

HOBOKEN MUNICIPAL HOSPITAL AUTHORITY
(A Component Unit of the City of Hoboken)

**Management's Discussion and Analysis
And Financial Statements**

**For the Year Ended December 31, 2008 and
For the Period February 1, 2007 (inception) to December 31, 2007**

And

Independent Auditors' Report



McENERNEY, BRADY & COMPANY, LLC

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FINANCIAL SECTION



McENERNEY, BRADY & COMPANY, LLC

Certified Public Accountants * A Limited Liability Company

INDEPENDENT AUDITOR'S REPORT

Honorable Chairman and Members of
The Hoboken Municipal Hospital Authority
County of Hudson, New Jersey

We have audited the accompanying statement of net assets of the Hoboken Municipal Hospital Authority (the "Authority"), a component unit of the City of Hoboken, New Jersey, as of December 31, 2008 and 2007, and the related statements of revenue, expenses and changes in net assets, and cash flows for the year ended December 31, 2008 and for the eleven months ended December 31, 2007. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audit. We did not audit the financial statements of Hudson Healthcare, Inc. (New Jersey non-profit corporation) who manages and operates the facility, which statements reflect 99% of the operating costs as management fees. Those statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the operating costs included for Hudson Healthcare, Inc., is based solely on the report of the other auditors

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 Governmental Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatements. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the report of the other auditors provide a reasonable basis for our opinion.

In our opinion, based on our audit and the report of the other auditors, the financial statements referred to above present fairly, in all material respects, the financial position of the Hoboken Municipal Hospital Authority as of December 31, 2008 and 2007, and the changes in net assets and cash flows thereof for the year ended December 31, 2008 and for the eleven months ended December 31, 2007 in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 1, 2009 on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations,

contracts, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

The accompanying required supplementary information, such as management's discussion and analysis and budgetary comparison information on pages 3 through 9 and 32 are not a required part of the basic financial statements, but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our report was conducted for the purpose of forming opinion on the financial statements that collectively comprise the Hoboken Municipal Hospital Authority's basic financial statements. The accompanying schedules of expenditures of federal and state awards is presented for purposes of additional analysis as required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* and New Jersey Circular 04-04, *Single Audit Policy for Recipients of Federal Grants, State Grants and State Aid* and are not a required part of the basic financial statements of the Authority. The financial statements and the schedules of expenditures of federal and state awards have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.



McEnerney, Brady & Company, LLC
September 1, 2009

MANAGEMENT'S DISCUSSION AND ANALYSIS

Hoboken Municipal Hospital Authority

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following discussion and analysis presents selected highlights of Hoboken Municipal Hospital Authority financial activities and financial position. The analysis focuses on significant financial issues and major financial activities and the resulting changes in financial position, as well as comparisons to the Board approved budget.

Hospital Highlights

- In 2006, the City of Hoboken was in danger of losing its only hospital. Mounting losses threatened to close the hospital which was then named Saint Mary Hospital and was owned by Bon Secours Health System. In response, the City formed the Hoboken Municipal Hospital Authority (HMHA) and obtained the hospital from Bon Secours Health System. The hospital was renamed Hoboken University Medical Center (HUMC) and started doing business as such on February 1, 2007.
- In late 2006, the HMHA entered into a "Master Management Services Agreement" with Hudson Healthcare, Inc., a New Jersey not-for-profit 501(c)(3) organization. Hudson Healthcare performs all the duties necessary to direct and control the day-to-day operations of the facility. A key responsibility of Hudson Healthcare, Inc. is to provide management services to the hospital, including the services of a CEO and a CFO. Hudson Healthcare provides those services through consulting arrangements with individuals known within the industry.
- The Authority issued Series 2007A bonds of \$40,465,000 for construction, renovation and improvement of facilities and Series 2007B bonds of \$11,170,000 for working capital purposes.
- In 2007, the Hospital experienced significant increases in volume in all areas of service when compared to 2006. Both inpatient and outpatient volumes exceeded the prior period by 13% and 22% respectively. Also surgical cases and newborn deliveries exceeded the prior period by 25% and 20% respectively. During 2008, inpatient volumes were virtually flat compared to 2007. Outpatient volumes were up about 5% from 2007.
- In 2007 the Hospital broke ground on a construction project, a state of the art 17,000 square foot Emergency Department. In 2008, the hospital continued construction of the new emergency department which was completed and opened by June 2009.
- In 2008, \$ 9.7 million non-taxable bonds were converted into taxable bonds and used to fund operations.

More about the Hospital and it's services

HUMC serves a significant number of patients who depend on it for access to essential health care services. The location of the HUMC provides a safety net for a population of women, children, the elderly and people living with HIV/AIDS. The health status of these vulnerable patients is compromised by poverty, poor education and communication skills and lack of insurance. Infant mortality, incidence of low birth weight, teen birth rates, and initiation of prenatal care in the first trimester are all less favorable in Hudson County than New Jersey as a whole. The HIV infection rate in Hudson County is double that of New Jersey, with a rate of 669 per 100,000 populations, the third highest in the nation. In New Jersey, Hudson County has

The majority of these patients are living below the Federal Poverty Income Guidelines. HUMC provides services to a significant number of undocumented patients as well. A report completed by Georgetown University's Institute for Health Care Research and Policy cited the prominent role HUMC plays in providing traditional charity care and numerous social and wrap around services as a safety net for poor elderly in a community where more than a third of all senior households in the PSA are below the poverty line and/or are uninsured. Aside from Jersey City Medical Center, HUMC provides more services for the uninsured than any other area hospital. In 2008 HUMC had the third highest percentage of charity care patients in the state, only behind University Hospital in Newark and Jersey City Medical Center.

HUMC is considered the community hospital for 5 major cities in the County of Hudson. They include Hoboken, Union City, Weehawken, Jersey City and North Bergen. These municipalities are increasingly diverse in culture and ethnicity and the number of young families remaining to raise their children. Roughly 60% of the PSA population serviced by HUMC is Latino. HUMC provides primary care services and facilitates access to preventive, diagnostic and treatment services available within HUMC and the community at large. These services include:

- Maternal and child health services provided to thousands of patients, including approximately 1,500 mothers who give birth at HUMC each year. The majority of the women seeking maternal and child health services are Latino and over 50% are either underinsured or uninsured. Their ability to seek care elsewhere is compromised by access, culture, language and available transportation.
- Mental Health Services provided to over 300 seriously and persistently mentally ill individuals who without treatment would require long term institutionalization. This model is intended to reduce the likelihood of re-hospitalization and decrease reliance on an already strained county inpatient acute system of care. The Mental Health Services also provides crisis intervention to over 1,000 individuals a year.
- Mental Health Services for high risk children and adolescents in Hudson County are already at capacity. Over 600 children and adolescents receive services and 350 children and adolescents are admitted to the child inpatient unit that simply cannot be absorbed by CCIS units in other counties.
- Geriatric patients with psychiatric problems require specialized care. This program is the only one of its kind in Hudson County. The average age of these patients is 78 years old with 70% of the population being minorities.
- In response to the Department of Health and Senior Services initiative to improve the quality of the care for stroke victims; HUMC has accomplished designation as a Primary Stroke Center in Hudson County.

Financial Statements

This annual report consists of four parts: management's discussion and analysis, the basic financial statements, required supplementary information and single audit sections. The financial statements also include notes that explain information in the financial statements in more detail. The Authority, which is a component unit of the City of Hoboken, is a self-supporting entity and follows enterprise fund reporting; accordingly, the financial statements are

presented using the economic resources measurement focus and the accrual basis of accounting. Enterprise fund statements offer short-term and long-term financial information about the activities and operations of the Authority. Additionally, detailed sub-fund information is not presented; separate accounts are maintained for each program to control and manage money for particular purposes or to demonstrate that the Authority is properly using specific appropriations and grants.

Recent Financial Performance

The schedule below is a summary of the Medical Center's Revenues, Expenses and Changes in Net Assets for the year ended December 31, 2008 and eleven months ended December 31, 2007.

| | 12 months ending 31-Dec-08 | 11 months ending 31-Dec-07 |
|--|-------------------------------|-------------------------------|
| Patient Service Revenue | \$ 118,250,989 | \$ 102,457,043 |
| Provision for Bad Debt | 21,877,255 | 16,250,914 |
| Patient Service Revenue, Net | 96,373,734 | 86,206,129 |
| Other Operating Revenue | 28,298,660 | 37,355,571 |
| Total Operating Revenue | 124,672,394 | 123,561,700 |
| Operating Expenses | | |
| Management Fee's and Other | 142,546,965 | 123,450,852 |
| Income / (Loss) From Operations Before Dep.&Amort. | (17,874,571) | 110,848 |
| Depreciation & Amortization | 4,414,310 | 4,129,834 |
| (Loss) From Operations | (22,288,881) | (4,018,986) |
| Non Operating Income (Expense), Net | 585,641 | 39,157,350 |
| Revenues Over Expenses | (21,703,240) | 35,138,364 |
| Net Assets, Beginning of Period | \$ 35,138,364 | \$ - |
| Net Assets, End of Period | \$ 13,435,124 | \$ 35,138,364 |

The loss from operations is primarily the result of a reduction in state subsidization (DSH funding of \$10 million, State government fiscal year ending 6/2009), an increase in expenses due to regulatory fire safety and other physical plant improvements, the write down of accounts receivables (patient responsibility, co-pays and deductibles), and the results of the national economies' steepest recession since the 1930's (elective hospital admissions declined).

Revenues over Expenses in 2008 show a loss of \$21.7 million versus a gain of approximately \$35.1 million for 2007. In 2007 HMHA received a contribution of assets in the form of land, building and equipment totaling \$32.5 million. This gift was recorded as non operating income in 2007 thus contributing to the overall revenues over expense results reported in 2007.

The Hospital recognizes contractual adjustments against gross patient service revenue to arrive at net patient service revenue. Contractual adjustments represent amounts not collected due to government regulations concerning the calculation of healthcare payments and various contractual agreements with other commercial insurance carriers, health maintenance organizations and preferred provider organizations.

Patient service revenue net of bad debt was approximately \$96.4 million in 2008. This is an increase of \$9.9 million when compared to 2007. The large majority of this increase can be attributed to the one month operating differential between the two years. 2007 was the hospital's inaugural year, and it was only open for 11 months. The remaining variance can be attributed to slightly higher outpatient volumes and an increase in case mix index.

Other operating revenue for 2008 was approximately \$28.3 million. Of this amount, \$23.7 million was from State and Federal subsidy payments intended to subsidize the revenue shortfall associated with the large number of State Medicaid and indigent patients the Hospital treats each year. In 2007, the hospital reported other operating revenues of \$37.4 million or \$9.1 million higher than 2008. Other operating revenues in 2007 were higher than 2008 because they include a donation from Bon Secours Health System of approximately \$6 million received at the closing. Additionally, in 2007, there was a \$4 million one-time grant from the State which was not continued in 2008.

Operating expenses for 2008 were approximately \$142.5 million, an increase of \$19.3 million over 2007. Approximately \$11.5 to \$12.0 million of this increase is attributable to operating twelve full months in 2008 versus operating only eleven months in 2007. The remaining increase is due to an increase in salaries and fringe benefits of about \$4.5 million with the remaining increase coming from supplies, drugs, regulatory fire safety and other plant improvements.

Non-operating Income was \$585,641 in 2008; thus resulting in total net assets for the period ended December 31, 2008 of approximately \$13.4 million.

Financial Position

The information below summarizes the Authority's net assets as of December 31, 2008.

| | 12 months ending 31-Dec-08 | 11 months ending 31-Dec-07 |
|--------------------------|-------------------------------|-------------------------------|
| Assets: | | |
| Cash and Equivalents | \$ 361,167 | \$ 7,535,772 |
| Other Current Assets | 26,971,234 | 21,246,916 |
| Restricted Assets | 19,555,114 | 34,424,745 |
| Capital Assets | 43,251,250 | 41,274,553 |
| Other Assets | <u>1,590,188</u> | <u>985,198</u> |
| Total Assets | 91,728,953 | 105,467,184 |
| Liabilities: | | |
| Current Liabilities | 36,013,829 | 20,993,820 |
| Long-Term Liabilities | <u>42,280,000</u> | <u>49,335,000</u> |
| Total Liabilities | <u>78,293,829</u> | <u>70,328,820</u> |
| Net Assets | <u>\$ 13,435,124</u> | <u>\$ 35,138,364</u> |

Net assets equal the total operating margin for 2007 since that is the inaugural year of operation. The current ratio at December 31, 2008 is 0.75. Days in accounts receivable and days in accounts

Summary of Sources of Revenue

The main source of revenue for the Authority is patient services. This revenue is received primarily from third party payers, including the Federal Government under the Medicare program, the New Jersey Division of Health and Human Services under the Medicaid program, managed care contracts and other commercial insurance carriers. The principal sources of gross patient service revenue for the Authority for the twelve months ended December 31, 2008 are shown below:

| | <u>2008</u> | <u>2007</u> |
|------------------------|-------------|-------------|
| Medicare | 37.9% | 38.7 % |
| Managed Care | 22.4 | 22.4 |
| Medicaid | 10.5 | 11.7 |
| Blue Cross | 11.8 | 10.6 |
| Commercial | 1.6 | 1.1 |
| Self Pay/Charity/Other | <u>15.8</u> | <u>15.5</u> |
| Total | 100.0% | 100.0% |

Budget Comparison

The following schedule presents a comparison of actual results to the budget for the twelve months ended December 31, 2008.

| | <u>Actual</u> | <u>Budget</u> | <u>Variance</u> |
|--|-----------------------|---------------------|-----------------------|
| Revenues: | | | |
| Operating Revenues | \$124,672,394 | \$137,999,068 | (\$13,326,674) |
| Expenses: | | | |
| Management Fee & Other Expenses | 142,546,965 | 134,862,854 | 7,684,111 |
| Depreciation | 4,414,310 | 754,285 | 3,660,025 |
| Total Expenses | 146,961,275 | 135,617,139 | 11,344,136 |
| Income / (Loss) from Operations | (22,288,881) | 2,381,929 | (24,670,810) |
| Non-Operating Income/ (Expense) | 585,641 | (519,329) | 1,104,970 |
| Margin Available for Funding Trust Accounts | <u>(\$21,703,240)</u> | <u>\$ 1,862,600</u> | <u>(\$23,565,840)</u> |

Revenues were lower than anticipated (unfavorable budget variance) because there was no State DSH subsidization received during fiscal year 2008. Additionally, partially due to the downturn in the economy, the hospital wrote down a significant portion of its patient receivables including co-pays and deductibles. Expenses were higher than budget because there was a significant change in the way the hospital records depreciation that conformed after the budget had been approved. In addition, there were higher than anticipated salary, benefits and other expenses, as well as significant capital and operational expenditures related to plant improvement, fire safety, and data center/I.T.

Subsequent Events

Activities that occurred or are occurring in 2009 have positioned the Medical Center to cut its loss in half in 2009 and reach break-even status in 2010. Among these activities are:

- ✓ Opening of the new state-of-the-art Emergency Department in June, 2009, which has shown an increase in visits and a moderate increase in admissions during its initial months of operations. Utilization of the ED is expected to continue rising, with a corresponding increase in admissions.
- ✓ State designation of Hoboken UMC as a Primary Stroke Center, one of only two in Hudson County, is expected to add to utilization of the ED, as well as the reputation for quick and quality care in Hoboken UMC.
- ✓ Plans for renovation and expansion of Labor & Delivery (L&D) rooms have been approved by regulatory authorities and money is available to begin work in late 2009 with a completion date of 2010. As the demographics of the primary and secondary referral areas have changed to include more young families, demand for obstetrical services has risen at Hoboken UMC despite an aging L&D unit. When the unit is made larger, more attractive and more efficient, utilization is expected to continue rising. Women who are pleased with services rendered during labor and delivery are more likely to return to Hoboken UMC for other family health care needs.
- ✓ The amount of funding received from government sources increased in 2009 and is anticipated to increase still further in 2010. Hoboken UMC is in the top tier of hospitals receiving reimbursement for uncompensated care through New Jersey's Charity Care Fund. The level of reimbursement is formula-based and eligible activities continue to grow.
- ✓ Disproportionate Share (DSH) funding was higher in 2009 than in 2008 and is expected to increase in 2010. This reimbursement is also formula-based and eligible activities are on the rise.
- ✓ Appeals have been filed to recoup monies lost when cuts were made to other state funding programs or formulas were revised and resulted in lower funding to Hoboken UMC. The outcome of these appeals is not known at this time.
- ✓ Management changes and changes to operational policies and practices will result in other savings. Reduced expenses will go far to balance the 2009/2010 operating statements. Projections greater than \$5 million in reductions have begun in the latter half of 2009 and will intensify in 2010 to include re-negotiated contracts and potential lay-offs.
- ✓ Improved cash flow has resulted in lowered costs for short-term financing and late fees, as well as in improved relations with vendors who are more likely to offer favorable terms for purchases and leases when they are assured of prompt payment.

- ✓ A substantial increase in applications for membership on the medical staff has resulted from several initiatives. Successful efforts were made to recruit physicians specializing in orthopedics, vascular surgery, and other medical areas to expand the scope of services performed here. Hoboken UMC revamped its credentials verification process to speed up the processing of applications. Fourteen (14) applicants have been approved and twenty-five (25) applications are pending. The larger number of admitting physicians is certain to result in additional admissions.
- ✓ Dialogue with other NJ Acute Care Hospital system CEO's including: Christ Hospital, Jersey City Medical Center, Hackensack University Medical Center and the St. Barnabas Health System, concerning strategic alliances/relationships have taken place in 2009, as a strategic priority.

Contacting the Authority's Financial Management

This financial report is designed to provide New Jersey citizens and taxpayers, and our customers, clients, investors and creditors, with a general overview of the Authority's finances and to demonstrate the Authority's accountability for the appropriations and grants that it receives. If you have questions about the report or need additional information, contact the Hoboken Municipal Hospital Authority's Executive Director at 308 Willow Avenue, Hoboken, NJ 07030, or visit our web site at www.hobokenUMC.com.

BASIC FINANCIAL STATEMENTS

Hoboken Municipal Hospital Authority
(A Component Unit of the City of Hoboken)
Statement of Net Assets
December 31, 2008 and 2007

| | <u>2008</u> | <u>2007</u> |
|---|----------------------|-----------------------|
| ASSETS: | | |
| CURRENT ASSETS: | | |
| Cash and equivalents | \$ 361,167 | \$ 7,535,772 |
| Patient receivables, net of allowance for doubtful accounts of \$44,648,980 and \$16,250,914 | 15,455,664 | 14,728,610 |
| Grants and subsidies receivable | 5,197,399 | 3,198,170 |
| Due from Foundation | 2,032,255 | - |
| Inventories | 2,159,412 | 1,923,310 |
| Other current assets | <u>2,126,504</u> | <u>1,396,826</u> |
| | 27,332,401 | 28,782,688 |
| | | |
| RESTRICTED FUNDS: | | |
| Cash and equivalents | 19,555,114 | 34,424,745 |
| | | |
| CAPITAL ASSETS - Net | 43,251,250 | 41,274,553 |
| | | |
| BOND ISSUANCE COSTS - Net | <u>1,590,188</u> | <u>985,198</u> |
| | | |
| TOTAL | <u>\$ 91,728,953</u> | <u>\$ 105,467,184</u> |
| | | |
| LIABILITES AND NET ASSETS: | | |
| CURRENT LIABILITES: | | |
| Accounts payable and accrued expenses | \$ 3,127,978 | \$ 2,281,715 |
| Accrued interest payable | 1,059,788 | 1,478,166 |
| Deferred revenue | 6,160,962 | 2,924,269 |
| Due to Hudson Healthcare, Inc. | 15,945,101 | 12,009,670 |
| Current portion of long term debt | <u>9,720,000</u> | <u>2,300,000</u> |
| | | |
| Total current liabilities | 36,013,829 | 20,993,820 |
| | | |
| LONG TERM DEBT | 42,280,000 | 49,335,000 |
| | | |
| TOTAL LIABILITES | <u>78,293,829</u> | <u>70,328,820</u> |
| | | |
| NET ASSETS: | | |
| Invested in capital assets net of related debt | (20,548,648) | (28,735,965) |
| Restricted | 19,219,592 | 33,191,678 |
| Unrestricted | <u>14,764,180</u> | <u>30,682,651</u> |
| | | |
| NET ASSETS: | <u>13,435,124</u> | <u>35,138,364</u> |
| | | |
| TOTAL | <u>\$ 91,728,953</u> | <u>\$ 105,467,184</u> |

The accompanying notes are an integral part of this statement.

Hoboken Municipal Hospital Authority
(A Component Unit of the City of Hoboken)
Statement of Revenues, Expenses, and Changes in Net Assets
For the Year Ended December 31, 2008
And For the Eleven Months Ended December 31, 2007

| | <u>2008</u> | <u>2007</u> |
|--|----------------------|----------------------|
| OPERATING REVENUES: | | |
| Patient service revenue, net of contractual adjustments | \$ 118,250,989 | \$ 102,457,043 |
| Provision for bad debts | 21,877,255 | 16,250,914 |
| | <hr/> | <hr/> |
| Patient service revenue, net | 96,373,734 | 86,206,129 |
| Other operating revenues | 28,298,660 | 37,355,571 |
| | <hr/> | <hr/> |
| Total operating revenues | 124,672,394 | 123,561,700 |
| | <hr/> | <hr/> |
| OPERATING EXPENSES: | | |
| Management fees & other | 142,154,802 | 123,136,074 |
| Other | 392,163 | 314,778 |
| | <hr/> | <hr/> |
| Total management fees and other | 142,546,965 | 123,450,852 |
| | <hr/> | <hr/> |
| INCOME FROM OPERATIONS BEFORE DEPRECIATION AND AMORTIZATION | (17,874,571) | 110,848 |
| | <hr/> | <hr/> |
| Depreciation and amortization | 4,414,310 | 4,129,834 |
| | <hr/> | <hr/> |
| LOSS FROM OPERATIONS | (22,288,881) | (4,018,986) |
| | <hr/> | <hr/> |
| NONOPERATING INCOME (EXPENSE) | | |
| Contributions: | | |
| Cash | - | 6,833,649 |
| Capital assets | - | 32,934,954 |
| Donations | 2,415,000 | - |
| Investment income | 401,186 | 1,709,624 |
| Interest expense | (2,230,545) | (2,320,877) |
| | <hr/> | <hr/> |
| Nonoperating income (expense) - net | 585,641 | 39,157,350 |
| | <hr/> | <hr/> |
| REVENUES OVER EXPENSES | (21,703,240) | 35,138,364 |
| | <hr/> | <hr/> |
| NET ASSETS, BEGINNING OF PERIOD | 35,138,364 | - |
| | <hr/> | <hr/> |
| NET ASSETS, END OF PERIOD | <u>\$ 13,435,124</u> | <u>\$ 35,138,364</u> |

The accompanying notes are an integral part of this statement.

Hoboken Municipal Hospital Authority
(A Component Unit of the City of Hoboken)
Statement of Cash Flows
For the Year Ended December 31, 2008
And For the Eleven Months Ended December 31, 2007

| | <u>2008</u> | <u>2007</u> |
|--|------------------------|-----------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES: | | |
| Receipts from patient services | \$ 94,313,995 | \$ 74,990,576 |
| Receipts from other operating revenues | 28,298,660 | 34,008,358 |
| Payment to vendors | (392,163) | (314,778) |
| Payment to manager | <u>(138,219,371)</u> | <u>(111,126,404)</u> |
| NET CASH PROVIDED BY OPERATING ACTIVITIES | <u>(15,998,879)</u> | <u>(2,442,248)</u> |
| CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES | | |
| Proceeds from bond issue | 9,720,000 | 51,635,000 |
| Principle paid or defeased | (9,355,000) | - |
| Other financing costs | (859,673) | (1,237,168) |
| Capital expenditures | (6,136,325) | (12,217,463) |
| Interest paid | <u>(2,230,545)</u> | <u>(2,320,877)</u> |
| NET CASH PROVIDED (USED IN) INVESTING ACTIVITIES | <u>(8,861,543)</u> | <u>35,859,492</u> |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | |
| Contributions | 2,415,000 | 6,833,649 |
| Interest received on investments | <u>401,186</u> | <u>1,709,624</u> |
| NET CASH PROVIDED BY FINANCING ACTIVITIES | <u>2,816,186</u> | <u>8,543,273</u> |
| NET INCREASE (DECREASE) IN CASH | (22,044,236) | 41,960,517 |
| CASH, BEGINNING OF YEAR | <u>41,960,517</u> | <u>-</u> |
| CASH, END OF YEAR | <u>\$ 19,916,281</u> | <u>\$ 41,960,517</u> |
| RECONCILIATION OF INCOME (LOSS) FROM OPERATIONS TO NET CASH PROVIDED BY OPERATING ACTIVITIES: | | |
| Income (loss) from operations | \$ (22,288,881) | \$ (4,018,986) |
| Adjustments to reconcile income (loss) from operations to net cash provided by operating activities: | | |
| Depreciation and amortization | 4,414,310 | 4,129,834 |
| Patient receivables | (726,911) | (14,728,610) |
| Grants and subsidies receivable | (1,999,229) | (3,198,170) |
| Due from Foundation | (2,032,255) | - |
| Inventories | (236,102) | (1,923,310) |
| Other current assets | (729,678) | (1,396,826) |
| Accounts payable and accrued expenses | 846,121 | 2,281,715 |
| Deferred revenue | 3,236,693 | 2,924,269 |
| Accrued interest payable | (418,378) | 1,478,166 |
| Due Hudson Healthcare, Inc. | <u>3,935,431</u> | <u>12,009,670</u> |
| NET CASH PROVIDED BY OPERATING ACTIVITIES | <u>\$ (15,998,879)</u> | <u>\$ (2,442,248)</u> |

The accompanying notes are an integral part of this statement.

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NOTE 1. GENERAL

The Authority

The Hoboken Municipal Hospital Authority (the "Authority") was created pursuant to an ordinance of the Municipal Council of the City duly adopted on August 9, 2006 and pursuant to Senate Act #2022. The Authority is a public body corporate and politic constituting an agency and instrumentality of the City and having the power to do anything necessary or convenient to carry out its purposes and exercise the powers granted in the Act. Pursuant to the Act, the sole purpose of the Authority is to acquire, manage and operate a "hospital" (as such term is defined in the Act). In furtherance of such purpose, the Authority may borrow money and issue its bonds or notes and secure the same by, among other things, a pledge of its revenues and pay for the costs of any capital improvements or equipment related to the operation, maintenance, expansion, renovation, or rehabilitation of that hospital, for any working capital necessary for the operation of that hospital and for any costs related to the issuance of any bonds or notes therefore. Pursuant to the Act, the City may, among other things, unconditionally guarantee the punctual payment of the principal of and interest on any bonds or notes issued by the Authority. Furthermore, pursuant to the Act, although the Authority must maintain primary responsibility for the operation of the hospital, it must exercise its powers and duties to manage and operate the hospital through a contract with a nonprofit manager retained by the Authority.

As a public body under the existing statute, the Authority is exempt from both federal and state taxes.

For financial reporting purposes, The Authority is a component unit of the City of Hoboken, County of Hudson, State of New Jersey. There are no component units included in the accompanying financial statements.

The Authority's usual fiscal year is the twelve (12) month period ending December 31 of any year, or such other twelve (12) month period which the Authority may establish by resolution.

The daily business of the Authority is presently conducted by its Executive Director.

The Authority currently has no employees.

The Authority is governed by an 11-member board including the Mayor of the City and the hospital chief executive officer or their designees.

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NOTE 1. GENERAL - (Continued)

The Hospital

Founded in 1863, St. Mary Hospital (now known as Hoboken University Hospital Authority, the “Hospital”) is the oldest hospital in New Jersey and is situated in the most densely populated part of the State.

The Authority, simultaneously with the issuance of the Series 2007 Bonds, acquired substantially all of the assets comprising the Hospital from Bon Secours Health System, Inc. (“Bon Secours”). The purchase price for the assets was \$1.00. In addition, pursuant to the Act, Bon Secours provided \$13 million in working capital contributions to the Authority. The Hospital currently qualifies for Disproportionate Share Hospital (DSH) funds. However, there can be no assurance as to the amount of DSH funds, if any, the State will appropriate for the Hospital.

The Hospital provides basic health services, such as emergency care, obstetrics, surgery, pediatrics, podiatric, and psychiatry, as well as an array of medical diagnoses and treatments, including radiology, cardiology and cancer care. Construction of a larger and more efficient emergency department is expected to affect finances in a positive way. More than 40 percent of hospital admissions come through the emergency department.

The Facilities

The main Hospital building, located at 308 Willow Avenue, is a seven story structure, approximately 300,000 square feet, currently licensed for 358 acute care beds and 6 bassinets. In addition to the main Hospital building, the Authority acquired, with proceeds of the Series 2007 Bonds a 25,565 square foot Medical Clinic building located at 122-132 Clinton Street and a 5,300 square foot office building located at 4th Street and Willow Avenue. Proceeds of the Series 2007 Bonds will also be used to make various capital improvements to the main Hospital building and to certain leased office space. The Hospital’s medical staff currently includes 468 physicians, of which 325 are active members.

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NOTE 1. GENERAL - (Continued)

The Facilities - (Continued)

The foregoing acquisitions was effectuated pursuant to an Asset Transfer Agreement, dated as of February 1, 2007, among St. Mary Hospital, Inc., Bon Secours, and the Authority. The Asset Transfer Agreement contains various representations, warranties, covenants and other undertakings of the parties, including certain indemnifications and required payments.

The Manager

As required by the Act, the Hospital must be managed and operated by a nonprofit manager. The Authority has entered into a Master Manager and Operation Agreement dated February 1, 2007 (the "Master Manager and Operator Agreement") with Hudson Healthcare, Inc. (the "Manager"), a recently formed New Jersey non-profit corporation. As part of the acquisition of the Hospital, numerous contracts in regard to the operations of the Hospital were assigned to the Manager. Hudson Health Care, Inc. received Section 501(c)3 status effective November 19, 2007.

The agreement between the Manager and the Authority provides that the Manager shall be a single purpose entity, whose purpose will be to manage and operate the Hospital and that the payments from the Authority to the Manager will be equal to the expenses incurred by the Manager in managing and operating the Hospital. If the agreement between the Authority and the Manager is terminated for any reason, the agreement provides that all contracts assumed by or entered into by the Manager will be transferred at the direction of the Authority to a successor non-profit entity designated by the Authority to operate and manage the Hospital.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A summary of the Hospital's significant accounting policies follows:

Basis of Financial Statements

The term measurement focus is used to denote what is being measured and reported in the Authority's operating statement. The Authority is accounted for on the flow of economic resources measurement focus. The fundamental objective of the focus is to measure whether the Authority is better or worse off economically as a result of events and transactions of the period.

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NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

Basis of Financial Statements - (Continued)

The term basis of accounting is used to determine when a transaction or event is recognized on the Authority's operating statement. The Authority uses the accrual basis of accounting. Under this basis, revenues are recorded when earned and expenses are recorded when incurred, even though actual payment or receipt may not occur until after the period ends.

The Authority has elected to follow Financial Accounting Standards Board pronouncements issued before November 30, 1989, and all pronouncements of the Governmental Accounting Standards Board.

The Authority adopted the provisions of Governmental Accounting Standards Board Statement No. 34, "Basic Financial Statements - and Management Discussion and Analysis - for State and Local Governments." Statement No. 34 established standards for external financial reporting for all state and local governmental entities, which includes a statement of net assets, a statement of revenues, expenses and changes in net assets, and a statement of cash flows. It requires the classification of net assets into three components - invested in capital assets, net of related debt; restricted; and unrestricted. These classifications are defined as follows:

- Invested in capital assets, net of related debt - This component of net assets consists of capital assets, including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. If there are any significant unspent related debt proceeds at year-end, the portion of the debt attributable to the unspent proceeds are not included in the calculation of invested in capital assets, net of related debt. Rather that portion of the debt is included in the same net assets component as the unspent proceeds.
- Restricted - This component of net assets consists of constraints placed on net assets use through external constraints imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.
- Unrestricted - This component of net assets consists of net assets that do not meet the definition of "restricted" or "invested in capital asset, net of related debt."

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NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets, including estimated uncollectibles and allowances for accounts receivable from services to patients, and liabilities, including estimated payables to third-party payors, and the disclosure of contingent assets and liabilities as of the date of the financial statements. Estimates also affect the reported amounts of revenues, expenses, gains and losses during the reporting period. Actual results could differ from those estimates.

Cash and Equivalents

Cash and equivalents includes highly liquid investments with a maturity of three months or less when purchased to be cash equivalents, excluding amounts held in restricted funds.

Patient Accounts Receivable

Patient accounts receivable result from the healthcare services provided by the Hospital. Additions to the allowance for doubtful accounts result from the provision for bad debts. Accounts written off as uncollectible, if any, are deducted from the allowance for doubtful accounts. The amount of the allowance for doubtful accounts is based upon management's assessment of historical and expected net collections, business and economic conditions, trends in health care coverage, and other collection indicators.

Grants

Contributions received from various sources as grants are recorded in the period received. Donated assets are recorded at fair market value at the date of the gift. Grants externally restricted for non-operating purposes are recorded as contributed capital and identified as grants-in-aid.

Inventories

Inventories, which consist primarily of supplies, are stated at the lower of cost or market, as determined on a first-in, first-out method.

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NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

Property, Plant and Equipment

Property, plant and equipment is stated at cost for purchased assets or fair value for donated assets. The Hospital Authority provides for depreciation on all depreciable assets, based on the straight-line method over the estimated useful life of the related assets.

Gifts of long-lived assets such as property, plant and equipment are recorded at the fair value at the date of the gift and reported as unrestricted support unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor stipulations regarding the duration those long-lived assets must be maintained, the Hospital Authority reports expirations of donor restrictions when the donated or acquired long-lived assets are placed in service.

Donor Restricted Gifts

Unconditional promises to give cash and other assets to the Hospital Authority are reported at fair value on the date the promise is received, which is then treated as cost. The gifts are reported as either temporarily or permanently restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets.

Net Patient Service Revenue

Net patient service revenue is accounted for on the accrual basis of accounting in the period in which the service is provided. These amounts are net of estimated contractual allowances and other deductions to give recognition to differences between the Hospital Authority's charges and reimbursement rates as the Hospital Authority is reimbursed from third-party payors at amounts different from its established rates. Certain net revenues received are subject to audit and adjustment for which amounts are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined. It is at least reasonably possible that a change in the estimates will occur in the near term and will be adjusted in future periods as final settlements are determined.

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NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

Net Patient Service Revenue - (Continued)

A summary of the payment arrangements with major third-party payors follows:

Medicare - Inpatient services rendered to Medicare program beneficiaries are paid at prospectively set forth fixed payment rates per discharge. These rates vary according to a patient classification system that is based on clinical, diagnostic and other factors. Outpatient services are also paid at prospectively determined amounts. The payment amount is based on a patient's diagnosis, acuity and resources required for treatment. Certain services and specified expenses related to Medicare beneficiaries are paid based on a reasonable cost reimbursement methodology. The Hospital Authority is reimbursed for cost reimbursable items at a tentative rate with final settlement determined after submission of an annual cost report by the Hospital Authority and audit thereof by the Medicare Fiscal Intermediary.

Medicaid - Inpatient services rendered to Medicaid program beneficiaries are reimbursed under a prospective methodology which is based on the former reimbursement system known as Chapter 83 of the laws of the State of New Jersey. Outpatient services are paid based upon a cost reimbursement methodology and certain services are paid based on a Medicaid fee schedule.

Other Payors - The Hospital Authority has also entered into payment agreements with certain commercial insurance carriers, health maintenance organizations and preferred provider organizations. The basis for payment to the Hospital Authority under these agreements includes prospectively determined rates per day or a percentage of charges.

Charity Care

The Hospital Authority has a policy of providing medical care at amounts less than its established rates to patients who are unable to pay based on guidelines as set forth by the State of New Jersey. Charity care patients are separately identified and related charges are reduced based on financial information obtained from the patient.

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NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

Restricted Accounts

In accordance with the 2007 Bond Resolution, the Authority has established the following cash and investment accounts for the deposit and/or transfer, in the priority of the order listed, of all moneys received by the Authority:

| <u>Account</u> | <u>Amount</u> | <u>Use For Which Restricted</u> |
|-------------------------------------|--|--|
| Revenue | All revenue received by the Authority. | At least once a month, transfers to the various accounts described below. |
| Debt Service | Amount needed to pay matured principal and interest, plus principal and interest due on or before the following January 1. | Principal and interest on the bonds. |
| Operating | Amounts needed to pay operating expenses | Included in annual budget |
| Debt Service Reserve (Series 2007A) | Amount needed to equal the greatest amount of debt service due in any year. | Transfers to meet minimum levels required in the bond service or sinking accounts. Any excess may be transferred into the revenue account. |
| Operating Reserve | Amount needed to pay operating expenses in excess of amounts on deposit in the Operating Fund. | Transfers to meet required amounts in the debt service, Debt Service Reserve and Construction Funds. |
| Capital Replacement | Proceeds of debt issued and construction grants-in-aid. | Construction costs of the projects and transfers to meet minimum levels in the bond service account and/or bond reserve. |

Unamortized Bond Issuance Costs

Bond issue costs are being amortized over the life of the bond issue based on the interest method. Accumulated amortization as of December 31, 2008 and 2007 were \$358,476 and \$103,794, respectively.

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NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

Operating Indicator

Income (loss) from operations includes all unrestricted revenues, gains and other support and operating expenses for the reporting period. Income (loss) from operations excludes capital contributions, investment income, non-operating expenses, permanent transfers of assets to and from affiliates for other than goods and services, gains or losses on the disposal of capital assets, contributions restricted for capital purposes and unrestricted gifts.

Impairment of Long-Lived Assets

Long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amounts of the assets exceed the fair value of the assets. Assets to be disposed of are reported at the lower of the carrying amount or fair value less costs to sell.

Estimated Insurance Liabilities

The Hospital Authority has malpractice insurance coverage on a claims-made basis. Claims payable, if any, are recorded net of expected insurance recoveries. Amounts are accrued based on the cost of the Hospital Authority's claims experience to date. It is management's intention to continue existing coverage.

Losses from unasserted claims and incidents that may have occurred but have not been identified under the incident reporting system are based on estimates based on industry and specific Hospital Authority experience.

NOTE 3. CASH AND EQUIVALENTS

New Jersey statutes permit the deposit of public funds in institutions located in New Jersey which are insured by the Federal Deposit Insurance Corporation (FDIC), the Savings Association Insurance Fund (SAIF), or by any other agencies of the United States that insures deposits, or the State of New Jersey Cash Management Fund.

New Jersey statutes require public depositories to maintain collateral for deposits of public funds that exceed insurance limits as follows:

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NOTE 3. CASH AND EQUIVALENTS - (Continued)

The market value of the collateral must equal five percent of the average daily balance of public funds; or

If the public funds deposited exceed seventy-five (75%) percent of the capital funds of the depository, the depository must provide collateral having a market value equal to one hundred (100%) percent of the amount exceeding seventy-five (75%) percent.

All collateral must be deposited with the Federal Reserve Bank, the Federal Home Loan Bank Board or a banking institution that is a member of the Federal Reserve System and has capital funds of not less than \$25,000,000. The Authority has complied with all statutes and regulations applicable to deposits and investments. In general, bank deposits are classified as to credit risk by three categories described below:

Category 1

Insured or collateralized with securities held by the Authority or by its agent in the Authority's name.

Category 2

Collateralized with securities held by pledging public depository's trust department or agent in the Authority's name.

Category 3

Uncollateralized, including any deposits that are collateralized with securities held by pledging public depository, or by its trust department of agency not in the Authority's name.

At December 31, 2008, cash and equivalents of the Authority consisted of the following:

| | |
|-------------------------------------|--------------|
| Demand & Money Market Accounts..... | \$19,916,281 |
|-------------------------------------|--------------|

The carrying amount of the Authority's cash and cash equivalents at December 31, 2008 was \$19,916,281 and the bank balance was \$19,799,517. Of which, \$244,141 of the bank balance is classified as Category 1 and was covered by federal depository insurance and \$19,555,109 is classified as Category 3 and was covered by a collateral pool maintained by the banks as required by New Jersey Statutes.

Cash equivalents include money market funds, mutual funds and certificate of deposits with maturity dates of less than three months. Cash equivalents are stated at cost, which approximates market. Cash equivalents were held by the Authority's Trustee in the Authority's name.

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NOTE 4. INVESTMENTS

The funds of the Authority can be invested in:

Direct obligations of the United States of America or obligations the principal of and interest on which are unconditionally guaranteed by the United States of America.

Bonds, debentures, notes or other evidence of indebtedness issued or guaranteed by any of the following federal agencies and provided such obligations are backed by the full faith and credit of the United States of America: (1) U.S. Export-Import Bank (Eximbank); (2) Farmers Home Administration (FMHA); (3) Federal Financing Bank; (4) Federal Housing Administration Debentures (FHA); (5) General Services Administration; (6) Government National Mortgage Association; (7) U.S. Maritime Administration; and (8) U.S. Department of Housing and Urban Development.

Bonds, debentures, notes or other evidence of indebtedness issued or guaranteed by any of the following non-full faith and credit U.S. government agencies: (1) Federal Home Loan Bank System; (2) Federal Home Loan Mortgage Corporation; (3) Federal National Mortgage Association; (4) Student Loan Marketing Association; (5) Resolution Funding Corp. obligations; and (6) Farm Credit System.

Money market funds registered under the Federal Investment Company Act of 1940.

Certificates of deposit secured at all times by collateral described above.

Certificates of deposit, savings accounts, deposit accounts or money market deposits which are fully insured by FDIC, including BIF and SAIF.

Investment Agreements, including GIC's, Forward Purchase Agreements and Reserve Fund Put Agreements acceptable to MBIA.

Commercial paper rated, at the time of purchase "Prime - 1" by Moody's and "A-1" or better by S&P.

Bonds or Notes issued by any state or municipality which are rated by Moody's and S&P in one of the two highest rating categories assigned by such agencies.

Federal funds or bankers acceptances with a maximum term of one year of any bank which has an unsecured, uninsured and unguaranteed obligation rating of "Prime-1" or "A-3" or better by Moody's and "A-1" or "A" or better by S&P.

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NOTE 4. INVESTMENTS - (Continued)

The New Jersey Cash Management Fund, and Repurchase Agreements for 30 days or less. Repurchase Agreements which exceed 30 days must be acceptable to the Insurer.

NOTE 5. STATE SUBSIDY FUNDS

The State of New Jersey Healthcare Reform Act of 1992 established, among other items, two funds which are used to subsidize Hospital's that meet certain payor mix characteristics. The two funds are the Uncompensated Care Charity Fund and the Other Uncompensated Care Fund (Hospital Relief and Mental Health). The Hospital Authority also received an additional State Grant Appropriation. The Hospital Authority has included the subsidies received from these funds for the year ended December 31, 2008 and during the eleven months ended December 31, 2007 in the accompanying Statement of Revenues, Expenses, and Changes in Net Assets with other operating revenues.

| | 2008 | 2007 |
|--|----------------------|----------------------|
| Charity Care | \$ 15,131,623 | \$ 13,494,430 |
| New Jersey State Grant Appropriation | --- | 4,000,000 |
| Hospital Relief | 1,497,893 | 2,077,229 |
| Mental Health..... | 314,976 | 234,620 |
| Disproportionate Share Hospital..... | 6,769,456 | 6,211,270 |
| | \$ 23,713,948 | \$ 26,017,594 |

NOTE 6. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment consist of the following:

| | Depreciable Life | 2008 | 2007 |
|--------------------------------|---------------------|---------------------|----------------------|
| Land | | \$ 7,047,721 | \$ 7,047,721 |
| Buildings | 10-50 years | 20,914,463 | 20,308,333 |
| Fixed equipment..... | 5-20 years | 4,944,798 | 3,972,943 |
| Major movable equipment ... | 5-20 years | 8,221,332 | 8,666,466 |
| Minor equipment..... | 5-20 years | 2,138,607 | 1,304,848 |
| Construction in progress | | 8,167,709 | 3,998,097 |
| | | 51,434,630 | 45,298,408 |
| Less: accumulated depreciation | | 8,183,380 | 4,023,855 |
| | | \$43,251,250 | \$ 41,274,553 |

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NOTE 7. RESTRICTED NET ASSETS

Funds held by Trustees under the respective Master Trust Indentures as of December 31, 2008 and 2007 consist of the following:

| | <u>2008</u> | <u>2007</u> |
|----------------------------------|----------------------|----------------------|
| Debt Service Funds | \$ 1,191,746 | \$ 3,774,341 |
| Debt Service Reserve Funds | 3,371,245 | 3,564,275 |
| Construction Fund..... | <u>14,656,601</u> | <u>25,853,062</u> |
| | <u>\$ 19,219,592</u> | <u>\$ 33,191,678</u> |

NOTE 8. LONG-TERM DEBT

Long-term debt as of December 31, 2008 and 2007 consists of the following:

| | <u>2008</u> | <u>2007</u> |
|--|---------------------|----------------------|
| Series 2007A Bonds, payable in varying amounts to \$3,115,000, with interest varying up to 4.60% | \$36,260,000 | \$ 40,465,000 |
| Series 2007B Bonds, payable of \$6,020,000, with interest of 5.816% | 6,020,000 | 11,170,000 |
| Series 2008 Bonds of \$9,720,000, with Interest of 8.00%..... | <u>9,720,000</u> | <u>-</u> |
| | 52,000,000 | 51,635,000 |
| Less: current installments | <u>9,720,000</u> | <u>2,300,000</u> |
| | <u>\$42,280,000</u> | <u>\$ 49,335,000</u> |

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NOTE 8. LONG-TERM DEBT - (Continued)

The Series 2007A Bonds were issued for the purpose of providing funds for: (A) the acquisition of various capital improvements and fixed and major moveable equipment for hospital facilities known as St. Mary Hospital and acquired by the Authority and to be known as Hoboken University Hospital Authority, located at 308 Willow Avenue, Hoboken, New Jersey (the "Hospital"), including but not limited to, the following: (i) renovation of patient rooms, (ii) construction of a new 20,000 square feet emergency department, (iii) renovations and expansion of labor and delivery suite, (iv) information system integration and backup capacity – tandem servers, (v) construction and acquisition of a low risk cardiac catheterization laboratory and equipment, and (vi) purchase of 64 Slice CT imaging equipment and other moveable medical equipment, (B) the acquisition by the Authority of land and a 25,565 square foot building located at 122-132 Clinton Street, Hoboken, New Jersey to be used as a clinic, physician offices and training facility, (C) the acquisition by the Authority of land and a 5,300 square foot building located at 307 Willow Avenue, Hoboken, New Jersey to be used as counseling and administrative offices to house a County and Federal grant funded AIDS program, (D) the construction of leasehold improvements to the ground floor of the garage facility owned by the City of Hoboken located at 4th Street and Willow Avenue, Hoboken, New Jersey, to be used by the Authority for hospital office facilities, (D) capitalized interest on the Series 2007A Bonds for a period of two years, (E) the funding of a deposit to a debt service reserve fund for the Series 2007A Bonds, and (F) the payment of costs of issuing the Series 2007A Bonds (the "Series 2007A Project"). The Series 2007B Bonds are being issued for the purpose of (i) providing capitalized interest on the Series 2007B Bonds for a period of two years, (ii) providing certain initial start-up working capital and reserves for operation of the Hospital, and (iii) paying costs of issuing the Series 2007B Bonds (the "Series 2007B Project" and, collectively with the Series 2007A Project, the "Project").

Schedule principal and interest payments on long term debt are as follows:

| <u>Year Ended</u> <u>December 31,</u> | <u>Principal</u> | <u>Interest</u> | <u>Total</u> |
|--|----------------------|----------------------|----------------------|
| 2010..... | \$ 1,850,000 | \$ 1,856,976 | \$ 3,706,976 |
| 2011..... | 1,920,000 | 1,784,826 | 3,704,826 |
| 2012..... | 1,995,000 | 1,711,865 | 3,706,865 |
| 2013..... | 2,070,000 | 1,635,058 | 3,705,058 |
| 2014..... | 2,155,000 | 1,554,328 | 3,709,328 |
| 2015-2019 | 12,130,000 | 6,402,120 | 18,532,120 |
| 2020-2024 | 14,140,000 | 3,584,995 | 17,724,995 |
| 2025-2026 | <u>6,020,000</u> | <u>676,166</u> | <u>6,696,166</u> |
| | <u>\$ 42,280,000</u> | <u>\$ 19,206,334</u> | <u>\$ 61,486,334</u> |

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(FEBRUARY 1, 2007 TO DECEMBER 31, 2007)

NOTE 8. LONG-TERM DEBT - (Continued)

On November 3, 2008 the Authority issued \$9,720,000 City of Hoboken Guaranteed Hospital Revenue Bond, Series 2008 (Federally Taxable) together with other monies of the Authority, to (i) refund \$2,850,000 of the City of Hoboken Guaranteed Hospital Revenue Bonds, Series 2007B (Federally Taxable) due July 1, 2009, (ii) defeased \$4,205,000 of the City of Hoboken Guaranteed Hospital Revenue Bonds, Series 2007A with monies released from the project fund as part of the restructuring, (iii) finance working capital and reserves for the operation of the Authority and (iv) finance the costs of issuing the Series 2008 Bond.

NOTE 9. CAPITAL CONTRIBUTIONS IN AID OF CONSTRUCTION

Contributions as of December 31, 2008 and 2007 were:

Fair market value of facilities contributed by Bon Secours:

| | <u>2008</u> | <u>2007</u> |
|-------------------------------------|----------------------|----------------------|
| Land | \$ 5,605,536 | \$ 5,605,536 |
| Building..... | 17,986,297 | 17,986,297 |
| Equipment..... | <u>8,968,167</u> | <u>8,968,167</u> |
| Total..... | 32,560,000 | 32,560,000 |
| Less Accumulated Depreciation | <u>7,027,987</u> | <u>3,994,194</u> |
| Net Contributed Capital..... | <u>\$ 25,532,013</u> | <u>\$ 28,565,806</u> |

NOTE 10. COMMITMENTS AND CONTINGENCIES

- a. The health care industry is subject to numerous laws and regulations of federal, state and local governments. Governmental activity has increased with respect to investigations concerning possible violations by health care providers of fraud and abuse statutes and regulations. Compliance with such laws and regulations are subject to future governmental review and interpretations as well as potential regulatory actions unknown or unasserted at the time.

HOBOKEN MUNICIPAL HOSPITAL AUTHORITY
(A Component Unit of the City of Hoboken)
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2008
AND FOR THE PERIOD FROM INCEPTION
FEBRUARY 1, 2007 TO DECEMBER 31, 2007

NOTE 10. COMMITMENTS AND CONTINGENCIES - (continued)

- b. The Hospital Authority's revenues are subject to adjustment as a result of audits or reviews by third-party payors. Adjustments could occur as a result of differing opinions on a patient's principal medical diagnosis, including the appropriate sequencing of codes used to submit claims for payment, which can have a significant effect on the payment amount. Additionally, valid claims may be determined to be non-allowable after the fact due to differing opinions on medical necessity. Differing opinions may also occur as a result of reviewing contractual terms with third-party payors. Claims for services rendered may be deemed to be non-allowable if they are later determined to have been based on inappropriate referrals. Also, Governmental agencies may make changes in program interpretations, requirements or conditions of participation, some of which may have implications for amounts previously estimated. The Hospital Authority has provided estimates for known claims against the Hospital Authority.

NOTE 11. NET PATIENT SERVICE REVENUE AND RELATED ADJUSTMENTS

The Hospital Authority records gross patient service revenue on the accrual basis of accounting at established charges, with contractual and other allowances added to or deducted from such amounts to arrive at net patient service revenue. The Hospital Authority maintains policies and records to identify and monitor these contractual allowances and its level of charity care. These records include the amount of deductions from gross revenues due to qualified services provided under the State's charity care guidelines.

The percentage of net patient service by payor for the year ended December 31, 2008 and for the period February 1, 2007 to December 31, 2007 is as follows:

| | 2008 | 2007 |
|-----------------------|------|------|
| Medicare | 38% | 39% |
| Medicaid | 11 | 12 |
| All other payors..... | 51 | 49 |
| | 100% | 100% |

HOBOKEN MUNICIPAL HOSPITAL AUTHORITY
(A Component Unit of the City of Hoboken)
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2008
AND FOR THE PERIOD FROM INCEPTION
FEBRUARY 1, 2007 TO DECEMBER 31, 2007

NOTE 11. NET PATIENT SERVICE REVENUE AND RELATED ADJUSTMENTS –
(continued)

The components of net patient service revenue for the year ended December 31, 2008 and for the eleven months ended December 31, 2007 are as follows:

| | <u>2008</u> | <u>2007</u> |
|--|-----------------------|-----------------------|
| Gross patient service revenue: | | |
| Inpatient | \$ 439,101,985 | \$ 406,235,136 |
| Outpatient..... | <u>245,940,134</u> | <u>201,379,544</u> |
| Total gross patient service revenue | <u>685,042,119</u> | <u>607,614,680</u> |
| (Deductions from) gross patient service revenue: | | |
| Allowances | (468,786,514) | (426,718,913) |
| Charity care | <u>(98,004,616)</u> | <u>(78,437,924)</u> |
| | <u>(566,791,130)</u> | <u>(505,156,837)</u> |
| Net patient service revenue | <u>\$ 118,250,989</u> | <u>\$ 102,457,843</u> |

NOTE 12. CHARITY CARE

The Hospital Authority provides care to patients who meet certain criteria defined by the New Jersey Department of Health and Senior Services without charge or at amounts less than its established rates. The Hospital Authority's records identify and monitor the level of charity care it provides and include the amount of charges foregone for services and supplies furnished. The level gross charges related to the charity care provided for the year ended December 31, 2008 and for the period February 1, 2007 to December 31, 2007 was approximately \$98,000,000 and \$78,400,000, respectively. The actual cost of providing charity care services were \$16,156,522 in 2008 and \$13,914,339 in 2007.

NOTE 13. PROFESSIONAL LIABILITY AND OTHER INSURANCE

The Hospital Authority maintains an internal risk management program and carries claims-made malpractice insurance coverage.

The Hospital Authority has estimated a range of losses for its potential liability for malpractice claims based on its own past experience and industry experience data. These estimates include reserves for unreported incidents and losses.

HOBOKEN MUNICIPAL HOSPITAL AUTHORITY
(A Component Unit of the City of Hoboken)
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2008
AND FOR THE PERIOD FROM INCEPTION
FEBRUARY 1, 2007 TO DECEMBER 31, 2007

NOTE 14. RELATED PARTY TRANSACTIONS

In the normal conduct of the Hospital Authority's operations, it has transactions with its affiliates primarily related to patient services or expenditures made on behalf of the affiliates which are reimbursed to the Hospital Authority. Amounts due to related parties as of December 31, 2008 and 2007 are included in the caption of Due to Hudson Heath, Inc.

NOTE 15. CONCENTRATIONS OF CREDIT RISK

Financial instruments that potentially subject the Hospital Authority to concentrations of credit risk consist principally of cash balances, in checking and savings accounts, with financial institutions and accounts receivable. With respect to cash in financial institutions, which periodically exceeds federally insured limits, the Hospital Authority has not experienced any losses in such accounts and management believes it is not exposed to any significant credit risk on the balances with the financial institutions.

With respect to accounts receivable, the Hospital Authority grants credit without collateral to its patients, most of whom are local residents and are insured under third-party payor agreements. The percentage of gross accounts receivable due from third-party payors and patients before allowances for doubtful accounts and contractual adjustments as of December 31, 2008 and 2007 were as follows:

| | 2008 | 2007 |
|---------------------------------------|------|------|
| Medicare and Medicaid..... | 38% | 33% |
| Self Pay (including co-payments)..... | 25 | 30 |
| Managed Care | 20 | 26 |
| Commercial..... | 9 | 6 |
| Blue Cross Plans | 8 | 5 |
| | 100% | 100% |

NOTE 16 FOUNDATION

During 2008 the Hudson Municipal Hospital Authority Foundation became operational. Assets were transferred from the existing Bon Secours foundation and new fund raising events provided the balance at December 31, 2008. The Foundation is a component unit of Hudson Healthcare, Inc. which is recognized as a 501(c)3 entity under the Internal Revenue Code.

HOBOKEN MUNICIPAL HOSPITAL AUTHORITY
(A Component Unit of the City of Hoboken)
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2008
AND FOR THE PERIOD FROM INCEPTION
FEBRUARY 1, 2007 TO DECEMBER 31, 2007

NOTE 17 **SUBSEQUESNT EVENT**

On April 30, 2009, the Authority issued \$9,720,000 of Hoboken Guaranteed Hospital Revenue Bonds, Series 2009 (Federally Taxable) to (i) refund the Authority's \$9,720,000 City of Hoboken Guaranteed Hospital Revenue Bond, Series 2008 (Federally Taxable) issued on November 3, 2008 and (ii) pay costs of issuing the Series 2009 Bonds.

NOTE 18 **CONTINUING OPERATIONS**

For the period ended December 31, 2007 and the year ended December 31, 2008, the Hospital experienced a deficiency of revenue over expenses of (\$4,018,834) and (\$22,288,881), respectively. The continuation of the Hospital as a going concern is contingent upon achieving and sustaining profitable operations. Management has a plan to contain costs and increase revenues. Some of the major components of this plan, which went into effect in late 2008, include staff reductions, closure of non performing units, a new emergency room and changes in senior management. Continued operations will also be contingent on State aid.

SUPPLEMENTARY INFORMATION

Hoboken Municipal Hospital Authority
(A Component Unit of the City of Hoboken)
Statement of Revenues, Expenses, and Changes in Net Assets
- Budget and Actual
For the Year Ended December 31, 2008
For the Eleven Months Ended December 31, 2007

2008

| | <u>Original Budget</u> | <u>Transfers</u> | <u>Final Budget</u> | <u>Actual</u> | <u>Variance</u> |
|-------------------------------------|----------------------------|------------------|-------------------------|------------------------|-----------------------|
| Revenues: | | | | | |
| Other operating revenues | \$ 140,509,045 | \$ - | \$ 140,509,045 | \$ 124,672,394 | \$ (15,836,651) |
| Donations - Foundation | <u>2,415,000</u> | <u>-</u> | <u>2,415,000</u> | <u>2,415,000</u> | <u>-</u> |
| | 142,924,045 | - | 142,924,045 | 127,087,394 | (15,836,651) |
| Expenditures: | | | | | |
| Administration: | | | | | |
| Other expenses | 300,000 | | 300,000 | 392,163 | (92,163) |
| Cost of Providing Services | | | | | |
| Other expenses | 134,562,854 | | 134,562,854 | 142,154,802 | (7,591,948) |
| Principal payments on Authority | | | | | |
| Bonds | 2,279,310 | | 2,279,310 | 2,300,000 | (20,690) |
| Interest payments | <u>2,279,301</u> | <u>-</u> | <u>2,279,301</u> | <u>2,230,545</u> | <u>48,756</u> |
| Total expenditures | 139,421,465 | - | 139,421,465 | 147,077,510 | (7,656,045) |
| Excess of revenue over expenditures | <u>\$ 3,502,580</u> | <u>\$ -</u> | <u>\$ 3,502,580</u> | <u>\$ (19,990,116)</u> | <u>\$ (8,180,606)</u> |

2007

| | <u>Original Budget</u> | <u>Transfers</u> | <u>Final Budget</u> | <u>Actual</u> | <u>Variance</u> |
|-------------------------------------|----------------------------|------------------|-------------------------|-----------------------|-----------------------|
| Revenues: | | | | | |
| Other operating revenues | \$ 129,489,600 | \$ - | \$ 129,489,600 | \$ 123,561,700 | \$ (5,927,900) |
| Expenditures: | | | | | |
| Administration: | | | | | |
| Other expenses | 365,000 | | 365,000 | 314,778 | 50,222 |
| Cost of Providing Services | | | | | |
| Other expenses | 123,092,686 | | 123,092,686 | 123,450,852 | (358,166) |
| Principal payments on Authority | | | | | |
| Bonds | 2,500,000 | | 2,500,000 | - | 2,500,000 |
| Interest payments | <u>2,236,050</u> | <u>-</u> | <u>2,236,050</u> | <u>2,320,877</u> | <u>(84,827)</u> |
| Total expenditures | 128,193,736 | - | 128,193,736 | 126,086,507 | 2,107,229 |
| Excess of revenue over expenditures | <u>\$ 1,295,864</u> | <u>\$ -</u> | <u>\$ 1,295,864</u> | <u>\$ (2,524,807)</u> | <u>\$ (3,820,671)</u> |

SINGLE AUDIT SECTION



McENERNEY, BRADY & COMPANY, LLC

Certified Public Accountants * A Limited Liability Company

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

Honorable Chairman and Members of the
Hoboken Municipal Hospital Authority
County of Hudson, New Jersey

We have audited the general-purpose financial statements of the Hoboken Municipal Hospital Authority in the County of Hudson as of and for the year ended December 31, 2008, and have issued our report thereon dated September 1, 2009. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and audit requirements as prescribed by the Division of Local Government Services, State of New Jersey.

As described in Note A, the financial statements were prepared in conformity with the accounting practices prescribed by the Division of Local Government Services, Department of Community Affairs, State of New Jersey, that demonstrates compliance with the modified accrual basis, with certain exceptions, and the budget laws of New Jersey, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

Internal Control Over Financial Reporting

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

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is a more than a remote likelihood that a misstatement of the Authority's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Authority's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*. We noted certain matters that we reported to management of the Authority in a separate letter dated September 1, 2009.

This report is intended for the information of the audit committee, management, the Hoboken Municipal Hospital Authority, the New Jersey State Division of Local Government Services (the cognizant audit agency) and other state and federal awarding agencies and pass through entities and is not intended to be and should not be used by anyone other than these specified parties.



McEnerney, Brady & Company, LLC
September 1, 2009



McENERNEY, BRADY & COMPANY, LLC

Certified Public Accountants * A Limited Liability Company

**REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH
MAJOR PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE IN
ACCORDANCE WITH OMB CIRCULAR A-133 AND
NEW JERSEY OMB CIRCULAR 04-04**

Honorable Chairman and Members of the
Hoboken Municipal Hospital Authority
County of Hudson, New Jersey

Compliance

We have audited the compliance of the Hoboken Municipal Hospital Authority in the County of Hudson, with the types of compliance requirements described in OMB A-133 and the New Jersey Compliance Manual *State Grants Compliance Supplement* that are applicable to each of its major federal and state programs for the year ended December 31, 2008. The Hoboken Municipal Hospital Authority's major federal and state programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal and state programs is the responsibility of the Hoboken Municipal Hospital Authority's management. Our responsibility is to express an opinion on the Hoboken Municipal Hospital Authority's compliance based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; the audit requirements as prescribed by the Division of Local Government Services, State of New Jersey; OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* and New Jersey OMB's Circular 04-04, *Single Audit Policy for Recipients of Federal Grants, State Grants and State Aid*. Those standards, OMB Circular A-133 and New Jersey OMB's Circular 04-04, require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal or state program occurred. An audit includes examining, on a test basis, evidence about the Hoboken Municipal Hospital Authority's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

Our audit does not provide a legal determination on the Hoboken Municipal Hospital Authority's compliance with those requirements.

In our opinion, Hoboken Municipal Hospital Authority, in the County of Hudson, State of New Jersey, complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal and state programs for the year ended December 31, 2008.

Internal Control Over Compliance

The management of the Hoboken Municipal Hospital Authority is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal and state programs. In planning and performing our audit, we considered the Hoboken Municipal Hospital Authority's internal control over compliance with requirements that could have a direct and material effect on a major federal and state program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control over compliance.

A *control deficiency* in an entity's internal control over compliance 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 noncompliance with a type of compliance requirement of a federal or state program or on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal or state program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal or state program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal or state program will not be prevented or detected by the entity's internal control.

Our consideration of the internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information of the management of the Hoboken Municipal Hospital Authority, the New Jersey State Division of Local Government Services (the cognizant audit agency) and other state and federal awarding agencies and pass through entities and is not intended to be and should not be used by anyone other than these specified parties.



McEnerney, Brady & Company, LLC
September 1, 2009

HOBOKEN MUNICIPAL HOSPITAL AUTHORITY
(A Component Unit of the City of Hoboken)
SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS
FOR THE PERIOD JANUARY 1, 2008 TO DECEMBER 31, 2008

| Federal Grantor/Pass-Through Grantor/ Program Title | Federal CFDA Number | Grant Period From | To | Total Awards | Funds Received | 2008 Paid or Charged | Cumulative Program Expenditures |
|--|---------------------------|----------------------|----------|---------------------|---------------------|----------------------------|---------------------------------------|
| US Department of Health and Human Services- Through State Department of Human Services: | | | | | | | |
| Ryan White Part C Outpatient EIS/Title III | 93.918 | 5/1/07 | 12/31/09 | \$ 663,064 | \$ 598,309 | \$ 663,062 | \$ 663,062 |
| Ryan White Part C Outpatient EIS/Title III | 93.918 | 9/30/06 | 3/31/07 | 654,678 | 106,366 | - | 597,168 |
| Ryan White Part A Primary Care/Supplemental Title I | 93.914 | 3/1/08 | 2/28/09 | 296,571 | 205,391 | 253,048 | 253,048 |
| Ryan White Part A Primary Care/Supplemental Title I | 93.914 | 7/1/07 | 2/29/08 | 296,571 | 62,219 | - | 322,516 |
| Bilingual Medical Case Management/Supplemental | 93.914 | 3/1/08 | 2/28/09 | 75,133 | 49,805 | 62,462 | 62,462 |
| Medical Case Management/Formula | 93.914 | 3/1/08 | 2/28/09 | 521,977 | 343,109 | 438,105 | 438,105 |
| Medical Case Mgt. for the Incarcerated/Supplemental | 93.914 | 3/1/08 | 2/28/09 | 118,000 | 78,926 | 99,396 | 99,396 |
| Medical Expansion Program (MEP)/Formula | 93.914 | 3/1/08 | 2/28/09 | 80,000 | 54,047 | 70,394 | 70,394 |
| MAI Intensive CM for the Incarcerated/Supplemental | 93.914 | 8/1/08 | 7/31/09 | 52,000 | 33,631 | 53,663 | 53,663 |
| Emergency Housing Assistance/MAI | 93.914 | 3/28/08 | 7/31/08 | 95,000 | 94,452 | 94,452 | 94,452 |
| National Bioterrorism Hospital Preparedness Program | 93.889 | 9/1/07 | 8/8/08 | 77,808 | 77,616 | 77,616 | 77,616 |
| Housing Opportunities to Persons with AIDS (HOPWA) | 14.241 | 4/1/08 | 3/31/09 | 60,000 | 23,001 | 38,342 | 38,342 |
| Total Federal Awards | | | | \$ 1,726,872 | \$ 1,850,540 | \$ 1,850,540 | \$ 2,770,224 |

| State Grantor/Local Pass-Through Grantor/Program Title | Grant or State Project Number | Grant Period From | To | Total Awards | Funds Received | 2008 Paid or Charged | Cumulative Program Expenditures |
|--|----------------------------------|----------------------|----------|---------------------|---------------------|----------------------------|---------------------------------------|
| State of New Jersey: | | | | | | | |
| Division of Mental Health Services | 10110 | 1/1/08 | 12/31/08 | \$ 1,118,218 | \$ 1,118,219 | \$ 1,118,219 | \$ 1,118,218 |
| Division of Mental Health Services | 10110 | 9/1/06 | 12/31/07 | 1,457,032 | 113,088 | - | 1,004,678 |
| Division of Youth and Family Services | 93.556 | 1/1/08 | 12/31/08 | 428,860 | 428,860 | 428,860 | 428,860 |
| Division of Youth and Family Services | 93.556 | 9/1/06 | 12/31/07 | 559,193 | 138,787 | - | 385,128 |
| County of Hudson: | | | | | | | |
| Dept. of Health and Human Services(Project RAPP) | N/A | 1/1/08 | 12/31/08 | 20,676 | 12,834 | 44,441 | 44,441 |
| Dept. of Health and Human Services(Project RAPP) | N/A | 1/1/07 | 12/31/07 | 22,240 | 1,905 | - | 20,062 |
| Dept. of Health and Human Services(Giant Steps) | N/A | 1/1/08 | 12/31/08 | 123,030 | 84,922 | 123,030 | 123,030 |
| Dept. of Health and Human Services(Giant Steps) | N/A | 1/1/07 | 12/31/07 | 87,656 | 6,752 | - | 82,994 |
| Dept. of Health and Human Services(Out Patient Drug Treatment) | N/A | 1/1/08 | 12/31/08 | 32,000 | 23,313 | 37,300 | 37,300 |
| Dept. of Health and Human Services - Fatherhood Project | N/A | 1/1/07 | 12/31/07 | 33,000 | 1,126 | - | 29,735 |
| Dept. of Health and Human Services - Project Impact Grant | N/A | 1/1/08 | 12/31/08 | 59,792 | 44,464 | 59,792 | 59,792 |
| Dept. of Health and Human Services - Project Impact Grant | N/A | 1/1/08 | 12/31/08 | 177,555 | 98,089 | 148,873 | 148,873 |
| Dept. of Health and Human Services - Project Impact Grant | N/A | 1/1/07 | 12/31/07 | 172,694 | 53,101 | - | 139,924 |
| Total State Awards | | | | \$ 2,072,359 | \$ 1,960,515 | \$ 1,960,515 | \$ 3,623,035 |

HOBOKEN MUNICIPAL HOSPITAL AUTHORITY
(A Component Unit of the City of Hoboken)
NOTES TO SCHEDULES OF EXPENDITURES
OF FEDERAL AND STATE AWARDS
FOR THE PERIOD ENDED DECEMBER 31, 2008

1. GENERAL:

The accompanying Schedules of Expenditures of awards present the activity of all federal and state awards of the Hoboken Municipal Hospital Authority. The Hoboken Municipal Hospital Authority is defined in Note 1 to the Authority's financial statements. All federal and state awards received directly from federal and state agencies, as well as, federal awards and state financial assistance passed through other government agencies, is included on the Schedule of Expenditures of Federal and State Awards.

2. BASIS OF ACCOUNTING:

The accompanying Schedule of Expenditures of Federal and State Awards are presented using the accrual basis of accounting.

4. RELATIONSHIP TO FEDERAL AND STATE FINANCIAL REPORTS:

Amounts reported in the accompanying schedules agree with the amounts reported in the related federal and state financial reports.

HOBOKEN MUNICIPAL HOSPITAL AUTHORITY
(A Component Unit of the City of Hoboken)
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE PERIOD ENDED DECEMBER 31, 2008

Part 1 - Summary of Auditor's Results

FINANCIAL STATEMENT SECTION

- A) Type of auditor's reports issued: Unqualified
- B) Internal control over financial reporting:
- 1) Material weakness(es) identified? ___ Yes X No
- 2) Significant deficiency (ies) identified that were not considered to be material weaknesses? ___ Yes X None Reported
- C) Noncompliance material to general purpose financial statements noted? ___ Yes X No

FEDERAL AWARDS SECTION

- D) Internal Control over compliance:
- 1) Material weakness(es) identified? ___ Yes X No
- 2) Significant deficiency (ies) identified that were not considered to be material weakness (es)? ___ Yes X None Reported

Type of auditor's report issued on compliance for major programs: Unqualified

- E) Any audit findings disclosed that are required to be reported in accordance with OMB Circular A-133 (section .510(a))? ___ Yes X No

F) Identification of major federal and state programs:

| <u>Title</u> | <u>CFDA #</u> |
|--------------------------------------|---------------|
| Ryan White EIS/Title III | 93.918 |
| Medical Case Management/Formula | 93.914 |
| Division of Mental Health Services | 10110 |
| Division of Youth & Family Services. | 93.556 |

