monitoring its compliance with the 142(d) IRS regulations.

The completion of the matters relating to the sale of St. Michael's Medical Center and the December 31, 2015 accrual for legal fees is a major factor in the decrease from 2015 to 2016. Also, the accrual for unused vacation and unused sick time decreased because Staff has been reduced from 24 to 22 due to the retirement of two Staff members and the subsequent reorganization. It should be noted that a retiree is entitled to up to one-half of their accrued sick time; but the amount of the payment cannot exceed $15,000. The 2016 unearned revenue-annual fees increased $14,000 or 0.8% compared to December 31, 2015. It represents the semi-annual fees billed on December 31, 2016 and 2015, which cover the periods January 1, 2017 to June 30, 2017, and January 1, 2016 to June 30, 2016, respectively. Unearned revenue-section 142(d) fees decreased $6,000 or 15.0% from 2015 to 2016 for the same reason as stated in the previous paragraph.

**Financial Analysis of the Authority (Continued)**

Deferred inflows of resources is also a result of GASB Statement 68 and at December 31, 2017 and 2016 totaled $1,460,000 and $547,000, respectively, which is an increase of $913,000 or 167%.

Long-term liabilities represent the Authority's actuarially calculated net pension liability in accordance with the requirements of GASB Statement 68. The liability as of December 31, 2017 and 2016 is $5,094,000 and $6,498,000, respectively, which is a decrease of $1,404,000 or 22%.

**Changes in Net Position –** The following table presents the changes in net position for the years ended 2017, 2016 and 2015:

| | 2017 | 2016 | 2015 | Change 2017-2016 | % Change |
|---|---|---|---|---|---|
| | ($000) | ($000) | ($000) | ($000) | (%) |
| Operating revenues | | | | | |
| Administrative fees | | | | | |
| Annual fees | $ 3,717 | $ 3,838 | $ 3,919 | $ (121) | -3.2% |
| Initial fees | 71 | 143 | 169 | (72) | -50.3% |
| Per series/per master lease fees | 70 | 75 | 61 | (5) | -6.7% |
| Mortgage servicing and Section 142 (d) fees | 24 | 24 | 24 | - | 0.0% |
| Note Interest Income Designated FQHC loan program | 43 | 40 | 23 | 3 | 7.5% |
| Total operating revenues | 3,925 | 4,120 | 4,196 | (195) | -4.7% |
| Operating expenses | | | | | |
| Salaries and related expenses | 2,302 | 2,561 | 2,610 | (259) | -10.1% |
| General and administrative | 556 | 569 | 584 | (13) | -2.3% |
| Provision for postemployment benefits | 358 | 564 | 307 | (206) | -36.5% |
| Professional fees and other | 75 | 162 | 345 | (87) | -53.7% |
| Bad debt expenses | - | - | 42 | - | 0.0% |
| Total operating expenses | 3,291 | 3,856 | 3,888 | (565) | -14.7% |
| Operating income | 634 | 264 | 308 | 370 | 140.2% |
| Nonoperating revenues | | | | | |
| Interest income from investments | 78 | 34 | 8 | 44 | 129.4% |
| Other income | - | 3 | - | (3) | -100% |
| Gain on disposal of asset | - | 6 | 6 | (6) | -100% |
| Total nonoperating revenues | 78 | 43 | 14 | 35 | 81.4% |
| Change in net position | 712 | 307 | 322 | 405 | 131.9% |
| Net position, beginning of year | 8,103 | 7,796 | 7,474 | 307 | 3.9% |
| Net position, end of year | $ 8,815 | $ 8,103 | $ 7,796 | $ 712 | 8.8% |

**Financial Analysis of the Authority (Continued)**

The Authority's net position increased $712,000 or 8.8% from December 31, 2016 to December 31, 2017. The increase is partially due to the $565,000 decrease in operating expenses.

The Authority's net position increased $307,000 or 3.9% from December 31, 2015 to December 31, 2016. The increase is partially due to the $32,000 decrease in operating expenses.

Operating revenues - During 2017, total operating revenues decreased $195,000, or 4.7% compared to 2016. Annual fees and initial fees, decreased $121,000 and $72,000, respectively, while per series/per master lease fees, decreased $5,000 compared to 2016. Annual Fees decreased due to the recognition of unearned revenue from the December 31, 2016 and June 30, 2017 semi-annual fee billings which were lower than those billed in the previous year. Regarding the decrease in initial fees and the increase in per series/per master lease fees, the collection of those fees can fluctuate from year to year depending on Authority financing activity, the financing needs of the health care institutions, the actual/estimated bond size and the current economic climate. In 2017, six (6) initial fees based on a total estimated bond size of $1,105,000,000, seven (7) per series fees, one (1) FQHC initial fee and one (1) FQHC closing fee were received.

By comparison in 2016, six (6) initial fees were received based on a total estimated bond size of $1,639,000,000, ten (10) per series fees were received, two (2) per master lease fees were received and one (1) master lease initial fee were received.

In 2015, eight (8) initial fees were received based on a total estimated bond size of $1,155,839,000, eight (8) per series fees were received and two (2) per master lease fees were received.

Interest received in 2017 was $78,000 compared to $34,000 in 2016 and $8,000 received in 2015. This increase is a function of the variable interest rate on the NJCMF.

Finally, the note interest income-designated FQHC loan program amount is the interest earned on the Lakewood Resource and Referral Center, Inc. loans issued on January 29, 2010, July 27, 2015 and November 16, 2017, as further described in Note D to the financial statements. In 2017, the interest earned on the FQHC loans was $43,000, compared to $40,000 in 2016 and $23,000 in 2015. The $3,000 increase between 2016 and 2017 is due to the maturing of the January 2010 loan, the addition of the November 2017 loan and the increase in the variable rate charged for the loans.

Operating expenses – During 2017, operating expenses decreased $565,000 or 14.7% when compared to 2016. The majority of the decrease in operating expenses is in the category of Professional fees for actuarial and DAG services. There is also a decrease in the category of Salaries and related expenses due to the decrease in Staff. The Provision for postemployment benefits decreased due to the actuarial valuation completed for the years 2016 and 2017 in 2016 and the Authority's current policy of maintaining full funding of the Trust.

## Financial Analysis of the Authority (Continued)

When comparing operating expenses during 2016 to 2015, there was a decrease of $32,000 or 0.8%. The majority of the decrease in operating expenses is in the category Professional fees and other and again was due in part to the fees and expenses incurred for the sale of St. Michael's in 2016 and the completion of a study of health care services in the Newark area. Regarding Salaries and related expenses, the decrease is due to a reduction in staff.

Nonoperating revenues/(expenses) – Interest income in 2017 and 2016 represented interest earned on the Authority's checking accounts and the operating funds invested in the NJCMF. During 2017, nonoperating revenues increased $35,000 or 81.4% due to the increase in the interest rate in the NJCMF from an average 0.42% in 2016 to an average of 0.88% in 2017. There were no miscellaneous income items or gain on disposal of assets items in 2017.

Interest income totaled $8,000 in 2015 and the average yield on the NJCMF for 2015 was 0.11%. The gain on disposal of assets in each 2016 and 2015 was as a result of the sales of two of the Authority's 2007 Toyota Prius Hybrids through the Govdeals auction site in each of those years.

## 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)**

STATEMENTS OF NET POSITION
DECEMBER 31, 2017 AND 2016

| | 2017 ($000) | 2016 ($000) |
|---|---|---|
| Assets | | |
| Current assets | | |
| Cash and cash equivalents | $ 7,667 | $ 7,482 |
| Cash and cash equivalents - designated FQHC loan program | 75 | 759 |
| Administrative fees and other receivables | 1,953 | 1,907 |
| Notes receivable - designated FQHC loan program | 450 | 298 |
| Notes interest receivable - designated FQHC loan program | 8 | 3 |
| Prepaid expenses | 3,009 | 3,387 |
| Total current assets | 13,162 | 13,836 |
| Noncurrent assets | | |
| Notes receivable - designated FQHC loan program | 2,679 | 1,146 |
| Capital assets | 673 | 664 |
| Less accumulated depreciation | (650) | (635) |
| Total noncurrent assets | 2,702 | 1,175 |
| Total assets | 15,864 | 15,011 |
| Deferred outflows of resources - related to pensions | 1,446 | 2,085 |
| Liabilities | | |
| Current liabilities | | |
| Accounts payable and accrued expenses | $ 152 | $ 168 |
| Unearned revenue - annual fees | 1,760 | 1,746 |
| Unearned revenue - 142(d) fees | 29 | 34 |
| Total current liabilities | 1,941 | 1,948 |
| Long-term liabilities | | |
| Net pension liability | 5,094 | 6,498 |
| Total liabilities | 7,035 | 8,446 |
| Deferred inflows of resources - related to pensions | 1,460 | 547 |
| Net position | | |
| Net investment in capital assets | 23 | 29 |
| Unrestricted | | |
| Unassigned | 5,580 | 5,871 |
| Committed - FQHC loan program | 3,212 | 2,203 |
| Total net position | $ 8,815 | $ 8,103 |

See accompanying notes to financial statements.

**NEW JERSEY HEALTH CARE FACILITIES FINANCING AUTHORITY**
**(A COMPONENT UNIT OF THE STATE OF NEW JERSEY)**

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
YEAR ENDED DECEMBER 31, 2017 AND 2016

| | 2017 ($000) | 2016 ($000) |
|---|---|---|
| Operating revenues | | |
| Administrative fees | | |
| Annual fees | $ 3,717 | $ 3,838 |
| Initial fees | 71 | 143 |
| Per series/per master lease fees | 70 | 75 |
| Section 142 (d) fees | 24 | 24 |
| Note interest income - designated FQHC loan program | 43 | 40 |
| Total operating revenues | 3,925 | 4,120 |
| Operating expenses | | |
| Salaries and related expenses | 2,302 | 2,561 |
| General and administrative expenses | 540 | 549 |
| Professional fees | 75 | 162 |
| Provision for postemployment benefits | 358 | 564 |
| Depreciation expense | 16 | 20 |
| Total operating expenses | 3,291 | 3,856 |
| Operating income | 634 | 264 |
| Nonoperating revenues | | |
| Interest income from investments | 78 | 34 |
| Other income | - | 3 |
| Gain on disposal of asset | - | 6 |
| Total nonoperating revenues | 78 | 43 |
| Changes in net position | 712 | 307 |
| Net position, beginning of year | 8,103 | 7,796 |
| Net position, end of year | $ 8,815 | $ 8,103 |

See accompanying notes to financial statements.

**NEW JERSEY HEALTH CARE FACILITIES FINANCING AUTHORITY**
**(A COMPONENT UNIT OF THE STATE OF NEW JERSEY)**

STATEMENTS OF CASH FLOWS
YEAR ENDED DECEMBER 31, 2017 AND 2016

| | 2017 ($000) | 2016 ($000) |
|---|---|---|
| **Cash flows from operating activities** | | |
| Cash received from customers | $ 3,839 | $ 4,101 |
| Cash payment to suppliers and employees | (2,764) | (4,034) |
| Net cash from operating activities | 1,075 | 67 |
| **Cash flows from capital and related financing activities** | | |
| Acquisition of capital assets | (9) | (8) |
| Cash received from disposal of assets | - | 6 |
| Net cash from capital and related financing activities | (9) | (2) |
| **Cash flows from noncapital financing activities** | | |
| Note issued to client institution - designated FQHC loan program | (2,000) | - |
| Note repayments from client institution - designated FQHC loan program | 314 | 390 |
| Interest received on note - designated FQHC loan program | 43 | 37 |
| Other income | - | 2 |
| Net cash from noncapital financing activities | (1,643) | 429 |
| **Cash flows from investing activities** | | |
| Investment income | 78 | 34 |
| Net cash from investing activities | 78 | 34 |
| Net change in cash and cash equivalents | (499) | 528 |
| Cash and cash equivalents, beginning of year | 8,241 | 7,713 |
| Cash and cash equivalents, end of year | $ 7,742 | $ 8,241 |
| Operating income | $ 634 | $ 264 |
| Adjustments | | |
| Depreciation | 6 | 20 |
| Net pension expense | 148 | 411 |
| Note interest income - designated FQHC loan program | (43) | (40) |
| Deferred income | 5 | 3 |
| Changes in assets and liabilities | | |
| Administrative fees and other receivables | (46) | 11 |
| Prepaid expenses | 378 | (358) |
| Accounts payable and accrued expenses | (16) | (251) |
| Unearned revenue | 9 | 7 |
| Net cash from operating activities | $ 1,075 | $ 67 |

See accompanying notes to financial statements.

## A. ORGANIZATION

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

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

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

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

## A. ORGANIZATION (CONTINUED)

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

The Authority is exempt from both federal and state taxes.

## B. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### Basis of Accounting

In its accounting and financial reporting, the Authority follows the pronouncements of the Governmental Accounting Standards Board ("GASB"). GASB is the accepted standards setting body for establishing government accounting and financial reporting principles. The accounts are maintained on the accrual basis of accounting in conformity with accounting principles generally accepted in the United States.

### Operating Revenues and Expenses

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

### Revenue Recognition

*Administrative Fees*

The Authority charges an upfront fee comprised of an initial fee, per series fee or per master lease fee to those health care organizations that have executed a Memorandum of Understanding signifying the organization's intentions to have the Authority finance a project through the issuance of bonds, notes or through the entering of a master lease. A separate application fee is charged to those health care organizations who wish to finance a project through the issuance of a Capital Asset Program Loan. An annual fee is also charged to those health care organizations for which bond sales, note sales and/or lease agreements have been completed. Such fees are charged for the processing of project costs, investment management of bond proceeds, monitoring of financial

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

### Revenue Recognition (Continued)

*Administrative Fees (Continued)*
performance and other services provided to the organizations. For the Authority's Federally Qualified Health Centers ("FQHCs") loan program, an initial fee, closing fee and annual fee is charged. The fees are charged for the processing of the loan, processing of project costs, if any, and monitoring of financial performance. The administrative 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. All administrative fees are deemed collectible.

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

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

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

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

The components of cash and cash equivalents at December 31, 2017 and 2016, are:

| | 2017 | 2016 |
|---|---|---|
| Operating checking account | $ 14 | $ 21 |
| NJCMF | 7,653 | 7,461 |
| NJCMF - designated FQHC loan program | 75 | 759 |
| Total cash and cash equivalents | $ 7,742 | $ 8,241 |

## C. CASH AND CASH EQUIVALENTS

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

The Authority has assessed the Custodial Credit Risk, the Concentration of Credit Risk, Credit Risk and Interest Rate Risk of its Cash and Cash Equivalents.

(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. If the Authority had investment securities they would be exposed to custodial credit risk if the securities were uninsured, were not registered in the name of the Authority, or 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 would not be able to recover the value of the investment or collateral securities that are in the possession of an outside party.

## C. CASH AND CASH EQUIVALENTS (CONTINUED)

At December 31, 2017 and December 31, 2016, the Authority's bank balance of $14,000 and $21,000, respectively, was not exposed to custodial credit risk since the full amount was covered by FDIC insurance. The NJCMF balance of $7,728,000 and $8,220,000 at December 31, 2017 and December 31, 2016, respectively, which is administered by the New Jersey Department of the Treasury, Division of Investments, invests pooled monies from various State and non-State agencies in primarily short-term investments. These investments include: U.S. Treasuries, Short-Term Commercial Paper, U.S. Government Agency Bonds, Corporate Bonds and Certificates of Deposits. Agencies that are part of the NJCMF typically earn returns that mirror short-term interest rates. The NJCMF 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. The majority of available funds were being held in the NJCMF, which are classified as cash and cash equivalents. The Authority does not have a formal policy for investment securities custodial credit risk other than to maintain a safekeeping account for the securities at a financial institution.

(b) Concentration of Credit Risk - This is the risk associated with the amount of investments the Authority has with any one issuer that exceed five percent or more of its total investments. Investments issued or explicitly guaranteed by the U.S. Government and investments in mutual funds, external investment pools, and other pooled investments were excluded from this requirement. The Authority places no limit on the amount it may invest in any one issuer. The Authority does not have any credit risk since there were no investments in the Authority's portfolio as of December 31, 2017 and 2016.

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

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

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

At the Authority's meeting on July 23, 2009, the members of the Authority approved the creation of a loan program using the Authority's unrestricted net position that exceeded a six-month cash-on-hand reserve (approximately $2 million) to provide funding, including capital and working capital, for start-up FQHCs. The terms of said loans will vary from five to ten years with interest due and computed using the monthly variable rate on the NJCMF plus 2%. Subsequently, at the Authority's meeting on December 18, 2014, the members of the Authority approved expanding the loan program to existing FQHCs that would like to expand. The term of the loans and interest due for existing FQHCs will be similar to the terms for the start-up FQHCs. Further, an additional $1.5 million from the Authority's fund balance will be added to the loan program as demand requires, which would bring the potential pool of funds to $3.5 million. The maximum loan amount remains at $2 million and the repaid funds will be returned to the FQHC loan program to be lent out in the future to start-up and existing FQHCs.

The table below summarizes the Authority's remaining loan payments to be received, for the two loans outstanding, which are considered to be fully collectible.

Lakewood Resource and Referral Center, Inc. loan dated July 27, 2015, due July 1, 2022, and Lakewood Resource and Referral Center, Inc. loan dated November 16, 2017, due November 1, 2027.

| Year Ending December 31, | Principal | Estimated Interest | Total |
|---|---|---|---|
| 2018 | $ 450,000 | $ 88,187 | $ 538,187 |
| 2019 | 450,000 | 74,687 | 524,687 |
| 2020 | 450,000 | 61,187 | 511,187 |
| 2021 | 450,000 | 47,687 | 497,687 |
| 2022 | 345,833 | 33,250 | 379,083 |
| 2023 | 200,000 | 27,250 | 227,250 |
| 2024 | 200,000 | 21,250 | 221,250 |
| 2025 | 200,000 | 15,250 | 215,250 |
| 2026 | 200,000 | 9,250 | 209,250 |
| 2027 | 183,334 | 3,208 | 186,542 |
| Total | $ 3,129,167 | $ 381,206 | $ 3,510,373 |

## E. PENSION PLAN

The Authority's employees participate in the Public Employees' Retirement System ("PERS") which is administered and/or regulated by the New Jersey Division of Pensions and Benefits. PERS has a separate board of trustees that is primarily responsible for its administration. PERS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to State of New Jersey, Division of Pensions and Benefits, P.O. Box 295, Trenton, New Jersey 08625-0295, or by visiting their website at www.state.nj/treasury/pensions.

### Plan Description

PERS is a cost sharing multiple-employer defined benefit plan which was established as of January 1, 1955. The PERS plan provides retirement, death and disability and medical benefits to qualified members. Vesting and benefit provisions are established by N.J.S.A. 43:15A and 43:38.

### Benefits Provided

All benefits vest after ten years of service, except for medical benefits, which are described in Note F.

### Contributions

The Authority's contribution is determined by State statute and is based upon an actuarial computation performed by the PERS. The Authority is billed annually for its normal contribution plus any accrued liability.

The Authority's total and covered payroll for the years ended December 31, 2017, 2016, 2015 and 2014 was $1,517,320, $1,549,905, $1,644,881 and $1,714,089, respectively. Contributions to the PERS from the Authority for the years ended December 31, 2017, 2016, 2015 and 2014 were $196,999, $217,490, $203,167 and 164,448, respectively.

The contribution requirements of plan members are determined by State statute. Plan members enrolled in the PERS were required to contribute 5.00% of their annual covered salary. Effective July 1, 2008, however, in accordance with Chapter 92, P.L. 2007 and Chapter 103, P.L. 2007, plan members were required to contribute 5.50% of their annual covered salary. Then pursuant to the provisions of Chapter 78, P.L. 2011, the active member contribution rate increased to 6.5% plus an additional 1.00% phased-in over seven years. The phase-in of the additional incremental member contribution amount began July 1, 2012, and increases each subsequent July 1. The active member effective contribution rates were 7.34%, July 1, 2017; 7.20%, July 1, 2016; 7.06%, July 1, 2015; 6.92%, July 1, 2014; 6.78%; July 1, 2013, and 6.64%, July 1, 2012. The State Treasurer has the right under the current law to make temporary reductions in member rates based on the existence of surplus pension assets in the retirement system; however, the statute also requires the return to the normal rate when such surplus pension assets no longer exist.

## E. PENSION PLAN (CONTINUED)

### Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources- Related to Pensions

At December 31, 2017 and 2016, the Authority reported a liability of $5,094,097 and $6,498,405, respectively, for its proportionate share of the net pension liability. The net pension liability was measured as of July 1, 2016, which was rolled forward to June 30, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The Authority's proportionate share of the net pension liability was based on a projection of the Authority's long-term share of contributions to the pension plan relative to the projected contributions of all participating members of the plan, actuarially determined. At June 30, 2017 and 2016, the Authority's proportion was .0219%. For the years ended December 31, 2017 and 2016, the Authority recognized pension expense of $344,997 and $519,743, respectively. The Authority reported deferred outflows and inflows of resources as follows:

| | 2017 | | 2016 | |
|---|---|---|---|---|
| | Deferred Outflows of Resources | Deferred Inflows of Resources | Deferred Outflows of Resources | Deferred Inflows of Resources |
| Differences between expected and actual | $ 119,948 | $ - | $ 120,851 | $ - |
| Changes in assumptions | 1,026,285 | 1,022,523 | 1,346,122 | - |
| Net difference between projected and actual earnings on pension plan investments | 34,687 | - | 247,790 | - |
| Changes in proportion | 263,919 | 437,586 | 369,562 | 546,924 |
| | $ 1,444,839 | $ 1,460,109 | $ 2,084,325 | $ 546,924 |

### Actuarial Assumptions

The total pension liability for the June 30, 2017 and 2016, measurement date was determined using the following actuarial assumptions, applied to all periods included in the measurement:

| | 2017 | 2016 |
|---|---|---|
| Inflation | 2.25% | 3.08% |
| Salary increases | 1.65% - 4.15% based on age | 1.65% - 4.15% based on age |
| Investment rate of return | 7.00% | 7.65% |

## E. PENSION PLAN (CONTINUED)

Mortality rates were based on the RP-2000 Combined Healthy Male and Female Mortality Tables, with adjustments for mortality improvements from the base year 2013 based on Projection Scale AA.

The actuarial assumptions used in the July 1, 2016, valuation were based on the results of an actuarial experience study for the period July 1, 2011 to June 30, 2014.

In accordance with State statute, the long term expected real rate of return on plan investments is determined by the State Treasurer, after consultation with the directors of the Division of Investments and Division of Pension and Benefits, the board of trustees, and the actuaries. Best estimates of arithmetic real rates of return of each major asset class included in PERS's target asset allocation as of June 30, 2017, are summarized in the following table:

2017

| Asset Class | Target Allocation | Long Term Expected Real Rate of Return |
|---|---|---|
| Absolute Return/Risk Mitigation | 5.00% | 5.51% |
| Cash Equivalents | 5.50% | 1.00% |
| U.S. Treasuries | 3.00% | 1.87% |
| Investment Grade Credit | 10.00% | 3.78% |
| Public High Yield | 2.50% | 6.82% |
| Global Diversified Credit | 5.00% | 7.10% |
| Credit Oriented Hedge Funds | 1.00% | 6.60% |
| Debt Related Private Equity | 2.00% | 10.63% |
| Debt Related Real Estate | 1.00% | 6.61% |
| Private Real Estate | 2.50% | 11.83% |
| Equity Related Real Estate | 6.25% | 9.23% |
| U.S. Equity | 30.00% | 8.19% |
| Non-U.S. Developed Markets Equity | 11.50% | 9.00% |
| Emerging Markets Equity | 6.50% | 11.64% |
| Buyouts/Venture Capital | 8.25% | 13.08% |

2016

| Asset Class | Target Allocation | Long Term Expected Real Rate of Return |
|---|---|---|
| Cash | 5.00% | 0.87% |
| U.S. Treasuries | 1.50% | 1.74% |
| Investment Grade Credit | 8.00% | 1.79% |
| Mortgages | 2.00% | 1.67% |
| High Yield Bonds | 2.00% | 4.56% |
| Inflation-Indexed Bonds | 1.50% | 3.44% |
| Broad US Equities | 26.00% | 8.53% |
| Developed Foreign Equities | 13.25% | 6.83% |
| Emerging Market Equities | 6.50% | 9.95% |
| Private Equities | 9.00% | 12.40% |
| Hedge Fund/Absolute Return | 12.50% | 4.68% |
| Real Estate (Property) | 2.00% | 6.91% |
| Commodities | 0.50% | 5.45% |
| Global Debt ex US | 5.00% | -0.25% |
| REIT | 5.25% | 5.63% |

## E. PENSION PLAN (CONTINUED)

### Discount Rate

The discount rate used to measure the total pension liability was 5.00% and 3.98% as of June 30, 2017 and 2016, respectively. The single blended discount rate was based on the long term expected rate of return on pension plan investments of 7.00%, and a municipal bond rate of 3.58% as of June 30, 2017, respectively, based on the Bond Buyer Go 20-Bond Municipal Bond Index which includes tax-exempt general obligation municipal bonds with an average rating of AA/Aa or higher. The projected cash flows used to determine the discount rate assumed that contributions from plan members will be made at the current last five years of contributions made in relation to the last five years of recommended contributions. Based on those assumptions the plan's fiduciary net position was projected to be available to make projected future benefit payments of current plan members through 2040. Therefore, the long term expected rate of return on plan investments was applied to projected benefit payments through 2040, and the municipal bond rate was applied to projected benefit payments after that date in determining the total pension liability.

## F. POST-EMPLOYMENT BENEFITS OTHER THAN PENSIONS

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

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

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

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

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

The Authority is amortizing this liability over a 30-year period using a level dollar method on an open basis. The Authority's annual OPEB cost and net OPEB (prepaid)/obligation for the years ended December 31, 2017 and 2016, and the related information for the Plan are as follows:

| | 2017 | 2016 |
|---|---|---|
| Annual required contributions | $ 358 | $ 564 |
| Contributions made | - | (923) |
| Increase in net OPEB obligations/(prepaid) | 358 | (359) |
| Prepaid OPEB obligation - beginning of year | (3,264) | (2,907) |
| Prepaid OPEB obligation - end of year | $ (2,906) | $ (3,266) |

The Authority's annual OPEB cost, the percentage of annual OPEB cost contributed to the Plan, and the net OPEB obligation/(prepaid) are as follows:

| Year Ended | Annual OPEB Cost | Percentage Annual OPEB Cost Contributed | Net OPEB Obligation/ (Prepaid) |
|---|---|---|---|
| December 31, 2017 | $ 358 | 100% | $ (2,906) |
| December 31, 2016 | 564 | 100% | (3,266) |
| December 31, 2015 | 358 | 100% | (2,907) |
| December 31, 2014 | 344 | 100% | (3,214) |
| December 31, 2013 | 332 | 100% | (3,508) |

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

At January 1, 2016, the actuarial accrued liability for benefits in the Trust was $5,950,000. At December 31, 2017 and 2016, funds in the Trust totaled $6,421,327 and $6,564,065, respectively. The covered payroll (annual payroll of active employees covered by the Plan) was $1,517,320 and $1,549,905 for the years ended December 31, 2017 and 2016, respectively, and the ratio of the funded actuarial accrued liability as a percentage of covered payroll was 423% and 424%, respectively.

The most recent actuarial valuation date is January 1, 2016. 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.

## F. POST-EMPLOYMENT BENEFITS OTHER THAN PENSIONS (CONTINUED)

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, 2016, actuarial valuation, the projected unit credit with benefits attributed from the 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%.

An actuarial valuation will be conducted in early 2018 for the calculation of the annual required contributions for 2018 and 2019.

## G. COMMITMENTS

The Authority has an operating lease commitment for its offices at an annual rental of approximately $286,000 from September 24, 2016 to September 23, 2021.

## H. RELATED-PARTY TRANSACTIONS

Operating expenses for the years ended December 31, 2017 and 2016, include approximately $234,348 and $318,000, respectively, relating to payment for goods and services provided by various State agencies.

## I. CONDUIT DEBT AND MASTER LEASE OBLIGATIONS

Due to the fact that the bonds and notes issued by the Authority are nonrecourse conduit debt obligations of the Authority, the Authority has, in effect, none of the risks or rewards of the related financing. Accordingly, with the exception of certain fees generated as a result of the financing transaction, the financing transaction is given no accounting recognition in the accompanying financial statements. During the years ended December 31, 2017 and 2016, the Authority issued $1,200,700,000 and $1,801,448,000, respectively, in conduit debt. The amount of conduit debt outstanding at December 31, 2017 and 2016, totaled $5,943,414,000 and $5,763,338,000, respectively. Total assets for the trustee held funds relating to the conduit debt were $6,069,792,000 and $5,886,158,000, for the years ended December 31, 2017 and 2016, respectively. Total liabilities and net position for the trustee held funds relating to the conduit debt were $6,069,792,000 and $5,886,158,000 as of December 31, 2017 and 2016, respectively.

Regarding the Master Leasing Program, during the years ended December 31, 2017 and 2016, leases entered into totaled $0 and $28,322,000, respectively. The amount of lease payments outstanding at December 31, 2017 and 2016, totaled $25,757,000 and $36,221,000, respectively.

## J. RISK MANAGEMENT

The Authority maintains a Not-For-Profit Protector Individual and Organization Insurance Policy (Directors and 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, 2017 through December 18, 2018, has a $20 million liability limit with a retention level of $175,000 at a premium cost of $70,923.

## K. RECENT ACCOUNTING PRONOUNCEMENTS

**GASB Statement 75,** *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*

Statement 75 provides guidance for reporting by state and local governments that provide OPEB, such as retiree health insurance, to their employees and for governments that finance OPEB for employees of other governments. Statement 75 is effective for fiscal years beginning after June 15, 2017. The Authority has not yet completed the process of evaluating the impact of GASB 75 on its financial statements.

# REQUIRED SUPPLEMENTARY INFORMATION

**NEW JERSEY HEALTH CARE FACILITIES FINANCING AUTHORITY**
**(A COMPONENT UNIT OF THE STATE OF NEW JERSEY)**

SCHEDULES OF FUNDING PROGRESS FOR THE RETIREE HEALTHCARE PLAN

| Actuarial Valuation Date* | Actuarial Value of Assets (in thousands) (a) | Actuarial Accrued Liability Level Dollar (in thousands) (b) | (Funded) Unfunded Actuarial Accrued Liability (in thousands) (b-a) | Funded Ratio (in thousands) (a/b) | Covered Payroll (in thousands) (c) | Actuarial Accrued Liability as a Percentage of Covered Payroll (b-a)/c (in thousands) |
|---|---|---|---|---|---|---|
| January 1, 2016 | $ 5,816 | $ 5,950 | $ 134 | 98% | $ 1,550 | 9% |
| January 1, 2013 | 5,243 | 5,149 | (94) | 102% | 1,705 | (5%) |
| January 1, 2010 | 3,703 | 4,642 | 939 | 80% | 1,640 | 57% |
| January 1, 2007 | - | 3,153 | 3,153 | 0% | 1,760 | 179% |

*Actuarial valuations are performed every other year beginning in 2016. See Note F.

**NEW JERSEY HEALTH CARE FACILITIES FINANCING AUTHORITY**
**(A COMPONENT UNIT OF THE STATE OF NEW JERSEY)**

SCHEDULES OF PROPORTIONATE SHARE OF NET PENSION LIABILITY

| | 2017 | 2016 |
|---|---|---|
| Proportion of Net Pension Liability | 0.0218833644% | 0.0219413703% |
| Proportionate Share of Net Pension Liability | $ 5,094,097 | $ 6,498,405 |
| Covered-Employee Payroll | 1,517,320 | 1,549,905 |
| Proportionate Share of Net Pension Liability as a Percentage of Payroll | 335.73% | 419.28% |
| Plan Fiduciary Net Position as a Percentage of the Total Pension Liability | 48.10% | 40.08% |

**NEW JERSEY HEALTH CARE FACILITIES FINANCING AUTHORITY**
**(A COMPONENT UNIT OF THE STATE OF NEW JERSEY)**

SCHEDULES OF CONTRIBUTIONS

| | 2017 | 2016 |
|---|---|---|
| Contractually Required Contribution | $ 196,999 | $ 217,490 |
| Contribution in Relation to the Contractually Required Contribution | 196,999 | 217,490 |
| | $ - | $ - |
| Covered-Employee Payroll | $ 1,517,320 | $ 1,549,905 |
| Contributions as a Percentage of Covered-Employee Payroll | 12.98% | 14.03% |

# OTHER SUPPLEMENTARY INFORMATION –
# TRUSTEE HELD FUNDS

**NEW JERSEY HEALTH CARE FACILITIES FINANCING AUTHORITY**
**(A COMPONENT UNIT OF THE STATE OF NEW JERSEY)**

STATEMENTS OF NET POSITION FOR TRUSTEE HELD FUNDS
DECEMBER 31, 2017 AND 2016

| | 2017 ($000) | 2016 ($000) |
|---|---|---|
| Assets | | |
| Mortgages and loans receivable, net | $ 4,760,511 | $ 4,643,647 |
| Capital asset program notes receivable, net | 9,259 | 17,909 |
| Equipment revenue notes receivable, net | 40 | 508 |
| Lease receivable | 246,935 | 256,980 |
| State contract bonds receivable | 301,545 | 323,900 |
| Construction/program accounts | | |
| Cash and cash equivalents | 500,923 | 333,497 |
| Investments | 651 | 4,404 |
| Prepaid expenses | 10 | 10 |
| Debt service accounts | | |
| Cash and cash equivalents | 144,140 | 133,916 |
| Investments | 2,074 | 1,772 |
| Receivable from master trustee/institution | 4,148 | 10,209 |
| Debt service reserve accounts | | |
| Cash and cash equivalents | 29,287 | 81,760 |
| Investments | 44,512 | 41,425 |
| Master lease funds | | |
| Cash and cash equivalents | 8,657 | 28,056 |
| Lease payments receivable, net | 17,100 | 8,165 |
| Total assets | $ 6,069,792 | $ 5,886,158 |
| Liabilities and net position | | |
| Bonds payable | $ 5,943,414 | $ 5,763,338 |
| Revenue notes payable | 40 | 508 |
| Cash & Cash Equivalents - Bank Error | 26 | - |
| Accrued interest payable | 99,990 | 85,230 |
| Accrued expenses | 67 | 188 |
| Master lease payable | 25,757 | 36,221 |
| Capital Asset Program net position | 498 | 673 |
| Total liabilities and net position | $ 6,069,792 | $ 5,886,158 |

**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, 2017 AND 2016

| | 2017 ($000) | 2016 ($000) |
|---|---|---|
| **Cash flows from operating activities** | | |
| Payments received from institutions under agreements | $ 394,221 | $ 531,243 |
| Equity contributions from institutions | 701 | 31,181 |
| Disbursements for construction/acquisition and issuance expense | (385,685) | (249,570) |
| Other disbursements | (28,301) | (568,071) |
| Net cash from operating activities | (19,064) | (255,217) |
| **Cash flows from noncapital financing activities** | | |
| Face amount of revenue bonds | 1,200,700 | 1,801,447 |
| Additions at time of sale, net | 104,767 | 57,856 |
| Accrued interest to date of delivery | (647) | (1,187) |
| Refunding of pre-existing debt/escrows fund deposit | (782,846) | (658,376) |
| Net proceeds from sale of revenue bonds | 521,974 | 1,199,740 |
| Principal/premium paid on revenue bonds | (165,181) | (870,252) |
| Interest paid on revenue bonds | (216,918) | (234,628) |
| Net cash from noncapital financing activities | 139,875 | 94,860 |
| **Cash flows from capital financing activities** | | |
| Lease escrow deposit | - | 28,322 |
| Disbursements for equipment | (19,138) | (3,687) |
| Payments received from institutions under lease/sublease agreements | 10,711 | 10,603 |
| Principal/premium paid on master lease | (10,464) | (10,160) |
| Interest paid on master lease | (555) | (496) |
| Net cash from capital financing activities | (19,446) | 24,582 |
| **Cash flows from investing activities** | | |
| Net investment in securities | 1,257 | 89,215 |
| Interest on investments | 3,157 | 1,589 |
| Net cash from investing activities | 4,414 | 90,804 |
| Net increase (decrease) in cash and cash equivalents | 105,778 | (44,971) |
| Cash and cash equivalents, beginning of year | 577,229 | 622,200 |
| Cash and cash equivalents, end of year | $ 683,007 | $ 577,229 |

## A. BACKGROUND – CONDUIT DEBT

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

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

## B. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

*Description of Funds* - The Authority maintains books of accounts for each of the issues of debt outstanding for the 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 and B. The Program was designed to issue loans to certain eligible borrowers for capital asset needs. These bonds were initially issued without designated borrowers. Under the Capital Asset Program, the Authority was required to establish a Debt Service Reserve Fund which may be used to pay debt service if pledged revenues are insufficient.

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

- *Master Leasing Program* – Accounts for the receipt and disbursement of funds in connection with leases entered into by the Authority with designated borrowers for leasing of specific equipment as described in the applicable master lease and sublease agreements.

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

Under the above 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 as well as lease agreements. The resolutions/agreements 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/notes/lease 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 principal and interest.

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

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

Interest income on these accounts (except for accounts held under the Capital Asset Program) and the interest expense on the bonds, notes and leases are recorded in the borrowers' financial statements, and therefore, the Authority does not present a statement of revenues, expenses and changes in net position for the Funds.

## C. MORTGAGES AND LOANS RECEIVABLE

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

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

## C. MORTGAGES AND LOANS RECEIVABLE (CONTINUED)

As of December 31, 2017 and 2016, mortgages and loans receivable were:

| | 2017 ($000) | 2016 ($000) |
|---|---|---|
| **Mortgages** | | |
| CentraState Assisted Living, Inc. | $ 3,901 | $ 4,252 |
| Total mortgages receivable | $ 3,901 | $ 4,252 |
| **Loans** | | |
| Secured by pledge of collateral with trustees: | | |
| Christian Health Care Center | $ 5,285 | $ 5,465 |
| Bartley Assisted Living, LLC | 4,166 | 4,374 |
| JFK Assisted Living | 6,495 | 7,266 |
| Meridian Hospitals Corporation | | |
| (currently Hackensack Meridian Health) | 13,805 | 14,235 |
| Wiley Mission Project | 9,315 | 10,118 |
| The Matheny School and Hospital | 1,200 | 1,400 |
| Virtua Health, Inc. | 50,445 | 52,100 |
| Children's Specialized Hospital | - | 13,980 |
| FitnessFirst Oradell Center, LLC | - | 800 |
| MHAC I, LLC | | |
| (currently Hackensack Meridian Health) | 24,485 | 25,545 |
| Southern Ocean County Hospital | | |
| (currently Hackensack Meridian Health) | 15,010 | 15,385 |
| Kennedy Health Facilities | - | 14,399 |
| St. Ann's Home for the Aged | 10,483 | 10,717 |
| Bridgeway Assisted Living | 4,042 | 4,267 |
| Samaritan Healthcare and Hospice | 7,624 | 7,864 |
| University Hospital | 254,975 | 254,975 |
| RWJ Barnabas (REISSUE) | 13,473 | - |

## C. MORTGAGES AND LOANS RECEIVABLE (CONTINUED)

| | 2017 | 2016 |
|---|---|---|
| | ($000) | ($000) |
| **Loans (Continued)** | | |
| Secured by pledge of gross receipts under Master Trust Indenture: | | |
| Hackensack Medical Center | | |
| (currently Hackensack Meridian Health) | 78,047 | 396,715 |
| Saint Peter's Medical Center | | |
| (currently Saint Peter's University Hospital) | 144,080 | 148,865 |
| Hunterdon Medical Center | 66,039 | 67,493 |
| Palisades Medical Center | | |
| (currently Hackensack Meridian Health) | - | 35,935 |
| Shore Memorial Health Care System | 57,734 | 61,579 |
| St. Joseph's Hospital and Medical Center Obligated Group | 241,740 | 246,845 |
| AHS Hospital Corporation | 405,410 | 412,030 |
| Kennedy Health System Obligated Group | - | 61,545 |
| Christian Health Care Center | 16,015 | 17,065 |
| CentraState Medical Center Obligated Group | 72,860 | 80,215 |
| Virtua Health, Inc. | 556,520 | 566,105 |
| Catholic Health East | 92,210 | 97,670 |
| Meridian Health System Obligated Group | | |
| (currently Hackensack Meridian Health) | 460,222 | 615,466 |
| RWJ Health Care Corporation at Hamilton, Obligated Group | | |
| (currently RWJ Barnabas Health, Inc.) | 18,710 | 19,845 |
| Trinitas Hospital Obligated Group | 89,640 | 123,485 |
| The House of the Good Shepherd | 11,640 | 12,325 |
| Princeton Healthcare System | 268,440 | 273,030 |
| Holy Name Medical Center | 88,615 | 94,265 |
| Robert Wood Johnson Hospital | | |
| (currently RWJ Barnabas Health, Inc.) | 192,420 | 194,285 |
| Barnabas Health, Inc. | | |
| (currently RWJ Barnabas Health, Inc.) | 248,630 | 255,990 |
| St. Luke's Warren Hospital Obligated Group | 37,410 | 37,410 |
| Deborah Heart and Lung Center Obligated Group | 9,739 | 10,253 |
| Inspira Health Obligated Group | 496,185 | 177,765 |
| RWJ Barnabas Health Obligated Group | 679,135 | 679,135 |
| Hackensack Meridian Health | 588,790 | - |
| Total loans receivable | 5,341,034 | 5,128,206 |
| Total mortgages and loans receivable | 5,344,935 | 5,132,458 |
| Less cash and investments held by trustees | 584,424 | 488,811 |
| Mortgages and loans receivable, net | $ 4,760,511 | $ 4,643,647 |

## D. CAPITAL ASSET PROGRAM NOTES RECEIVABLE

Capital Asset Program notes receivable is 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 and B in 2035.

As of December 31, 2017 and 2016, Capital Asset Program notes receivable were:

| | 2017 ($000) | 2016 ($000) |
|---|---|---|
| P.G. Chambers School (formerly Children's Center for Therapy and Learning, Inc.) | $ 236 | $ 371 |
| Cooper Health System | - | 2,102 |
| Meridian Nursing and Rehabilitation at Ocean Grove | - | 3,173 |
| CentraState Medical Center | 3,000 | 3,932 |
| Englewood Hospital | 5,237 | 6,688 |
| Chilton Hospital | 786 | 1,643 |
| Total Capital Asset Program notes receivable | $ 9,259 | $ 17,909 |

## E. EQUIPMENT REVENUE NOTES RECEIVABLE

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

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

| | 2017 ($000) | 2016 ($000) |
|---|---|---|
| Christian Health Care Center | $ 40 | $ 508 |
| Total equipment revenue notes receivable | 40 | 508 |
| Less cash and investment held by trustee | - | - |
| Equipment revenue notes receivable, net | $ 40 | $ 508 |

## F. LEASE RECEIVABLE

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 agreed to make major improvements to the leased property and sublease the property back to DHS. Under the sublease, DHS agreed to make rental payments to the Authority that are sufficient to pay the principal, interest and other costs associated with the financing, subject to appropriation. There is no remedy provided to the Authority under the sublease for any default by DHS in its payments of rent or failure by DHS to make sublease payments, if the monies are not appropriated.

On April 18, 2013, the Authority issued lease revenue bonds in the aggregate principal amount of $210,840,000. Greystone Park Psychiatric Hospital Project 2013A in the principal amount of $50,730,000 was issued to finance the completion of the demolition and remediation of the psychiatric facilities formerly used by Greystone Park Psychiatric Hospital, Morris County, New Jersey; and Greystone Park Psychiatric Hospital Refunding Project Series 2013B in an aggregate principal amount of $160,110,000 was issued to refinance all of the Series 2003 and Series 2005 lease revenue bonds.

Also on April 18, 2013, the Authority issued lease revenue bonds in the aggregate principal amount of $73,530,000 to finance the costs of a project consisting of the demolition and remediation of the existing facilities at or related to Marlboro Psychiatric Hospital in Monmouth County, New Jersey and construction of group housing.

| | 2017 | 2016 |
|---|---|---|
| Greystone Park Psychiatric Hospital | $ 180,235 | $ 189,155 |
| Marlboro Psychiatric Hospital | 66,700 | 67,825 |
| Total Lease Receivable | $ 246,935 | $ 256,980 |

## G. STATE CONTRACT BONDS RECEIVABLE

The Hospital Asset Transformation Act (the "Transformation Act") (P. L. 2000, c. 98) amended and established a Hospital Asset Transformation Program within the Authority for the purpose of providing financial assistance by the Authority to nonprofit hospitals in the State, in connection with the termination of the provision of hospital acute care services at a specific location that may no longer be necessary or useful for the provision of such care under the Transformation Act, the Authority, subject to the prior written approval of the State Treasurer, may issue bonds in order to satisfy the outstanding bonded indebtedness of any nonprofit hospital for the purposes outlined in the 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 fiscal year from the State's General Fund, of an amount equivalent to the amount due to be paid in that fiscal year for the debt service on such bonds, subject to and dependent upon appropriation being made by the State Legislature for such purpose. The remaining outstanding debt related to the Transformation Act bonds issued on behalf of St. Mary's Hospital and St. Michael's Medical Center in 2007 and 2008, respectively, has been refunded by State Contract Refunding Bonds in 2017, the principal and interest on which will be paid by the State Treasurer, subject to appropriation by the State Legislature, in accordance with a new State Contract issued pursuant to the Transformation Act. See note K for more detail.

## G. STATE CONTRACT BONDS RECEIVABLE (CONTINUED)

At December 31, 2017 and 2016, State contract bonds receivable were as follows:

| | 2017 ($000) | 2016 ($000) |
|---|---|---|
| St. Mary's Hospital | $ 1,055 | $ 17,555 |
| St. Michael's Medical Center, Inc. | - | 170,045 |
| Solaris Health System | 130,015 | 136,300 |
| State Contract Refunding Bonds (HATP) | 170,475 | - |
| Total State contract bonds receivable | $ 301,545 | $ 323,900 |

## H. MASTER LEASE RECEIVABLE

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

At December 31, 2017 and 2016, Master Lease receivables were as follows:

| | 2017 ($000) | 2016 ($000) |
|---|---|---|
| St. Barnabas Medical Center | $ 3,897 | $ 5,412 |
| Monmouth Medical Center | 1,471 | 2,469 |
| Clara Maass Medical Center | 175 | 868 |
| Community Medical Center | - | 466 |
| Kimball Medical Center | - | 51 |
| Newark Beth Israel Medical Center | 264 | 1,230 |
| Barnabas Corporation d/b/a Barnabas Health | 356 | 884 |
| Englewood Hospital & Medical Center | 19,594 | 24,841 |
| Total Master Lease receivable | 25,757 | 36,221 |
| Less cash and investments held by trustee | 8,657 | 28,056 |
| Net Master Lease receivable | $ 17,100 | $ 8,165 |

## I. CASH AND CASH EQUIVALENTS AND INVESTMENTS

The components of cash and cash equivalents and investments at December 31, 2017 and 2016, are as follows:

| | 2017 ($000) | 2016 ($000) |
|---|---|---|
| Cash and cash equivalents | | |
| Money Market Funds (which includes New Jersey Cash Management Fund) | $ 683,007 | $ 577,229 |
| Investments | | |
| Investment agreements collateralized | 5,762 | 5,433 |
| U.S. Treasury and Agency obligations | 41,475 | 42,168 |
| Total cash and cash equivalents and investments | $ 730,244 | $ 624,830 |

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

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 trustee held funds are generally made in accordance with the Authority's General Bond Resolution, subject to modifications in the applicable Series Resolutions or in accordance with individual Bond Trust Agreements. 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) NJCMF; and (f) shares of an open-end, diversified investment company which is registered under the Investment Company Act of 1940 which invests in obligations of or guaranteed by the U. S. Government or government agencies with maturities of less than one year and has a net position of not less than $10,000,000.

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

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

## J. REVENUE BONDS, NOTES AND MASTER LEASES

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

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

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

| | Due in Varying Installments Ending | Range of Annual Interest Rate Percentages | Amount Outstanding December 31, 2017 ($000) | Amount Outstanding December 31, 2016 ($000) |
|---|---|---|---|---|
| **Revenue bonds** | | | | |
| **Public issues** | | | | |
| Christian Health Care Center, Series 1997 B | 2028 | Weekly variable rate | $ 5,600 | $ 6,000 |
| Christian Health Care Center, Series 1998 A-3 | 2018 | Weekly variable rate | 100 | 100 |
| RWJ Health Corporation at Hamilton, Series 2002 | 2032 | Weekly variable rate | 18,710 | 19,845 |
| Meridian Health System Obligated Group, Series 2003 A | 2033 | Weekly variable rate | 60,000 | 60,000 |
| The Matheny School and Hospital Inc., Series 2003 A-2 | 2023 | Weekly variable rate | 1,200 | 1,400 |
| Virtua Health Inc., Series 2003 A-7 | 2018 | Weekly variable rate | 900 | 1,800 |
| Meridian Nursing and Rehab, Series 2004 A-3 | 2035 | Weekly variable rate | 10,305 | 10,735 |
| Virtua Health, Series 2004 | 2033 | Weekly variable rate | 49,545 | 50,300 |
| Christian Health Care Center, Series 2005 A-2 | 2035 | Weekly variable rate | 5,185 | 5,365 |
| Southern Ocean County Hospital, Series 2006 | 2036 | Weekly variable rate | 15,010 | 15,385 |

(*Denotes defeased or paid off)

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

| | Due in Varying Installments Ending | Range of Annual Interest Rate Percentages | Amount Outstanding December 31, 2017 ($000) | December 31, 2016 ($000) |
|---|---|---|---|---|
| **Revenue bonds** | | | | |
| **Public issues (continued)** | | | | |
| Meridian Nursing and Rehabilitation, Series 2006 A-3 | 2031 | Weekly variable rate | 3,500 | 3,500 |
| MHAC I, LLC, Series 2006 A-4 | 2027 | Weekly variable rate | 13,570 | 14,630 |
| 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 | - | 800 |
| * CentraState Medical Center, Series 2006 A | 2021 | 3.625 - 4.00 | - | 37,965 |
| * St. Mary's Hospital, Passaic, New Jersey, Series 2007-1 | 2027 | 4.00 - 5.00 | - | 14,275 |
| St. Mary's Hospital, Passaic, New Jersey, Series 2007-2 | 2018 | 5.265 | 1,055 | 3,280 |
| Catholic Health East Health System, Series 2007 E | 2033 | Indexed rate | 1,325 | 1,345 |
| Trinitas Hospital Obligated Group, Series 2007 A | 2030 | 4.75 - 5.25 | - | 65,050 |
| Trinitas Hospital Obligated Group, Series 2007 B | 2023 | 5.25 - 8.08 | - | 44,625 |
| * Meridian Health System Obligated Group, Series 2007 | 2038 | 5.00 | - | 136,200 |
| Saint Peter's University Hospital Obligated Group, Series 2007 | 2037 | 5.25 - 5.75 | 61,235 | 62,155 |
| * Hackensack University Medical Center, Series 2008 | 2041 | 4.00 - 5.375 | - | 215,735 |
| AHS Hospital Corp., Series 2008 A | 2023 | 3.50 - 5.125 | 4,875 | 5,265 |
| AHS Hospital Corp., Series 2008 B | 2036 | Weekly variable rate | 88,555 | 88,555 |
| AHS Hospital Corp., Series 2008 C | 2036 | Weekly variable rate | 88,555 | 88,555 |
| St. Michael's Medical Center (HATP), Series 2008A | 2038 | 5.00 - 5.50 | - | 170,045 |
| Christian Health Care Center, Series 2009 | 2038 | Weekly variable rate | 10,415 | 11,065 |
| Virtua Health, Series 2009 A | 2038 | 4.375 - 6.00 | 230,115 | 237,935 |
| Virtua Health, Series 2009 B | 2043 | Daily variable rate | 60,000 | 60,000 |
| Virtua Health, Series 2009 C | 2043 | Daily variable rate | 40,000 | 40,000 |
| Virtua Health, Series 2009 D | 2043 | Weekly variable rate | 65,000 | 65,000 |
| Virtua Health, Series 2009 E | 2043 | Weekly variable rate | 20,000 | 20,000 |
| Solaris (HATP), Series 2009 A | 2032 | 4.00 - 5.75 | 130,015 | 136,300 |
| Catholic Health East, Series 2010 | 2033 | 2.00 - 5.25 | 90,885 | 96,325 |
| * Hackensack University Medical Center, Series 2010 | 2034 | 3.00 - 5.00 | - | 64,365 |
| Holy Name Medical Center, Series 2010 | 2025 | 3.00 - 5.00 | 36,065 | 39,840 |
| * Hackensack University Medical Center, Series 2010 B | 2028 | 4.00 - 5.00 | - | 36,000 |
| AHS Hospital Corporation, Series 2011 | 2041 | 4.00 - 6.00 | 3,570 | 4,855 |
| Saint Peter's University Hospital Obligated Group, Series 2011 | 2035 | 5.00 - 6.25 | 82,845 | 86,710 |

(*Denotes defeased or paid off)

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

| | Due in Varying Installments Ending | Range of Annual Interest Rate Percentages | Amount Outstanding December 31, 2017 | December 31, 2016 |
|---|---|---|---|---|
| **Revenue bonds** | | | ($000) | ($000) |
| **Public issues (continued)** | | | | |
| Barnabas Health, Series 2011 B | 2038 | Weekly variable rate | 24,510 | 28,110 |
| Meridian Health System, Series 2011 | 2027 | 2.00 - 5.00 | 127,800 | 140,735 |
| * Kennedy Health System, Series 2012 | 2042 | 2.00 - 5.00 | - | 61,545 |
| Barnabas Health, Series 2012 A | 2026 | 2.00 - 5.00 | 94,195 | 97,955 |
| Greystone Park Psychiatric Hospital Project, Series 2013A | 2033 | 3.50 - 5.00 | 50,730 | 50,730 |
| Greystone Park Psychiatric Hospital Project, Series 2013B | 2028 | 4.00 - 5.00 | 129,505 | 138,425 |
| Marlboro Psychiatric Hospital Project, Series 2013 | 2033 | 3.00 - 5.00 | 66,700 | 67,825 |
| Meridian Health System Obligated Group, Series 2013A | 2032 | 4.00 - 5.00 | 23,585 | 24,260 |
| St. Luke's Warren Hospital Obligated Group, Series 2013 | 2043 | 4.00 - 5.00 | 37,410 | 37,410 |
| * Palisades Medical Center Obligated Group, Series 2013 | 2043 | 2.35 - 5.50 | - | 35,935 |
| Robert Wood Johnson University Hospital, Series 2013A | 2043 | 3.00 - 5.50 | 106,495 | 108,360 |
| Virtua Health, Series 2013 | 2029 | 3.00 - 5.00 | 139,555 | 139,555 |
| RWJ University Hospital, Series 2014A | 2043 | 5.00 | 55,925 | 55,925 |
| RWJ University Hospital, Series 2014B | 2043 | variable rate | 30,000 | 30,000 |
| Barnabas Health Obligated Group, Series 2014A | 2044 | 4.25 - 5.00 | 129,925 | 129,925 |
| Hunterdon Medical Center, Series 2014A | 2045 | 4.00 - 5.00 | 42,735 | 42,735 |
| University Hospital, Series 2015A | 2046 | 4.125-5.00 | 254,975 | 254,975 |
| Princeton Healthcare System, Series 2016A | 2034 | 2.00 - 5.00 | 183,440 | 188,030 |
| Inspira Health Obligated Group, Series 2016A | 2036 | 2.00 - 5.00 | 171,185 | 177,765 |
| St. Joseph's Healthcare System, Series 2016 | 2036 | 3.00 - 5.00 | 241,740 | 246,845 |
| Trinitas Regional Medical Center Obligated Group, Series 2016A | 2030 | 4.00 - 5.00 | 13,270 | 13,810 |
| AHS Hospital Corp, Series 2016 | 2036 | 3.00 - 5.00 | 219,855 | 224,800 |
| RWJ Barnabas Health Obligated Group, Series 2016A | 2036 | 3.50 - 5.00 | 679,135 | 679,135 |
| Trinitas Regional Medical Center Obligated Group, Series 2017 | 2030 | 5.00 | 76,370 | - |
| Hackensack Meridian Health, Series 2017 | 2057 | 2.50 - 5.00 | 588,790 | - |
| Inspira Health Obligated Group, Series 2017A | 2037 | 2.00 - 5.00 | 265,000 | - |
| State Contract Refunding Bonds (HATP), Series 2017 | 2038 | 5.00 | 170,475 | - |
| Total public issues | | | 5,132,355 | 5,007,010 |
| **Private placements** | | | | |
| CentraState Assisted Living, Inc., Series 1998 | 2018 | 4.3955 | 3,901 | 4,252 |
| Bartley Assisted Living LLC, Series 2000 | 2025 | Monthly variable rate | 4,166 | 4,374 |
| JFK Assisted Living Series 2001 | 2026 | 3.33 | 6,495 | 7,266 |
| Shore Memorial Hospital Obligated Group, Series 2009 | 2039 | Weekly Indexed rate | 25,960 | 26,565 |
| * Kennedy Health Facilities, Inc. Series 2009 | 2039 | Weekly variable rate | - | 14,399 |
| Shore Memorial Hospital Obligated Group, Series 2010 | 2039 | Indexed rate | 12,980 | 13,300 |
| St. Ann's Home for the Aged, Series 2010 | 2040 | Indexed rate | 10,483 | 10,717 |
| Bridgeway Assisted Living LLC., Series 2010 | 2020 | Indexed rate | 4,042 | 4,267 |
| Virtua Health, Inc., Series 2011 | 2018 | 1.062-1.956 | 1,850 | 3,615 |
| Shore Memorial Hospital, Series 2011 | 2022 | 4.86 | 6,639 | 7,929 |

(*Denotes defeased or paid off)

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

| | Due in Varying Installments Ending | Range of Annual Interest Rate Percentages | Amount Outstanding December 31, 2017 ($000) | Amount Outstanding December 31, 2016 ($000) |
|---|---|---|---|---|
| **Revenue bonds** | | | | |
| **Private placements (continued)** | | | | |
| House of the Good Shepherd Obligated Group, Series 2012 | 2031 | 2.54 to 2022, 4.41 after | 11,640 | 12,325 |
| Wiley Mission, Series 2012 Lot A | 2029 | Monthly variable rate | 8,071 | 8,626 |
| Wiley Mission, Series 2012 Lot B | 2022 | Monthly variable rate | 1,243 | 1,492 |
| Children's Specialized Hospital, Series 2013A | 2036 | 3.23 | - | 9,244 |
| Children's Specialized Hospital, Series 2013B | 2036 | 1.47 | - | 4,736 |
| Shore Memorial Health Care System, Series 2013 | 2023 | Indexed rate | 12,155 | 13,785 |
| Deborah Heart & Lung Center, Obligated Group, Series 2014 | 2023 | 4.28 | 9,739 | 10,253 |
| CentraState Medical Center, Obligated Group, Series 2014A | 2028 | 2.97 | 29,810 | 29,810 |
| CentraState Medical Center, Obligated Group, Series 2014B | 2018 | 1.50 | 1,365 | 3,620 |
| CentraState Medical Center, Obligated Group, Series 2014C | 2029 | 3.00 | 8,220 | 8,820 |
| Hunterdon Medical Center, Series 2014B | 2029 | 2.44 | 16,260 | 16,260 |
| Hunterdon Medical Center, Series 2014C | 2019 | indexed rate | 2,657 | 3,925 |
| Hunterdon Medical Center, Series 2014D | 2034 | indexed rate | 4,387 | 4,573 |
| Hackensack University Med. Ctr., Ob. Grp., Series 2015A | 2040 | 2.38 | 78,047 | 80,615 |
| Samaritan Healthcare and Hospice, Series 2015 | 2040 | 2.6500 | 7,624 | 7,864 |
| Meridian Health System Obligated Group, Series 2015A | 2045 | 2.5000 | 120,972 | 125,306 |
| Princeton Healthcare System, Series 2016B | 2045 | Indexed rate | 65,000 | 65,000 |
| Princeton Healthcare System, Series 2016C | 2045 | Indexed rate | 20,000 | 20,000 |
| Meridian Health System, Series 2016A | 2038 | Monthly variable rate | 127,865 | 128,965 |
| Holy Name Medical Center Obligated Group, Series 2016A | 2030 | 2.63 | 38,835 | 39,425 |
| Holy Name Medical Center Obligated Group, Series 2016B | 2016 | 2.45 | 13,715 | 15,000 |
| RWJ Barnabus, Series 2017A (Reissue) | 2036 | 3.23 | 8,882 | - |
| RWJ Barnabus, Series 2017B (Reissue) | 2036 | Monthly variable rate | 4,591 | - |
| Insprira Health Obligated Group, Series 2017B | 2042 | Monthly variable rate | 60,000 | - |
| Centrastate Medical Center Obligated Group, Series 2017A | 2037 | 3.26 | 33,465 | - |
| Total private placements | | | 761,059 | 706,328 |
| **Capital asset program** | | | | |
| Total Capital Asset Program, Series A & B | 2035 | | 50,000 | 50,000 |
| Total bonds payable | | | $ 5,943,414 | $ 5,763,338 |
| **Equipment revenue notes** | | | | |
| Christian Health Care Center, Series 2013 | 2018 | 2.16 | $ 33 | $ 418 |
| Christian Health Care Center, Series 2013 | 2018 | 2.16 | 7 | 90 |
| Total equipment revenue notes | | | 40 | 508 |
| **Master Leases** | | | | |
| St. Barnabas Medical Center, Dated March 30, 2012 | 2017 | 2.55 | - | 210 |
| St. Barnabas Medical Center, Dated March 30, 2012 | 2017 | 2.55 | - | 211 |
| Monmouth Medical Center, Dated March 30, 2012 | 2017 | 2.55 | - | 205 |
| St. Barnabas Medical Center, Dated March 30, 2012 | 2017 | 2.55 | - | 168 |
| Clara Maass Medical Center, Dated March 30, 2012 | 2017 | 2.55 | - | 91 |
| Community Medical Center, Dated March 30, 2012 | 2017 | 2.55 | - | 142 |
| Kimball Medical Center, Dated March 30, 2012 | 2017 | 2.55 | - | 51 |
| Newark Beth Israel Medical Center, Dated March 30, 2012 | 2017 | 2.55 | - | 174 |
| Community Medical Center, Dated November 14, 2012 | 2017 | 1.81 | - | 323 |
| Newark Beth Israel Medical Center, Dated November 14, 2012 | 2017 | 1.81 | - | 275 |
| Clara Maass Medical Center, Dated November 14, 2012 | 2017 | 1.81 | - | 342 |
| Newark Beth Israel Medical Center, Dated February 28, 2013 | 2018 | 1.59 | 29 | 199 |
| Barnabas Health Inc., Dated August 15, 2013 | 2018 | 1.61 | 356 | 884 |
| Clara Maass Medical Center, Dated August 15, 2013 | 2018 | 1.61 | 175 | 435 |
| Newark Beth Israel Medical Center, Dated August 15, 2013 | 2018 | 1.61 | 235 | 583 |
| Monmouth Medical Center, Dated November 20, 2013 | 2018 | 2.14 | 172 | 355 |
| Monmouth Medical Center, Dated January 13, 2015 | 2020 | 1.53 | 1,299 | 1,908 |
| St. Barnabas Medical Center, Dated April 17, 2015 | 2022 | 2.02 | 3,048 | 3,715 |
| St. Barnabas Medical Center, Dated February 25, 2016 | 2021 | 1.46 | 849 | 1,109 |
| Englewood Hospital & Medical Center, Dated July 28, 2016 | 2028 | 1.79 | 19,594 | 24,841 |
| Total master leases | | | 25,757 | 36,221 |
| Total revenue bonds, equipment revenue notes and master leases | | | $ 5,969,211 | $ 5,800,067 |

(*Denotes defeased or paid off)

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

The aggregate maturities and interest payments of outstanding revenue bonds, revenue notes and master leases are as follows:

| | Principal | Interest | Total |
|---|---|---|---|
| 2018 | $ 139,398 | $ 253,428 | $ 392,826 |
| 2019 | 136,956 | 250,700 | 387,656 |
| 2020 | 158,521 | 245,163 | 403,684 |
| 2021 | 164,421 | 238,583 | 403,004 |
| 2022 | 180,580 | 231,434 | 412,014 |
| 2023-2027 | 1,074,785 | 1,016,575 | 2,091,360 |
| 2028-2032 | 1,208,413 | 769,858 | 1,978,271 |
| 2033-2037 | 1,236,786 | 505,165 | 1,741,951 |
| 2038-2042 | 1,119,846 | 233,364 | 1,353,210 |
| 2043-2047 | 456,905 | 65,007 | 521,912 |
| 2048-2052 | 48,710 | 16,590 | 65,300 |
| 2053-2057 | 43,890 | 6,989 | 50,879 |
| | $ 5,969,211 | $ 3,832,856 | $ 9,802,067 |

Several Authority bond issues are subject to periodic interest rate reset. Interest expense in future years, as reflected on the above schedule for variable rate bonds, is estimated based on rates in effect at or close to December 31, 2017.

## K. COMPLIANCE WITH BOND PROVISIONS

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

In the event an organization violates any of the said covenants, the bond documents outline various actions to be taken by the borrower, trustee and/or the Authority ranging from requiring an independent consultant's report related to the reasons for violations, to the appointment of a third party to take over the management of the organization. If an "Event of Default," as defined in the Series Resolution, Trust Agreement, 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.

## K. 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, 2017 and 2016, there were the following Events of Default of the Authority's bond issues:

- On August 15, 2014, St. Mary's Hospital was acquired by a subsidiary of Prime Healthcare Services. As a result of the sale, the Authority received $15,000,000 in exchange for canceling the mortgage and relieving St. Mary's of all other monetary obligations related to its loan agreement with the Authority and the bonds. The $15,000,000 was deposited into an escrow account consisting primarily of State and Local Government Securities and, after accounting for interest earnings thereon, $1,584,312 was used to pay towards the interest due on the St. Mary's bonds in equal payments of $316,862 on each of the following interest payment dates: March 1, 2015, September 1, 2015, March 1, 2016, September 1, 2016 and March 1, 2017. The remaining balance of $13,650,000 in the escrow fund was used to call a proportional share of bonds on March 1, 2017 for each maturity as follows:

| | |
|---|---|
| 2018 - $ 630,000 | 2023 - $1,445,000 |
| 2019 - $1,200,000 | 2024 - $1,510,000 |
| 2020 - $1,250,000 | 2025 - $1,570,000 |
| 2021 - $1,310,000 | 2026 - $1,640,000 |
| 2022 - $1,375,000 | 2027 - $1,720,000 |

- In February 2013, St. Michael's Medical Center (“St. Michael’s”) signed an Asset Purchase Agreement with Prime Healthcare Services (“Prime”). With the regulatory processes for the sale still pending, on August 10, 2015, St. Michael's declared bankruptcy and ceased making debt service payments. Prime became the stalking horse bidder for St. Michael's in bankruptcy and eventually won the court's approval to be the winning bidder with a bid of $62,248,000, which is adjusted by a formula involving net working capital surplus and cash on hand. In June of 2016, the Authority agreed to a bankruptcy settlement amount of $55,750,000 from the sale of St. Michael's to Prime. Of that, $55,543,890 was deposited into a defeasance escrow account to defease a pro rata portion of the outstanding St. Michael's bonds in order to preserve the tax-exempt status of the bonds. The remaining $206,110 was used to pay costs associated with the sale, including bankruptcy fees and expenses of the Master Trustee. The Authority will use the $55,543,890 of the sale proceeds to defease a pro rata portion of each maturity of bonds on the first call date of October 1, 2018. See below, paragraph 3 for the remaining portion of debt service on the St. Mary’s bonds.

## K. COMPLIANCE WITH BOND PROVISIONS (CONTINUED)

- On December 28, 2017, the Authority currently refunded the remaining outstanding Transformation Act bonds issued in 2007 on behalf of the former St. Mary's Hospital and advance refunded the remaining Transformation Act bonds issued in 2008 on behalf of the former St. Michael's Medical Center, Inc. by issuing the New Jersey Health Care Facilities Financing Authority $170,475,000 State Contract Refunding Bonds (Hospital Asset Transformation Program), Series 2017 (the "Series 2017 State Contract Refunding Bonds"). As part of the refunding, the State Treasurer entered into a new State Contract agreeing to pay the principal and interest on the bonds, subject to appropriation by the State Legislature. The Series 2017 State Contract Refunding Bonds have a final maturity of October 1, 2038, and debt service payments, as follows:

| State Fiscal Year | Principal and Interest Payments |
|---|---|
| Remainder of 2018 (interest only) | $ 2,201,969 |
| 2019 (interest only) | 8,523,750 |
| 2020 (interest only) | 8,523,750 |
| 2021 | 14,749,125 |
| 2022 | 14,893,000 |
| 2023 | 14,896,125 |
| 2024 | 14,891,250 |
| 2025 | 14,897,375 |
| 2026 | 14,893,500 |
| 2027 | 14,898,625 |
| 2028 | 13,005,125 |
| 2029 | 13,009,375 |
| 2030 | 13,004,375 |
| 2031 | 13,004,250 |
| 2032 | 13,007,750 |
| 2033 | 13,008,750 |
| 2034 | 13,001,375 |
| 2035 | 13,009,250 |
| 2036 | 13,006,000 |
| 2037 | 13,005,500 |
| 2038 | 13,006,250 |
| 2039 | 12,797,125 |
| **Total** | $ 279,233,594 |

## L. DEFEASED ISSUES

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

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

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

A summary of outstanding balances as of December 31, 2017 and 2016, by issue, is as follows:

## L. DEFEASED ISSUES (CONTINUED)

| | Due in Varying Installments Ending | Range of Annual Interest Rate Percentages | Amount Outstanding December 31, 2017 | Amount Outstanding December 31, 2016 |
|---|---|---|---|---|
| **Defeased public issues** | | | ($000) | ($000) |
| Allegany Health-Our Lady of Lourdes, Series 1993 (currently a part of Catholic Health East) | 2018 | 5.00 - 5.20 | $ 3,510 | $ 6,835 |
| The General Hospital Center at Passaic, Series 1994 (currently a part of AHS Hospital Corporation) | 2019 | 6.00 - 6.75 | 11,055 | 16,065 |
| St. Clare's Hospital, Inc. Series 2004 A | 2025 | 4.25 - 5.25 | 49,260 | 54,260 |
| Greystone Park Psychiatric Hospital Project, Series 2005 | 2017 | 3.75 - 5.0 | - | 8,135 |
| Chilton Memorial Hospital, Series 2009 | 2019 | 4.00 - 5.75 | 34,765 | 35,585 |
| AtlanticCare Regional Medical Center, Series 2007 | 2017 | 4.125-5.00 | - | 99,525 |
| Saint Barnabas Health Care System, Series 1998B | 2023 | 0.00 | 26,803 | 34,883 |
| Saint Barnabas Health Care System, Series 2006A | 2029 | 5.00 | - | 62,715 |
| Saint Barnabas Health Care System, Series 2006B | 2017 | 0.00 | - | 78,249 |
| St. Joseph's HealthCare System, Series 2008 | 2018 | 5.75 - 6.625 | 213,770 | 218,490 |
| Robert Wood Johnson University Hospital, Series 2010 | 2020 | 2.00 - 5.00 | 99,380 | 104,455 |
| Barnabas Health, Series 2011A | 2021 | 3.00 - 5.75 | 265,505 | 270,610 |
| CentraState Medical Center, Series 2006A | 2037 | 4.00 - 5.00 | 37,430 | - |
| Hackensack University Medical Center, Series 2010 (currently Hackensack Meridian Health) | 2020 | 4.00 - 5.00 | 61,955 | - |
| Hackensack University Medical Center, Series 2010B (currently Hackensack Meridian Health) | 2020 | 4.00 - 5.00 | 88,415 | - |
| Hackensack University Medical Center, Series 2012 (currently Hackensack Meridian Health) | 2027 | 2.00 - 5.00 | 59,400 | - |
| Hackensack University Medical Center, Series 2008 (currently Hackensack Meridian Health) | 2018 | 5.00 - 5 3/8 | 210,020 | - |
| Meridian Health Obligated Group, Series 2007 (currently Hackensack Meridian Health) | 2018 | 5.00 | 136,200 | - |
| Palisades Medical Center, Series 2013 (currently Hackensack Meridian Health) | 2023 | 3.15 - 5.00 | 42,300 | - |
| St. Mary's HATP, Series 2007 - 1 | 2018 | 4.00 - 5.00 | 14,275 | - |
| St. Mary's HATP, Series 2008A | 2039 | 5.00 - 5.25 | 213,505 | - |
| Total defeased public issues | | | 1,567,548 | 989,807 |
| **Partially defeased public issues** | | | | |
| St. Mary's Hospital, Passaic, Series 2007-1 | 2017 | 4.00 - 5.00 | - | 13,650 |
| AHS Hospital Corp., Series 2008A | 2018 | Various | 105,745 | 114,255 |
| Catholic Health East, Series 2010 | 2020 | 3.0 - 5.25 | 2,265 | 2,265 |
| AHS Hospital Corp., Series 2011 | 2021 | 4.00 - 6.00 | 120,115 | 120,115 |
| Hackensack University Medical Center, Series 2010B | 2020 | 4.00 - 5.00 | - | 58,440 |
| Palisades Medical Center Obligated Group, Series 2013 | 2023 | 3.15 - 5.00 | - | 7,780 |
| St. Michael's Medical Center (HATP), Series 2008A | 2018 | 5.00 - 5.25 | - | 48,885 |
| Total partially defeased public issues | | | 228,125 | 365,390 |
| Total defeased issues | | | $ 1,795,673 | $ 1,355,197 |

MERCADIEN, P.C.
CERTIFIED PUBLIC ACCOUNTANTS

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

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

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the New Jersey Health Care Facilities Financing Authority ("Authority"), as of and for the year ended December 31, 2017, and the related notes to financial statements, which collectively comprise the Authority's basic financial statements, and have issued our report thereon dated June 14, 2018.

**Internal Control Over Financial Reporting**

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

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

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



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

## Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Authority's financial statements are free from material 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.*

## Purpose of this Report

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

*Mercadien, P.C.*
*Certified Public Accountants*

June 14, 2018