

Financial Statements

Hudson Regional Health Commission

December 31, 2011

**HUDSON REGIONAL HEALTH COMMISSION
AUDIT REPORT
DECEMBER 31, 2011**

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To the Board of Commissioners
Hudson Regional Health Commission
Secaucus, New Jersey 07628

INDEPENDENT AUDITOR'S REPORT

We have audited the accompanying basic financial statements of Hudson Regional Health Commission (Hudson), as of December 31, 2011, and for the year ended December 31, 2011, as listed in the table of contents. These financial statements are the responsibility of Hudson's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes 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 provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of Hudson as of December 31, 2011, and the results of its operations and the cash flows of its General Fund and Penalty Enforcement Fund for the year then ended in conformity with accounting principals generally accepted in the United States of America.

As described in Note 11 to the basic financial statements, the Commission adopted the provisions of Governmental Accounting Standards Board Statement No. 34, as of January 1, 2004. This results in a change in the format and content of the basic financial statements.

The Management's Discussion and Analysis and the other required supplementary information pages 3 through 5 and 16 through 29, respectively are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

In accordance with *Government Auditing Standards*, we have also issued a report dated June 30, 2012 on our consideration of Hudson's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Hudson's basic financial statements. The accompanying Schedule of Expenditures of Federal and State Financial Awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.


DeSENA & COMPANY

East Hanover, New Jersey
June 30, 2012

HUDSON REGIONAL HEALTH COMMISSION
MEADOWVIEW COMPLEX
595 COUNTY AVENUE, BUILDING 1, SECAUCUS, NEW JERSEY 07094
TEL. (201) 223-1133 FAX (201) 223-0122

Richard J. Censullo, President

Carrie Nawrocki, Executive Director

Managements Discussion and Analysis Report

The purpose of this statement is to provide management's perspective on the status and fiscal viability of the Commission. It should be read in conjunction with the full text of the annual audit report.

Authority

The commission is a duly authorized governmental agency established and operating under NJSA 26:3-83 et. seq. It is governed by a Board of Commissioners which under NJSA 26:3-92 has the functional authority of a local board of health, including legislative powers to adopt ordinances. The Commission's regional ordinances are applicable to all member municipalities and are enforced by the court of local jurisdiction.

Board of Commissioners

Each of the twelve municipalities of Hudson County is represented by a Commissioner having a single vote. As a public body, the Board meets on a regular basis to set Commission policy, take legislative actions, adopt and/or amend an annual budget and take other appropriate actions. All meetings are duly advertised in accordance with the NJ Open Public Meetings Act.

Management-Staffing

The Commission's Executive Director functions as the CEO and is in full charge of all Commission operations. The Commission has on staff a Chief Financial Officer who holds a license as a Certified Municipal Financial Officer.

The Commission staff presently comprises thirty professional/administrative employees with diverse education, training, and experience in public/environmental health.

Programs and Services

The Commission is a regulatory agency with jurisdiction in three general areas:

Environmental Health
Public Health
Mosquito Control

In addition, the Commission provides to certain municipalities related contractual services such as elevated blood lead level investigations (EBL).

Environmental Health Programs include those specified under the County Environmental Health Act (CEHA) (NJSA 26:3A2-21 et. seq.) and the Air Pollution Control Act (NJSA 26:2C-1 et. seq.).

Public health services performed pursuant to our designation by the NJDHSS as the 'LINCS' Agency for Hudson County include a vast array of functions primarily related to bioterrorism preparedness and response to public health emergencies.

"SERVING BAYONNE, EAST NEWARK, GUTTENBERG, HARRISON, HOBOKEN,
JERSEY CITY, KEARNY, NORTH BERGEN, SECAUCUS,
UNION CITY, WEEHAWKEN, WEST NEW YORK."

The mosquito control program consists of surveillance and control related activities directed at the identification and attenuation of mosquito populations throughout the County.

All of the foregoing programs are conducted in conjunction with both local and state agencies and are subject to extensive reporting requirements.

Financial Status and Assessment of Long Term Operational Liability

The Commission's operational model is somewhat more like a business enterprise than a typical governmental agency. While it is in fact a duly authorized governmental agency, it does not exist by statutory mandate; rather, it functions as a discretionary vendor of services to contracting governmental units such as its member municipalities, the County of Hudson, NJDEP, NJDHSS and the USEPA. Each relationship is subject to termination on a year to year basis; thus, the viability of the Commission is a function of at least two factors: delivery of a quality service and the annual allocation of available resources by contracting units.

The Commission is able to attain certain economies through the regionalization of services. While this enables the Commission to provide cost efficient programs and services, it has the downside of requiring a critical level of participation in order to sustain such efficiencies.

By Statute a regional health commission is authorized to receive funds from any source. Since 1974, the Commission has operated a registration/permit system which generates revenue from sources of air pollution throughout the County. In its original form, the system was adopted by ordinance for purposes of generating the revenue necessary to continue operations as member municipalities were unable to increase contributions at levels sufficient to meet basic program needs. At the time, the revenue system was strongly supported by the NJDEP as an appropriate and efficient means of program support.

Prior to 1995, the Commission was able to increase fee levels as additional funds were required. However, in 1995, there was a radical change in sentiment at the state level as to how and to what extent fee based revenue systems should be operated. Ultimately, in 1995, amendments to the NJ Air Pollution Control Act placed statutory limits on the ability of local, county and regional agencies to charge new fees or increase those in place as of June 15, 1995.

Fees are billed on a standard five year cycle and are accounted for as deferred revenue which is amortized against current revenue on an annual basis. Funds not needed for current operations are invested in the NJ Cash Management Fund.

As of 12/31/11, the Commission's fund balance of the Consolidated Funds was \$634,870 and unamortized deferred revenue, \$1,154,973.

Projections and Critical Issues

Over the past several years the Commission has dramatically increased its scope of activities. In addition to increased demands on our CEHA Program such as an increased workload from the NJDEP (UST and ER) we have both LINC/S/BT Programs (inclusive of Jersey City), and Mosquito Control. We have a variety of revenue sources, authority and jurisdictions, but with great and growing responsibility and challenging fiscal vulnerabilities. If we include each municipality, our 2011 budget includes over twenty independent sources of revenue, each to varying degrees vulnerable to abrupt discontinuance. The Commission will not attain a level of stability normally associated with traditional governmental entities, unless it becomes part of an established level of government, such as the County.

The agency's fiscal issues are somewhat unique as is its organizational structure. An autonomous governmental agency, it functions in large part like a commercial enterprise. It has neither the ability to raise taxes nor a statutory mandate to exist. It acts as a legislatively-certified contractor providing an array of public/environmental health services to other levels of government, thus the aforementioned multitude of revenue sources. Beginning as exclusively an air pollution control

agency some forty years ago, it has survived only through program expansion, cost efficiency, rigorous fiscal management and the delivery of quality services.

Efficient and effective fiscal management has been most critical to its very viability, particularly management of its reserve account which has been judiciously utilized in virtually every year of the Commission's existence to bridge the budgetary gap between current revenues and appropriations. In the absence of this mechanism the Commission would have ceased to effectively operate decades ago. Unrestricted reserves must be maintained at a level sufficient to assure budgetary integrity far enough in to the future to maintain the agency's status as a "going concern" sufficiently funded to minimize any possibility for discontinuation of essential services. The formula for sustaining the Commission in the past will not change going forward as economic challenges become even more pronounced across all levels of the public sector.

Cost cutting has already begun with the unfortunate reduction in force of two part time employees in 2011. Further reductions for 2012 are under active consideration. Legislative changes at the state level have resulted in increased contributions toward medical and pension benefits at both the state and local level. The State has also taken measures to permit local agencies to raise the retirement age of employees to reduce the overall cost of post-retirement medical benefits by more closely coordinating with Medicare coverage which substantially reduces the cost of premiums. This option remains available to the Commission for evaluation.

In anticipation of rising costs for medical benefits the Board took a major action in 2005 by discontinuing the post-retirement medical benefit for new employees hired after January 1 2005, thus permanently capping its liability in terms of eligible employees.

It should be noted that to its credit in an effort to utilize highly conservative fiscal practices, the Commission has established a reserve fund for post-retirement medical benefits. By prevailing accounting standards it is not required to so: rather it is required only to reflect the liability in the notes to the audit report.

By joining a Joint Insurance fund (JIF), savings of approximately fifty percent was realized on ever escalating insurance premiums.

In 1996 the Commission was able to negotiate an arrangement with the County for office space which by some estimates has a value of \$250,000/year. Attrition has long been an integral component to the Commission's long term fiscal plan and has in fact begun to manifest with the retirement of the Assistant Director in 2010 and the Executive Director in 2011. Both of these positions were filled by promotions from within the organization; doing more with less will be a necessity in the years ahead. Additionally, this year one position was left vacant upon resignation of an employee. The work and grant requirements were met with current employees. Other cost cutting measures this year included a cap on overtime, reduction in the longevity stipend for employees, as well as using current staff across programs to meet the need of hiring an additional seasonal employee for the mosquito program.

As has been referenced in previous reports and again above, the Commission is independent of county, state or local government. It has no ability to raise taxes or even increase its fees. Most of its revenue derives from grants, contracts, fees, and municipal subscriptions based upon a Joint Agreement, most of which are either capped or decreasing in both nominal and real terms. Fiscal management will continue to be the primary challenge of the Commission, and we have already begun to look to the County to more fully fund the Statutory mandate of the County Environmental Health Act (26:3A2-21 et seq.)

Contacting the Commission's Management

This financial report is designed to provide a general overview of the Commission's finances, comply with finance-related laws and regulations, and demonstrate the Commission's commitment to public accountability. If you have questions about this report or would like to request additional information, contact the Commission's Executive Director Carrie Nawrocki, at Meadowview Complex, 595 County Avenue, Building 1, Secaucus, New Jersey, 07094.

HUDSON REGIONAL HEALTH COMMISSION
FUNDS BALANCE SHEET / STATEMENT OF NET ASSETS
DECEMBER 31, 2011

	General Fund	Environmental Quality Enforcement Fund	Penalty Enforcement Fund	Adjustments	Statement of Net Assets
<u>Assets</u>					
Cash & Equivalents	\$ 216,080	\$ 13,641			\$ 229,721
Cash Management Fund	2,305,901	428,505	\$ 96,675		2,831,081
Accounts Receivable Grants & Contracts	275,611				275,611
Accounts Receivable Municipalities	97,860				97,860
Accounts Receivable Fines		2,078,372			2,078,372
Internal Receivables	56,990	(56,990)			-
Prepaid Expenses	1,283				1,283
Capital Assets net of Accumulated Depreciation (Note 10)				195,721	195,721
					-
					-
Total Assets	<u>\$ 2,953,725</u>	<u>\$ 2,463,528</u>	<u>\$ 96,675</u>	<u>\$ 195,721</u>	<u>\$ 5,709,649</u>
<u>Liabilities & Reserves</u>					
Accounts Payable	\$ 132,734				132,734
Accrued Salaries	1,403				1,403
Payroll Taxes & Deductions Payable	1,131				1,131
Unearned Registration Fees	1,154,973				1,154,973
Unearned Notice Violations		\$ 2,078,372			2,078,372
Reserve Post Retirement Benefits	811,886				811,886
Reserve for Expenditures HCIA	8,871				8,871
Reserve Expend CRI	207,857				207,857
Unearned Revenues:					
Due Hudson County Improvement Authority		193,578			193,578
Total Liabilities & Reserves	<u>\$ 2,318,855</u>	<u>\$ 2,271,950</u>	<u>\$ -</u>		<u>\$ 4,590,805</u>
<u>Fund Balances / Net Assets</u>					
Unreserved	\$ 634,870			\$ 195,721	\$ 830,591
Reserved		\$ 191,578	\$ 96,675		\$ 288,253
Total Liabilities & Fund Balances	<u>\$ 2,953,725</u>	<u>\$ 2,463,528</u>	<u>\$ 96,675</u>	<u>\$ 195,721</u>	<u>\$ 5,709,649</u>
<u>Net Assets:</u>					
Invested in Capital Assets					\$ 195,721
Unrestricted General Fund					634,870
Restricted Penalty Enforcement					96,675
Restricted EQEF Fund					191,578
Total Net Assets					<u>\$ 1,118,844</u>

See accompanying notes to financial statements.

**HUDSON REGIONAL HEALTH COMMISSION
STATEMENT OF GOVERNMENT FUND REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES / STATEMENT OF ACTIVITIES
YEAR ENDED DECEMBER 31, 2011**

	Environmental Activities	Public Health Activities	(EQEF) Environmental Activities	Total	Adjustments Note A	Statement of Activities
<u>Revenues</u>						
Registrations	\$ 290,710					
Municipal	274,859					
USEPA	96,291					
RTK	17,575					
NJDEPCHEA	229,221					
EQEF			\$ 41,711			
ERHC	32,712					
HCIA	125,618					
County	854,593					
EBL Municipal	15,250					
Interest	1,952		288			
Miscellaneous	5,827					
MRC		\$ 6,367				
Rutger University		1,935				
Jersey City Fire Department	5,000					
UASI - Grant	29,786					
FEMA	1,257					
HCIA	3,071					
HOME	6,024					
Jersey City Lead	17,093					
CDC IX & X		578,534				
Total	\$ 2,006,839	\$ 586,836	\$ 41,999	\$ 2,635,674		\$ 2,635,674
<u>Expenses</u>						
Personnel	\$ 2,510,298					
Office	19,358		\$ 20			
Travel	27,079					
Contractual	90,137					
Equipment	12,504					
Other	24,026					
Grants & Contracts for Services:						
MRC		\$ 6,367				
Rutgers		1,935				
CDC IX		578,534				
UASi Grant	29,786					
Depreciation					\$ 58,245	
Capital Outlay					(20,990)	
Total	\$ 2,713,188	\$ 586,836	\$ 20	3,300,044	\$ 37,255	3,337,299
Excess Revenues(Expenditures)	\$ (706,349)	\$ -	\$ 41,979	\$ (664,370)	\$ (37,255)	\$ (701,625)
<u>Changes in Net Assets</u>						
<u>Fund Balances/Net Assets:</u>						
Beginning of Year						2,216,143
Transfer from EQEF to General Fund						(156,990)
Transfer general Fund from EQEF						156,990
Interest Income Penalty Enforcement						22
Transfer to Post Retirement Fund from General Fund						(395,700)
Rounding						4
End of Year						\$ 1,118,844

See accompanying notes to financial statements.

**HUDSON REGIONAL HEALTH COMMISSION
STATEMENT OF CASH FLOWS
DECEMBER 31, 2011**

Cash Flows From Operating Activities:	
Excess of Expenditures over Revenues	\$ (701,625)
Interest Income Penalty Enforcement	21

Adjustments to reconcile Excess of Revenues
Over Expenditures to Net Cash Provided by
Operating Activities:

Increase Post Retirement Benefits	\$ 530,122	
Decrease in Receivables	84,347	
Decrease Prepaid Expense	1,283	
Decrease in Accounts Payables	(12,347)	
Decrease in Payroll Taxes & Deductions	(11,043)	
Increase in Unearned Registration Fees	899,073	
Decrease in Unearned Grants	(1,327)	
Decrease Payable HCIA	(14,429)	
Depreciation	58,245	
Decrease in Accrued Salaries	(4,290)	
Decrease in Reserves	(784)	
Decrease Advance Grant Payments	(34,331)	
Transfer General Fund to Post Retirement	(395,700)	
Additions to Fixed Assets	(20,990)	
Rounding	<u>5</u>	<u>1,077,834</u>
 Net Cash Provided by Operating Activities		 <u>\$ 376,230</u>
 Net Increase in Cash & Cash Equivalents		 \$ 376,230
 Cash - Beginning of Period		 <u>2,684,572</u>
 Cash - End of Period		 <u><u>\$3,060,802</u></u>

See accompanying notes to financial statements.

Hudson Regional Health Commission
Notes to Financial Statements
December 31, 2011

Note 1

The financial statements of the Commission are prepared in accordance with generally accepted accounting principals (GAAP). Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

Governmental fund financial statements report using the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recorded when susceptible to accrual, i.e., both measurable and available. Available means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Expenditures are recorded when the related program liability is incurred.

Note 2

Agreement with Hudson County Improvement Authority (HCIA)

On January 1, 2010, Hudson Regional Health Commission entered into an agreement for a period of seven years with HCIA to develop, revise as necessary and supervise implementation of the solid waste component of the approved County Environmental Health Act Environment Work Plan. HCIA or recipient shall pay to Hudson Regional Health Commission \$121,959 annually. The \$121,959 component of the above compensation shall increase annually by 3.0% during the duration of this agreement. Any party to this contract may unilaterally withdraw from this agreement upon sixty (60) days written notice to all other parties.

Note 3

Registration and Certification Fees are recognized ratably over the registration period from January 1, 2011 to December 31, 2015. Registration fees collected during the twelve month period of January 1, 2011 to December 31, 2011 were collected for the 2011 registration period and income was recognized thru December 31, 2011.

Note 4

Substantially all of the Commission's employees participate in the Public Employee's Retirement System (PERS). This system is sponsored and administered by the New Jersey Division of Pensions and Benefits. The Public Employee Retirement System is considered a cost sharing multiple employer plan. The contribution policy is set by New Jersey State Statutes and contributions are required by active members and contributing employers. Plan member and employer contributions may be amended by State of New Jersey legislation. PERS provides for employee contribution of 5.5% of employees annual compensation, as defined. Employers are required to contribute at an actuarially

Hudson Regional Health Commission
Notes to Financial Statements
December 31, 2011

Note 4 (Continued)

determined rate in PERS. The actuarially determined contribution includes funding for the cost-of-living adjustments and noncontributory death benefits. The commission offers a 457(b) Deferred Compensation Plan to its employees. Under this plan employee contributions are made pre-tax and are accumulated tax deferred. The plan is administered by Valic Retirement Services, and AXA Equitable.

Note 5

On August 29, 1997, Hudson Regional Health Commission entered into an Interlocal Service Agreement with the Town of Secaucus. The term of this agreement is from July 1, 1997 to December 31, 2002. The agreement is currently under negotiation for renewal. Under the ordinance entitled "The Air Pollution Code of Hudson Regional Health Commission" owners and/or operators of air contamination sources operating within the jurisdiction of the Commission must file their registration at the offices of the Commission located in Secaucus, New Jersey. Owners who fail to register air contamination sources are subject to fines and penalties. The Commission for the term of this agreement shall institute and prosecute violations of the Ordinance in the Municipal Court of the town of Secaucus. The town of Secaucus shall collect all fines associated with the violations of the Ordinance. The town shall keep as revenues the first \$5,000 in penalties or fines collected and thereafter fifty percent (50%) of the penalties or fines collected with regard to violations of the Ordinance prosecuted in the Municipal Court of the Town of Secaucus shall be paid over to the Commission.

Note 6

Separation Agreement with D. Drake

In the meeting of March 28, 2003, the Commission approved the Separation agreement with D. Drake. This agreement awarded her lifetime medical benefits upon retirement from PERS under the Commissions Rules and Regulations Governing Employment. In consideration for this benefit, she would relinquish her right to payment for a certain portion of her unused sick leave.

Hudson Regional Health Commission
Notes to Financial Statements
December 31, 2011

Note 7

On 3/23/09, a lease agreement was entered into with the Xerox Capital Services for a Xerox W5645PT Copier. The total payments under this lease are:

<u>Months</u>	<u>Monthly Rental</u>	<u>Total Payments</u>
48	\$268.80	\$12,902.40

Note 8

In the normal course of operations the Commission receives grant funds from various federal and state agencies. The grant programs are subject to audit by agents of the granting authority to ensure compliance with conditions precedent to the granting of funds. Any liability for reimbursement which may arise as the result of these audits is not believed to be material.

Note 9

Line of Credit

On February 1, 2005 the Commission established a Variable Rate Nondisclosable Revolving Line of Credit with PCNC Bank, National Association in the amount of \$200,000. The primary purpose of the line is for Working Capital. The rate of interest is calculated by using the highest Prime Rate as published in the "Money Rates" section of the Wall Street Journal plus the margin of 1%. The line of Credit was renewed on February 1, 2012, with an expiration date of February 1, 2013.

Hudson Regional Health Commission
Notes to Financial Statements
December 31, 2011

Note 10

Capital Assets

When Capital Assets (equipment) that are to be used in governmental activities are purchased, the cost of those assets are reported as expenditures in government funds. However, the statement of net assets includes those capital assets among the assets of the Commission.

Capital assets have been recorded at cost, and assets are depreciated over their normal useful lives, using the straight-line method of depreciation:

	Net Balance 12/31/10	Additions 2011	Net Balance 12/31/11
Cost of Capital Assets	\$1,178,895	\$20,990	\$1,199,885
Accumulated Depreciation	<u>945,919</u>	<u>58,245</u>	<u>1,004,164</u>
Total	\$232,976	\$(37,255)	\$195,721

Note 11

Vacation/Comp Time

The Commission does not have the policy of accruing for unused vacation ,comp time, or sick leave. As of December 31, 2011 the amounts earned but not paid amounted to approximately :

Sick Time	\$331,039
Comp Time	8,496
Vacation Time	<u>42,573</u>
Total	<u>\$382,108</u>

Note 12

In June of 1999, the Governmental Accounting Standards Board (GASB) issued Statement 34 "Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments". This Statement establishes new financial reporting requirements for state and local governments throughout the United States. The Commission adopted GASB Statement 34 for the year ended 12/31/04.

Hudson Regional Health Commission
Notes to Financial Statements
December 31, 2011

Note 13

Contracts for Service and Grant Agreement Contracts

The Commission has entered into Contracts for Services with:

MUNICIPAL	1/1/11-12/31/11	274,860.00
USEPA/CEHA 2010/2011	1/1/11-6/30/11	48,146.00
USEPA/CEHA 2010/2011	07/01/11-12/31/11	48,146.00
CEHA/UST	1/1/11-12/31/11	38,888.00
CEHA/NJDEP	1/1/11-12/31/11	190,333.00
RTK 2010/2011	1/1/11-6/30/11	8,788.00
RTK 2010/2012	07/01/11-12/31/11	8,787.00
ERHC	1/1/11-12/31/11	32,711.00
HCIA	1/1/11-12/31/11	125,618.00
COUNTY	1/1/11-12/31/11	854,593.00
EBL: Bayonne 2010/2011	1/1/11-6/30/11	900.00
EBL: Bayonne 2011/2012	07/01/11-12/31/11	900.00
Harrison 2010/2011	1/1/11-07/31/11	350.00
Harrison 2011/2012	8/1/11-12/31/11	250.00
Hoboken 2010/2011	1/1/11-05/31/11	250.00
Hoboken 2011/2012	07/01/11-12/31/11	350.00
Kearny 2010/2011	1/1/11-02/28/11	200.00
Kearny 2011/2012	3/1/11-12/31/11	1,000.00
N. Bergen 2010/2011	1/1/11-02/28/11	500.00
N. Bergen 2011/2012	3/1/11-12/31/11	100.00
Union City 2010/2011	1/1/11-02/28/11	1,200.00
Union City 2011/2012	3/1/11-12/31/11	6,000.00
West New York 2010/2011	1/1/11-1/31/11	250.00
West New York 2011/2012	2/2/11-12/31/11	3,000.00
EQEF	1/1/11-12/31/11	156,990.00
PHER H1N1 2010/2011	8/10/10-8/09/2011	80,000.00
CDC X 2011/2012	8/10/11-12/31/11	109,283.00
CRI-CDC 2011/2012	8/10/11-12/31/11	43,702.00
CDC IX 2010/2011	1/1/11-8/09/2011	223,315.00
CDC IX-CRI 2010/2011	1/1/11-8/09/2011	122,234.00
MRC NACCHO 2011	01/01/11-07/31/11	5,040.00
MRC NACCHO Reserve	1/1/11-12/31/11	1,327.00
Jersey City Fire Department	1/1/11-12/31/11	5,000.00
RUTGERS TRIAL & EDUC. WORKSHOP	06/01/08-05/31/11	632.00
RUTGERS DEV. APPL. TECH*	03/01/08-12/31/11	1,303.00
UASI	1/1/11-12/31/11	29,786.00
HCIA EQEF RESEVE	1/1/11-12/31/11	783.00
FEMA	1/1/11-12/31/11	1,257.00
TOTAL		<u>2,426,772.00</u>

Hudson Regional Health Commission
Notes to Financial Statements
December 31, 2011

Note 14

Equipment Loan- State of NJ Dept. of Health & Senior Svcs.

On June 24, 2004, the Commission entered into an Equipment Loan agreement with the State of NJ Dept. Health & Senior Services. The State of NJ loaned twelve Dell X300 laptop computers to be used in Bioterrorism and related response clinic activities. Under this agreement, there are no payments due to the State. At the expiration of this agreement the Commission has agreed to return the property to the State. An annual inventory of the use of equipment is to be provided to the State in an annual report.

Note 15

Other Post-Employment Benefits ("OPEB")

Plan Description

On September 12, 2007, the Commission passed Resolution # 06-05-04, to provide other post-retirement healthcare benefits to all full time employees hired prior to January 1, 2005. During 2011 and 2012 contributions were made to the reserve established for post retirement health benefits, bringing the reserve to a total fund of \$811,886. This funding arrangement will be terminated with board resolution at the October 31, 2012 meeting. The disposition of the funds will be determined by the Board of Commissioners.

The Commission contributes the State Health Benefits Program (SHBP), a cost sharing, multiple-employer defined benefit post-employment healthcare plan administered by the State of New Jersey Division of Pensions and Benefits. SHBP was established in 1961 under N.J.S.A. 52:14-17.25 et seq., to provide health benefits to State employees, retirees, and their dependents. Rules governing the operation and administration of the program are found in Title 17, Chapter 9 of the New Jersey Administrative Code. SHBP provides medical, prescription drugs, mental health/substance abuse, and Medicare Part B reimbursement to retirees and their covered dependents.

The SHBP was extended to employees, retirees and dependents of participating local public employers in 1964. The Commission authorized through resolution participation in the SHBP's post retirement benefit program, covering all full time employees hired prior to January 1, 2005.

The State Health Benefits Commission is the executive body established by statute to be responsible for the operation of the SHBP. The State of New Jersey Division of Pensions and Benefits issues a publicly available financial report that includes financial statements and required supplementary information for the SHBP. That report may be obtained by

Hudson Regional Health Commission
Notes to Financial Statements
December 31, 2011

Note 15

Other Post-Employment Benefits ("OPEB")

writing to: State of New Jersey Division of Pensions and Benefits, P.O. Box 295,
Trenton, NJ 08625-0295 or by visiting their website at:
www.state.nj.us/treasury/pensions/gasb-43-sept 2008.pdf

Funding Policy

Participating employers are contractually required to contribute based on the amount of premiums attributable to their retirees. Post-retirement medical benefits under the plan have been funded on a pay-as-you-go basis since 1994. Prior to 1994, medical benefits were funded on an actuarial basis.

Contributions to pay for the health premiums of participating retirees in the SHBP are billed to the Commission on a monthly basis. The Commission's contributions to the SHBP for the years ended December 31, 2009, 2010, and 2011 were \$17,784, \$22,773 and \$52,697, respectively, which equaled the required contributions for each year. There were approximately 1, 2, and 3 retired participants eligible at December 31, 2009, 2010, and 2011, respectively.

Note 16

Other

As of December 31, 2011 the Commission had uninsured cash balances totaling \$2,831,081 in the New Jersey Cash Management Fund. Other operating cash accounts deposited in banks may also go over the FDIC insured limit of \$250,000 when reimbursement checks are received from the State of New Jersey.

SUPPLEMENTARY INFORMATION

**HUDSON REGIONAL HEALTH COMMISSION
BUDGETARY COMPARISON SCHEDULE - GENERAL FUND
YEAR ENDED DECEMBER 31, 2011**

Category	Budgeted Amounts		Actual Amounts Budgetary Basis (See Note A)
	Original	Final	
<u>Personnel</u>			
Salaries	\$ 1,602,000	\$ 1,701,655	\$ 1,677,824
Payroll Taxes	133,767	143,334	131,705
Overtime	15,000	19,700	18,517
On Call	17,000	17,000	13,620
Health benefits	235,000	217,507	209,379
Retirement Benefits	67,680	78,439	76,385
Dental Plan	21,000	21,044	16,788
Public Employee Retirement System	150,000	190,590	186,271
Workers Comp.	30,000	30,206	28,056
Post Retirement Benefits	-	514,582	118,882
Temporary	14,000	32,933	32,871
Total	<u>\$ 2,285,447</u>	<u>\$ 2,966,990</u>	<u>\$ 2,510,298</u>
<u>Grant Programs</u>			
MRC NACCHO 2011	\$ 5,000	\$ 5,040	\$ 5,040
MRC Reserve	-	1,327	1,327
Rutgers Trial Educational Work	-	632	632
Rutgers Dev. Appl. Tech.	-	1,303	1,303
CDC IX 2010/2011	202,635	223,315	223,315
CRI-CDC 2010/2011	108,578	122,234	122,234
CDC 2010/2011	-	80,000	80,000
CDC 2011/2012	-	109,283	109,283
CDC 2011/2012	-	43,702	43,702
UASI Grant	-	29,786	29,786
HCIA EQEF	-	783	-
Total	<u>\$ 316,213</u>	<u>\$ 617,405</u>	<u>\$ 616,622</u>
<u>Office</u>			
Office Supplies	\$ 15,000	\$ 15,000	\$ 9,405
Office Equipment	15,200	15,200	760
Postage	8,000	8,000	4,300
Copier Lease/Maint.	5,000	5,000	3,226
Publications/Subscription	4,800	4,800	1,102
Legal Advertisement	2,000	2,000	356
Cooler Rent	560	560	209
Total	<u>\$ 50,560</u>	<u>\$ 50,560</u>	<u>\$ 19,358</u>
<u>Travel</u>			
Conventions/Meetings	\$ 5,000	\$ 5,000	\$ 2,668
Auto Maintenance	12,000	12,000	7,062
Gasoline	12,000	18,000	17,252
Mileage Reimbursement	1,500	1,500	97
Total	<u>\$ 30,500</u>	<u>\$ 36,500</u>	<u>\$ 27,079</u>
<u>Contractual</u>			
Insurance	\$ 28,000	\$ 26,000	\$ 21,544
Auditor	18,500	18,500	17,707
Legal	20,000	22,000	21,953
Payroll Service	3,500	3,500	2,319
Weather Emergency Oper.	1,500	1,500	1,500
Professional Service G. Garetano	56,250	25,150	25,114
Total	<u>\$ 127,750</u>	<u>\$ 96,650</u>	<u>\$ 90,137</u>
<u>Equipment</u>			
General Supplies	\$ 9,000	\$ 9,000	\$ 6,886
Equipment Maintenance	9,000	9,000	3,496
Equipment	30,000	30,000	2,122
Total	<u>\$ 48,000</u>	<u>\$ 48,000</u>	<u>\$ 12,504</u>
<u>Other</u>			
Training	\$ 5,500	5,500	\$ 1,582
Communications	22,000	22,000	13,576
Medical Surv.	6,500	6,500	-
Laboratory	9,000	9,000	4,561
Commission Meetings	1,500	1,900	1,774
Miscellaneous	6,000	6,000	165
Bank Service Fees	750	750	394
Reserve for Emergency Operation	10,000	-	-
Record Destruction	0	700	685
Membership/License	1,500	1,500	1,289
Total	<u>\$ 62,750</u>	<u>\$ 53,850</u>	<u>\$ 24,026</u>
Total Expenditures	<u>\$ 2,921,220</u>	<u>\$ 3,869,955</u>	<u>\$ 3,300,024</u>

See accompanying notes to financial statements.

**HUDSON REGIONAL HEALTH COMMISSION
BUDGETARY COMPARISON SCHEDULE - GENERAL FUND
YEAR ENDED DECEMBER 31, 2011**

	Budgeted Amounts		Actual Amounts
	Original	Final	Budgetary Basis (See Note A)
<u>Estimated Revenue</u>			
Municipal	\$ 274,860	\$ 274,860	\$ 274,859
USEPA	96,292	96,292	96,291
RTK	17,575	17,575	17,575
CEH/NJDEP	195,288	190,333	190,333
CEHA/UST	70,000	38,888	38,888
EHRC	72,095	32,711	32,712
HCIA	125,618	125,618	125,618
County	854,593	854,593	854,593
EBL: Bayonne	1,800	1,800	1,800
Harrison	600	600	600
Hoboken	600	600	600
Kearney	1,200	1,200	1,200
N. Bergen	600	600	600
Union City	7,200	7,200	7,200
West NY	3,000	3,250	3,250
Reserve	778,686	1,443,183	1,047,482
HRHC-EQEF	100,000	156,990	156,990
CDC IX H1N1 2010/2011	-	80,000	80,000
CDC IX 2010/2011	202,635	223,315	223,315
CDC 2011/2012		152,985	152,985
FEMA		1,257	1,257
CRI-CDC 2010/2011	108,578	122,234	122,234
MRC NACCHO 2011	5,000	5,040	5,040
MRC Reserve	-	1,327	1,327
Rutgers Trial & Educ. Workshop	-	632	632
Rutgers Dev. Appl. Tech.	-	1,303	1,303
UASI Grant	-	29,786	29,786
HCIA EQEF	-	783	-
Jersey Fire Department	5,000	5,000	5,000
Total Revenues	<u>\$ 2,921,220</u>	<u>\$ 3,869,955</u>	<u>\$ 3,473,470</u>
Excess Revenues / Expenditures			<u>\$ 173,446</u>

See accompanying notes to financial statements.

**HUDSON REGIONAL HEALTH COMMISSION
BUDGETARY COMPARISON SCHEDULE
BUDGET TO GAAP RECONCILIATION- GENERAL FUND
YEAR ENDED DECEMBER 31, 2011**

Note A - Explanation of Differences between Budgetary inflows and outflows and
GAAP Revenues and Expenditures

General Fund

Sources/Inflows of resources

Actual amounts (budgetary basis) "available for appropriation"
from the Budgetary Comparison Schedule

\$ 3,473,470

Difference - budget to GAAP:

Reserve Appropriation is not considered a current year revenue
for financial reporting purposes

\$ (1,047,482)

Reserve Appropriation is not considered a current year revenue
for financial reporting purposes

(156,990)

Revenues considered a current year revenue for financial
reporting purposes:

Interest Income

1,952

Miscellaneous Revenue-Mileage

5,185

Registration Fees

290,710

Miscellaneous Revenue-Other

642

HCIA

3,071

HOME

6,024

Jersey City Lead

17,093 (879,795)

Total Revenues as reported on the statement of revenues, expenditures
and changes in fund balances Governmental Funds/ Statement of Activities

\$ 2,593,675

Uses/Outflows of Resources

Actual Amounts (budgetary Basis) "total charges to appropriations" from
Budgetary Comparison Schedule

\$ 3,300,024

Differences - Budget to GAAP:

Government funds report Capital outlays as expenditures. However, in the
Statement of Activities, the cost of these assets is allocated over their
estimated useful lives as depreciation expense. This is the amount by
which Depreciation exceeded Capital Outlay in the current period

37,255

Total Expenditures as reported on the Statement of Revenues, Expenditures
and Changes in Fund Balances Governmental Funds/Statement of Activities

\$ 3,337,279

See accompanying notes to financial statements.

**HUDSON REGIONAL HEALTH COMMISSION
SCHEDULE OF GRANTS & CONTRACTS RECEIVABLE
DECEMBER 31, 2011**

NJ Dept. of Environmental Protection (CEHA)	\$ 145,333
NJ Dept. of Environmental Protection (USEPA)	72,219
NJ Dept. of Health & Senior Services (County Right to Know)	4,393
HOME-Hudson County	6,024
NJ Dept. of Environmental Protection (CEHA) (UST)	29,166
State of NJ CDC X	17,173
Rutgers University	<u>1,303</u>

Total	<u>\$ 275,611</u>
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See accompanying notes to financial statements.

**HUDSON REGIONAL HEALTH COMMISSION
SCHEDULE OF ACCOUNTS RECEIVABLE MUNICIPALITIES
DECEMBER 31, 2011**

Jersey City	\$ 11,717
Bayonne	41,372
Weehawken	2,639
West New York	6,848
Harrison	2,829
Secaucus	1,374
North Bergen	4,767
Hoboken	4,327
Union City	<u>21,987</u>
Total	<u>\$ 97,860</u>

See accompanying notes to financial statements.

**HUDSON REGIONAL HEALTH COMMISSION
SCHEDULE OF FEDERAL & STATE FINANCIAL ASSISTANCE
FOR THE YEAR ENDED DECEMBER 31, 2011**

Grantor/Pass Through Grantor/Program Title	Federal	Program or	Federal	State	Expenditure	
	CFDA Number/ Contract Number	Award Amount	Revenue Recognition	Revenue Recognition	2010	2011
<u>Federal Awards</u>						
US Environmental Agency Air Pollution/Clean Air Act	66.001	\$ 96,291	\$ 96,291		\$ 48,146	\$ 48,146
Dept. of Health & Human Services- Office of the Surgeon General Medical Reserve Corps. Demonstration Project						
1/22/10-7/31/10	93.008	\$ 5,000	5,000		3,673	1,327
1/15/11-7/31/11	<u>93.008</u>	\$ 5,000	5,000			5,000
NJ Dept. of Health & Senior Services: Hiper (Linacs Agencies)						
8/10/10-8/9/11	93.069	\$ 613,507	613,507		187,959	425,548
8/10/11-8/9/12	93.069	\$ 407,449	152,986			152,986
NJ Office Homeland Security & Preparedness : Urban Areas Security Initiative	97.008	\$ 57,879	57,879		28,093	29,786
Rutgers University/Department of Agriculture Develop. Novel Technology Control Asian Tiger Mosquito						
3/1/2008-2011	10.2	\$ 48,100	47,493		46,190	1,303
6/1/08-5/31/11		\$ 4,100	4,100		3,468	632
FEMA Hurricane Irene	Stafford Act	\$ 1,258	<u>1,258</u>			<u>1,258</u>
Total Federal Awards			<u>\$ 983,514</u>		<u>\$ 317,529</u>	<u>\$ 665,986</u>
<u>State of NJ Awards</u>						
NJ Dept. of Environmental Protection County Environmental Health Act	CEHA					
1/1/11-12/31/11	EN10-018	\$ 229,221		\$ 229,221		\$ 229,221
NJ Dept. of Health & Senior Services: County Right to Know	92-2231-RTK-00					
7/1/10-6/30/11		\$ 17,575		8,788		8,788
7/1/11-6/30/12				<u>8,788</u>		<u>8,788</u>
Total State Awards				<u>\$ 246,797</u>		<u>\$ 246,797</u>

See accompanying notes to financial statements.

HUDSON REGIONAL HEALTH COMMISSION
AIR POLLUTION CONTROL PROGRAM SUPPORT
CLEAN AIR ACCT. SEC 105
YEAR ENDED ENDED DECEMBER 31, 2011

	<u>Budget</u>	<u>Expenditures 2010</u>	<u>Expenditures 2011</u>	<u>Audited Expenditures</u>	<u>Questioned Costs</u>
Project Period 7/1/10 - 6/30/11	<u>\$ 96,291</u>	<u>\$ 48,146</u>	<u>\$ 48,146</u>	<u>96,292</u>	<u>-</u>
Total		<u>\$ 48,146</u>	<u>\$ 48,146</u>	<u>\$ 96,292</u>	<u>\$ -</u>
Project Period 7/1/11 - 6/30/12	<u>\$ 96,291</u>		<u>\$ 48,146</u>	<u>48,146</u>	<u>-</u>

See accompanying notes to financial statements.

HUDSON REGIONAL HEALTH COMMISSION
OFFICE OF THE SURGEON GENERAL
MEDICAL RESERVE CORPS DEMONSTRATION PROJECT
CONTRACT MRC 1110
YEAR ENDED DECEMBER 31, 2011

	<u>Budget</u>	<u>Expended 2010</u>	<u>Audited Expenditures 2010</u>	<u>Audited Expenditures 2011</u>	<u>Unexpended 2011</u>	<u>Questioned Costs</u>
<u>Project Period</u>						
January 22, 2010 -						
July 31, 2010						
<u>Cost Category</u>						
Other	\$ 5,000	\$ 3,673	\$ 3,673	\$ 1,327	\$ -	\$ -
Total	\$ 5,000	\$ 3,673	\$ 3,673	\$ 1,327	\$ -	\$ -
<u>Project Period</u>						
January 5, 2011 -						
July 31, 2011						
<u>Cost Category</u>						
Other	\$ 5,000	\$ -	\$ -	\$ 5,040	\$ -	\$ -

See accompanying notes to financial statements.

HUDSON REGIONAL HEALTH COMMISSION
STATE OF N.J. DEPARTMENT OF ENVIRONMENTAL PROTECTION
(CEHA) GO# EN10-081
YEAR ENDED DECEMBER 31, 2011

	<u>Final Approved Budget</u>	<u>Expended 12/31/2011</u>	<u>Audited Expenditures</u>	<u>Questioned Costs</u>
<u>Term 1/1/11- 12/31/11</u>				
<u>Cost Category</u>				
Personnel				
Salaries	\$ 180,000	\$ 180,000	\$ 180,000	
<u>Other Costs</u>				
Pesticides Inspector	\$ 5,333	\$ 5,333	\$ 5,333	
NJEMS	5,000	5,000	5,000	
UST Pilot Project	38,888	38,888	38,888	
	<u>\$ 49,221</u>	<u>\$ 49,221</u>	<u>\$ 49,221</u>	<u>\$ -</u>
 Total	 <u>\$ 229,221</u>	 <u>\$ 229,221</u>	 <u>\$ 229,221</u>	 <u>\$ -</u>

See accompanying notes to financial statements.

HUDSON REGIONAL HEALTH COMMISSION
NJ DEPARTMENT OF HEALTH & SENIOR SERVICES
HIPER (LINCS AGENCIES)
GRANT #HIPER 2011-HIPER LINCS-005
YEAR ENDED DECEMBER 31, 2011

	<u>Budget</u> <u>8/10/10-8/9/11</u>	<u>Expended</u> <u>12/31/2010</u>	<u>Expended</u> <u>12/31/2011</u>	<u>Audited</u> <u>Expenditures</u>	<u>Questioned</u> <u>Costs</u>
<u>Cost Category</u>					
Personnel Costs	\$ 388,073	\$ 138,647	\$ 243,866	\$ 382,513	\$ -
Fringe Benefits	125,820	42,422	88,008	130,430	
Consultant	6,612		6,611	6,611	
<u>Other Cost Categories</u>					
Office Expenses & Related Cost	16,464	3,361	13,928	17,289	
Program Expense & Related Costs	66,979		66,979	66,979	
Travel, Conferences & Meetings	<u>9,559</u>	<u>3,529</u>	<u>6,156</u>	<u>9,685</u>	
 Total	 <u>\$ 613,507</u>	 <u>\$ 187,959</u>	 <u>\$ 425,548</u>	 <u>\$ 613,507</u>	 <u>\$ -</u>

See accompanying notes to financial statements.

HUDSON REGIONAL HEALTH COMMISSION
NJ DEPARTMENT OF HEALTH AND SENIOR SERVICES
COUNTY RIGHT TO KNOW
GRANT #92-2231-RTK-00
YEAR ENDED DECEMBER 31, 2011

	<u>Final Budget</u>	<u>Expended 12/31/2010</u>	<u>Expended 12/31/2011</u>	<u>Audited Expenditures</u>	<u>Questioned Costs</u>
<u>July 1, 2010 - June 30, 2011</u>					
Personnel Cost	<u>\$ 17,575</u>	<u>\$ 8,788</u>	<u>\$ 8,788</u>	<u>\$ 17,575</u>	<u>\$ -</u>
<u>July 1, 2011 - June 30, 2012</u>					
Personnel Cost	<u>\$ 17,575</u>	<u>\$ -</u>	<u>\$ 8,788</u>	<u>\$ 8,788</u>	<u>\$ -</u>

See accompanying notes to financial statements.

HUDSON REGIONAL HEALTH COMMISSION
RUTGERS UNIVERSITY - U.S DEPARTMENT OF AGRICULTURE
DEVELOPMENT OF NOVEL APPLICATION/ASIAN TIGER MOSQUITO
YEAR ENDED DECEMBER 31, 2011

	<u>Budget</u>	<u>Expended 2008</u>	<u>Expended 2009</u>	<u>Expended 2010</u>	<u>Expended 2011</u>	<u>Audited Expenditures</u>	<u>Unexpended</u>	<u>Questioned Costs</u>
Project Period 3/1/08-2011 <u>Agreement #3624</u>	\$ 48,100	\$ 12,350	\$ 28,126	\$ 5,714	\$ 1,303	\$ 47,493	\$ 608	\$ -
Project Period 6/1/08-5/31/11	\$ 4,100	\$ -	\$ 1,810	\$ 1,658	\$ 632	\$ 4,100	\$ -	\$ -

See accompanying notes to financial statements.

HUDSON REGIONAL HEALTH COMMISSION
STATE OF NEW JERSEY OFFICE OF HOMELAND
SECURITY AND PREPAREDNESS FFY09 URBAN AREAS
SECURITY INITIATIVE
AWARD #2009-SS-T9-0082
YEAR ENDED DECEMBER 31, 2011

	<u>Budget</u>	<u>Expended 2010</u>	<u>Expended 2011</u>	<u>Audited Expenditures</u>	<u>Questioned Costs</u>
Project Period 7/14/2010-7/31/2012	<u>\$ 57,879</u>	<u>\$ 28,093</u>	<u>\$ 29,786</u>	<u>\$ 57,879</u>	<u>\$ -</u>

See accompanying notes to financial statements.

HUDSON REGIONAL HEALTH COMMISSION
NJ DEPARTMENT OF HEALTH & SENIOR SERVICES
PHILEP (LINCS AGENCIES) 2012
GRANT #PHLP 12 LNC 022
YEAR ENDED DECEMBER 31, 2011

	<u>Budget</u> <u>8/10/11-8/9/12</u>	<u>Expended</u> <u>12/31/2011</u>	<u>Audited</u> <u>Expenditures</u>	<u>Questioned</u> <u>Costs</u>	<u>Unexpended</u> <u>12/31/2011</u>
<u>Budget Categories</u>					
Personnel Costs					
Salaries & Wages	\$ 274,811	\$ 109,605	\$ 109,605	\$ -	\$ 165,206
Fringe Benefits	106,475	37,213	37,213	-	69,262
<u>Other Cost Categories</u>					
Office Expenses & Related Cost	10,300	3,542	3,542	-	6,758
Travel, Conferences & Meetings	7,100	2,626	2,626	-	4,474
Reserve	<u>8,763</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>8,763</u>
Total	<u>\$ 407,449</u>	<u>\$ 152,986</u>	<u>\$ 152,986</u>	<u>\$ -</u>	<u>\$ 254,463</u>

See accompanying notes to financial statements.

INDEPENDENT AUDITOR'S REPORTS



To the Board of Commissioners
Hudson Regional Health Commission
Secaucus, New Jersey 07628

INDEPENDENT AUDITOR'S REPORT

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*

We have audited the financial statements of Hudson Regional Health Commission, (Hudson) as of and for the year ended December 31, 2011 and have issued our report thereon dated June 30, 2012. We conducted our audit in accordance with generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Hudson'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 Hudson's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Hudson'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 a combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliability in accordance with generally accepted accounting principals such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A *material weakness* is a significant deficiency, or a 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 the 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 Hudson's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, 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 that are required to be reported under *Government Auditing Standards*.

This report is intended for the information of the audit committee, management 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.



DeSENA & COMPANY

East Hanover, New Jersey
June 30, 2012



To the Board of Commissioners
Hudson Regional Health Commission
Secaucus, New Jersey 07628

INDEPENDENT AUDITOR'S REPORT

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

Compliance

We have audited the compliance of Hudson Health System Inc. (Hudson) with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal and state programs for the year ended December 31, 2011. Hudson'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 Hudson's management. Our responsibility is to express an opinion on Hudson's compliance based on our audit.

We conducted our audit of compliance in accordance with generally accepted auditing standards of 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 of America; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* and NJ OMB Circular 04-04. Those standards and OMB Circular A-133 and NJ OMB 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 Hudson'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 Hudson's compliance with those requirements.

In our opinion, Hudson 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, 2011.

Internal Control Over Compliance

The management of Hudson 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 Hudson's internal control over compliance with requirements that could have a direct and material effect on a major federal or 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 of the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on Hudson'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 and state program on a timely basis. A significant deficiency is a control deficiency, or a combination of control deficiencies, that adversely affects the entity's ability to administer a federal and state program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal and 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 a combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal and state program will not be prevented or detected by the entity's internal control.

Our consideration of 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 for the information of the audit committee, management 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.


DeSena & Company

East Hanover, New Jersey
June 30, 2012

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2011

Part 1 - Summary of Auditor's Results

Financial Statement Section

- A) Type of auditor's report issued: Unqualified
- B) Internal control over financial reporting:
- 1) Material weakness(es) identified? __yes X no __n/a
- 2) Were reportable condition(s) identified that were not considered to be material weaknesses? __yes X no __n/a
- C) Noncompliance material to general purpose financial statements noted? __yes X no __n/a

Federal Awards Section

- D) Dollar threshold used to determine Type A programs \$300,000
- E) Auditee qualified as low-risk auditee? X yes __no __n/a
- F) Type of auditor's report on compliance for major programs Unqualified
- G) Internal control over compliance:
- 1) Material weakness(es) identified? __yes X no __n/a
- 2) Were reportable condition(s) identified that were not considered to be material weaknesses? __yes X no __n/a
- H) Any audit findings disclosed that are required to be reported in accordance with OMB Circular A-133 Section 510(a)? __yes X no __n/a
- I) Identification of major programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
93.008	Medical Reserve Corp. Demonstration Project
93.069	PHILEP LINCS Agencies
10.2	Agriculture Dev./Mosquito
97.008	NJ Domestic Security Preparedness
66.001	Air Pollution Clean Air Act

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED December 31, 2011

Part 1 - Summary of Auditor's Results (Continued)

State Awards Section

- J) Dollar threshold used to determine Type A programs \$300,000
- K) Auditee qualified as low-risk auditee? X yes no n/a
- L) Type of auditor's report on compliance for major programs Unqualified
- M) Internal control over compliance:
- 1) Material weakness(es) identified? yes X no n/a
- 2) Were reportable condition(s) identified that were not considered to be material weaknesses? yes X no n/a
- H) Any audit findings disclosed that are required to be reported in accordance with N.J. OMB Circular 04-04? yes X no n/a

I) Identification of major programs:

Contract Number(s)

N/A

Name of State Program

N/A

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2011

Part 2 - Schedule of Financial Statement Findings

This section identifies the reportable conditions, material weaknesses, fraud, illegal acts, violations of provisions of contracts and grant agreements, and abuse related to the financial statements that Government Auditing Standards requires reporting in a Circular A-133 audit, paragraphs 12.16 and 12.33.

NONE

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2011

*Part 3 - Schedule of Federal and State Award Findings
And Questioned Costs*

This section identifies the reportable conditions, material weaknesses, and material instances of noncompliance, including questioned costs, related to the audit of major federal and state programs, as required by section 510(a) of OMB Circular A-133 and New Jersey OMB Circular 04-04.

NONE