

*Basic Financial
Statements*



**STATE OF NEW JERSEY
STATEMENT OF NET ASSETS
JUNE 30, 2009**

	<u>Primary Government</u>			<u>Component Units</u>
	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>	
ASSETS				
Current Assets:				
Cash and cash equivalents	\$ 240,334,493	\$ 739,809	\$ 241,074,302	\$ 1,711,494,650
Investments	6,049,807,807	288,537,259	6,338,345,066	6,359,070,386
Receivables, net of allowances for uncollectibles				
Federal government	924,025,535	215,083,928	1,139,109,463	289,690,287
Departmental accounts	2,874,345,779	570,305,010	3,444,650,789	-
Loans	1,399,698,574	-	1,399,698,574	1,698,735,417
Mortgages	-	-	-	109,218,000
Other	944,220,396	75,726,489	1,019,946,885	478,859,721
Internal balances	(15,233,786)	15,233,786	-	-
Due from external parties	18,769,526	-	18,769,526	41,809,913
Inventories	-	-	-	148,658,263
Deferred charges	-	11,485,547	11,485,547	-
Other	348,907,966	-	348,907,966	237,680,907
Total Current Assets	<u>12,784,876,290</u>	<u>1,177,111,828</u>	<u>13,961,988,118</u>	<u>11,075,217,544</u>
Noncurrent Assets:				
Investments	-	481,049,232	481,049,232	4,260,842,554
Receivables, net of allowances for uncollectibles				
Loans	-	-	-	1,553,577,397
Mortgages	-	-	-	2,652,293,121
Other	-	-	-	99,992,790
Pension assets	6,748,375	-	6,748,375	-
Capital assets - nondepreciated	7,722,840,539	-	7,722,840,539	4,203,958,221
Capital assets - depreciated, net	12,905,795,966	-	12,905,795,966	15,116,072,295
Other	212,901,964	-	212,901,964	561,007,207
Total Noncurrent Assets	<u>20,848,286,844</u>	<u>481,049,232</u>	<u>21,329,336,076</u>	<u>28,447,743,585</u>
Total Assets	<u>33,633,163,134</u>	<u>1,658,161,060</u>	<u>35,291,324,194</u>	<u>39,522,961,129</u>

The accompanying notes are an integral part of the financial statements.

STATE OF NEW JERSEY
STATEMENT OF NET ASSETS (Continued)
JUNE 30, 2009

	<u>Primary Government</u>			
	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>	<u>Component Units</u>
LIABILITIES				
Current Liabilities:				
Accounts payable and accruals	2,815,567,129	329,684,620	3,145,251,749	1,214,293,221
Due to external parties	171,898,434	-	171,898,434	56,147,738
Interest payable	271,233,014	-	271,233,014	194,847,748
Deferred revenue	253,239,220	-	253,239,220	327,400,464
Current portion of long-term liabilities	2,117,377,440	130,630,005	2,248,007,445	1,038,214,325
Other	375,067,609	394,643,064	769,710,673	635,714,645
Total Current Liabilities	<u>6,004,382,846</u>	<u>854,957,689</u>	<u>6,859,340,535</u>	<u>3,466,618,141</u>
Noncurrent Liabilities:				
Net pension obligation	6,365,697,687	-	6,365,697,687	17,941,317
Net OPEB obligation	6,636,300,000	-	6,636,300,000	319,212,678
Pollution remediation obligation	101,828,621	-	101,828,621	24,373,223
Other	35,995,323,287	482,192,991	36,477,516,278	20,830,746,709
Total Noncurrent Liabilities	<u>49,099,149,595</u>	<u>482,192,991</u>	<u>49,581,342,586</u>	<u>21,192,273,927</u>
Total Liabilities	<u>55,103,532,441</u>	<u>1,337,150,680</u>	<u>56,440,683,121</u>	<u>24,658,892,068</u>
NET ASSETS				
Invested in capital assets, net of related debt	7,362,125,217	-	7,362,125,217	7,716,028,934
Restricted for:				
Capital projects	-	-	-	768,257,162
Public safety and criminal justice	89,091,954	-	89,091,954	-
Physical and mental health	104,975,147	-	104,975,147	-
Educational, cultural, and intellectual development	164,854,481	-	164,854,481	-
Community development and environmental management	2,531,863,471	-	2,531,863,471	-
Economic planning, development, and security	1,014,727,896	-	1,014,727,896	-
Transportation programs	193,403,230	-	193,403,230	-
Debt service	-	-	-	910,483,403
Unemployment	-	267,096,138	267,096,138	-
Other	199,711,708	53,914,242	253,625,950	3,578,865,558
Unrestricted	<u>(33,131,122,411)</u>	<u>-</u>	<u>(33,131,122,411)</u>	<u>1,890,434,004</u>
Total Net Assets	<u>\$ (21,470,369,307)</u>	<u>\$ 321,010,380</u>	<u>\$ (21,149,358,927)</u>	<u>\$ 14,864,069,061</u>

**STATE OF NEW JERSEY
STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2009**

	<u>Program Revenues</u>			
	<u>Expenses</u>	<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>
Functions - Programs				
Primary Government				
Governmental activities:				
Public safety and criminal justice	\$ 3,087,675,180	\$ 1,027,075,374	\$ 263,796,609	\$ 2,155,812
Physical and mental health	10,588,999,321	851,720,541	1,199,370,822	-
Educational, cultural, and intellectual development	14,681,301,052	119,855,840	820,000,716	-
Community development and environmental management	2,271,784,530	283,245,431	604,862,700	72,583,364
Economic planning, development, and security	6,126,839,115	1,185,183,906	871,835,643	-
Transportation programs	1,859,156,859	27,334,594	773,013,469	129,311,020
Government direction, management, and control	11,846,123,782	909,988,986	6,834,115,504	-
Special government services	364,491,141	148,316,716	8,943,474	-
Interest expense	<u>1,092,405,972</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total governmental activities	<u>51,918,776,952</u>	<u>4,552,721,388</u>	<u>11,375,938,937</u>	<u>204,050,196</u>
Business-type activities:				
State Lottery Fund	1,645,706,015	2,538,114,880	2,528,987	-
Unemployment Compensation Fund	<u>5,283,619,899</u>	<u>1,855,154,419</u>	<u>2,349,381,126</u>	<u>-</u>
Total business-type activities	<u>6,929,325,914</u>	<u>4,393,269,299</u>	<u>2,351,910,113</u>	<u>-</u>
Total Primary Government	<u>\$ 58,848,102,866</u>	<u>\$ 8,945,990,687</u>	<u>\$ 13,727,849,050</u>	<u>\$ 204,050,196</u>
Component Units				
Authorities	\$ 5,731,199,872	\$ 2,450,732,452	\$ 1,165,139,888	\$ 1,159,089,322
Colleges and Universities	<u>5,537,293,544</u>	<u>2,692,226,878</u>	<u>1,803,509,959</u>	<u>32,523,289</u>
Total Component Units	<u>\$ 11,268,493,416</u>	<u>\$ 5,142,959,330</u>	<u>\$ 2,968,649,847</u>	<u>\$ 1,191,612,611</u>
General Revenues and Transfers				
Taxes:				
Gross Income Tax				
Sales and Use Tax				
Corporate Business Tax				
Other taxes				
Investment earnings				
Payments from State				
Miscellaneous				
Transfers				
Total general revenues and transfers				
Change in Net Assets				

Net Assets - July 1, 2008 (Restated)

Net Assets - June 30, 2009

The accompanying notes are an integral part of the financial statements.

Net (Expense) Revenue and Changes in Net Assets

Primary Government			
Governmental Activities	Business-type Activities	Total	Component Units
\$ (1,794,647,385)	\$ -	\$ (1,794,647,385)	\$ -
(8,537,907,958)	-	(8,537,907,958)	-
(13,741,444,496)	-	(13,741,444,496)	-
(1,311,093,035)	-	(1,311,093,035)	-
(4,069,819,566)	-	(4,069,819,566)	-
(929,497,776)	-	(929,497,776)	-
(4,102,019,292)	-	(4,102,019,292)	-
(207,230,951)	-	(207,230,951)	-
(1,092,405,972)	-	(1,092,405,972)	-
<u>(35,786,066,431)</u>	<u>-</u>	<u>(35,786,066,431)</u>	<u>-</u>
-	894,937,852	894,937,852	-
-	(1,079,084,354)	(1,079,084,354)	-
-	(184,146,502)	(184,146,502)	-
<u>(35,786,066,431)</u>	<u>(184,146,502)</u>	<u>(35,970,212,933)</u>	<u>-</u>
-	-	-	(956,238,210)
-	-	-	(1,009,033,418)
-	-	-	<u>(1,965,271,628)</u>
10,476,267,266	-	10,476,267,266	-
8,264,162,457	-	8,264,162,457	-
2,665,161,794	-	2,665,161,794	-
5,505,005,239	-	5,505,005,239	-
25,024,759	-	25,024,759	-
-	-	-	1,481,507,670
890,457,319	-	890,457,319	-
264,538,628	(811,559,764)	(547,021,136)	-
<u>28,090,617,462</u>	<u>(811,559,764)</u>	<u>27,279,057,698</u>	<u>1,481,507,670</u>
(7,695,448,969)	(995,706,266)	(8,691,155,235)	(483,763,958)
<u>(13,774,920,338)</u>	<u>1,316,716,646</u>	<u>(12,458,203,692)</u>	<u>15,347,833,019</u>
<u>\$ (21,470,369,307)</u>	<u>\$ 321,010,380</u>	<u>\$ (21,149,358,927)</u>	<u>\$ 14,864,069,061</u>

**STATE OF NEW JERSEY
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2009**

	<u>General Fund</u>	<u>Property Tax Relief Fund</u>	<u>Non-Major Governmental Funds</u>	<u>Total Governmental Funds</u>
ASSETS				
Cash and cash equivalents	\$ 67,740,804	\$ -	\$ 172,593,689	\$ 240,334,493
Investments	1,910,941,276	-	4,138,866,531	6,049,807,807
Receivables, net of allowances for uncollectibles				
Federal government	661,461,461	-	90,433,429	751,894,890
Departmental accounts	1,868,539,872	568,539,305	437,266,602	2,874,345,779
Loans	22,174,096	-	1,377,524,478	1,399,698,574
Other	194,772,306	-	361,213,858	555,986,164
Due from other funds	891,656,405	11,753,111	565,900,121	1,469,309,637
Advances to other funds	7,000,000	-	-	7,000,000
Other	19,692,387	-	100,752	19,793,139
Total Assets	<u>\$ 5,643,978,607</u>	<u>\$ 580,292,416</u>	<u>\$ 7,143,899,460</u>	<u>\$ 13,368,170,483</u>
LIABILITIES AND FUND BALANCES				
Liabilities				
Accounts payable and accruals	1,667,594,314	55,970,752	1,092,002,064	2,815,567,130
Deferred revenue	238,547,680	-	160,397,540	398,945,220
Due to other funds	482,193,013	369,074,932	786,404,386	1,637,672,331
Advances from other funds	-	-	7,000,000	7,000,000
Other	155,586,223	153,050,057	66,431,329	375,067,609
Total Liabilities	<u>2,543,921,230</u>	<u>578,095,741</u>	<u>2,112,235,319</u>	<u>5,234,252,290</u>
Fund Balances				
Reserved for:				
Encumbrances	868,404,612	2,196,675	1,192,952,594	2,063,553,881
Other	46,156,341	-	1,716,572,369	1,762,728,710
Unreserved:				
General Fund	2,185,496,424	-	-	2,185,496,424
Special Revenue Funds	-	-	2,088,418,126	2,088,418,126
Capital Projects Funds	-	-	33,721,052	33,721,052
Total Fund Balances	<u>3,100,057,377</u>	<u>2,196,675</u>	<u>5,031,664,141</u>	<u>8,133,918,193</u>
Total Liabilities and Fund Balances	<u>\$ 5,643,978,607</u>	<u>\$ 580,292,416</u>	<u>\$ 7,143,899,460</u>	<u>\$ 13,368,170,483</u>

The accompanying notes are an integral part of the financial statements.

STATE OF NEW JERSEY
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET ASSETS
JUNE 30, 2009

Total fund balances - governmental funds \$ 8,133,918,193

Amounts reported for governmental activities in the statement of net assets are different as a result of the following items:

The State has receivables which are not current resources and therefore are not reported in the fund perspective. 560,364,877

In the government-wide statements deferred issuance costs are capitalized and amortized over a period of years, but are reported as expenditures in the fund perspective. 329,114,218

Capital assets used in governmental activities are not financial resources and therefore are not reported in the fund perspective. These assets consist of :

Infrastructure assets	\$ 17,466,616,436	
Buildings and improvements	3,419,287,749	
Land and land improvements	4,784,024,815	
Other capital assets	3,746,919,329	
Accumulated depreciation	<u>(8,788,211,824)</u>	20,628,636,505

Deferred tobacco settlement revenue recorded in the fund perspective is recognized as revenue and not deferred in the statement of net assets. 145,706,000

The pension and other assets are not current resources and therefore are not reported in the fund perspective. 219,650,954

Some liabilities are not due and payable in the current period and therefore are not reported in the fund perspective. Those liabilities consist of:

Current Liabilities		
Accrued interest	(271,233,014)	
Current portion of long-term obligations	<u>(2,117,377,440)</u>	(2,388,610,454)

Noncurrent Liabilities

Bonds and notes payable	(18,879,489,822)	
Installment obligations	(17,845,773,027)	
Loans payable	(1,279,358,087)	
Capital leases	(581,742,521)	
Compensated absences	(290,967,626)	
Unamortized deferral on refunding bonds	793,693,973	
Unamortized premium	(1,356,540,606)	
Tobacco Settlement Financing Corporation, Inc. Bonds	(4,512,783,386)	
Unamortized discount on Capital Appreciation Bonds	7,960,064,880	
Net pension obligation	(6,365,697,687)	
Net OPEB obligation	(6,636,300,000)	
Pollution remediation obligation	(101,828,621)	
Other noncurrent liabilities	<u>(2,427,070)</u>	(49,099,149,600)

Net assets of governmental activities \$ (21,470,369,307)

The accompanying notes are an integral part of the financial statements.

STATE OF NEW JERSEY
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009

	<u>General Fund</u>	<u>Property Tax Relief Fund</u>	<u>Non-Major Governmental Funds</u>	<u>Total Governmental Funds</u>
REVENUES				
Taxes	\$ 14,142,387,477	\$ 11,088,033,218	\$ 1,708,611,545	\$ 26,939,032,240
Federal and other grants	9,889,434,758	-	804,848,498	10,694,283,256
Licenses and fees	1,086,432,369	-	107,675,303	1,194,107,672
Services and assessments	1,694,732,863	-	1,017,349,212	2,712,082,075
Investment earnings	(11,876,353)	-	86,870,212	74,993,859
Contributions	1,300	-	90,343	91,643
Other	2,377,165,326	-	457,195,437	2,834,360,763
Total Revenues	<u>29,178,277,740</u>	<u>11,088,033,218</u>	<u>4,182,640,550</u>	<u>44,448,951,508</u>
EXPENDITURES				
Current:				
Public safety and criminal justice	3,155,123,741	-	124,036,167	3,279,159,908
Physical and mental health	10,248,531,955	-	380,033,764	10,628,565,719
Educational, cultural, and intellectual development	4,459,036,818	9,417,048,180	1,016,052,329	14,892,137,327
Community development and environmental management	1,457,529,180	656,043,981	323,380,481	2,436,953,642
Economic planning, development, and security	5,116,785,197	-	1,086,195,714	6,202,980,911
Transportation programs	528,468,778	-	2,306,970,087	2,835,438,865
Government direction, management, and control	4,924,255,107	1,995,960,603	248,096,057	7,168,311,767
Special government services	345,739,138	-	205,768	345,944,906
Capital Outlay	32,037,435	-	-	32,037,435
Debt Service:				
Principal	255,525,482	-	383,611,030	639,136,512
Interest	150,193,817	-	693,542,576	843,736,393
Total Expenditures	<u>30,673,226,648</u>	<u>12,069,052,764</u>	<u>6,562,123,973</u>	<u>49,304,403,385</u>
Excess (deficiency) of revenues over expenditures	<u>(1,494,948,908)</u>	<u>(981,019,546)</u>	<u>(2,379,483,423)</u>	<u>(4,855,451,877)</u>
OTHER FINANCING SOURCES (USES)				
Issuance of debt	-	-	1,538,975,562	1,538,975,562
Transfers from other funds	2,146,515,469	846,814,862	3,255,018,217	6,248,348,548
Transfers to other funds	(3,227,941,657)	-	(2,752,864,502)	(5,980,806,159)
Other sources	1,677,059,770	-	6,130,225	1,683,189,995
Other uses	(648,001,199)	-	-	(648,001,199)
Total other financing sources (uses)	<u>(52,367,617)</u>	<u>846,814,862</u>	<u>2,047,259,502</u>	<u>2,841,706,747</u>
Excess (deficiency) of revenues and other sources over expenditures and other uses	<u>(1,547,316,525)</u>	<u>(134,204,684)</u>	<u>(332,223,921)</u>	<u>(2,013,745,130)</u>
Fund Balances - July 1, 2008 (Restated)	<u>4,647,373,902</u>	<u>136,401,359</u>	<u>5,363,888,062</u>	<u>10,147,663,323</u>
Fund Balances - June 30, 2009	<u>\$ 3,100,057,377</u>	<u>\$ 2,196,675</u>	<u>\$ 5,031,664,141</u>	<u>\$ 8,133,918,193</u>

The accompanying notes are an integral part of the financial statements.

STATE OF NEW JERSEY
RECONCILIATION OF THE CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 20, 2009

Net change in fund balance - total governmental funds \$ (2,013,745,130)

Amounts reported for governmental activities in the statement of activities are different as a result of the following items:

Capital outlays are reported as expenditures in governmental funds. However, in the statement of activities, the cost of capital assets is allocated over their useful lives as depreciation expense. In the current period, these amounts are:

Capital outlay	\$ 1,718,115,747	
Depreciation expense	(582,725,829)	
Excess of capital outlay over depreciation expense		1,135,389,918

Bond proceeds provide current financial resources to governmental funds. However, issuing debt increases long-term obligations in the statement of net assets. In the current period, proceeds were received from revenue and general obligation bonds. (1,526,090,561)

Some capital additions were financed through capital leases, certificates of participation and installment obligations. In the governmental funds these arrangements are considered a source of financing, but in the statement of net assets, these arrangements are reported as an obligation. (1,022,327,435)

Repayment of long-term debt is reported as an expenditure in governmental funds, but the repayment reduces long-term obligations in the statement of net assets. In the current year, these amounts consist of:

Bond principal retirement	574,169,999	
Capital lease payments	72,611,079	
Installment obligation retirement	499,319,991	
Certificates of participation retirement	26,942,067	
Tobacco Settlement Financing Corp., Inc. bond retirement	67,725,000	
Total long-term obligations repayment		1,240,768,136

Some revenues will not be collected for several months after the fiscal year ends, they are not considered "available" revenues and are not accrued in the governmental funds. The Fiscal Year 2009 receivable balances increased by this amount. 27,995,140

Some revenues recorded in the statement of activities do not provide current financial resources and therefore are deferred in the fund perspective. 1,675,000

In the government-wide statements certain items are capitalized and amortized over a period of years, but are reported as expenditures or other financing sources and uses in the fund perspective. These activities consist of:

Decrease in unamortized premiums	56,220,165	
Decrease in deferral on refunding issues	(71,960,265)	
Increase in deferred issuance costs	(1,691,034)	
Decrease in bond discount	(879,686)	
Total capitalized and amortized items		(18,310,820)

Some items reported in the statement of activities do not require the use of current financial resources and therefore are reported as expenditures or reductions of revenue in governmental funds. These activities consist of:

Net increase in accrued interest	(291,578,613)	
Increase in compensated absences, medicaid, and other	(68,036,680)	
Increase in pension assets	377,664	
Increase in net pension and OPEB obligations	(5,065,230,066)	
Increase in pollution remediation obligation	(101,828,621)	
Increase in other assets	5,493,099	
Total additional expenditures and revenue reductions		(5,520,803,217)

Change in net assets of governmental activities \$ (7,695,448,969)

The accompanying notes are an integral part of the financial statements.

STATE OF NEW JERSEY
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
JUNE 30, 2009

	<u>State Lottery Fund</u>	<u>Unemployment Compensation Fund</u>	<u>Total Proprietary Funds</u>
ASSETS			
Current Assets			
Cash and cash equivalents	\$ 404,690	\$ 335,119	\$ 739,809
Investments	287,452,803	1,084,456	288,537,259
Receivables, net of allowances for uncollectibles			
Federal government	-	215,083,928	215,083,928
Departmental accounts	-	570,305,010	570,305,010
Other	22,133,328	53,593,161	75,726,489
Due from other funds	-	141,762,074	141,762,074
Deferred charges	11,485,547	-	11,485,547
Total Current Assets	<u>321,476,368</u>	<u>982,163,748</u>	<u>1,303,640,116</u>
Noncurrent Assets			
Investments	481,049,232	-	481,049,232
Total Assets	<u>\$ 802,525,600</u>	<u>\$ 982,163,748</u>	<u>\$ 1,784,689,348</u>
LIABILITIES			
Current Liabilities			
Accounts payable and accruals	\$ 72,960,660	\$ 256,723,960	\$ 329,684,620
Due to other funds	108,185,953	18,342,335	126,528,288
Current portion of long-term obligations	130,630,005	-	130,630,005
Other	-	394,643,064	394,643,064
Total Current Liabilities	<u>311,776,618</u>	<u>669,709,359</u>	<u>981,485,977</u>
Noncurrent Liabilities			
Due in more than one year	482,192,991	-	482,192,991
Total Noncurrent Liabilities	<u>482,192,991</u>	<u>-</u>	<u>482,192,991</u>
Total Liabilities	<u>793,969,609</u>	<u>669,709,359</u>	<u>1,463,678,968</u>
NET ASSETS			
Restricted for:			
Unemployment compensation	-	267,096,138	267,096,138
Other purposes	8,555,991	45,358,251	53,914,242
Total Net Assets	<u>\$ 8,555,991</u>	<u>\$ 312,454,389</u>	<u>\$ 321,010,380</u>

The accompanying notes are an integral part of the financial statements.

STATE OF NEW JERSEY
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009

	<u>State Lottery Fund</u>	<u>Unemployment Compensation Fund</u>	<u>Total Proprietary Funds</u>
OPERATING REVENUES			
Sales and charges for services	\$ 2,503,266,384	\$ -	\$ 2,503,266,384
Assessments	-	1,854,842,121	1,854,842,121
From federal agencies	-	2,282,523,003	2,282,523,003
Other	34,848,496	312,298	35,160,794
Total Operating Revenues	<u>2,538,114,880</u>	<u>4,137,677,422</u>	<u>6,675,792,302</u>
OPERATING EXPENSES			
Unemployment compensation	-	5,283,619,899	5,283,619,899
Lottery prize awards	1,455,242,612	-	1,455,242,612
Other	190,463,403	-	190,463,403
Total Operating Expenses	<u>1,645,706,015</u>	<u>5,283,619,899</u>	<u>6,929,325,914</u>
Operating Income (Loss)	<u>892,408,865</u>	<u>(1,145,942,477)</u>	<u>(253,533,612)</u>
NONOPERATING REVENUES (EXPENSES)			
Investment income	2,528,987	21,884,237	24,413,224
Other	-	44,973,886	44,973,886
Total Nonoperating Revenues (Expenses)	<u>2,528,987</u>	<u>66,858,123</u>	<u>69,387,110</u>
Income (Loss) Before Transfers	894,937,852	(1,079,084,354)	(184,146,502)
Transfers from other funds	-	120,000,000	120,000,000
Transfers to other funds	(908,743,161)	(22,816,603)	(931,559,764)
Change in Net Assets	(13,805,309)	(981,900,957)	(995,706,266)
Net Assets - July 1, 2008	<u>22,361,300</u>	<u>1,294,355,346</u>	<u>1,316,716,646</u>
Net Assets - June 30, 2009	<u>\$ 8,555,991</u>	<u>\$ 312,454,389</u>	<u>\$ 321,010,380</u>

The accompanying notes are an integral part of the financial statements.

**STATE OF NEW JERSEY
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009**

	<u>State Lottery Fund</u>	<u>Unemployment Compensation Fund</u>	<u>Total Proprietary Funds</u>
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts received from customers	\$ 1,245,197,013	\$ -	\$ 1,245,197,013
Receipts from federal and local agencies	-	2,294,076,651	2,294,076,651
Receipts from assessments	-	1,764,019,081	1,764,019,081
Payments to suppliers	(51,666,109)	-	(51,666,109)
Payments to prize winners	(417,377,481)	-	(417,377,481)
Claims paid	-	(4,373,778,735)	(4,373,778,735)
Other receipts (payments)	120,307,829	-	120,307,829
Net cash provided (used) by operating activities	<u>896,461,252</u>	<u>(315,683,003)</u>	<u>580,778,249</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES			
Loan from federal government	-	324,850,834	324,850,834
Transfers to other funds	(889,825,600)	(28,063,632)	(917,889,232)
Net cash provided (used) by noncapital financing activities	<u>(889,825,600)</u>	<u>296,787,202</u>	<u>(593,038,398)</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from sales and maturities of investments	1,270,944,000	19,000,000	1,289,944,000
Purchase of investments	(1,277,270,000)	-	(1,277,270,000)
Net cash provided (used) by investing activities	<u>(6,326,000)</u>	<u>19,000,000</u>	<u>12,674,000</u>
Net increase (decrease) in cash and cash equivalents	309,652	104,199	413,851
Cash and cash equivalents - July 1, 2008	95,038	230,920	325,958
Cash and cash equivalents - June 30, 2009	<u>\$ 404,690</u>	<u>\$ 335,119</u>	<u>\$ 739,809</u>
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:			
Operating income (loss)	\$ 892,408,865	\$ (1,145,942,477)	\$ (253,533,612)
Adjustments to reconcile operating income to net cash provided (used) by operating activities			
Net changes in assets and liabilities:			
Current assets	630,997	803,593,112	804,224,109
Noncurrent assets	44,293,612	-	44,293,612
Current liabilities	11,072,564	26,666,362	37,738,926
Noncurrent liabilities	(51,944,786)	-	(51,944,786)
Net cash provided (used) by operating activities	<u>\$ 896,461,252</u>	<u>\$ (315,683,003)</u>	<u>\$ 580,778,249</u>

The accompanying notes are an integral part of the financial statements.



**STATE OF NEW JERSEY
STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
JUNE 30, 2009**

	Agency Funds	Investment Trust Fund
ASSETS		
Cash and cash equivalents	\$ 13,241,195	\$ 215
Securities lending collateral	-	-
Investments	100,134,385	3,973,909,958
Receivables, net of allowances for uncollectibles		
Members	37,875	-
Employers	1,827,468	-
Interest and dividends	-	-
Departmental accounts	-	-
Other	41,822	7,362,697
Due from other funds	32,845,756	-
Other	-	-
Total Assets	148,128,501	3,981,272,870
LIABILITIES		
Accounts payable	145,958,930	-
Benefits payable	-	-
Securities lending collateral and rebates payable	-	-
Due to other funds	2,169,571	2,397,328
Total Liabilities	148,128,501	2,397,328
NET ASSETS		
Held in Trust for Pension Benefits and Other Purposes	\$ -	\$ 3,978,875,542

The accompanying notes are an integral part of the financial statements.

Pension and Other Employee Benefits Trust Funds	Private Purpose Trust Funds
\$ 13,811,708	\$ 821,461
4,789,560,967	-
65,377,876,565	10,788,081
190,236,900	-
3,590,648,911	-
740,821,238	-
-	9,008
-	-
140,386,205	-
1,017,702,948	-
<u>75,861,045,442</u>	<u>11,618,550</u>
85,462,236	3,895,162
1,048,643,537	-
4,812,363,318	-
10,662,954	4,873,200
<u>5,957,132,045</u>	<u>8,768,362</u>
<u>\$ 69,903,913,397</u>	<u>\$ 2,850,188</u>

**STATE OF NEW JERSEY
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009**

	<u>Investment Trust Fund</u>	<u>Pension and Other Employee Benefits Trust Funds</u>	<u>Private Purpose Trust Funds</u>
ADDITIONS			
Contributions:			
Members	\$ -	\$ 2,085,248,438	\$ -
Employers	-	5,276,540,288	-
Other	<u>14,867,524,060</u>	<u>6,752,438</u>	<u>-</u>
Total Contributions	<u>14,867,524,060</u>	<u>7,368,541,164</u>	<u>-</u>
Investment Income:			
Net increase (decrease) in fair value of investments	-	(14,586,089,443)	-
Interest and dividends	<u>47,975,698</u>	<u>2,297,307,110</u>	<u>202,004</u>
Total Investment Income	<u>47,975,698</u>	<u>(12,288,782,333)</u>	<u>202,004</u>
Less investment expense	<u>-</u>	<u>12,433,012</u>	<u>-</u>
Net Investment Income	<u>47,975,698</u>	<u>(12,301,215,345)</u>	<u>202,004</u>
Miscellaneous	<u>-</u>	<u>-</u>	<u>61,901</u>
Total Additions	<u>14,915,499,758</u>	<u>(4,932,674,181)</u>	<u>263,905</u>
DEDUCTIONS			
Benefit payments	-	10,805,598,045	-
Refunds of contributions	-	143,758,062	-
Refunds and transfers to other systems	-	-	3,005,823
Administrative expense	2,397,328	50,826,186	-
Payments in accordance with trust agreements	-	-	113,604
Distributions to shareholders	<u>14,983,264,418</u>	<u>-</u>	<u>-</u>
Total Deductions	<u>14,985,661,746</u>	<u>11,000,182,293</u>	<u>3,119,427</u>
Total Changes in Net Assets Held in Trust	(70,161,988)	(15,932,856,474)	(2,855,522)
Net Assets - July 1, 2008	<u>4,049,037,530</u>	<u>85,836,769,871</u>	<u>5,705,710</u>
Net Assets - June 30, 2009	<u>\$ 3,978,875,542</u>	<u>\$ 69,903,913,397</u>	<u>\$ 2,850,188</u>

The accompanying notes are an integral part of the financial statements.



STATE OF NEW JERSEY
STATEMENT OF NET ASSETS
COMPONENT UNITS
JUNE 30, 2009

	<u>New Jersey Transit Corporation</u>	<u>New Jersey Turnpike Authority</u>	<u>Rutgers, The State University of New Jersey</u>
ASSETS			
Current Assets			
Cash and cash equivalents	\$ 73,693,496	\$ 178,254,339	\$ 100,132,000
Investments	-	987,936,730	417,863,000
Receivables, net of allowances for uncollectibles			
Federal government	221,059,703	-	-
Loans	-	-	8,870,000
Mortgages	-	-	-
Other	27,164,759	37,517,080	105,788,000
Due from external parties	-	1,727,089	-
Inventories	110,446,115	20,820,930	4,467,000
Other	75,314,290	7,221,780	11,754,000
Total Current Assets	<u>507,678,363</u>	<u>1,233,477,948</u>	<u>648,874,000</u>
Noncurrent Assets			
Investments	2,003,172,531	12,029,580	631,219,000
Receivables, net of allowances for uncollectibles			
Loans	-	-	-
Mortgages	-	-	-
Other	5,427,527	-	84,388,000
Capital assets - nondepreciated	1,305,692,143	1,443,595,332	324,656,000
Capital assets - depreciated, net	6,135,284,846	2,911,337,428	1,456,938,000
Other	18,094,880	56,702,162	233,976,000
Total Noncurrent Assets	<u>9,467,671,927</u>	<u>4,423,664,502</u>	<u>2,731,177,000</u>
Total Assets	<u>9,975,350,290</u>	<u>5,657,142,450</u>	<u>3,380,051,000</u>
LIABILITIES			
Current Liabilities			
Accounts payable and accrued expenses	315,061,317	96,669,304	140,466,000
Due to external parties	36,015,728	-	-
Interest payable	-	93,929,025	-
Deferred revenue	18,075,337	2,394,600	56,122,000
Current portion of long-term obligations	245,980,440	425,337,071	37,134,000
Other	110,034,886	142,367,670	43,751,000
Total Current Liabilities	<u>725,167,708</u>	<u>760,697,670</u>	<u>277,473,000</u>
Noncurrent Liabilities			
Net pension obligation	-	-	-
Net OPEB obligation	153,603,581	76,729,982	-
Pollution remediation	20,067,750	-	-
Other	3,697,226,245	4,891,859,041	793,463,000
Total Noncurrent Liabilities	<u>3,870,897,576</u>	<u>4,968,589,023</u>	<u>793,463,000</u>
Total Liabilities	<u>4,596,065,284</u>	<u>5,729,286,693</u>	<u>1,070,936,000</u>
NET ASSETS			
Invested in capital assets, net of related debt	5,615,513,970	(811,076,206)	1,069,426,000
Restricted for:			
Capital projects	2,030,035	643,048,680	48,428,000
Debt service	-	93,624,170	10,671,000
Other purposes	-	149,578	650,913,000
Unrestricted	<u>(238,258,999)</u>	<u>2,109,535</u>	<u>529,677,000</u>
Total Net Assets	<u>\$ 5,379,285,006</u>	<u>\$ (72,144,243)</u>	<u>\$ 2,309,115,000</u>

The accompanying notes are an integral part of the financial statements.

University of Medicine and Dentistry of New Jersey	Non-Major Component Units	Total Component Units
\$ 130,794,000	\$ 1,228,620,815	\$ 1,711,494,650
159,777,000	4,793,493,656	6,359,070,386
20,617,000	48,013,584	289,690,287
3,286,000	1,686,579,417	1,698,735,417
-	109,218,000	109,218,000
199,521,000	108,868,882	478,859,721
-	40,082,824	41,809,913
11,243,000	1,681,218	148,658,263
43,014,000	100,376,837	237,680,907
<u>568,252,000</u>	<u>8,116,935,233</u>	<u>11,075,217,544</u>
173,897,000	1,440,524,443	4,260,842,554
29,810,000	1,523,767,397	1,553,577,397
-	2,652,293,121	2,652,293,121
-	10,177,263	99,992,790
23,382,000	1,106,632,746	4,203,958,221
965,250,000	3,647,262,021	15,116,072,295
17,393,000	234,841,165	561,007,207
<u>1,209,732,000</u>	<u>10,615,498,156</u>	<u>28,447,743,585</u>
<u>1,777,984,000</u>	<u>18,732,433,389</u>	<u>39,522,961,129</u>
318,179,000	343,917,600	1,214,293,221
-	20,132,010	56,147,738
3,753,000	97,165,723	194,847,748
60,598,000	190,210,527	327,400,464
12,157,000	317,605,814	1,038,214,325
303,000	339,258,089	635,714,645
<u>394,990,000</u>	<u>1,308,289,763</u>	<u>3,466,618,141</u>
-	17,941,317	17,941,317
-	88,879,115	319,212,678
-	4,305,473	24,373,223
710,690,000	10,737,508,423	20,830,746,709
<u>710,690,000</u>	<u>10,848,634,328</u>	<u>21,192,273,927</u>
<u>1,105,680,000</u>	<u>12,156,924,091</u>	<u>24,658,892,068</u>
379,806,000	1,462,359,170	7,716,028,934
8,660,000	66,090,447	768,257,162
27,508,000	778,680,233	910,483,403
313,144,000	2,614,658,980	3,578,865,558
(56,814,000)	1,653,720,468	1,890,434,004
<u>\$ 672,304,000</u>	<u>\$ 6,575,509,298</u>	<u>\$ 14,864,069,061</u>

**STATE OF NEW JERSEY
STATEMENT OF ACTIVITIES
COMPONENT UNITS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009**

	<u>New Jersey Transit Corporation</u>	<u>New Jersey Turnpike Authority</u>	<u>Rutgers, The State University of New Jersey</u>
Expenses	\$ 2,442,338,018	\$ 950,633,301	\$ 1,808,652,000
Net (Expense) Revenue and Changes in Net Assets			
Program Revenues			
Charges for services	828,888,276	844,049,964	746,891,000
Operating grants and contributions	646,342,285	22,906,972	724,776,000
Capital grants and contributions	<u>564,432,719</u>	<u>-</u>	<u>30,412,000</u>
Net (Expense) Revenue	<u>(402,674,738)</u>	<u>(83,676,365)</u>	<u>(306,573,000)</u>
General Revenue			
Payments from State	<u>348,200,000</u>	<u>4,540,879</u>	<u>305,252,000</u>
Total General Revenue	<u>348,200,000</u>	<u>4,540,879</u>	<u>305,252,000</u>
Change in Net Assets	(54,474,738)	(79,135,486)	(1,321,000)
Net Assets - Beginning of Year (Restated)	<u>5,433,759,744</u>	<u>6,991,243</u>	<u>2,310,436,000</u>
Net Assets - End of Year	<u>\$ 5,379,285,006</u>	<u>\$ (72,144,243)</u>	<u>\$ 2,309,115,000</u>

The accompanying notes are an integral part of the financial statements.

University of Medicine and Dentistry of New Jersey	Non-Major Component Units	Total Component Units
\$ 1,939,295,000	\$ 4,127,575,097	\$ 11,268,493,416
999,276,000	1,723,854,090	5,142,959,330
561,315,000	1,013,309,590	2,968,649,847
<u>-</u>	<u>596,767,892</u>	<u>1,191,612,611</u>
<u>(378,704,000)</u>	<u>(793,643,525)</u>	<u>(1,965,271,628)</u>
<u>254,347,000</u>	<u>569,167,791</u>	<u>1,481,507,670</u>
<u>254,347,000</u>	<u>569,167,791</u>	<u>1,481,507,670</u>
(124,357,000)	(224,475,734)	(483,763,958)
<u>796,661,000</u>	<u>6,799,985,032</u>	<u>15,347,833,019</u>
<u>\$ 672,304,000</u>	<u>\$ 6,575,509,298</u>	<u>\$ 14,864,069,061</u>

**STATE OF NEW JERSEY
NOTES TO THE FINANCIAL STATEMENTS
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**STATE OF NEW JERSEY
NOTES TO THE FINANCIAL STATEMENTS**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Basis of Presentation

The accompanying financial statements have been prepared in conformity with generally accepted accounting principles (GAAP) as prescribed by the Governmental Accounting Standards Board (GASB). The financial statements have been prepared primarily from accounts and records maintained by the Director of the Office of Management and Budget. The financial data for the various public benefit corporations, authorities, commissions, colleges and universities has been derived from reports prepared by those organizations based on their independent accounting systems.

B. Financial Reporting Entity

For financial reporting purposes the State of New Jersey includes all fund types, departments, and agencies of the State, as well as boards, commissions, authorities, colleges and universities, for which the State is financially accountable. The following circumstances set forth the State's financial accountability for a legally separate organization:

1. The State is financially accountable if it appoints a voting majority of the organization's governing body and (a) it is able to impose its will on that organization or (b) there is a potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the State.
2. The State may be financially accountable if an organization is fiscally dependent on the State regardless of whether the organization has (a) a separately elected governing board or (b) a jointly appointed board.

Entities for which the State is financially accountable such as boards, commissions, authorities, colleges and universities are considered component units. These component units are included in the State's reporting entity because of the significance of their operational or financial relationships with the State. Component units are either discretely presented or blended. Discrete presentation entails reporting component unit financial data in columns separate from the financial data of the primary government (the State). Blending requires the component unit's balances and transactions to be reported in a manner similar to the balances and transactions of the State.

The following organizations comprise the State's component units. The Garden State Preservation Trust, the New Jersey Building Authority, the New Jersey Schools Development Authority, the Tobacco Settlement Financing Corporation, Inc., and the New Jersey Transportation Trust Fund Authority are blended component units since they provide services entirely or almost entirely to the State and thus are fiscally dependent upon the State. Additional pertinent information related to them is disclosed in the notes of the primary government. All other component units have been discretely presented. Descriptions of the discretely presented component units and addresses from which complete financial statements of the respective component units can be obtained is detailed in Note 18.

COLLEGES AND UNIVERSITIES

The College of New Jersey
Thomas Edison State College
Kean University
Montclair State University
New Jersey City University
New Jersey Institute of Technology
The William Paterson University of New Jersey
Ramapo College of New Jersey
Rowan University
Rutgers, The State University of New Jersey
The Richard Stockton College of New Jersey
University of Medicine and Dentistry of New Jersey

AUTHORITIES

Casino Reinvestment Development Authority
Garden State Preservation Trust
Higher Education Student Assistance Authority
New Jersey Building Authority
New Jersey Economic Development Authority
New Jersey Educational Facilities Authority
New Jersey Environmental Infrastructure Trust
New Jersey Health Care Facilities Financing Authority
New Jersey Housing and Mortgage Finance Agency
New Jersey Meadowlands Commission
New Jersey Redevelopment Authority
New Jersey Schools Development Authority
New Jersey Sports and Exposition Authority
New Jersey Transit Corporation
New Jersey Transportation Trust Fund Authority
New Jersey Turnpike Authority
New Jersey Water Supply Authority
South Jersey Port Corporation
South Jersey Transportation Authority
Tobacco Settlement Financing Corporation, Inc.

C. Government-wide and Fund Financial Statements

The government-wide financial statements (the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these government-wide statements. Governmental activities, which normally are supported by taxes and intragovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from the legally separate component units for which the primary government is financially accountable.

The statement of net assets measures not just current assets and liabilities, but also long-term assets and liabilities such as capital assets (including infrastructure assets) and long-term debt. The difference between the State's assets and its liabilities is its net assets. Net assets are displayed in three components - invested in capital assets, net of related debt; restricted; and unrestricted. Net assets are restricted when constraints placed on them are either externally imposed or are imposed by constitutional provisions or enabling legislation. The amount of net assets that are restricted by enabling legislation is disclosed in Note 14. When both restricted and unrestricted resources are available for use, generally it is the State's policy to use restricted resources first, then unrestricted resources as they are needed.

The statement of activities is presented in a format that reports the net (expense) revenue of the State's individual functions. The net (expense) revenue format reports the relative financial burden of each of the State's functions on its taxpayers. This format identifies the extent to which each function of the government draws from the general revenues of the State or is self-financed through licenses, fees, permits, and other revenues.

Program revenues originate from the program or from parties other than the government's taxpayers or citizens as a whole and reduce the expenses of the function to be financed by general revenues. Categories of program revenues that are separately reported in the statement are charges for services, program specific operating grants and contributions, and program specific capital grants and contributions. Charges for services are revenues from exchange or exchange-like transactions with external parties that purchase, use, or directly benefit from the program's goods, services, or privileges. These revenues include fees charged for specific services, licenses and permits, and operating special assessments, as well as payments from exchange transactions with other governments. Program specific operating and capital grants and contributions are revenues from mandatory and voluntary nonexchange transactions with external parties that are restricted for use in a particular program. All other revenues are general revenues, including all taxes, even if levied for a specific purpose. A special item is a significant

transaction or other event within the control of management that is either (1) unusual in nature, or (2) infrequent in occurrence. An extraordinary item is a transaction or other event that is both (1) unusual in nature and (2) infrequent in occurrence.

In the statement of activities, all expenses are reported by function except those that are special or extraordinary items. Each function reports direct expenses – those specifically associated with a service, program, or department and therefore clearly identifiable to a particular function. Some functions, such as government direction, management and control, include expenses that are indirect expenses of other functions. The State does not allocate indirect expenses to the other functions.

Separate financial statements are provided for governmental funds, proprietary funds, fiduciary funds, and component units. However, the fiduciary funds are not included in the government-wide statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

D. Measurement Focus and Basis of Accounting

Government-wide Financial Statements - The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. The government-wide financial statements report all financial and capital assets (including infrastructure assets), short and long-term liabilities, revenues, expenses, gains, and losses using the economic resources measurement focus and the accrual basis of accounting. Activity and balances resulting from exchange and exchange-like transactions are recognized when the exchange takes place; those resulting from nonexchange transactions are recognized based on the provisions of GASB Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions*.

Governmental Fund Financial Statements - The governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under the current financial resources measurement focus, only current assets and liabilities are generally included on the balance sheet. Operating statements of these funds present increases and decreases in net current assets.

In accordance with the modified accrual basis, revenues are recognized when they become susceptible to accrual; that is, when they become both measurable and available to finance expenditures of the fiscal period. Available means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Generally, these revenues which are considered to be susceptible to accrual include amounts received during the three month period subsequent to June 30 that were earned as of June 30. On an exception basis, the State will occasionally accrue amounts received after this three month period but within twelve months subsequent to June 30. Those revenues which are considered to be susceptible to accrual include sales tax, individual income taxes, corporate income taxes, and federal grants. Licenses, fees, permits and other sources are recognized when received since they normally are measurable only at that time. Revenue refunds payable are recorded as other liabilities. Unapplied overpayments of Corporation Business Tax and Gross Income Tax are recorded when a final determination is made as to the ultimate disposition of the overpayments.

Expenditures are recognized when the related fund liabilities are incurred. Expenditures for compensated absences, claims, and judgments are recorded to the extent they would normally be liquidated with available financial resources. Disbursements for prepaid expenses, inventory items, and fixed assets are recorded when expenditures are incurred. Expenditures for principal and interest on general obligation long-term debt are recognized when due.

Proprietary Funds, Fiduciary Funds, and Component Units Financial Statements - The financial statements of the proprietary funds, fiduciary funds, and component units are reported using the economic resources measurement focus and the accrual basis of accounting, similar to the government-wide statements previously described.

Each proprietary fund has the option under Governmental Accounting Standards Board (GASB), Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, to elect to apply all Financial Accounting Standards Board (FASB) pronouncements issued after November 30, 1989 unless FASB conflicts with GASB. The State has elected to not apply FASB pronouncements issued after the applicable date.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. Revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses. The State's enterprise funds are the Unemployment Compensation Fund and the State Lottery Fund.

The Unemployment Compensation Fund's principle ongoing operations consist of assessments received from employers and employees and the subsequent disbursement of monies to persons entitled to receive unemployment benefits. Collections and disbursements to eligible recipients are classified as operating revenues and expenses. The State Lottery Fund's principle ongoing operations, which are classified as operating revenues and expenses, consist of receipts from lottery ticket sales and subsequent disbursements of monies to lottery winners.

E. Fund Accounting

The financial activities of the State are recorded in individual funds, each of which is deemed to be a separate accounting entity. The State uses fund accounting to report on its financial position and results of operations. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities. A fund is a separate accounting entity with a self-balancing set of accounts, which represent the fund's assets, liabilities, residual equities or balances, revenues, and expenditures or expenses. Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds. Major individual governmental funds and major individual proprietary funds are reported as separate columns in the fund financial statements, with non-major funds being combined into a single column.

1. Major Funds

The State reports the General Fund and the Property Tax Relief Fund as major governmental funds. The State also reports the State Lottery Fund and the Unemployment Compensation Fund as major enterprise funds. Descriptions are as follows:

- a. General Fund - This fund accounts for all State revenues, not otherwise restricted by statute. The largest part of the total financial operations of the State is accounted for in the General Fund. Most revenues received from taxes, federal sources, and certain miscellaneous revenue items are recorded in this fund. The Appropriations Act enacted by the Legislature provides the basic framework for the operations of the General Fund.
- b. Property Tax Relief Fund - This fund accounts for revenues from the New Jersey Gross Income Tax and a portion of the New Jersey Sales and Use Tax. Revenues realized from the Gross Income Tax are dedicated by the State Constitution. All receipts from taxes levied on personal income of individuals, estates, and trusts must be appropriated exclusively for the purpose of reducing or offsetting property taxes. P.L. 2006, c.44 increased the sales tax rate from six percent to seven percent; of the additional one percent, half a percent was dedicated to the Property Tax Relief Fund. Annual appropriations are made from the fund, pursuant to formulas established by the Legislature, to counties, municipalities, and school districts.
- c. State Lottery Fund - This fund accounts for monies derived from the sale of lottery tickets and the subsequent payment of prizes to holders of winning lottery tickets.
- d. Unemployment Compensation Fund - This fund accounts for assessments received from employers and employees for unemployment compensation, and amounts credited or advances made by the Federal government to be used to provide benefits to eligible unemployed workers.

2. Governmental Fund Types

- a. Special Revenue Funds - These funds are used to account for the proceeds of specific revenue sources (other than special assessments, private-purpose trusts, or major capital projects) that are legally restricted to expenditure for specific purposes such as education, environment, and health care.

- b. Capital Projects Funds - To account for financial resources, usually general obligation bonds, capital projects funds are used for the acquisition or construction of major capital facilities for State use such as mental health, educational and correctional facilities, and public transportation projects. Funds granted to other units of government are not classified as capital projects funds and are included as expenditures of special revenue funds.

3. Fiduciary Fund Types

- a. Pension and Other Employee Benefit Trust Funds - These funds report resources that are required to be held in trust for members and beneficiaries of defined benefit pension plans, defined contribution plans, other post-employment benefit plans, and other employee benefit plans, such as the deferred compensation plan.
- b. Investment Trust Fund - This fund reports an investment pool that consolidates monies from municipalities, counties, school districts, and any other public body, corporate or politic.
- c. Private Purpose Trust Funds - These funds report all other trust arrangements for which principal and income benefit individuals, private organizations, or other governments.
- d. Agency Funds - These funds report resources held by the State in a purely custodial capacity. These funds typically involve only the receipt, temporary investment, and remittance of the resources to external parties.

4. Proprietary Fund Types

Enterprise Funds - These funds may be used to report any activity for which a fee is charged to external users for goods and services. Activities are required to be reported as enterprise funds if laws or regulations require that the activity's costs of providing services be recovered with fees and charges, rather than with taxes on similar revenues.

F. Appropriations and Outstanding Debt

The State Constitution provides that the Legislature may not create a debt (where total outstanding debt would exceed one percent of total appropriations for the year) unless such law has been submitted to the people at a general election and approved by a majority of the legally qualified voters. After approval by the electorate, and prior to any bond sale, the Legislature may make appropriations up to the legally authorized amount of such bonds, which enables the State to enter into contracts with vendors.

G. Assets

1. Cash and Cash Equivalents

Deposits encompass the State's cash on deposit with financial institutions and several cash equivalents, including certificates of deposit. All deposits including cash equivalents that are subject to federal or state depository insurance generally are classified as deposits. Only investments with an original maturity of three months or less are considered to be cash equivalents. See Note 3 for details.

2. Investments

Statutes of the State of New Jersey and regulations of the State Investment Council authorize the Division of Investment to invest in obligations of the U.S. Treasury, foreign governments, agencies, municipal or political subdivisions of the State, commercial paper, bankers acceptances, revenue obligations of public authorities, debt instruments of banks, collateralized notes and mortgages, certificates of deposit, repurchase agreements, equity and convertible equity securities, and other common types of investment securities.

In addition to the amounts invested directly, most of the funds included herein participate in the State of New Jersey Cash Management Fund wherein amounts also contributed by other units of government are combined into a large

scale investment program. The Pension Trust Funds also participate in a Common Pension Trust Fund pool whereby amounts contributed by the various Pension Trust Funds are combined for the purpose of investment. Participation in the Cash Management Fund investment pool and the Common Pension Trust Fund investment pool by State funds is reflected as investments in the Balance Sheets of the respective funds. Amounts contributed to the Cash Management Fund investment pool by local governments and other entities which are not part of the State's reporting entity, are reflected as investments in the Balance Sheet of the Investment Trust Fund.

Amounts contributed to the Cash Management Fund investment pool are recorded at cost, which approximates fair value. Any differences between cost and fair value for Cash Management Fund pool investments are immaterial. Other investments are recorded at fair value. Fair value is the amount at which a financial instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. See Note 4 for additional details.

3. Securities Lending Collateral

The Pension Trust Funds participate in securities lending programs with their custodian banks, whereby securities are loaned to brokers and, in return, the Pension Trust Funds have rights to the collateral received. All of the securities held in the Common Pension Trust Fund investment pool are eligible for the securities lending program. Collateral received may consist of cash, letters of credit, or government securities having a market value equal to or exceeding 102 percent (U.S. dollar denominated) or 105 percent (non-U.S. dollar denominated) of the value of the loaned securities at the time the loan is made. The contracts with the Common Pension Trust Fund investment pool custodian banks require them to indemnify the investment pool if the brokers fail to return the securities or fail to pay the investment pool for income distributions by the securities' issuers while the securities are on loan. The securities loans can be terminated by notification by either the broker or the investment pool. The term to maturity of the securities loans is generally matched with the term to maturity of the investment of cash collateral. As of June 30, 2009, the Pension Trust Funds have no aggregate credit risk exposure to brokers because the collateral amount held by the Pension Trust Funds exceeded the market value of the securities on loan. See Note 5 for additional details.

4. Receivables

Receivables in the State's governmental, fiduciary, and proprietary funds, Component Units - Authorities, and Component Units - College and University Funds are stated net of allowances for uncollectable amounts and primarily consist of federal revenues, taxes, loans, interest, contributions due from employers and members to the respective pension funds, mortgages, and other receivables. See Note 6 for details.

5. Capital Assets

Capital assets are tangible and intangible assets that are used in operations and that have initial useful lives that extend beyond a single reporting period. Capital assets are reported in the statement of net assets at cost or historical cost based on appraisals or other acceptable methods when historical cost information is not available. Donated fixed assets are recorded at estimated fair value at the time of donation. The State's capital assets consist of:

- a. All land, including parks, forests, easements, and development rights.
- b. Infrastructure assets such as roads, bridges, dams, highway lands, and rights-of-way.
- c. All general government buildings, including hospital, care, and correctional facilities.
- d. Land improvements, machinery and equipment, software, and motor vehicles used in general operations with a unit cost of at least \$25,000, \$20,000, \$100,000, and \$30,000 respectively. For the purpose of reporting, machinery and equipment, and software are consolidated into one category.
- e. Capital projects in the process of construction.

To measure depreciation expense, the State used the straight-line method, whereby the historical cost (or other capitalized amount) of depreciable assets, less their estimated salvage values, is allocated in equal annual amounts over the estimated useful lives of the assets. To estimate the useful lives of its capital assets, the State uses guidelines from industry organizations. There is no depreciation recorded for land, construction in progress, and rights-of-way.

Capital leases which are classified as capital assets are recorded in amounts equal to the lesser of the fair value of the asset or the present value of the future net minimum lease payments at the inception of the lease.

The State does not capitalize and depreciate works of art, historical treasures, and similar assets because the assets cannot be reasonably valued and/or the assets have inexhaustible useful lives. Capital assets utilized in the government funds are recorded as expenditures in the governmental fund financial statements.

6. Interfund/Intrafund Transactions

Interfund Transactions - During the course of normal operations, the State has numerous routine transactions between funds, including expenditures, and transfers of resources to provide administrative services, program services, debt service, and compliance with legal mandates, such as legislation requiring the transfer of investment earnings from a capital project fund to the General Fund. In the fund financial statements, these transactions generally are recorded as transfers to/transfers from other funds and due to/due from other funds. Operating transfers represent legally authorized transfers from a fund receiving revenue to the fund through which the resources are to be expended and do not represent reimbursement of expenses.

Intrafund Transactions - Intrafund transactions, as a result of contracts among departments within the same fund, are considered expenditures by the contractor and revenues by the contractee in the fund financial statements.

As a general rule, intrafund revenues and expenditures, interfund transfers, and interfund receivables and payables have been eliminated in the government-wide financial statements. An exception is the net residual amounts due between governmental and business-type activities, which is recorded as internal balances. Receivables from and payables to fiduciary funds are recorded in the statement of net assets as receivable from and payable to external parties.

H. Liabilities

1. Deferred Revenue

Deferred revenues at the fund level arise when potential revenue does not meet the available criterion for recognition in the current period. Deferred revenues also arise when resources are received by the State before it has a legal claim. In subsequent periods, when the revenue recognition criterion is met, or when the State has a legal claim to the resources, the liability for deferred revenue is removed from the balance sheet and revenue is recognized. Deferred revenues at the government-wide level arise only when the State receives resources before it has a legal claim to these resources.

Deferred revenue in the General Fund, at both levels, consists principally of amounts due from the Port Authority of New York and New Jersey.

2. Deferred Compensation

The State offers its employees a deferred compensation plan (the Plan) created in accordance with Internal Revenue Code Section 457. The Plan, which is administered by the Department of the Treasury, Division of Pensions and Benefits, permits participants to defer a portion of their salary until future years. Amounts deferred under the Plan are not available to employees until termination, retirement, death, or an unforeseeable emergency.

Under current Internal Revenue Service regulations, all monies that are deferred and any other assets or income of the Plan shall be held in trust for the exclusive benefit of the participating employees and their beneficiaries. The State has no liability for losses under the Plan but does have the duty of due care that would be required of an ordinary prudent investor.

The State's Employees' Deferred Compensation Plan is reported as a pension (and other employee benefits) trust fund in the fund financial statements. The Plan is fiduciary in nature, and thus is not reported in the government-wide financial statements.

3. Accumulated Unpaid Sick and Vacation Benefits

Cash payments for accumulated sick leave balances are made to retiring employees upon regular retirement. The payment is based on fifty percent of the employee's sick leave accumulation, at the pay rate in effect at the time of retirement up to a maximum of \$15,000. Employees separating from State service prior to retirement are not entitled to payments for accumulated sick leave balances. Cash payments for sick leave at retirement are made from annual legislative appropriations on a "pay-as-you-go" basis. Sick leave accumulations may also be used by an employee for a personal illness or injury as a means of continuing regular pay.

Employees annually earn 12 to 25 vacation days based on years of service and are permitted to carry over those days earned within a one-year period. The liability for accumulated employee sick leave and for accumulated vacation pay is reflected in the government-wide financial statements and the proprietary fund financial statements as noncurrent liabilities if due in more than one year, and as current liabilities-current portion of long-term obligations, if due within a year.

4. Other Long-term Obligations

In addition to accumulated unpaid sick and vacation benefits, other long-term obligations include general obligation bonds, revenue bonds, capital leases, installment obligations, certificates of participation, loans payable, and other liabilities of a long-term nature. The liability for long-term items described above is reflected in the government-wide financial statements and the proprietary fund financial statements as noncurrent liabilities, due in more than one year and as current liabilities-current portion of long-term obligations, if due within a year.

Bond and note premiums and discounts are amortized to interest expense based on the straight-line method. Capital appreciation bonds are reported at its net or accreted value rather than at face value. Bonds and notes payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges in other assets and are amortized over the term of the related debt.

In the governmental fund financial statements, governmental funds recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuance are reported as other financing sources while discounts are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as expenditures.

I. Net Assets

1. Invested in Capital Assets, Net of Related Debt - This component of net assets consists of 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.
2. Restricted - Net assets are reported as restricted when constraints placed on net asset use are either: (a) externally imposed by creditors, grantors, contributors, or laws or regulations of the other governments, or (b) imposed by law through constitutional provisions or enabling legislation.
3. Unrestricted - Unrestricted net assets consist of net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt."
4. Held in Trust for Pension Benefits and Other Purposes - This is used to accumulate all active member, State, and other employer contributions and investment income from which all benefit payments are made; also used to accumulate resources received as a result of trust arrangements or to accumulate resources held for investment.

J. Fund Balances

1. Reserved for Encumbrances - Used to segregate a portion of fund balance to provide for expenditure upon vendor performance of purchase agreements.
2. Reserved for Surplus Revenue - Used to identify that portion of fund balance commonly called the "Rainy Day Fund" which represents excess revenues that have been set aside per P.L. 1990, c.44.

3. Reserved for Other - Used to earmark a portion of the fund balance to indicate it is either a resource currently unavailable for appropriation or expenditure, or a statutory restriction on current fund balance.
4. Unreserved - General Fund, Special Revenue Funds, and Capital Projects Funds - Represents the following:
 - a. Unreserved Designated - Continuing Appropriations - Used to represent that portion of fund balance which has been appropriated by the Legislature, as well as those portions of fund balance of non-budgeted governmental funds so designated by management.
 - b. Unreserved Designated - Unrealized Gains - Used to represent the portion of fund balance that resulted from the fair value reporting of investments, i.e., the difference between investments reported at fair value and the amortized cost of those investments.
 - c. Unreserved Undesignated - Used to represent that portion of fund balance resources available for appropriation.

K. Fiscal Year End Differences

The following component units have fiscal years that ended on December 31, 2008:

Component Units - Authorities

Casino Reinvestment Development Authority
New Jersey Economic Development Authority
New Jersey Educational Facilities Authority
New Jersey Health Care Facilities Financing Authority
New Jersey Housing and Mortgage Finance Agency
New Jersey Meadowlands Commission
New Jersey Redevelopment Authority
New Jersey Sports and Exposition Authority
New Jersey Turnpike Authority
South Jersey Port Corporation
South Jersey Transportation Authority

Special Revenue Funds

New Jersey Building Authority (blended component unit)
New Jersey Schools Development Authority (blended component unit)

NOTE 2 - OTHER ACCOUNTING DISCLOSURES

A. Change in Accounting Policy

The State has adopted GASB Statement No.49, *Accounting and Financial Reporting for Pollution Remediation Obligations*.

B. Restatement of Net Asset Balance and Fund Balance

As a result of the implementation of GASB No. 49, the beginning fund balance for the New Jersey Schools Development Authority, a blended component unit, as well as the net asset balance for governmental activities, has decreased by \$7.0 million. In addition, the July 1, 2008 net asset balance for governmental activities was increased by \$267.0 million to reflect revised land improvements, building improvements, and infrastructure balances, net of depreciation adjustments.

C. Reclassifications

The Retail Margin Fund has been reclassified from a Special Revenue Fund to an account within the General Fund. Consequently, the July 1, 2008 fund balance for the General Fund has increased by \$106.1 million and the July 1, 2008 fund balance for the Non-Major Governmental Funds has decreased by \$106.1 million.

D. Deficit Fund Balance

The New Jersey Schools Development Authority, a blended component unit, is reporting a deficit fund balance of \$29.5 million, mainly resulting from the adoption of GASB Statement No. 49.

E. Joint Ventures

The Port Authority of New York and New Jersey
225 Park Avenue South
New York, NY 10003-1604
www.panynj.gov

Joint ventures are independently constituted entities generally created by two or more governments for a specific purpose such as contracting and maintaining an interstate bridge. Pursuant to current financial reporting standards, the State does not record its equity in joint ventures. The only significant joint venture in which the State of New Jersey participates is the Port Authority of New York and New Jersey. Individually published financial statements may be obtained by writing the Port Authority of New York and New Jersey at the above mentioned address. Other joint ventures are immaterial.

The Port Authority is a municipal corporate instrumentality of the States of New York and New Jersey created by compact between the two states in 1921 with the consent of the Congress of the United States. It is authorized and directed to plan, develop, and operate terminals and other facilities of transportation and commerce, and to advance projects in the general fields of transportation, economic development, and world trade that contribute to promoting and protecting the commerce and economy of the Port District, defined in the compact, which comprises an area of about 1,500 square miles in both states, centering about New York Harbor. The Governor of each State appoints six of the twelve members of the governing Board of Commissioners, subject to confirmation by the respective State Senate. Each Governor has from time to time exercised the statutory power to veto the actions of the commissioners from their state.

The commissioners serve six-year overlapping terms as public officials without compensation. They establish Authority policy, appoint an Executive Director to implement it, and also appoint a General Counsel to act as legal advisor to the Board and to the Executive Director. The Authority undertakes only those projects authorized by the two states.

The compact envisions the Port Authority as being financially self-sustaining and, as such, it must obtain the funds necessary for the construction or acquisition of facilities upon the basis of its own credit, its reserve funds, and its future revenues. The agency has neither the power to pledge the credit of either state or any municipality nor to levy taxes or assessments.

Consolidated financial statements for the Port Authority including the Passenger Facility Charges Program for the fiscal year ended December 31, 2008 disclosed the following (expressed in millions):

Financial Position

	<u>Combined Total</u>
Total Assets	\$ 25,037.6
Total Liabilities	<u>15,206.2</u>
Net Assets	<u>\$ 9,831.4</u>

Operating Results

Operating Revenues	\$ 3,739.2
Operating Expenses	(2,463.7)
Depreciation and Amortization	(715.4)
Net Recoverables (Expenses) Related to the Events of September 11, 2001	<u>457.9</u>
Income from Operations	1,018.0
Non-operating Revenues (Expense), Net	<u>(123.9)</u>
Net Income	<u>\$ 894.1</u>

Changes in Net Assets

Balance January 1, 2008	\$ 8,937.3
Net Income	<u>894.1</u>
Balance December 31, 2008	<u>\$ 9,831.4</u>

Except for Special Project Bonds, the Authority's debt is secured by its full faith and credit, its reserve funds, or a pledge of future revenues. Special Project Bonds are secured by a mortgage on the financed properties. At December 31, 2008, Port Authority debt consisted of the following (expressed in millions):

Bonds, Notes and Other Obligations

Consolidated Bonds and Notes	\$ 10,794.8
Special Project Bonds	1,118.1
Operating Asset Financing	510.8
Capital Asset Financing	<u>676.7</u>
	13,100.4
Less: Unamortized Discount and Premium	<u>(63.8)</u>
Total	<u>\$ 13,036.6</u>

F. Other

In accordance with GASB Statement No. 14, *The Financial Reporting Entity*, the debt and assets of the New Jersey Building Authority have been reduced for presentation herein in the amount of \$581.0 million, the amount of the present value of future lease payments by the State to the New Jersey Building Authority as of December 31, 2008.

In accordance with GASB Statement No. 24, *Accounting and Financial Reporting for Certain Grants and Other Financial Assistance*, an additional \$682.4 million in federal grant revenues and economic planning, development, and security expenditures has been recorded.

NOTE 3 - CASH AND CASH EQUIVALENTS

All funds maintain their own individual bank account(s) except for the Casino Control, Casino Revenue, Gubernatorial Elections, Special Transportation, and Property Tax Relief Funds which are in the General Fund bank accounts. The balances of cash for these funds held in the General Fund, after receipt and disbursement transactions, are accounted for and reflected in the respective due from or due to accounts on the balance sheet presented in the fund financial statements.

New Jersey Revised Statutes (52:18-16.1) set the policy that the State Treasurer must follow when depositing State funds and for the collateralization of such funds. The relationship between the face amount of the collateral and the amount of a deposit is not statutory but is stipulated by the State Treasurer. All bank accounts in which the State Treasurer deposits funds must be collateralized. Securities pledged as collateral must consist of obligations of, or be guaranteed by, the United States or the State of New Jersey. Securities are pledged in the State Treasurer's name and held by a custodian bank under a custodian agreement.

Collateral requirements for demand accounts and time accounts for banks having less than \$15 million in State deposits per month require 100 percent coverage of the highest daily balance of the preceding month. For banks that have State deposits which total \$15 million or more per month, the amount of collateral required is 120 percent of the total average daily balance on deposit in the bank during each calendar quarter of the year. The State Department of the Treasury monitors the level of collateral required to be maintained by the banks.

GASB Statement No. 40, *Deposit and Investment Risk Disclosures*, requires that the State disclose bank deposits that are subject to custodial credit risk. The custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, the State will not be able to recover deposits or will not be able to recover collateral securities that may be in the possession of an outside party. As of June 30, 2009 the State's bank balances amounted to \$278.1 million. Of these balances, \$8.8 million was exposed to custodial credit risk as uninsured and uncollateralized.

NOTE 4 – INVESTMENTS

Statutes of the State of New Jersey and regulations of the State Investment Council authorize the Division of Investment to invest in domestic and international equities and exchange traded funds; covered call and put options; equity futures contracts; obligations of the U.S. Treasury, government agencies, corporations, obligations of international corporations, governments and agencies; bank loans; interest rate swap transactions; credit default swaps; fixed income exchange traded funds; U.S. Treasury futures contracts; New Jersey State and Municipal general obligations; public authority revenue obligations; collateralized notes and mortgages; commercial paper; certificates of deposit; repurchase agreements; bankers acceptances; guaranteed income contracts; funding agreements; money market funds; private equity; real estate; other real assets; and absolute return strategy funds. Investee institutions and organizations are prescribed by the statutes and regulations based on such criteria as minimum capital, dividend paying history, credit history, and other evaluation factors.

The purchase, sale, receipt of income, and other transactions affecting investments are governed by custodial agreements between the investing funds through the State Treasurer and custodian banks as agents for the funds. State laws and policies set forth the requirements of such agreements and other particulars as to the size of the custodial institution, amount of the portfolio to be covered by the agreements, and other pertinent matters.

Federal securities, including those held as collateral on repurchase agreements, are maintained at Federal Reserve Banks in Philadelphia and New York through the custodian banks, in trust for the State of New Jersey. A significant portion of corporate equity and debt securities are maintained by the Depository Trust Company (DTC) through the custodian banks in trust for the State of New Jersey.

Securities not maintained by the Federal Reserve Banks or DTC are in the name of a designated nominee representing the securities of a particular State fund which establishes the State fund's unconditional right to the securities. The custodian banks, as agents for the State funds, maintain internal accounting records identifying the securities maintained by the Federal Reserve Banks and the DTC as securities owned by or pledged to the State funds.

In addition to the amounts invested directly, most of the funds included herein participate in the State of New Jersey Cash Management Fund wherein amounts also contributed by other units of government are combined into a large scale investment program. The Pension Trust Funds also participate in a Common Pension Trust Fund pool whereby amounts contributed by the various Pension Trust Funds are combined for the purpose of investment. Participation in the Cash Management Fund investment pool and the Common Pension Trust Fund investment pool by State funds is reflected as investments in the Balance Sheets of the respective funds. Amounts contributed to the Cash Management Fund investment pool by local governments and other entities which are not part of the State's reporting entity, are primarily reflected as investments in the Statement of Fiduciary Net Assets, Investment Trust Fund.

Amounts contributed to the Cash Management Fund investment pool are recorded at cost, which approximates fair value. Any differences between cost and fair value for Cash Management Fund pool investments are immaterial. All other investments are recorded at fair value. Fair value is the amount at which a financial instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale.

The State of New Jersey, Department of the Treasury, Division of Investment, issues publicly available financial reports that include the financial statements of the State of New Jersey Cash Management Fund and the Common Pension Funds. The financial reports may be obtained by writing to the State of New Jersey, Department of the Treasury, Division of Investment, P.O. Box 290, Trenton, New Jersey 08625-0290.

Casino Control, Casino Revenue, Gubernatorial Elections, Special Transportation, and Property Tax Relief Funds do not maintain separate investment accounts. Since cash transactions are handled by and through the General Fund as described in Note 3, any available cash balances for these funds reside in the General Fund and are combined with other balances for either participation in the State of New Jersey Cash Management Fund or direct investment as part of the General Fund large scale investment program. Except for the Casino Revenue Fund and the Casino Control Fund, investment earnings for these funds accrue to the General Fund.

Approximately \$611.7 million of investments represents deposit fund contracts for future installment payments of lottery prizes. Lottery prizes are funded by the purchase of deposit fund contracts which, when matured, will provide amounts sufficient for future payment of installment prizes. Purchases of deposit fund contracts are recorded as an expenditure in the State Lottery Fund in the year of purchase. Annuity contracts are carried at their current contract values which are based upon their original purchase price adjusted for credited interest and amounts already received. The estimated fair value of annuity contracts approximates the carrying value reflected in the balance sheet. In the event of default in making future payments by the insurance company from which the contracts were purchased, the State Lottery Commission would be liable for such future payments.

Investments for all funds are as follows (expressed in millions):

	Amount Reported As Investments
Domestic fixed income securities	\$ 36,091.5
Domestic equities	17,317.0
International equities	11,998.6
Private equities	2,982.4
Absolute return strategy funds	2,743.3
Real estate	1,589.0
Mortgages	1,367.9
Bank loan funds	1,027.8
Annuity contracts	611.7
Commodity funds	547.1
Mutual funds	418.0
International fixed income securities	30.8
Repurchase agreements	2.6
Total investments	<u>76,727.7</u>
Unallocated administrative expenses and transaction exchanges	(445.6)
Net amount recorded as investments	<u><u>\$ 76,282.1</u></u>

As Reported on the Government-wide Statement of Net Assets and Statement of Fiduciary Net Assets:

	Current Investments	Non-Current Investments	Total
Governmental activities	\$ 6,049.8	\$ -	\$ 6,049.8
Business-type activities	288.5	481.1	769.6
Fiduciary funds	<u>69,462.7</u>	<u>-</u>	<u>69,462.7</u>
Total	<u><u>\$ 75,801.0</u></u>	<u><u>\$ 481.1</u></u>	<u><u>\$ 76,282.1</u></u>

The State's investments are subject to various risks. Among these risks are credit risk, concentration of credit risk, interest rate risk, and foreign currency risk. Each one of these risks is discussed in more detail below.

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The credit risk of a debt instrument is measured by nationally recognized statistical rating agencies such as Moody's Investors Service, Inc. (Moody's), Standard & Poor's Corporation (S&P), or Fitch Ratings (Fitch). Concentration of credit risk is the risk of loss attributed to the magnitude of an investment in a single issuer. There are no restrictions in the amount that can be invested in United States Treasury and government agency securities. State regulations require minimum credit ratings for certain categories of fixed income obligations and limit the amount that can be invested in any one issuer or issue. As of June 30, 2009 the following limits were in effect.

Category	Minimum Rating			Limitation of Issuers' Outstanding Debt	Limitation of Issue	Other Limitations
	Moody's	S&P	Fitch			
Corporate obligations	Baa3	BBB-	BBB-	10%	25%	Not more than 5% of fund assets can be invested in one corporation
International corporate obligations	Baa3	BBB-	BBB-	10%	25%	Limited to not more than 5% of fund assets in any one issuer; not more than 10% of fund assets can be invested in this category
International government and agency obligations	Baa3	BBB-	BBB-	25%	Greater of 25% or \$10 million	-
Collateralized notes and mortgages	Baa3	BBB-	BBB-	-	25%	Not more than 5% of fund assets can be invested in one issuer
Commercial paper	P-1	A-1	F1	-	-	-
Certificates of deposit and bankers acceptances:						Certificates of deposit and bankers acceptances cannot exceed 10% of issuer's primary capital
Domestic	A3/P-1	A-/A-1	A-/F1	-	-	
International	Aa3/P-1	AA-/A-1	AA-/F1	-	-	
Credit default swap transactions	A1	A+	A+	-	-	Nominal value of net exposure to any one counterparty shall not exceed 10% of fund assets
Guaranteed income contracts	A3	A-	A-	-	-	-
Money market funds	-	-	-	-	-	Limited to 10% of the assets of the fund
Interest rate swap transactions	A1	A+	A+	-	-	Notional value of net exposure to any one counterparty shall not exceed 10% of fund assets
Repurchase agreements	Aa3	AA-	AA-	-	-	-
New Jersey state and municipal obligations	A3	A-	A-	10%	10%	Limit of 2% of fund assets can be invested in debt of any one entity
Public Authority revenue obligations	A3	A-	A-	-	10%	Limit of 2% of fund assets in any one authority
Mortgage backed pass through securities	A3	A-	A-	-	-	Limit of 5% of fund assets in any one issue
Mortgage backed senior debt securities	-	-	-	-	25%	Limit of 5% of fund assets in any one issue
Non-convertible preferred stocks of U.S. corporations	Baa3	BBB-	BBB-	10%	25%	Limit of 5% of fund assets in any one corporation
Bank loans	Baa3	BBB-	BBB-	-	-	Limit of 5% of fund assets

Effective December 15, 2008, up to five percent of the market value of the combined assets of the pension and annuity funds may be invested in corporate obligations, international corporate obligations, collateralized notes and mortgages, bank loans, non-convertible preferred stocks, and mortgage backed pass-through securities that do not meet the minimum credit rating requirements set forth above. Prior to that, the limitation excluded bank loans and non convertible preferred stocks.

For securities exposed to credit risk in the fixed income portfolio, the following tables disclose aggregate fair value, by major credit quality rating category at June 30, 2009. The first table is for bonds rated by Moody's. The second table uses Standard and Poor's ratings for bonds not rated by Moody's (expressed in millions):

	Moody's Rating					
	Aaa	Aa	A	Baa	Ba	P-1
United States Treasury bills	\$ 8,984.9	\$ -	\$ -	\$ -	\$ -	\$ -
United States Treasury notes	2,178.7	-	-	-	-	-
United States Treasury TIPS	3,391.8	-	-	-	-	-
United States Treasury bonds	2,238.6	-	-	-	-	-
United States Treasury strips	664.2	-	-	-	-	-
United States Government Agency	290.5	-	-	-	-	-
Government agency strips	522.3	-	-	-	-	-
Title XI merchant marine notes	1.8	-	-	-	-	-
Federal farm credit bank bonds	74.2	-	-	-	-	-
Federal home loan bank						
discounted notes	41.4	-	-	-	-	-
Federal home loan mortgage						
corporation notes	282.8	-	-	0.1	0.1	-
Federal national mortgage						
association notes	27.3	-	-	-	-	-
Floating rate notes	-	-	11.3	26.8	2.5	-
Domestic corporate obligations	369.0	1,503.2	4,359.8	3,624.9	233.0	-
Convertible bonds	-	-	-	27.3	-	-
International corporate obligations	-	129.4	705.1	648.4	16.3	-
Repurchase agreements	2.6	-	-	-	-	-
International bonds and notes	70.7	85.1	-	-	-	-
Foreign government obligations	29.9	303.6	24.8	-	-	-
Municipal bonds	-	11.1	24.0	1.6	-	-
Remic/FHLMC/FNMA	618.5	-	-	-	-	-
Mortgages/FHLM/FNMA/GNMA	144.0	-	-	-	-	-
SBA pass through certificates	170.6	-	-	0.3	-	-
Asset backed obligations	32.5	29.6	-	105.0	-	-
Private export obligations	25.0	-	-	-	-	-
Commercial paper	-	50.7	-	-	-	2,061.4
Certificates of deposit	-	-	-	-	-	1,280.0
Other	7.7	0.7	2.5	3.5	0.8	0.4
	<u>\$ 20,169.0</u>	<u>\$ 2,113.4</u>	<u>\$ 5,127.5</u>	<u>\$ 4,437.9</u>	<u>\$ 252.7</u>	<u>\$ 3,341.8</u>

	Standard & Poors's Rating					
	A	AA	B	BB	BBB	CC
Domestic corporate obligations	\$ 26.6	\$ -	\$ -	\$ -	\$ 1.2	\$ 1.0
Convertible bonds	-	-	-	1.4	-	-
International corporate obligations	-	-	0.6	0.9	-	-
Asset backed obligations	-	21.2	-	-	-	-
	<u>\$ 26.6</u>	<u>\$ 21.2</u>	<u>\$ 0.6</u>	<u>\$ 2.3</u>	<u>\$ 1.2</u>	<u>\$ 1.0</u>

The tables do not include various domestic corporate obligations given a Standard & Poor's rating of CCC (\$1.8million); and D (\$1.1 million); and a Moody's rating of B (\$148.7 million); Bb (\$0.2 million); C (\$0.1 million); Ca (\$20.8 million); and Caa (\$67.6 million); international corporate obligations given a Moody's rating of B (\$28.2 million); C (\$0.6 million) and Caa (\$2.6 million); high yield structured notes given a Moody's rating of Caa (\$79.1 million); floating rate notes given a Moody's rating of B (\$6.3 million) and Caa (\$2.4 million); convertible bonds given a Moody's rating of B (\$0.5 million) and Caa (\$0.8 million); international floating rate notes given a Moody's rating of B (\$1.5 million); SBA pass through certificates given a Moody's rating of B (\$0.2 million); and Federal home loan mortgage association notes given a Moody's rating of B (\$0.1 million).

In addition, the Police and Firemen's mortgages of \$1,367.9 million, exchange traded funds of \$163.3 million, asset backed obligations of \$45.3 million, Federal home loan mortgage corporation notes of \$24.3 million, convertible bonds of \$10.1 million, international floating rate notes of \$10.0 million, foreign government obligations of \$9.9 million, domestic corporate obligations of \$4.0 million, and international corporate obligations of \$0.2 million are unrated.

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Commercial paper must mature with 270 days. Certificates of deposits and bankers acceptance are limited to a term of one year or less. Repurchase agreements must mature with 30 days. The investment in guaranteed income contracts and funding agreements is limited to a term of ten years or less.

The following table summarizes the maturities (or, in the case of Remics, Police and Firemen's mortgages, and mortgage backed securities, the expected average life) of the fixed income portfolio at June 30, 2009 (expressed in millions):

	Total Fair Value	Maturities in Years			
		Less than 1	1-5	6-10	More than 10
United States Treasury bills	\$ 8,984.9	\$ 8,984.9	\$ -	\$ -	\$ -
United States Treasury notes	2,178.7	1,965.7	94.4	81.7	36.9
United States Treasury TIPS	3,391.8	73.2	0.2	0.3	3,318.1
United States Treasury bonds	2,238.6	-	-	-	2,238.6
United States Treasury strips	664.2	-	-	-	664.2
United States Government Agency	290.5	4.8	68.7	9.3	207.7
Government agency strips	522.3	-	-	-	522.3
Title XI merchant marine notes	1.8	-	-	-	1.8
Federal farm credit bank bonds	74.2	-	-	74.2	-
Federal home loan bank discounted notes	41.4	-	-	-	41.4
Federal home loan mortgage corporation notes	307.4	33.9	104.7	131.9	36.9
Federal national mortgage association notes	27.3	27.3	-	-	-
Floating rate notes	49.3	13.2	6.0	3.4	26.7
Domestic corporate obligations	10,363.0	261.1	657.7	3,106.8	6,337.4
Convertible bonds	40.1	-	2.2	1.3	36.6
International corporate obligations	1,532.3	0.4	14.5	308.7	1,208.7
Repurchase agreements	2.6	2.6	-	-	-
International floating rate notes	11.5	-	10.0	1.5	-
International bonds and notes	155.8	-	-	155.8	-
Foreign government obligations	368.2	15.2	24.6	75.2	253.2
Municipal bonds	36.7	-	-	-	36.7
Remic/FHLMC/FNMA	618.5	-	20.4	-	598.1
Mortgages/FHLM/FNMA/GNMA	144.0	-	7.3	4.2	132.5
Police and firemen's mortgages	1,367.9	-	-	-	1,367.9
High yield structured notes	79.1	-	79.1	-	-
SBA pass through certificates	171.1	-	0.2	170.9	-
Asset backed obligations	233.6	-	-	15.3	218.3
Private export obligations	25.0	-	-	25.0	-
Commercial paper	2,112.1	2,112.1	-	-	-
Certificates of deposit	1,280.0	1,280.0	-	-	-
Other	15.6	4.8	5.3	2.5	3.0
	<u>\$ 37,329.5</u>	<u>\$ 14,779.2</u>	<u>\$ 1,095.3</u>	<u>\$ 4,168.0</u>	<u>\$ 17,287.0</u>

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment. As mentioned previously, the State's Pension Trust Funds participate in the Common Pension Trust Fund pool. The Common Pension Fund D account within this investment pool reflects the State's investments in global markets. Effective August 20, 2007, the fair value of international preferred and common stocks and issues convertible into common stocks, when combined with the fair value of international government and agency obligations, cannot exceed 30 percent of the fair value of the Common Pension Fund D account. Previously, this limitation was 22 percent. The market value of emerging market securities cannot exceed more than 1.5 times the percentage derived by dividing the total market capitalization of the companies included in the Morgan Stanley Capital International (MSCI) Emerging Market Index by the total market value of the assets held by Common Pension Fund D account. Not more than 10 percent of the market value of the emerging market securities can be invested in the common and preferred stock of any one corporation. The total amount of stock purchased in any one corporation cannot exceed 5 percent of its stock classes eligible to vote. State regulations permit entering into foreign exchange contracts for the purpose of hedging the international portfolio. The State held forward contracts at June 30, 2009 totaling \$4.9 billion and payables totaling approximately \$4.7 billion (with a \$126.0 million net exposure). At June 30, 2009, the State had the following foreign currency exposure based on exchange rates in effect for such day (expressed in millions of U.S. dollars):

Currency	Total Fair Value	Equities	Foreign Government Obligations	Alternative Investments
Australian dollar	\$ 656.7	\$ 656.7	\$ -	\$ -
Brazilian Real	91.4	91.4	-	-
British pound sterling	1,557.0	1,542.2	-	14.8
Canadian dollar	187.0	187.0	-	-
Chilean peso	3.4	3.4	-	-
Czech koruna	7.8	7.8	-	-
Danish krone	186.3	186.3	-	-
Euro dollar	3,706.6	3,485.0	29.9	191.7
Egyptian pound	19.0	19.0	-	-
Hong Kong dollar	457.4	457.4	-	-
Hungarian forint	7.5	7.5	-	-
Indonesian rupiah	31.5	31.5	-	-
Israeli shekel	14.3	14.3	-	-
Japanese yen	1,944.8	1,944.8	-	-
Malaysian ringgit	12.4	12.4	-	-
Mexican peso	9.0	9.0	-	-
New Taiwan dollar	10.8	10.8	-	-
Norwegian krone	176.7	176.7	-	-
Pakistan rupee	2.4	2.4	-	-
Philippines peso	0.7	0.7	-	-
Polish zolty	7.1	7.1	-	-
Singapore dollar	172.6	172.6	-	-
South African rand	89.6	89.6	-	-
South Korean won	105.0	105.0	-	-
Swedish krona	165.3	164.4	0.9	-
Swiss franc	879.4	879.4	-	-
Thailand baht	25.6	25.6	-	-
Turkish lira	39.1	39.1	-	-
	<u>\$ 10,566.4</u>	<u>\$ 10,329.1</u>	<u>\$ 30.8</u>	<u>\$ 206.5</u>

The State's interests in alternative investments may contain elements of credit, currency, and market risk. Such risks include, but are not limited to, limited liquidity, absence of regulatory oversight, dependence upon key individuals, emphasis on speculative investments (both derivatives and non-marketable investments), and nondisclosure of portfolio composition. State regulations require that not more than 28 percent of the market value of the Pension Fund can be invested in alternative investments, with the individual categories of real estate, real assets, private equities, and absolute return strategy investments limited to 7 percent. The Common Pension Fund E account within the Common Pension Trust Fund pool reflects the State's alternative investments. Not more than 5 percent of the market value of Common Pension Fund E plus outstanding commitments may be committed to any one partnership or investment, without the prior written approval of the State Investment Council. The investments in Common Pension Fund E cannot comprise more than 20 percent of any one investment manager's total assets.

NOTE 5 - SECURITIES LENDING COLLATERAL

The securities lending collateral is subject to various risks. Among these risks are credit risk, concentration of credit risk, and interest rate risk. Agreements with the lending agents require minimum credit ratings for certain categories of fixed income obligations and limit the amount that can be invested in any one issuer or issue. These limits are consistent with Council regulations and internal policies for funds managed by the Division of Investment, Department of the Treasury.

The following limits became effective December 15, 2008:

Category	Minimum Rating			Limitation of Issuer's Outstanding Debt	Limitation of Issue	Other Limitations
	Moody's	S&P	Fitch			
Corporate obligations	A2	A	A	10%	25%	-
Collateralized notes and mortgages	Aa	AA	AA	-	25%	Limited to not more than 10% of the assets of the collateral portfolio
Commercial paper	P-1	A-1	F1	-	-	-
Certificates of deposit and bankers acceptances:						Uncollateralized certificates of deposit and bankers
Domestic	A2/P-1	A-/A-1	A-/F1	-	-	acceptances cannot exceed 10%
International	Aa3/P-1	AA-/A-1	AA-/F1	-	-	of issuer's primary capital
Guaranteed income contracts and funding agreements	A2	A	A	-	-	Limited to 5% of the assets of the collateral portfolio
Money market funds	-	-	-	-	-	Limited to 10% of the assets of the collateral portfolio

Through December 14, 2008, the following limits were effective:

Category	Minimum Rating			Limitation of Issuer's Outstanding Debt	Limitation of Issue	Other Limitations
	Moody's	S&P	Fitch			
Corporate obligations	Baa3	BBB-	BBB-	10%	25%	-
US finance company debt and bank debentures	Baa3	BBB-	BBB-	10%	25%	-
Collateralized notes and mortgages	Baa3	BBB-	BBB-	-	25%	Limited to not more than 10% of the assets of the collateral portfolio
Commercial paper	P-1	A-1	F1	-	-	-
Certificates of deposit and bankers acceptances:						Uncollateralized certificates of deposit and bankers
Domestic	A3/P-1	A-/A-1	A-/F1	-	-	acceptances cannot exceed
International	Aa3/P-1	AA-/A-1	AA-/F1	-	-	10% of issuer's primary capital
Guaranteed income contracts and funding agreements	A3	A-	A-	-	-	Limited to 5% of the assets of the collateral portfolio
Money market funds	-	-	-	-	-	Limited to 10% of the assets of the collateral portfolio

Prior to December 15, 2008, all investments in the collateral portfolio matured or were redeemed within one year, except that up to 25% of the portfolio may be invested in eligible securities which mature within 25 months; provided, however, that the average maturity of all investments shall not exceed one year. Effective December 15, 2008, all investments in the collateral portfolio must mature or be redeemed within one year.

Commercial paper maturities cannot exceed 270 days. Repurchase agreement maturities cannot exceed 30 days. Certificates of deposit and bankers acceptances must mature in one year or less.

The collateral for repurchase agreements is limited to obligations of the U.S. Government or certain U.S. Government agencies, collateralized notes and mortgages, and corporate obligations meeting certain minimum rating criteria.

Total exposure to any individual issuer is limited, except for U.S. Treasury and Government Agency Obligations. For money market funds, the total amount of shares or units purchased or acquired of any money market fund shall not exceed five percent of the shares or units outstanding of said money market fund. For collateralized notes, not more than two percent, of the assets of the collateral portfolio shall be invested in the obligations of any one issue, for mortgages, not more than five percent. For guaranteed income contracts, and funding agreements, the total investment in any one issuer shall be limited to 2.5 percent of the collateral portfolio. Prior to December 15, 2008 the State set individual issuer limits for commercial paper and certificate of deposits; subsequently, the State sets issuer limits for all investments in the collateral portfolio.

For securities exposed to credit risk in the collateral portfolio, the following table disclosures aggregate market value, by major credit quality rating category at June 30, 2009 (expressed in millions):

	Moody's Rating								Totals
	Aaa/AAA	Aa/AAA	Aa/AA	a/AA	Aa/A	A/A	A/AA	Not rated	
Corporate obligations	\$ -	\$ 99.8	\$ 642.4	\$ 15.0	\$ 109.7	\$ 759.9	\$ 169.0	\$ 29.6	\$ 1,825.4
Commercial paper	-	-	-	-	-	-	-	200.0	200.0
Certificates of deposit	-	-	100.0	-	100.0	-	-	50.0	250.0
Guaranteed investment contracts	-	-	100.0	-	-	-	150.0	-	250.0
Repurchase agreements	-	-	-	-	-	-	-	1,726.8	1,726.8
Money market funds	151.6	-	-	-	-	-	-	315.7	467.3
US Agencies	70.0	-	-	-	-	-	-	-	70.0
	<u>\$ 221.6</u>	<u>\$ 99.8</u>	<u>\$ 842.4</u>	<u>\$ 15.0</u>	<u>\$ 209.7</u>	<u>\$ 759.9</u>	<u>\$ 319.0</u>	<u>\$ 2,322.1</u>	<u>\$ 4,789.5</u>

At June 30, 2009, all investments in the collateral portfolio will mature in less than one year.

As of June 30, 2009, the Pension Funds had received cash collateral of \$4.8 billion and non-cash collateral of \$13.5 million of outstanding loaned investment securities having market values of \$4.7 billion.

NOTE 6 - RECEIVABLES

Fiduciary funds' receivables are not disclosed in the statement of net assets. However, these receivables are disclosed in the fund financial statements and consist primarily of amounts due from employers and employees and accrued earnings on investments. Receivables presented in the statement of net assets are described below.

A. Federal

Federal government grant awards are established against State appropriations. Most Federal government receivables are comprised of amounts expended against grant awards, the expenditure of which is the basis of reimbursement. Since all amounts due from the Federal government are considered to be collectible, no allowance has been established for doubtful collections. Also see Note 19 – Contingent Liabilities.

These Federal receivables are reported in conformance with generally accepted accounting principles as defined in Statement No. 2 - *Grant, Entitlement and Shared Revenue Accounting and Reporting by State and Local Governments* published by the National Council on Governmental Accounting. Inasmuch as encumbrances do not constitute expenditures, and since recognition of grants and entitlements as revenue is primarily based on expenditures, there is an additional \$3.1 billion of Federal

government awards consisting of encumbrances and appropriation balances which are considered unearned and unrecorded as of June 30, 2009.

Federal receivable balances in the Unemployment Compensation Fund (\$215.1 million) represent unemployment contributions transferred to the Federal Reserve Bank for deposit in the Federal Unemployment Trust Fund. All monies are invested by the Federal Government and interest earnings are credited to the Unemployment Compensation Fund.

B. Departmental

Departmental accounts receivable of \$3.4 billion include amounts which were substantially collected within the one month period subsequent to June 30 and include most major tax revenues. Amounts included in these receivables but not collected within the one month period subsequent to June 30 are deemed to be collectible, and are reflected net of allowances (\$381.2 million).

C. Loans

Loans receivable of \$1.5 billion are reduced by allowances of \$70.5 million and include \$1.3 billion due from local units of government and other recipients for environmental projects, \$46.4 million loaned for economic development within local units of government, and \$11.6 million loaned for housing and mortgage assistance.

D. Other

Other receivables totaling \$1.8 billion are reduced by allowances of \$750.6 million and include tax receivables due of \$388.2 million, \$541.0 million due from the Port Authority of New York and New Jersey, \$145.8 million due from tobacco companies, and \$84.6 million due from proceeds of Motor Vehicle Commission bonds which are held by the trustee.

NOTE 7 – CAPITAL ASSETS

A summary of capital assets and related accumulated depreciation by category as of June 30 2009 is as follows (expressed in millions):

	<u>Balance July 1, 2008*</u>	<u>Additions</u>	<u>Deductions</u>	<u>Transfers/ Adjustments</u>	<u>Balance June 30, 2009</u>
Capital assets, not being depreciated:					
Land and easements	\$ 4,418.0	\$ 162.6	\$ -	\$ -	\$ 4,580.6
Construction in progress**	3,147.6	1,552.5	-	(1,557.8)	3,142.3
Capital assets, being depreciated:					
Land improvements	194.5	-	-	8.9	203.4
Buildings and improvements	3,001.3	10.8	24.2	431.4	3,419.3
Machinery, equipment, and software	565.1	41.0	15.7	14.2	604.6
Infrastructure	16,372.2	-	-	1,094.4	17,466.6
Total at historical cost	<u>27,698.7</u>	<u>1,766.9</u>	<u>39.9</u>	<u>(8.9)</u>	<u>29,416.8</u>
Less accumulated depreciation:					
Land improvements	110.9	5.8	-	-	116.7
Buildings and improvements	1,570.0	105.3	21.6	-	1,653.7
Machinery, equipment, and software	292.6	69.7	13.1	-	349.2
Infrastructure	6,232.0	436.7	-	-	6,668.7
Total accumulated depreciation	<u>8,205.5</u>	<u>617.5</u>	<u>34.7</u>	<u>-</u>	<u>8,788.3</u>
Governmental activities capital assets, net	<u>\$ 19,493.2</u>	<u>\$ 1,149.4</u>	<u>\$ 5.2</u>	<u>\$ (8.9)</u>	<u>\$ 20,628.5</u>

* The July 1, 2008 capital asset balance has been restated by a net \$303.2 million and the accumulated depreciation balance has been increased by \$36.2 million to reflect the revised land improvements, building improvements, and infrastructure.

** Construction in progress includes infrastructure projects and software in development.

A. Items Not Capitalized and Depreciated

The State possesses certain capital assets that have not been capitalized and depreciated because the assets cannot be reasonably valued and/or the assets have inexhaustible useful lives. Examples of these assets include, but are not limited to statues, monuments, forts, lighthouses, and various capitol related furnishings. Collections, such as historical documents, artifacts, works

of art, rare library books, and antique furnishings are not capitalized. These assets are exempted from capitalization as the State maintains the collections for reasons other than financial gain; the collections are protected, kept unencumbered, cared for and preserved; and the collections are subject to an organizational policy requiring that the proceeds from sales of collection items be used to acquire other items for collections.

B. Depreciation and Useful Lives

Capital assets are depreciated using the straight line method. The State assigned useful lives that were most suitable for the particular assets. Estimated useful lives were in an allowable range as follows:

<u>Asset</u>	<u>Years</u>
Land improvements	10-50
Building and improvements	12-60
Machinery and equipment	4-30
Infrastructure	4-70

Depreciation was charged to functions of the primary government as follows (expressed in millions):

	<u>Amount</u>
Public safety and criminal justice	\$ 62.3
Physical and mental health	14.6
Educational, cultural, and intellectual development	16.7
Community development and environmental management	16.5
Economic planning development, and security	24.3
Transportation programs	444.5
Government direction, management, and control	32.3
Special government services	6.3
	<u>\$ 617.5</u>

NOTE 8 - INTERFUND TRANSACTIONS

During the course of normal operations, the State has numerous routine transactions between funds, including interfund loans, expenditures, and transfers of resources to provide administrative services, program services, debt service, and compliance with legal mandates, such as legislation requiring the transfer of investment earnings from a capital project fund to the General Fund. In the fund financial statements, these transactions generally are recorded as transfers in/transfers (out) and due to/due from other funds. Operating transfers represent legally authorized transfers from a fund receiving revenue to the fund through which the resources are to be expended and do not represent reimbursement of expenses.

A. Due From/Due To Other Funds

The balances of current interfund receivables and payables at June 30, 2009 are presented below (expressed in millions):

	<u>General Fund</u>	<u>Property Tax Relief Fund</u>	<u>Non-Major Governmental Funds</u>	<u>State Lottery Fund</u>	<u>Unemployment Compensation Fund</u>	<u>Fiduciary Funds</u>	<u>Total</u>
Due from:							
General Fund	\$ -	\$ -	\$ 254.1	\$ -	\$ 120.2	\$ 107.9	\$ 482.2
Property Tax Relief Fund	275.2	-	9.1	-	20.7	64.0	369.0
Non-Major Governmental Funds	500.1	0.6	284.9	-	0.8	-	786.4
State Lottery Fund	108.2	-	-	-	-	-	108.2
Unemployment Compensation Fund	-	0.6	17.8	-	-	-	18.4
Fiduciary Funds	8.2	10.6	-	-	-	1.3	20.1
Total Due from	<u>\$ 891.7</u>	<u>\$ 11.8</u>	<u>\$ 565.9</u>	<u>\$ -</u>	<u>\$ 141.7</u>	<u>\$ 173.2</u>	<u>\$ 1,784.3</u>
Due to:							
General Fund	\$ -	\$ 275.2	\$ 500.1	\$ 108.2	\$ -	\$ 8.2	\$ 891.7
Property Tax Relief Fund	-	-	0.6	-	0.6	10.6	11.8
Non-Major Governmental Funds	254.1	9.1	284.9	-	17.8	-	565.9
Unemployment Compensation Fund	120.2	20.7	0.8	-	-	-	141.7
Fiduciary Funds	107.9	64.0	-	-	-	1.3	173.2
Total Due to	<u>\$ 482.2</u>	<u>\$ 369.0</u>	<u>\$ 786.4</u>	<u>\$ 108.2</u>	<u>\$ 18.4</u>	<u>\$ 20.1</u>	<u>\$ 1,784.3</u>

B. Transfer In/(Out)

Interfund transfers for the fiscal year ended June 30, 2009 are presented below (expressed in millions):

	<u>General Fund</u>	<u>Property Tax Relief Fund</u>	<u>Non-Major Governmental Funds</u>	<u>State Lottery Fund</u>	<u>Unemployment Compensation Fund</u>	<u>Fiduciary Funds</u>	<u>Total</u>
Transfers (out) to:							
General Fund	\$ -	\$ -	\$ (1,212.0)	\$ (908.7)	\$ (22.8)	\$ (3.0)	\$ (2,146.5)
Property Tax Relief Fund	(846.8)	-	-	-	-	-	(846.8)
Non-Major Governmental Funds	(2,261.1)*	-	(1,540.9)	-	-	-	(3,802.0)
Unemployment Compensation Fund	(120.0)	-	-	-	-	-	(120.0)
Total Transfers (Out)	<u>\$ (3,227.9)</u>	<u>\$ -</u>	<u>\$ (2,752.9)</u>	<u>\$ (908.7)</u>	<u>\$ (22.8)</u>	<u>\$ (3.0)</u>	<u>\$ (6,915.3)</u>
Transfers in from:							
General Fund	\$ -	\$ 846.8	\$ 1,714.1	\$ -	\$ 120.0	\$ -	\$ 2,680.9
Non-Major Governmental Funds	1,212.0	-	1,540.9	-	-	-	2,752.9
State Lottery Fund	908.7	-	-	-	-	-	908.7
Unemployment Compensation Fund	22.8	-	-	-	-	-	22.8
Fiduciary Funds	3.0	-	-	-	-	-	3.0
Total Transfers In	<u>\$ 2,146.5</u>	<u>\$ 846.8</u>	<u>\$ 3,255.0</u>	<u>\$ -</u>	<u>\$ 120.0</u>	<u>\$ -</u>	<u>\$ 6,368.3</u>
Net Transfers	<u>\$ (1,081.4)</u>	<u>\$ 846.8</u>	<u>\$ 502.1</u>	<u>\$ (908.7)</u>	<u>\$ 97.2</u>	<u>\$ (3.0)</u>	<u>\$ (547.0)</u>

* The New Jersey Schools Development Authority (a blended component unit included in the Non-Major Governmental Funds) has a fiscal year end of December 31, 2008. Due to the State having a June 30, 2009 fiscal year end, transactions between the New Jersey Schools Development Authority and the General Fund have created an imbalance within the transfers.

NOTE 9 - SHORT-TERM DEBT

Tax and Revenue Anticipation Notes

The State issues short-term debt instruments in the form of tax and revenue anticipation notes in advance of income tax and corporation business tax collections, depositing the proceeds in the General Fund. These notes are used to provide effective cash management to fund the imbalances that occur between the collection of revenues and the disbursement of appropriations of the General Fund and Property Tax Relief Fund. The \$1.8 billion of borrowings was repaid in full prior to the end of the fiscal year. Short-term debt activity for the year ended June 30, 2009 was as follows (expressed in millions):

	Outstanding		Issued		Redeemed		Outstanding
	July 1, 2008						June 30, 2009
Tax and Revenue Anticipation Notes	\$ --		\$ 1,800.0		\$ (1,800.0)		\$ --

NOTE 10 – LONG-TERM OBLIGATIONS

The State's long-term debt is divided into bonded and non-bonded categories. Bonded categories include General Obligation Bonds, Revenue Bonds Payable, certain Capital Leases, Installment Obligations, Certificates of Participation, Unamortized Premium, Tobacco Settlement Financing Corporation, Inc. Bonds ("TSFC"), Unamortized Deferral on Refunding, and Unamortized Interest on Capital Appreciation Bonds. Non-bonded categories include Accumulated Sick and Vacation Payable, certain Capital Leases, Loans Payable, Net Pension Obligation, Pollution Remediation Obligation, Other Postemployment Benefits, Other, and Deposit Fund Contracts.

A. Changes in Long-term Debt

The following schedule represents the changes in the State's long-term debt (expressed in millions):

	Outstanding		Additions		Deductions		Outstanding	Amounts
	July 1, 2008						June 30, 2009	Due Within
								One Year
Governmental Activities								
Bonded Debt								
General Obligation Bonds	\$ 2,818.5		\$ 228.8		\$ 520.6		\$ 2,526.7	\$ 139.1
Revenue Bonds Payable	13,702.4		3,528.7		393.1		16,838.0	362.9
Capital Leases	286.5		-		17.1		269.4	18.0
Installment Obligations	18,218.0		1,372.2		873.8		18,716.4	870.7
Certificates of Participation	54.7		7.4		27.0		35.1	18.3
Unamortized Premium	1,412.8		55.1		111.3		1,356.6	-
Tobacco Settlement Financing Corporation, Inc.	4,591.4		-		66.8		4,524.6	11.8
Unamortized Deferral on Refunding	(865.7)		3.6		(68.4)		(793.7)	-
Unamortized Interest on Capital Appreciation Bonds	(6,347.6)		(1,899.3)		(286.8)		(7,960.1)	-
Non-Bonded Debt								
Accumulated Sick and Vacation Payable	595.9		344.9		305.0		635.8	344.9
Capital Leases	410.6		24.7		55.5		379.8	49.4
Loans Payable	1,279.4		-		-		1,279.4	-
Net Pension Obligation	4,759.3		1,606.3		-		6,365.6	-
Pollution Remediation Obligation	-		101.8		-		101.8	-
Other Postemployment Benefits	3,177.4		4,646.0		1,187.1		6,636.3	-
Other	276.7		302.3		274.2		304.8	302.3
Subtotal Governmental Activities	44,370.3		10,322.5		3,476.3		51,216.5	2,117.4
Business-type Activities								
Accumulated Sick and Vacation Payable	1.0		0.6		0.5		1.1	0.6
Deposit Fund Contracts	663.7		78.3		130.4		611.6	130.6
Subtotal Business-type Activities	664.7		78.9		130.9		612.7	131.2
Total Governmental and Business-type Activities	\$ 45,035.0		\$ 10,401.4		\$ 3,607.2		\$ 51,829.2	\$ 2,248.6

B. Debt Service Payments

The following schedule represents debt service payments for the next five fiscal years and thereafter (expressed in millions):

Fiscal Year	Debt Service						Total
	General Obligation Bonds	Revenue Bonds	Capital Leases	Installment Obligations	Certificates of Participation	TSFC*	
2010	\$ 263.6	\$ 908.7	\$ 115.7	\$ 1,503.9	\$ 19.5	\$ 169.9	\$ 2,981.3
2011	398.2	927.0	106.0	1,231.8	11.2	173.6	2,847.8
2012	383.6	949.1	98.8	1,196.7	4.2	174.8	2,807.2
2013	379.1	950.0	81.3	1,201.8	1.2	175.9	2,789.3
2014	284.2	933.1	67.9	1,240.0	1.0	179.2	2,705.4
2015-2019	1,183.6	4,682.7	264.2	6,351.1	-	1,043.3	13,524.9
2020-2024	348.1	4,479.7	167.7	6,505.9	-	1,081.7	12,583.1
2025-2029	58.5	3,156.1	105.0	5,909.3	-	1,084.9	10,313.8
2030-2034	-	2,411.3	6.5	1,753.2	-	1,087.8	5,258.8
2035-2039	-	3,240.2	3.9	424.2	-	1,093.0	4,761.3
2040-2044	-	762.8	-	-	-	1,716.3	2,479.1
Total Minimum							
Payments	3,298.9	23,400.7	1,017.0	27,317.9	37.1	7,980.4	63,052.0
Interest	<u>(772.2)</u>	<u>(6,562.7)</u>	<u>(367.8)</u>	<u>(8,601.5)</u>	<u>(2.0)</u>	<u>(3,455.8)</u>	<u>(19,762.0)</u>
Principal	2,526.7	16,838.0	649.2	18,716.4	35.1	4,524.6	43,290.0
Unamortized Premium	164.3	725.7	-	466.6	-	-	1,356.6
Unamortized Deferral on Refunding	(69.8)	(276.5)	-	(91.6)	-	(355.8)	(793.7)
Unamortized Interest on Capital Appreciation Bonds	-	(4,472.9)	-	(2,419.4)	-	(1,067.8)	(7,960.1)
Total	<u>\$ 2,621.2</u>	<u>\$ 12,814.3</u>	<u>\$ 649.2</u>	<u>\$ 16,672.0</u>	<u>\$ 35.1</u>	<u>\$ 3,101.0</u>	<u>\$ 35,892.8</u>

* The State is not liable for debt issued by the TSFC.

C. General Obligation Bonds

The State is empowered by voters to authorize, issue, and incur debt subject to certain constitutional restrictions. General obligation bond acts are both legislatively and voter-approved and are backed by the State's full faith and credit. As of June 30, 2009, the State had \$2.5 billion of State general obligation bonds outstanding with another \$702.5 million of bonding authorization remaining from various State general obligation bond acts. During the fiscal year, \$228.8 million of General Obligation debt was issued for various purposes, and the amount provided by the State's General Fund for debt service payments for Fiscal Year 2009 was \$405.7 million.

The State has refunded various outstanding general obligation bonds. Refunding bond proceeds are used to purchase and deposit United States Treasury Obligations – State and Local Government Series or open market U.S. Treasury Securities into a separate irrevocable trust fund held by a trustee. The investments and the fixed earnings that accrue are sufficient to fully service the defeased debt until it is called or matures. For financial reporting purposes, the refunded debt is considered defeased at the time the refunding bonds have been issued. Therefore, the refunded debt is removed as a liability from the State's long-term obligations.

During Fiscal Year 2009, the State refunded \$228.8 million of general obligation debt. As a result, \$247.9 million of bonds have been refunded and are now considered to be defeased. The liability has been removed from the State's long-term obligations. Total debt service payments over the next 7 years were reduced by \$26.7 million and resulted in a net present value savings of \$6.0 million. As of June 30, 2009, the amount of defeased general obligation debt outstanding, but removed from the State's long-term obligations amounted to \$733.5 million.

D. Revenue Bonds Payable

This debt classification represents bond issuances whose segment of debt service is derived solely from legally restricted revenues. Revenue bonds include debt issued by the New Jersey Building Authority (NJBA), the Garden State Preservation Trust, and the New Jersey Transportation Trust Fund Authority (TTFA). During Fiscal Year 2009, the TTFA issued \$3.4 billion of bonds, of which \$1.9 billion were capital appreciation bonds, used to fund transportation system improvements, while the NJBA issued \$90.5 million of refunding bonds in order to defease \$91.7 million of existing debt. As a result, the refunded bonds' liability has been removed from the State's long-term obligations. Total debt service payments over the next 8 years was reduced by \$31.5 million which resulted in \$3.5 million in present value loss. Due to the nation's credit crisis, inefficiencies in the auction rate market resulted in TTFA having to remarket \$345.0 million of bonds during the fiscal year.

E. Capital Leases (Bonded)

Capital Leases represent long-term contractual debt obligations that the State has with various State authorities, for the purpose of utilizing office space for State operations and program usage. This includes the design, acquisition, and construction or renovation of facilities such as the Trenton Office Complex and Greystone Psychiatric Hospital.

F. Installment Obligations

Installment Obligations represent agreements between the State and several authorities which have issued bonds for the purpose of purchasing or constructing facilities to be rented by the State or to provide financing for other State projects. The State agrees to make payments equal to the corresponding authority's debt service, subject to and dependent upon appropriations being made from time to time by the State Legislature. At the conclusion of the term of the installment obligation agreement, title to the various facilities is transferred to the State, except in the case of the School Facilities Construction Program. During Fiscal Year 2009, these authorities issued \$1.4 billion of bonds, of which, \$1.0 billion was mostly used to finance school facilities projects and fund other capital costs. The remaining \$381.9 million were refunding bonds that were issued in order to defease \$374.5 million of existing debt. The liability on these refunded bonds has been removed from the State's long-term obligations. Total debt service payments over the next 24 years were reduced by \$90.8 million and resulted in a net present value gain of \$31.3 million. The State's installment obligations outstanding as of June 30, 2009 total \$18.7 billion. Total authorized but unissued installment obligations equal \$5.0 billion as of June 30, 2009.

G. Certificates of Participation

These obligations represent several Lines of Credit that were drawn on to finance State equipment needs through the State's Master Lease Program.

H. Unamortized Premium

GASB Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, requires bond premiums to be deferred and amortized over the life of the refunding bonds.

I. Tobacco Settlement Financing Corporation, Inc. (TSFC)

In November 1998, the State entered into a Master Settlement Agreement with participating cigarette manufacturers, 46 states, and six other United States jurisdictions in the settlement of certain smoking-related litigation. During Fiscal Year 2003, the State sold to the newly established TSFC, the State's right, title, and beneficial ownership interest in the State's right to receive tobacco settlement rights under the Master Settlement Agreement and decree of Final Judgment. In return, the TSFC issued \$3.46 billion of bonds to pay for the tobacco settlement rights. Proceeds of the two bond issuances were used to fund General Fund expenditures during Fiscal Year 2003 and Fiscal Year 2004. During Fiscal Year 2007, \$4.7 billion of refunding bonds were issued, of which \$1.1 billion were capital appreciation bonds.

During Fiscal Year 2003, the TSFC was presented as a discreet component unit of the State. Since then, the State adopted GASB Technical Bulletin No. 2004-1, *Tobacco Settlement Recognition and Financial Reporting Issues*. As a result, the TSFC is required to be shown as a blended component unit of the State. Bonds issued by the TSFC are the sole obligation of the TSFC.

The State is not liable for any debt issued by the TSFC nor is the debt dependent on any dedicated stream of revenue generated by the State.

J. Unamortized Deferral on Refunding

Under GASB Statement No. 23, *Accounting and Financial Reporting for Refundings of Debt Reported by Proprietary Activities*, unamortized deferral on refunding shows the actual gain or loss on refunding transactions. Gains are shown as an asset and amortized over the shorter of the life of the refunding bonds or the bonds that were refunded. During fiscal year 2009, the State issued \$701.1 million of refunding bonds that are to be amortized over a time period of 1 year to 9 years. GASB Statement No. 23 defines a gain/loss as the total outstanding amount of the old bonds minus the new refunding bonds issued minus the cost of issuance on the new refunding bonds. The refunding bonds have a total loss of \$793.7 million.

K. Unamortized Interest on Capital Appreciation Bonds

Unamortized Interest on Capital Appreciation Bonds represents the unaccreted interest value on zero coupon bonds that have been issued.

L. Accumulated Sick and Vacation Payable

Pursuant to GASB Statement No. 16, *Accounting for Compensated Balances*, Accumulated Sick and Vacation payable represents the liability due to employees for unused sick and vacation time.

M. Capital Leases (Non-Bonded)

Capital Leases represent long-term contractual obligations that the State has entered into for the purpose of utilizing office space for State operations and program usage. Examples of non-bonded capital leases include motor vehicle inspection stations, State government office buildings, and group homes for the developmentally disabled.

N. Loans Payable

The New Jersey Automobile Insurance Guaranty Fund has received a \$1.3 billion loan from the New Jersey Property-Liability Insurance Guaranty Association. The loan was made in an effort to depopulate the New Jersey Automobile Insurance Guaranty Fund and to help satisfy its unfunded liability.

O. Net Pension Obligation

Net Pension Obligation (NPO) represents a \$6.4 billion pension fund liability due to the Judicial Retirement System, the State Police Retirement System, the Consolidated Police and Firemen's Retirement System, and the Teachers' Pension and Annuity Fund. Financial reporting requirements for net pension fund obligations fall under the purview of GASB Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers*.

P. Pollution Remediation Obligation

GASB Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*, effective for periods beginning after December 15, 2007, requires the reporting of Pollution Remediation Obligations as a general long-term obligation of the State. The Pollution Remediation Obligation represents contractual commitments of the State of New Jersey with either vendors to clean up hazardous waste contaminated sites or the administrative authorization to proceed to clean up identified hazardous waste contaminated sites. Pollution remediation activities include the engagement of contractors to define the extent of the hazardous waste contamination through a remedial investigative contract; outline the method of clean up/remediation through a feasibility study contract; implement the required/recommended remediation action through construction contractors; and maintain and monitor the operations of the clean up remedy at the site.

The Pollution Remediation Obligation estimates that appear in this report are subject to change over time. Cost may vary due to price fluctuations, changes in technology, changes in potential responsible parties, results of environmental studies, changes to

statutes or regulations and other factors that could result in revisions to these estimates. Prospective recoveries from responsible parties may reduce the State's obligation.

The estimated liability as of June 30, 2009 is \$101.8 million. The reported amount represents the unexpended balances of those cleanup actions in which the State has obligated itself to commence remediation. The reported amounts represent the prospective outlays for existing remediation activities and not anticipated remediation work that may be addressed by the site's responsible parties at some future time or date. Balances as of July 1, 2008 were not restated due to lack of available information.

Q. Other Postemployment Benefits

GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, effective for periods beginning after December 15, 2006, requires the reporting of future Other Postemployment Benefits (OPEB) as a general long-term obligation of the State. Based upon an actuarial valuation, the OPEB obligation as of June 30, 2009 is estimated to be \$6.6 billion.

R. Other

This obligation represents unamortized long-term claims which are required to be reported under National Council on Governmental Accounting Statement No. 1 as a general long-term liability of the State. This includes Medicaid benefit claims (\$300.5 million of which \$172.1 million is federally reimbursable) which have been incurred but not reported. This obligation also includes \$4.3 million of capitalized software liability which is required to be reported in accordance with GASB Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*.

S. Proprietary Funds/Business-type Activities

Large Lottery prizes are paid out to winners over a period of multiple years. Current Lottery proceeds are used to purchase deposit fund contracts which will provide sufficient amounts for future payment of installment prizes. Future payments of installment prizes in the present value of \$611.6 million are recorded as non-current liabilities in both the fund financial statements and the government-wide statements.

T. Moral Obligation Bonds

The authorizing legislation for certain State entities provides for specific budgetary procedures with respect to certain obligations issued by these entities. Pursuant to such legislation, a designated official is required to certify any deficiency in debt service funds maintained to meet payments of principal and interest on the obligations, and a State appropriation in the amount of the deficiency is to be made. However, the State Legislature is not legally bound to make an appropriation. Bonds issued pursuant to authorizing legislation of this type are sometimes referred to as "moral obligation" bonds. There is no statutory limitation on the amount of "moral obligation" bonds which may be issued by eligible State entities. Currently, bonds issued by the South Jersey Port Corporation, the New Jersey Housing and Mortgage Finance Agency, and the Higher Education Student Assistance Authority fall under this category. Furthermore, the New Jersey Housing and Mortgage Finance Agency and the Higher Education Student Assistance Authority have not had a deficiency in their respective debt service funds which required the State to appropriate funds.

The State provides the South Jersey Port Corporation with funds to cover all debt service and property tax requirements when the Corporation's earned revenues are anticipated to be insufficient to cover these obligations. On December 1, 2008, the Corporation certified that it would be unable to provide sufficient funds from operations for debt service, and therefore, required a State appropriation for Fiscal Year 2009 in the amount of \$7.5 million.

NOTE 11 - RISK MANAGEMENT AND INSURANCE COVERAGE

The State is self-insured and self-administered for tort, workers' compensation, and automobile liability claims. As of June 30, 2009 no liability for unpaid claims has been established since the amount of loss cannot be reasonably estimated, however, any unpaid claims are not expected to be material. Claims are reported as expenditures in the General Fund in the year

they are paid. Amounts expended for tort, workers' compensation, and automobile liability claims for Fiscal Year 2009 and Fiscal Year 2008 are detailed below (expressed in millions):

<u>Type of Claim</u>	<u>Fiscal Year 2009</u>	<u>Fiscal Year 2008 *</u>
Tort	\$ 15.5	\$ 15.0
Workers' compensation	74.7	70.2
Automobile	4.0	4.5

Property exposure is handled by a commercial insurance carrier. There were no reductions in commercial insurance coverage during the fiscal year ended June 30, 2009. No settlements exceeded commercial insurance coverage during each of the past three fiscal years. The State does not participate in any risk pools.

The State has obtained a financial guaranty policy insurance commitment to cover potential permanent losses on investments by non-state participants in the State of New Jersey Cash Management Fund-External Portion (Investment Trust Fund). The State is liable for reimbursement to the issuer of the financial guaranty policy insurance commitment for any payments made. This financial guaranty policy insurance commitment expires on July 1, 2016.

* Fiscal Year 2008 totals have been revised.

NOTE 12 – DERIVATIVES

A. Interest Rate Swap Agreements

The State has obtained long-term financing in the form of voter-approved General Obligation Debt and other obligations for which voter approval is not needed and has not otherwise been sought. Non-voter approved long-term financings include debt obligations such as revenue bonds, certificates of participation, and installment obligations. The State pays debt service on these debt obligations pursuant to a State contract or a lease it enters into with the issuer, subject to annual appropriations made by the State Legislature. These debt obligations include, but are not limited to, certain bonds issued through State public authorities such as the New Jersey Building Authority, the New Jersey Economic Development Authority, and the New Jersey Transportation Trust Fund Authority. In connection with certain bonds issued, or anticipated, through these public authorities, the State has entered into Interest Rate Exchange Agreements (Swap Agreements). As of June 30, 2009 the State has 28 active swap agreements with 11 swap providers for a combined, notional amount of \$4.4 billion.

On August 6, 2008 the New Jersey Economic Development Authority issued \$342,115,000 of its 2008 Series A refunding bonds. The proceeds were used to refund its 2003 Series A and Series B bonds and to pay the costs of termination of the related 2003 swap agreement.

On September 11, 2008 the New Jersey Sports and Exposition Authority issued \$208,025,000 of its 2008 Series B and C refunding bonds. The proceeds were used to currently refund its 1992 Series C bonds, advance refund its 2000 Series A bonds, and to pay a portion of the costs of terminating the Authority's 1992 Swap Agreement.

B. Interest Rate Swap Agreements – Synthetic Rate

The State, acting through its public authorities, has 19 swap agreements outstanding in connection with \$2,045.9 million in variable rate bonds. In each case, the State, acting through its public authorities, issued bonds bearing interest at a variable rate and simultaneously entered into one or more swap agreements with various swap providers. Under the terms of the swap agreements, the State will pay a fixed rate on a notional amount of bonds outstanding while the swap counterparty pays a variable rate on the same notional amount which is anticipated to, over time, match the variable interest rate on the bonds.

During Fiscal Years 2008 and 2009, a number of actions were taken to reverse the economic terms of existing interest rate swaps for which there were either no longer variable rate bonds outstanding or for which new variable rate bonds were not able to be issued. These actions included entering into fixed receiver swaps in May 2008 and May 2009 to reverse a portion of the payments under existing swaps for a period of time. These actions leave the State with a net fixed rate of interest on the related swap agreements through September 1, 2014, 2015, and May 1, 2011, respectively.

<u>Issuer/Series</u>	<u>Notional Amount (\$ Millions)</u>	<u>Effective Date</u>	<u>Synthetic Rate</u>	<u>Rate Received</u>
<u>NJ Transportation Trust Fund Authority</u>				
2003 Series B-1	\$ 85.000	1/30/03	3.565 %	67% of the 1-month LIBOR
2003 Series B-2	85.000	1/30/03	3.537	67% of the 1-week LIBOR
2003 Series B-3	50.000	1/30/03	3.630	67% of the 1-month LIBOR
2003 Series B-4	62.500	1/30/03	3.675	67% of the 1-week LIBOR
2003 Series B-5	62.500	1/30/03	3.675	67% of the 1-week LIBOR
<u>NJ Economic Development Authority</u>				
School Facilities Construction Program				
2004 Series R (3 Swap Agreements)	399.957	9/1/06	4.407	71.98% of the 1-month LIBOR
	88.733	11/1/06	4.324	75% of the 1-month LIBOR + 5.25 basis points
2008 Series V (11 Swap Agreements)	344.620	9/1/04	4.063	71.13% of the 1-month LIBOR
	446.835	3/1/05	4.176	74.24% of the 1-month LIBOR
	358.085	3/1/06	4.296	70.80% of the 1-month LIBOR
	391.165	9/1/07	4.399	71.57% of the 1-month LIBOR
	380.515	5/1/08	75% of the 1-month LIBOR	3.036% fixed rate
	250.000	5/1/09	4.513	62% of the 1-month LIBOR + 40 basis points
	250.000	5/5/09	62% of the 1-month LIBOR + 40 basis points	1.119% fixed rate
2009 Series X	250.000	11/1/08	4.489	62% of the 1-month LIBOR + 40 basis points
<u>NJ Building Authority</u>				
2003 Series A (6 Swap Agreements)	175.225	8/20/03	3.640	62% of the 1-month LIBOR + 20 basis points

The bonds and the related swap agreements listed above have final maturities ranging from May 1, 2011 through March 1, 2035. The swap agreements total current notional amount is \$3,430.1 million. The amount of associated bonds that are outstanding as of June 30, 2009 total \$2,045.9 million. Under the swap agreements, the State pays the counterparties a fixed payment ranging from 3.537 percent to 4.513 percent and receives a variable payment as computed for each associated variable rate transaction as shown above. In regards to the first fixed rate transaction, the State pays a counterparty a variable rate payment equal to 75 percent of the 1-month LIBOR while receiving a fixed payment at a rate of 3.036 percent. In the second fixed rate transaction, the State pays a counterparty a variable rate payment equal to 62 percent of the 1-month LIBOR plus 40 basis points while receiving a fixed payment at a rate of 1.119 percent. The swap provider calculates the variable rate, as well as the dollar amount that is owed by the swap counterparty. The remarketing agent determines the variable interest rate that is applied to the bonds. The State confirms all calculations to ensure accuracy.

C. Interest Rate Swap Agreements – Forward Strategy

The State of New Jersey had entered into two swap agreements in association with \$750.0 million of future bond transactions involving the New Jersey Economic Development Authority's School Facilities Construction Program. The purpose of entering into the swap agreements was to take advantage of "locking in" historically low fixed interest rates for bonds that are to be issued in the future.

A description of each current forward swap agreement is as follows:

New Jersey Economic Development Authority

<u>Issuer/Series</u>	<u>Notional Amount (\$ Millions)</u>	<u>Effective Date</u>	<u>Synthetic Fixed Rate</u>	<u>Variable Rate Received</u>
School Facilities Construction Program	250.000	11/1/09	4.549	62% of the 1-month LIBOR + 40 basis points
School Facilities Construction Program	500.000	5/1/10	4.251	62% of the 1-month LIBOR + 40 basis points

D. Interest Rate Swap Agreements - Fair Value

As of June 30, 2009, the State, acting through its public authorities, is party to 28 swap agreements. General interest rates have declined since the execution of the swap agreements which were executed between January 20, 2003 and May 5, 2009. As a result, the projected net present value of the State’s entire portfolio as of June 30, 2009 is negative \$535.7 million. A breakdown of this amount is shown below:

<u>Authority/Issuer</u>	<u>Net Present Value (\$ Millions)</u>
NJ Building Authority	\$ (14.920)
NJ Economic Development Authority	
School Facilities Construction Program	(508.418)
NJ Transportation Trust Fund Authority	(12.349)
Total	<u><u>\$ (535.687)</u></u>

The amounts shown above are the amounts that the State would pay to swap counterparties in the event that all the State’s swap agreements were terminated on June 30, 2009. The swap agreements could only be terminated for certain events of default listed in each swap agreement document, including a swap counterparty default. In the event of a swap counterparty default, it is likely that this event would be remedied through the assignment to an alternate swap counterparty.

E. Interest Rate Swap Agreements - Credit Risk

The swap agreement contracts required that each swap counterparty shall have a credit rating from at least one nationally recognized statistical rating agency that is within the two highest investment grade categories at the time the swap contract was entered into. Ratings, which are obtained from any other nationally recognized statistical rating agencies for such swap counterparty shall also be within the three highest investment rated categories, or the payment obligations of the swap counterparty shall also be unconditionally guaranteed by an entity with such credit ratings. The swap agreements also require that should the credit rating of a swap counterparty fall below the rating required, that the obligations of such swap counterparty shall be fully and continuously collateralized by direct obligations of, or obligations the principal and interest on which are guaranteed by, the United States of America, at the agreed upon collateral threshold levels pursuant to the Credit Support Annex. The collateral threshold levels are adjusted based on counterparty ratings as set forth in the Credit Support Annex. Even though some of the mark to market values of the swap agreements have in the past, and are currently positive, none of these positive mark to market values have resulted in collateral posting under the Credit Support Annex. No collateral posting is required as of June 30, 2009.

F. Interest Rate Swap Agreements - Basis Risk

The swap agreements expose the State to basis risk should the relationship between LIBOR and actual variable rate payments on the related bonds diverge. The effect of this difference in basis is indicated by the difference between the anticipated variable rate and the actual variable rate.

G. Interest Rate Swap Agreements - Termination Risk

Each swap agreement contract uses the International Swap Dealers Association Master Agreement, which includes standard termination events, such as failure to pay and bankruptcy. The Schedule to the Master Agreement includes “additional

termination events”, providing that the swap agreements may be terminated if either the State’s or a swap counterparty’s credit quality rating falls below certain levels generally, below “BBB-” or “Baa1”. The State or the swap counterparties may terminate the swap agreements if the other party fails to perform under the terms of the contract. If one or more of the swap agreements is terminated, the related variable rate bonds would no longer be hedged and the State would no longer be effectively paying a synthetic fixed rate with respect to those bonds. Also, if at the time of termination the swap agreement has a negative fair value, the State would incur a loss and would be required to settle with the swap counterparty at the swap agreement’s fair value. If at the time of a termination the swap agreement has a positive fair value, the State would incur a gain and would be able to settle with the swap counterparty at the swap agreement’s fair value.

NOTE 13 - OTHER LIABILITIES – CURRENT

Other liabilities presented in the statement of net assets consist principally of revenue refunds payable to taxpayers of \$356.9 million, and \$324.9 million borrowed from the Federal government by the Unemployment Compensation Fund. Until the economic conditions in the State improve, such federal borrowings are likely to increase.

In addition, the New Jersey Schools Development Authority reflects other liabilities of \$63.5 million which represent deposits received from local school districts to fund the local share portion of Regular Operating District school facility projects, or to cover certain ineligible costs pertaining to projects in the Schools Development Authority school districts.

NOTE 14 - FUND BALANCES/NET ASSETS RESTRICTED BY ENABLING LEGISLATION

A. Reserved - Other

In the fund financial statements, reservations of fund balance classified as “reserved - other” consist principally of legally mandated escrow balances and long-term loans and receivables due from individuals, municipalities, and authorities that are considered not currently available for expenditure in subsequent accounting periods. In addition, balances have been reserved in the following funds for purposes described below.

General Fund

The \$46.2 million reservation in the General Fund that is considered not currently available for appropriations consists principally of long-term advances and receivables due from individuals, estates, and other funds (\$20.4 million), a portion of bond receipts which is earmarked to pay debt service in the next fiscal year (\$13.8 million), a portion of the 4 percent constitutionally dedicated Corporation Business Tax revenues reserved for environmental cleanup projects in excess of allowable expenditures (\$5.1 million), and other items (\$6.9 million).

Fund for Support of Free Public Schools

New Jersey statutes provide for the establishment of a school bond reserve within this fund. The school bond reserve consists of two accounts, the old school bond reserve account and the new school bond reserve account. The old school bond reserve account shall be funded in an amount equal to at least 1.5 percent of the aggregate issued and outstanding bonded indebtedness of counties, municipalities, or school districts for school purposes for all such indebtedness issued prior to July 1, 2003. The new school bond reserve account shall be funded in an amount equal to at least 1 percent of the aggregate issued and outstanding bonded indebtedness of counties, municipalities, or school districts for school purposes for all such indebtedness issued on or after July 1, 2003, exclusive of bonds for debt service, which is provided by State appropriations. Accordingly, \$94.7 million has been reserved as of June 30, 2009.

New Jersey Schools Development Authority

In this fund, \$0.4 million has been reserved for Qualified Zone Academies and prepayments.

New Jersey Transportation Trust Fund Authority

An amount of \$0.3 million has been reserved for future debt service payments.

Tobacco Settlement Financing Corporation, Inc.

The \$261.0 million reservation represents money reserved for future debt service payments on outstanding bonds payable.

B. Unreserved

In the fund financial statements, unreserved consists of designated for continuing appropriations, designated for unrealized gains, and undesignated.

General Fund

The \$2.2 billion unreserved balance consists of \$1,571.3 million designated for continuing appropriations and \$614.2 million undesignated.

C. Net Assets Restricted by Enabling Legislation

As of June 30, 2009, the Statement of Net Assets reported \$4.3 billion of restricted net assets. Net assets are restricted when constraints from external parties can compel the State to comply with legally enforceable enabling legislation requiring that resources be used for a specific purpose.

NOTE 15 – OTHER FINANCING SOURCES/USES-OTHER

The following items were recorded as other financing sources (uses) –other in the fund financial statements (expressed in millions):

	<u>General Fund</u>	<u>Non-Major Funds</u>	<u>Total Governmental Funds</u>
Installment obligations issued	\$ 990.3	\$ -	\$ 990.3
Refunding debt issued	648.0	-	648.0
Capital lease acquisitions	24.7	-	24.7
Certificates of participation issued	7.4	-	7.4
Premium related to refunding debt issued	6.7	-	6.7
Premium related to revenue bonds	-	6.1	6.1
Payments to escrow agents on refunding bonds	(648.0)	-	(648.0)
Other Financing Sources (Uses) - Other	<u>\$ 1,029.1</u>	<u>\$ 6.1</u>	<u>\$ 1,035.2</u>

NOTE 16 – OPERATING LEASES

The State of New Jersey has commitments to lease certain land, buildings, and equipment under arrangements representing operating leases. Future minimum rental commitments for noncancelable operating leases as of June 30, 2009 are as follows (expressed in millions):

<u>Fiscal Year</u>	<u>Amount</u>
2010	\$ 39.4
2011	26.1
2012	21.3
2013	17.0
2014	15.1
2015-2019	44.1
2020-2022	<u>1.8</u>
Total Future Minimum Lease Payments	<u>\$ 164.8</u>

NOTE 17 – RETIREMENT SYSTEMS, HEALTH BENEFITS, AND POST-RETIREMENT MEDICAL BENEFITS

A. RETIREMENT SYSTEMS

The State of New Jersey sponsors and administers the following contributory defined benefit public employee retirement systems (retirement systems) covering substantially all state and local government employees:

Consolidated Police and Firemen's Pension Fund (CPFPPF)--established in January 1952, under the provisions of N.J.S.A. 43:16 to provide coverage to municipal police and firemen who were appointed prior to July 1, 1944. The fund is a closed system with no active members.

Judicial Retirement System (JRS)--established in June 1973, under the provisions of N.J.S.A. 43:6A to provide coverage to all members of the State judiciary system. Membership is mandatory for such employees with vesting after 5 years of successive service as a judge and 10 years in the aggregate of public service.

Police and Firemen's Retirement System (PFRS)--established in July 1944, under the provisions of N.J.S.A. 43:16A to provide coverage to substantially all full time county and municipal police or firemen and State firemen appointed after June 30, 1944. Membership is mandatory for such employees with vesting occurring after 10 years of membership.

Prison Officers' Pension Fund (POPF)--established in January 1941, under the provisions of N.J.S.A. 43:7 to provide coverage to various employees of the State penal institutions who were appointed prior to January 1, 1960. The fund is a closed system with no active members. New employees of the State penal institutions are enrolled in the Police and Firemen's Retirement System.

Public Employees' Retirement System (PERS)--established in January 1955, under the provisions of N.J.S.A. 43:15A to provide coverage, including post-retirement health care, to substantially all full time employees of the State or any county, municipality, school district, or public agency provided the employee is not a member of another State administered retirement system. Membership is mandatory for such employees and vesting occurs after 8 to 10 years of service for pension benefits and 25 years for post-retirement health care coverage.

State Police Retirement System (SPRS)--established in July 1965, under the provisions of N.J.S.A. 53:5A to provide coverage to all uniformed officers and troopers of the State Police in the State. Membership is mandatory and vesting occurs after 10 years of membership.

Teachers' Pension and Annuity Fund (TPAF)--established in January 1955, under the provisions of N.J.S.A. 18A:66 to provide coverage including post-retirement health care to substantially all full time certified teachers or professional staff of the public school systems in the State. Membership is mandatory for such employees and vesting occurs after 10 years of service for pension benefits and 25 years for post-retirement health care coverage.

Other Pension Funds

The State established and administers a Supplemental Annuity Collective Trust Fund (SACT) which is available to active members of the State-administered retirement systems to purchase annuities to supplement the guaranteed benefits provided by their retirement system. The state or local governmental employers do not appropriate funds to SACT.

The State also administers the Central Pension Fund (CPF) which is a single-employer noncontributory defined benefit plan for special groups which are not included in other State-administered systems.

The State also administers the Pensions Adjustment Fund (PAF) which provides cost of living increases, equal to 60 percent of the change in the average consumer price index, to eligible retirees in some State-sponsored pension systems which are the CPFPPF, POPF, and CPF. This benefit is funded by the State as benefit allowances become payable.

The cost of living increase for PFRS, PERS, TPAF, SPRS, and JRS are funded directly by each of the respective systems and are considered in the annual actuarial calculation of the required State contribution for the system.

According to state law, all obligations of each retirement system will be assumed by the State of New Jersey should any retirement system be terminated.

The State of New Jersey, Department of the Treasury, Division of Pensions and Benefits, issues publicly available financial reports that include the financial statements and required supplementary information of each of the above systems, funds, and trusts. The financial reports may be accessed via the New Jersey Division of Pensions and Benefits website at www.state.nj.us/treasury/pensions.

Basis of Accounting

The financial statements of the retirement systems are prepared on the accrual basis of accounting. Employer contributions are recognized when payable to the retirement systems. Benefits or refunds are recognized when due and payable in accordance with the terms of the retirement systems.

Significant Legislation

P.L. 2009, c.19, effective March 17, 2009 provides an option for local employers to contribute 50 percent of the normal and accrued liability contribution amounts certified by the PERS and PFRS for payments due in State fiscal year 2009. This law also provides that a local employer may pay 100 percent of the required contribution. Such an employer will be credited with the full payment and any such amounts will not be included in their unfunded liability. The actuaries for PERS and PFRS will determine the unfunded liability of those retirement systems, by employer, for the reduced normal and accrued liability contributions provided under this law. This unfunded liability will be paid by the employer in level annual payments over a period of 15 years beginning with the payments due in the State fiscal year ending June 30, 2012 and will be adjusted by the rate of return on the actuarial value of assets.

P.L. 2008, c.89, effective November 1, 2008, increased the TPAF and PERS eligibility age for unreduced benefits from age 60 to age 62 for members hired on or after November 1, 2008; changed the early retirement provisions; increased the minimum annual compensation required for membership eligibility for new members on or after the effective date of this law.

P.L. 2008, c.21, effective June 24, 2008, provided early retirement incentive program to eligible State employees in the Executive Branch of State government and eligible Judiciary employees in the Judicial Branch of State government who applied to retire on or after March 1, 2008 but by July 15, 2008 and retired by August 1, 2008.

P.L. 2007, c.103, certain parts effective July 1, 2007, provided for the following: changed contribution rates of TPAF, PERS, and Defined Contribution Retirement Program (DCRP) to 5.5 percent of annual compensation; imposed an annual maximum wage contribution base and a new retirement age to new employees; implemented changes to State Health Benefits Program (SHBP) which included the creation of the School Employees' Health Benefit Program (SEHBP) and established an employee contribution of 1.5 percent of the employee's base salary.

Investment Valuation

Investments are reported at fair value. Securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates. Mortgages are valued on the basis of future principal and interest payments, and are discounted at prevailing interest rates for similar instruments. The fair value of real estate investments is based on independent appraisals. Investments that do not have an established market are reported at estimated fair values.

The State of New Jersey, Department of the Treasury, Division of Investment, issues publicly available financial reports that include the financial statements of the State of New Jersey Cash Management Fund, Common Pension Fund A, Common Pension Fund B, Common Pension Fund D, and Common Pension Fund E. The financial reports may be obtained by writing to the State of New Jersey, Department of the Treasury, Division of Investment, P.O. Box 290, Trenton, New Jersey 08625-0290.

Funded Status and Funding Progress

As of June 30, 2008, the most recent actuarial valuation date, the aggregate funded ratio for the retirement systems (TPAF, PERS, PFRS, POPF, CPFPPF, JRS, and SPRS) is 72.6 percent with an unfunded actuarial accrued liability of \$34.4 billion. The aggregate funded ratio and unfunded accrued liability for the State-funded systems is 69.6 percent and \$23.0 billion, and the aggregate funded ratio and unfunded accrued liability for local PERS and PFRS is 77.2 percent and \$11.4 billion.

The required supplementary information regarding the funded status and funding progress of the retirement systems is based on actuarial valuations which involve estimates of the value of reported amounts and assumptions about the probability of events far into the future. These amounts are subject to continual revision as actual results are compared to past expectations and new estimates are made about the probability of future events.

The schedule of funding progress in the required supplementary information presents multi-year trend information about whether the actuarial value of plans assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

Actuarial calculations reflect a long-term perspective and are based on the benefits provided under the terms of the retirement systems in effect at the time of each valuation and also consider the pattern of the sharing of costs between the employer and members at that point in time. The projection of benefits for financial reporting purposes does not explicitly incorporate the potential effects of legal or contractual limitations on the pattern of cost sharing between the employer and members in the future.

Actuarial Methods and Assumptions

In the June 30, 2008 actuarial valuation, the projected unit credit was used as the actuarial cost method, and the five year average of market value was used as the asset valuation method for the retirement systems. The actuarial assumptions included (1) 8.25 percent for investment rate of return for all the retirement systems except POPF and CPFPPF, and (2) 5.45 percent for projected salary increases for all the retirement systems except TPAF and PFRS.

Employer and Employee Pension Contributions

The contribution policy is set by laws of the State of New Jersey and contributions are required by active members and participating employers. Plan member and employer contributions may be amended by State of New Jersey legislation, with the amount of contributions by the State of New Jersey contingent upon the annual Appropriations Act. As defined, the various retirement systems require employee contributions based on percentages ranging from 3.00 percent to 8.50 percent of employees' annual compensation.

Annual Pension Cost (APC)

Per the requirements of GASB Statement No. 27 for the year ended June 30, 2009 for CPFPPF and TPAF, which are cost sharing plans with special funding situations, and for JRS, POPF, and SPRS, which are single employer plans, the annual pension cost differs from the annual required contribution. For PFRS and PERS, which are cost sharing multi-employer defined benefit pension plans, annual pension cost equals contributions made. The annual pension cost for the fiscal year ending June 30, 2009 and related information, including a summary of the significant actuarial methods and assumptions used by the retirement systems, are presented on the following pages.

The calculation of the employer contribution rates on the following pages, for State and Local, for all the retirement systems except PFRS, is the APC divided by the covered payroll in the Schedule of Funding Progress per the actuarial valuations as of June 30, 2007. PFRS used the covered payroll per the actuarial valuation as of June 30, 2006 for this calculation.

	<u>CPFPE</u>	<u>JRS</u>	<u>PFRS</u>
Annual Pension Cost (APC)			
State:			
June 30, 2007	\$ 1,015,627	\$ 25,134,303	\$ 127,404,777
June 30, 2008	(4,301,717)	27,387,083 *	133,510,475 *
June 30, 2009	(41,617)	30,340,168	39,568,000
Local:			
June 30, 2007	-	-	422,743,218
June 30, 2008	-	-	647,288,920 *
June 30, 2009	-	-	696,476,702
Contributions Made			
State:			
June 30, 2007	1,783,902	13,355,587	127,404,777
June 30, 2008	522,176	12,913,890 *	133,510,475 *
June 30, 2009	1,256,398	3,643,000	39,568,000
Local:			
June 30, 2007	-	-	422,743,218
June 30, 2008	-	-	647,288,920 *
June 30, 2009	-	-	696,476,702
Percentage of APC Contributed			
State:			
June 30, 2007	175.6%	53.1%	100.0%
June 30, 2008	(12.1)%	47.2% *	100.0%
June 30, 2009	(3,019.0)%	12.0%	100.0%
Local:			
June 30, 2007	-	-	100.0%
June 30, 2008	-	-	100.0%
June 30, 2009	-	-	100.0%
Net Pension Obligation			
State:			
June 30, 2007	6,690,308	9,942,504	-
June 30, 2008	1,866,415	24,415,697 *	-
June 30, 2009	568,400	51,112,865	-
Local:			
June 30, 2007	-	-	-
June 30, 2008	-	-	-
June 30, 2009	-	-	-
Contribution rates			
State	N/A	48.0%	7.8%
State-related employers	N/A	N/A	25.1%
Employees	N/A	3.0%	8.5%
Significant Actuarial Assumptions and Methods			
Date of actuarial valuation	6/30/08	6/30/08	6/30/08
Actuarial cost method	Projected Unit Credit	Projected Unit Credit	Projected Unit Credit
Amortization method	Level Dollar Closed	Level Percent Open	Level Percent Open
Payroll growth rate for amortization	N/A	4.0%	4.0%
Remaining amortization period	1 year	30 years	30 years
Asset valuation method	Five Year Average of Market Value	Five Year Average of Market Value	Five Year Average of Market Value
Actuarial assumptions			
Investment rate of return	2.00%	8.25%	8.25%
Projected salary increases	N/A	5.45%	7.20%
Cost-of-Living adjustments	N/A	1.80%	1.80%

* Restated

		POPF	PERS	SPRS	TPAF
Annual Pension Cost (APC)					
State:	June 30, 2007	\$ 129,444	\$ 215,629,964	\$ 61,668,569	\$ 1,466,081,478
	June 30, 2008	(79,506)	234,560,830 *	84,618,483 *	1,626,177,420
	June 30, 2009	(377,664)	79,296,935	93,288,971	1,697,374,216
Local:	June 30, 2007	-	242,230,174	-	-
	June 30, 2008	-	412,129,536 *	-	-
	June 30, 2009	-	562,174,538	-	-
Contributions Made					
State:	June 30, 2007	-	215,629,964	29,875,748	690,794,259
	June 30, 2008	-	234,560,830 *	36,443,502 *	695,275,811
	June 30, 2009	-	79,296,935	10,244,000	198,653,193
Local:	June 30, 2007	-	242,230,174	-	-
	June 30, 2008	-	412,129,536 *	-	-
	June 30, 2009	-	562,174,538	-	-
Percentage of APC Contributed					
State:	June 30, 2007	-	100.0%	48.4%	47.1%
	June 30, 2008	-	100.0%	43.1%*	42.8%
	June 30, 2009	-	100.0%	11.0%	11.7%
Local:	June 30, 2007	-	100.0%	-	-
	June 30, 2008	-	100.0%	-	-
	June 30, 2009	-	100.0%	-	-
Net Pension Obligation					
State:	June 30, 2007	(6,291,205)	-	269,629,462	3,483,544,376
	June 30, 2008	(6,370,711)	-	317,804,443 *	4,414,445,985
	June 30, 2009	(6,748,375)	-	400,849,414	5,913,167,008
Local:	June 30, 2007	-	-	-	-
	June 30, 2008	-	-	-	-
	June 30, 2009	-	-	-	-
Contribution rates					
State		N/A	1.8%	33.9%	18.7%
State-related employers		N/A	8.0%	N/A	N/A
Employees		N/A	5.5%	7.5%	5.5%
			(8.5% for County Prosecutors)		
Significant Actuarial Assumptions and Methods					
Date of actuarial valuation		6/30/08	6/30/08	6/30/08	6/30/08
Actuarial cost method		Projected Unit Credit	Projected Unit Credit	Projected Unit Credit	Projected Unit Credit
Amortization method		Level Dollar Closed	Level Percent Open	Level Percent Open	Level Percent Open
Payroll growth rate for amortization		N/A	4.0%	4.0%	4.0%
Remaining amortization period		1 year	30 years	30 years	30 years
Asset valuation method		Market Value	Five Year Average Market Value	Five Year Average Market Value	Five Year Average Market Value
Actuarial assumptions					
Investment rate of return		5.00%	8.25%	8.25%	8.25%
Projected salary increases		N/A	5.45%	5.45%	5.74%
Cost-of-Living adjustments		N/A	1.80%	1.80%	1.80%

* Restated

The Annual Pension cost (APC) and Net Pension Obligation (NPO) for the single employer plans and cost sharing plans with special funding situations, which are administered by the State of New Jersey for the fiscal year ending June 30, 2009 are presented below:

	SINGLE EMPLOYER PLANS		
	JRS	POPF	SPRS
Annual Required Contribution, June 30, 2009	\$ 29,809,782	\$ (6,748,375)	\$ 86,385,254
Interest adjustment on NPO	2,014,295	(318,536)	26,218,867
Adjustment to Annual Required Contribution	(1,483,909)	6,689,247	(19,315,150)
APC as of June 30, 2009	30,340,168	(377,664)	93,288,971
Total Fiscal Year 2009 Contributions	3,643,000	-	10,244,000
Increase (Decrease) in NPO	26,697,168	(377,664)	83,044,971
NPO as of June 30, 2008	24,415,697 *	(6,370,711)	317,804,443 *
NPO as of June 30, 2009	\$ 51,112,865	\$ (6,748,375)	\$ 400,849,414

	COST SHARING PLANS WITH SPECIAL FUNDING SITUATIONS		
	CPFPE	TPAF	TOTAL ALL PLANS
Annual Required Contribution, June 30, 2009	\$ 1,824,798	\$ 1,601,478,508	\$ 1,712,749,967
Interest adjustment on NPO	37,328	364,191,794	392,143,748
Adjustment to Annual Required Contribution	(1,903,743)	(268,296,086)	(284,309,641)
APC as of June 30, 2009	(41,617)	1,697,374,216	1,820,584,074
Total Fiscal Year 2009 Contributions	1,256,398	198,653,193	213,796,591
Increase (Decrease) in NPO	(1,298,015)	1,498,721,023	1,606,787,483
NPO as of June 30, 2008	1,866,415	4,414,445,985	4,752,161,829 *
NPO as of June 30, 2009	\$ 568,400	\$ 5,913,167,008	\$ 6,358,949,312

* Restated

B. HEALTH BENEFITS AND POST-RETIREMENT MEDICAL BENEFITS

As a result of implementing Governmental Accounting Standards Board (GASB) Statement No. 43, *Financial Reporting for Post-employment Benefit Plans Other than Pension Plans* (OPEB), effective for Fiscal Year 2007, the State Health Benefits Program (SHBP), the Prescription Drug Program (PDP), and Post-Retirement Medical (PRM) of the PERS and TPAF are combined and reported as Pension and Other Employee Benefit Trust Funds. Specifically, the SHBP-State, the PDP-State, and the PRM of the PERS are combined and reported as Health Benefits Program Fund-State classified as a single employer plan. The SHBP-Local, the PDP-Local, and the PRM of the TPAF-Local are combined and reported as Health Benefits Program Fund-Local Government classified as a cost-sharing multiple-employer plan. The post-retirement benefit programs had a total of 484 state and local participating employers and contributing entities for Fiscal Year 2009.

The State of New Jersey sponsors and administers the following health benefit programs covering substantially all state and local government employees.

Health Benefits Program Fund (HBPF)-Local Education (including Prescription Drug Program Fund) – The State of New Jersey provides free coverage to members of the Teachers' Pension and Annuity Fund who retire from a board of education or county college with 25 years of service or on a disability retirement. Under the provisions of P.L. 1992, c.126, the State also provides free coverage to members of the Public Employees' Retirement System and Alternate Benefits Program who retire from a board of education or county college with 25 years of service or on a disability retirement if the member's employer does not provide this coverage. Certain local participating employers also provide post-retirement medical coverage to their employees. Retirees who are not eligible for employer paid health coverage at retirement can continue in the program if their employer participates in this program or if they are participating in the health benefits plan of their former employer and are enrolled in Medicare Parts A and B by paying the cost of the insurance for themselves and their covered dependents. Also, education employees are eligible for the PDP coverage after 60 days of employment.

Health Benefits Program Fund (HBPF)-Local Government (including Prescription Drug Program Fund) – Certain local employers who participate in the State Health Benefits Program provide health insurance coverage to

their employees at retirement. Under provisions of P.L. 1997, c.330, the State of New Jersey provides partially funded benefits to local police officers and firefighters who retire with 25 years of service (or on disability) from an employer who does not provide coverage. Retirees who are not eligible for employer paid health coverage at retirement can continue in the program by paying the cost of the insurance for themselves and their covered dependents. Also, local employees are eligible for the PDP coverage after 60 days of employment.

Health Benefits Program Fund (HBPF)-State (including Prescription Drug Program Fund) – N.J.S.A. 52:14-17.25 provides medical coverage to qualified active and retired participants. Under P.L. 1977, c.136, the State of New Jersey pays for the health insurance coverage of all enrolled retired State employees (regardless of age) whose pensions are based upon 25 years or more of credited service or a disability retirement regardless of years of service. Retirees who are not eligible for employer paid health coverage at retirement can continue in the program by paying the cost of the insurance for themselves and their covered dependents. The Prescription Drug Program Fund (PDP) was established in December 1974, under N.J.S.A. 52:14-17.29 to provide coverage to employees and their eligible dependents for drugs which under federal or State law may be dispensed only upon a prescription written by a physician. State employees are eligible for PDP coverage after 60 days of employment.

The State of New Jersey, Department of the Treasury, Division of Pensions and Benefits, issues publicly available financial reports that include the financial statements and required supplementary information of each of the above funds. The financial reports may be accessed via the Division of Pensions and Benefits website at www.state.nj.us/treasury/pensions.

Basis of Accounting

The financial statements of the health benefit programs are prepared on the accrual basis of accounting. Employer contributions are recognized when payable to the health benefit programs. Benefits or refunds are recognized when due and payable in accordance with the terms of the health benefit programs.

Investment Valuation

Investments are reported at fair value. Investments that do not have an established market are reported at estimated fair values.

Funded Status and Funding Progress

As of June 30, 2008, the most recent actuarial valuation date, the State had a \$55.9 billion unfunded actuarial accrued liability for other postemployment benefits (OPEB) which is made up of \$19.8 billion for state active and retired members and \$36.1 billion for education employees and retirees that become the obligation of the State of New Jersey upon retirement.

The required supplementary information regarding the funded status and funding progress of the OPEB is based on actuarial valuations which involve estimates of the value of reported amounts and assumptions about the probability of events in the future. These amounts are subject to continual revision as actual results are compared to past expectations and new estimates are made about the probability of future events.

The schedule of funding progress in the required supplementary information presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

Actuarial calculations reflect a long-term perspective and are based on the benefits provided under the terms of the OPEB in effect at the time of each valuation and also consider the pattern of the sharing of costs between the employer and members at the point in time. The projection of benefits for financial reporting purposes does not explicitly incorporate the potential effects of legal contractual funding limitations on the pattern of cost sharing between the employer and members in the future.

Actuarial Methods and Assumptions

In the June 30, 2008, actuarial valuation, the projected unit credit was used as the actuarial cost method, and the market value was used as asset valuation method for the OPEB. The actuarial assumptions included 4.50 percent for investment rate of return for the OPEB.

Post-Retirement Medical Benefits Contribution

P.L. 1987, c.384 and P.L. 1990, c.6 required the Teachers' Pension and Annuity Fund (TPAF) and the Public Employees' Retirement System (PERS), respectively, to fund post-retirement medical benefits for those State employees who retire after accumulating 25 years of credited service or on a disability retirement. As of June 30, 2009, there were 84,590 retirees

receiving post-retirement medical benefits, and the State contributed \$837.7 million on their behalf. The cost of these benefits is funded through contributions by the State in accordance with P.L. 1994, c.62. Funding of post-retirement medical benefits changed from a pre-funding basis to a pay-as-you-go basis beginning in fiscal year 1994.

Commencing on July 1, 1997, State employees attaining 25 years of service credit after this date in a State administered retirement system and those who retire on disability who elect the NJ Direct 10 Plan shall be subject to premium sharing based on the negotiated contracts.

P.L. 1977, c.136, provides for the State's General Fund to pay health benefits on a pay-as-you-go basis for all enrolled retired State employees, regardless of retirement date, under two provisions. The first is for State employees whose pensions are based on 25 years or more of credited service (except those who elect a deferred retirement). The second is for retired State employees who are eligible for a disability retirement regardless of years of service. The State contributed \$87.0 million for 7,255 eligible retired members for Fiscal Year 2009. This benefit covers the Police and Firemen's Retirement System, the Prison Officers' Pension Fund, the Judicial Retirement System, the Central Pension Fund, the State Police Retirement System, and the Alternate Benefit Program.

The State is also responsible for the cost attributable to P.L. 1992 c.126 which provides free health benefits to members of PERS and the Alternate Benefit Program who retired from a board of education or county college with 25 years of service. The State paid \$116.9 million toward Chapter 126 benefits for 13,320 eligible retired members in Fiscal Year 2009.

P.L. 1997, c.330 provides State paid post-retirement health benefits to qualified retirees of the Police and Firemen's Retirement System and the Consolidated Police and Firemen's Pension Fund and to dependents of qualified retirees. The State is responsible for 80 percent of the premium for the category of coverage elected by the retiree under the State managed care plan or a health maintenance organization participating in the program, whichever provides the lower charge. The State contributed \$24.4 million in the current year to provide benefits under Chapter 330 to qualified retirees.

The Annual OPEB Cost (AOC) and Net OPEB Obligation (NOO) for the state-funded post-retirement medical obligations for the fiscal year ending June 30, 2009 is presented below:

AOC as of June 30, 2009	\$ 4,646,000,000
Total Fiscal Year 2009 Contributions	<u>1,187,200,000</u>
Increase in NOO	3,458,800,000
NOO as of June 30, 2008	<u>3,177,400,000</u>
NOO as of June 30, 2009	<u>\$ 6,636,200,000</u>

NOTE 18 – COMPONENT UNITS

A. Authorities

The accounts of public authorities, private not-for-profit corporations, and similar entities (hereinafter called Authorities) in the accompanying financial statements are derived from their most recently issued annual financial statements. Authorities are legally separate entities that are not operating departments of the State.

The activities of the Garden State Preservation Trust, the New Jersey Building Authority, the New Jersey Schools Development Authority, the New Jersey Transportation Trust Fund Authority, and the Tobacco Settlement Financing Corporation have been blended into the financial activities of the State as special revenue funds. All other Authorities have been discretely presented as major and non-major component units in the State's financial statements in accordance with GASB Statement No. 14, *The Financial Reporting Entity*.

The Authorities are managed independently, outside the appropriated budget process, and their powers generally are vested in a governing board. Authorities are established for a variety of purposes for the benefit of the State's citizenry, such as financing economic development, public transportation, low cost housing, environmental protection, and capital development for health and education. In addition, they are not subject to State constitutional restrictions on the incurrence of debt, which apply to the State itself, and may issue bonds and notes within legislatively authorized amounts.

The Governor, with the approval of the State Senate, appoints the members of the board of most Authorities. Authorities generally submit annual reports to the Governor, the State Legislature, and the Director, Division of Budget and Accounting on their operations and finances accompanied by an independent auditor's report thereon. Authorities also submit to the Governor

and the State Legislature annual budget information on operations and capital construction. The Governor has from time to time exercised the statutory power to veto actions.

These component units are included in the State's reporting entity because of the significance of their operational or financial relationship with the State. Descriptions of the discretely presented Authorities and addresses from which separately issued audited financial statements and accompanying notes may be obtained are provided below:

Casino Reinvestment Development Authority (N.J.S.A. 5:12-153)
1014 Atlantic Avenue, P.O. Box 749
Atlantic City, New Jersey 08401
www.njcrda.com

The Authority was created to maintain public confidence in the casino gaming industry as a tool of urban redevelopment throughout New Jersey and to directly facilitate the redevelopment of blighted areas by providing eligible projects in which licensees (casinos) can invest. The Authority encourages investment in, or financing of, projects which are made as part of a comprehensive plan to improve blighted areas or are targeted to benefit low through middle income residents. The Authority is also responsible for promoting the tourist industry in New Jersey, especially in Atlantic County.

Higher Education Student Assistance Authority (N.J.S.A. 18A:71A-1 et. seq.)
4 Quakerbridge Plaza, P.O. Box 545
Trenton, New Jersey 08625-0545
www.hesaa.org

This Authority was established to provide a single agency for the coordination and delivery of student financial assistance in the State. The Authority serves as the Guaranty Agency for the Federal Family Education Loan (FFEL) Program and the issuer of State of New Jersey College Loans to Assist State Students (NJCLASS) supplementary loan program. The authority also administers the State Tuition Aid Grants (TAG), scholarship programs, and the State College Savings Program, known as the New Jersey Better Educational Savings Trust (NJBEST).

New Jersey Economic Development Authority (N.J.S.A. 34:1B-4)
36 West State Street, P.O. Box 990
Trenton, New Jersey 08625
www.njeda.com

The New Jersey Economic Development Authority is authorized to arrange long term, low interest financing, and other forms of assistance to private firms and companies for the purpose of maintaining and expanding employment opportunities and enlarging state and local government's tax base.

New Jersey Educational Facilities Authority (N.J.S.A. 18A:72A-4)
103 College Road East, 2nd Floor
Princeton, New Jersey 08540-6612
www.njefa.com

The New Jersey Educational Facilities Authority provides a means for New Jersey public and independent colleges and universities to construct additional facilities through the financial resources of a public authority empowered to sell its debt instruments (bonds, notes, and other obligations). The Authority may finance academic and auxiliary facilities for the public and independent institutions of higher education.

New Jersey Environmental Infrastructure Trust (N.J.S.A. 58:11B-4)
3131 Princeton Pike - Building 6, Suite 201
Lawrenceville, New Jersey 08648
www.njeit.org

The New Jersey Environmental Infrastructure Trust loans and guarantees debt incurred by local government units in financing the cost of wastewater treatment system projects. The Trust may from time to time issue bonds, notes, or other obligations in any principal amounts that the Trust deems necessary, up to an aggregate principal amount of \$600 million, in order to provide sufficient funds to carry out its statutory purpose.

New Jersey Health Care Facilities Financing Authority (N.J.S.A. 26:2I-4)
South Clinton and Yard Avenues, Station Plaza Bldg. #4
P.O. Box 366
Trenton, New Jersey 08625
www.njhcffa.com

The New Jersey Health Care Facilities Financing Authority provides low cost capital financing for the public and private not-for-profit health care institutions of the State.

New Jersey Housing and Mortgage Finance Agency (N.J.S.A. 55:14K-4)
637 South Clinton Avenue, P.O. Box 18550
Trenton, New Jersey 08650-2085
www.state.nj.us/dca/hmfa

The Housing and Mortgage Finance Agency makes mortgage and improvement loans to nonprofit and limited dividend sponsors for the construction or major rehabilitation of rental apartment housing for low and moderate income families and senior citizens. In addition to providing financing, the Agency monitors and provides technical support in the planning, construction, and management of all developments in its portfolio. Its mortgage loan funds come from the sale of tax-exempt revenue bonds.

In promoting the availability of affordable homeownership financing, the Agency also provides low interest mortgage and improvement loans to eligible residents throughout the State. Proceeds from the sale of tax-exempt mortgage revenue bonds enable the Agency to finance the purchase and improvement of one to four unit residences.

New Jersey Meadowlands Commission (N.J.S.A. 13:17-5)
1 DeKorte Park Plaza
Lyndhurst, New Jersey 07071
www.njmeadowlands.gov

The New Jersey Meadowlands Commission is the planning and zoning agency for the reclaiming, planning, development, redevelopment, and enhancement, including open space acquisition of the 19,730 acre Meadowlands District. The District consists of waterways, tidal flow lands, woodlands, marsh, and meadows contained within portions of 14 municipalities and two counties; Bergen and Hudson. Through the issuance, if needed, of tax-exempt bonds and notes, the Commission is able to raise needed funds.

New Jersey Redevelopment Authority (P.L. 1996, c.62)
150 West State Street, P.O. Box 790
Trenton, New Jersey 08625
www.njra.us

The New Jersey Redevelopment Authority provides assistance in the redevelopment and revitalization of New Jersey cities. The Authority provides financial, managerial, and technical assistance to persons, firms, or corporations that wish to undertake industrial, commercial, or civic projects within qualified municipalities.

New Jersey Sports and Exposition Authority (N.J.S.A. 5:10-4)
50 State Route 120
East Rutherford, New Jersey 07073
www.njsea.com

The New Jersey Sports and Exposition Authority is engaged in the business of owning, operating, and managing sports, entertainment, wagering, and convention facilities throughout the State. It has been responsible for the financing, construction, and management of the Meadowlands Racetrack and Giants Stadium, both of which opened in 1976, and the Continental Airlines Arena which opened in July, 1981. The Authority is charged with the responsibility to own, operate, and build various facilities, located in the State, including the Atlantic City Convention and Visitors Authority, for athletic and entertainment events, trade shows, and other expositions, and is authorized to issue bonds and notes and to provide the terms and security thereof.

New Jersey Transit Corporation (N.J.S.A. 27:25-1)
One Penn Plaza East
Newark, New Jersey 07105
www.njtransit.com

New Jersey Transit Corporation (NJ TRANSIT) is empowered to acquire, own, operate, and contract for the operation of public transportation services. NJ TRANSIT receives operating subsidies principally from the State by legislative appropriation and the Federal Government by defined formula grants under the Federal Transit Administration. These government grants are used to support the operation of public transportation services. NJ TRANSIT provides these services through the operation of bus and commuter rail subsidiaries. NJ TRANSIT also contracts with several motor bus carriers for certain transportation services. Under these contracts, NJ TRANSIT has the right to set fares and coordinate service levels and schedules. In addition, NJ TRANSIT contracts with the National Railroad Passenger Corporation (Amtrak) for the use of Amtrak's northeast corridor, including propulsion costs and the cost of maintaining right-of-way.

New Jersey Turnpike Authority (N.J.S.A. 27:23-3)
581 Main Street, P.O. Box 5042
Woodbridge, New Jersey 07095-5042
www.state.nj.us/turnpike

The New Jersey Turnpike Authority is authorized to construct, maintain, repair, and operate turnpike projects at locations established by law. Furthermore, the Authority may issue turnpike revenue bonds or notes of the Authority, subject to prior approval by the Governor and by either or both the State Treasurer and Director, Division of Budget and Accounting, payable solely from tolls and other revenues of the Authority. Effective July 9, 2003, the New Jersey Highway Authority merged and became part of the New Jersey Turnpike Authority.

New Jersey Water Supply Authority (N.J.S.A. 58:1B-4)
1851 State Route 31, P.O. Box 5196
Clinton, New Jersey 08809
www.njwsa.org

The New Jersey Water Supply Authority is authorized to acquire, finance, construct, and operate water supply systems. The Authority currently operates and maintains the Delaware and Raritan Canal and the Spruce Run/Round Valley Reservoir water supply system. The Authority may, upon the request of a municipality, county, the State, or agencies thereof, enter into a contract to provide services for any water system project. All projects undertaken by the Authority shall conform to the recommendations of the New Jersey Statewide Water Supply Plan. Bonds of the Authority may be issued to finance these projects and the debt service on the bonds is payable from the revenues and other funds of the Authority.

South Jersey Port Corporation (N.J.S.A. 12:11A-1)
Second and Beckett Streets
Camden, New Jersey 08103
www.southjerseyport.com

The South Jersey Port Corporation is empowered to establish, acquire, construct, rehabilitate, improve, operate, and maintain marine terminals in the South Jersey Port District, including Mercer, Burlington, Camden, Gloucester, Salem, Cumberland, and Cape May counties. To this end, the Corporation may issue tax-exempt revenue bonds subject to the provisions and restrictions of its Marine Terminal Bond Resolution, which mandates the distribution of funds to various Port Corporation funds.

South Jersey Transportation Authority (P.L. 1991,c.252)
Farley Service Plaza, P.O. Box 351
Hammonton, New Jersey 08037
www.sjta.com

The South Jersey Transportation Authority is authorized and empowered to acquire, construct, maintain, operate, and support transportation projects including the Atlantic City Expressway and the Atlantic County International Airport. The Authority may issue revenue bonds or notes of the Authority subject to prior approval by the Governor and by either or both the State Treasurer and Director, Division of Budget and Accounting, payable solely from tolls and other revenues of the Authority.

B. Colleges and Universities

As a result of P.L. 1986, c.42 and c.43, State colleges, whose revenues and expenditures were previously accounted for in the General Fund of the State of New Jersey, were given autonomous status effective July 1, 1987.

The financial statements of the colleges and universities have been prepared in accordance with GASB Statement No. 35, *Basic Financial Statements – and Management’s Discussion and Analysis – for Public Colleges and Universities*. These component units are included in the State’s reporting entity due to the significance of their operational or financial relationships and fiscal dependency with the State. The colleges and universities are funded through State appropriations, tuition, federal grants, and private donations and grants. Since the colleges and universities are similar in nature and function, their statements have been discretely presented in the statement of net assets and the statement of activities. They are presented in two categories, major and nonmajor. This distinction is determined by the relative size of an entity’s assets, liabilities, revenues, and expenditures in relation to the total of all the colleges and universities. Pursuant to GASB Statement No. 39, *Determining Whether Certain Organizations are Component Units*, all of the State colleges and universities’ financial statements include the financial activity related to foundations and other similar organizations within the colleges and universities.

Separately issued independent audited financial statements and accompanying notes may be directly obtained from the colleges and universities. Addresses and websites of the colleges and universities are as follows:

The College of New Jersey
(N.J.S.A. 18A:62-1)
2000 Pennington Road
Ewing, New Jersey 08628
www.tcnj.edu

Thomas Edison State College
(N.J.S.A. 18A:62-1)
101 West State Street
Trenton, New Jersey 08608
www.tesc.edu

Kean University
(N.J.S.A. 18A:62-1)
1000 Morris Avenue
Union, New Jersey 07083
www.kean.edu

Montclair State University
(N.J.S.A. 18A:62-1)
One Normal Avenue
Upper Montclair, New Jersey 07043
www.montclair.edu

New Jersey City University
(N.J.S.A. 18A:62-1)
2039 Kennedy Boulevard
Jersey City, New Jersey 07305-1597
www.njcu.edu

New Jersey Institute of Technology
(N.J.S.A. 18A:64E-4)
323 Dr. Martin Luther King Jr. Boulevard
University Heights
Newark, New Jersey 07102
www.njit.edu

The William Paterson University of New Jersey
(N.J.S.A. 18A:62-1)
358 Hamburg Turnpike
Wayne, New Jersey 07470
www.wpunj.edu

Ramapo College of New Jersey
(N.J.S.A. 18A:62-1)
505 Ramapo Valley Road
Mahwah, New Jersey 07430
www.ramapo.edu

Rowan University
(N.J.S.A. 18A:62-1)
201 Mullica Hill Road
Glassboro, New Jersey 08028
www.rowan.edu

Rutgers, The State University of New Jersey
(N.J.S.A. 18A:65-12)
65 Davidson Road
Piscataway, New Jersey 08854
www.rutgers.edu

The Richard Stockton College of New Jersey
(N.J.S.A. 18A:62-1)
P.O. Box 195
Pomona, New Jersey 08420
www2.stockton.edu

University of Medicine and Dentistry of New Jersey
(N.J.S.A. 18A:64G-4)
335 George Street, 4th Floor
New Brunswick, New Jersey 08903
www.umdnj.edu

NOTE 19 - CONTINGENT LIABILITIES

General Fund

At any given time, there are various numbers of tort, contract, and other claims and cases pending against the State, State agencies, and employees, seeking recovery of monetary damages. The claims filed can represent significant amounts and include, but are not limited to, issues regarding pensions and education funding. The majority of these claims have historically

proven to be substantially less value than originally claimed. The State does not formally estimate its reserve representing potential exposure for these claims and cases. As of June 30, 2009, the exact amount involved in these legal proceedings is not fully determinable.

Unapplied overpayments of Corporate Business Tax are recorded when a final determination is made as to the ultimate disposition of the overpayment. These overpayments only become a liability based upon a taxpayer filing a request for the refund. As of June 30, 2009 there was approximately \$259.0 million of overpayments.

New Jersey Lawyers' Fund for Client Protection

Claims of approximately \$15.6 million have been filed against this Fund by individuals and companies seeking reimbursement for losses resulting from the alleged dishonest conduct by members of the Bar of the State of New Jersey. Under present rules and regulations of the Fund, the total maximum amount that may be awarded from this Fund is \$4.1 million. The ultimate disposition of these claims is not determinable at this time.

New Jersey Spill Compensation Fund

Various claims totaling approximately \$30.1 million have been filed against this Fund by third parties for damages caused by spills. In addition, there are a number of similar claims for unspecified dollar amounts which are pending. The ultimate disposition of these claims is not determinable at this time.

Property Tax Relief Fund

Unapplied overpayments of Gross Income Tax are recorded when a final determination is made as to the ultimate disposition of the overpayment. These overpayments only become a liability based upon a taxpayer filing a request for the refund. As of June 30, 2009 there were approximately \$706.0 million of overpayments.

Sanitary Landfill Facility Contingency Fund

Various claims totaling approximately \$18.0 million have been filed against this Fund by individuals, local municipalities, and school districts. In addition, there are a number of similar claims for unspecified dollar amounts which are pending. The ultimate disposition of these claims is not determinable at this time.

Tobacco Settlement Financing Corporation, Inc.

In 2006 through 2009 certain of the tobacco companies withheld a portion of their annual payment claiming that the settling states, of which the State is one, did not diligently enforce a statute (the "Model Statute") in 2003 through 2006 which requires tobacco companies that did not enter into the settlement to make certain payments for in-state tobacco product sales. In the event that the State is determined to not have diligently enforced the Model Statute in any year, the State faces a reduction in the amount of annual payments it receives in the subsequent years. In no event can the reduction exceed the amount of the payment due in the year that it failed to diligently enforce the Model Statute. This puts New Jersey's 2004 through 2006 MSA payments at risk, with a potential liability for years 2003 through 2006 of \$1 billion. Ultimately, New Jersey expects to be able to prove that it diligently enforced its Model Statute.

University of Medicine and Dentistry of New Jersey – Self Insurance Reserve Fund

The State has the ultimate liability for tort and malpractice claims in excess of the resources of the Fund.

Capital Projects Funds

Due to delays in construction and design problems, various claims for damages have been filed with respect to the Special Transportation Fund in the amount of \$95.7 million. Fund management is presently evaluating the claims. There has been no determination as to the ultimate amount for which this Fund will be liable.

Federal Programs

Under the terms of various grant awards, expenditures from Federal funds are subject to audit. As of June 30, 2009, audits of expenditures for Fiscal Year 2008 and prior years may not be completed. Disallowances which may result from these audits are not determinable at this time. As of June 30, 2009, it is management's opinion that disallowances, if any, would not be material.

NOTE 20 – SUBSEQUENT EVENTS

Short-term Debt

For Fiscal Year 2010, the State authorized the issuance of \$2.25 billion in short-term debt. The aggregate principal is to be used to provide effective cash flow management to fund the imbalances that occur in the collection of revenues and the disbursement of appropriations. On August 12, 2009 the State issued \$1.925 billion of tax and revenue anticipation notes that bear an interest rate of 2.5 percent per annum. The notes have a June 24, 2010 final maturity. On December 10, 2009 the State issued another \$325.0 million in tax and revenue anticipation notes that bear an interest rate of 2.5 percent per annum. The notes have a June 24, 2010 final maturity. The State has issued all of its Fiscal Year borrowing authorization.

Long-term Obligations

On August 20, 2009 the New Jersey Economic Development Authority, in accordance with the Educational Facilities Construction and Financing Act, issued \$200.0 million in School Facilities Construction Bonds 2009 Series BB. Proceeds are to be used for the purpose of partially funding the school facilities construction program. The 2009 Series BB Bonds were issued as serial bonds. Interest on the bonds is payable semi-annually on March 1 and September 1, commencing on March 1, 2010. The final maturity on the 2009 Series BB Bonds is September 1, 2034.

On December 1, 2009 the New Jersey Building Authority issued \$30.925 million in State Building Revenue Refunding Bonds, 2009 Series B. The bonds were issued to partially refund the 2002 Series B Bonds and the 2004 Series B Bonds. Interest is payable semi-annually on June 15 and December 15, commencing on June 15, 2010. Final maturity on the bonds is December 15, 2022.

On December 9, 2009 the New Jersey Transportation Trust Fund Authority issued \$150.0 million of its Transportation System Bonds, 2009 Series C to provide funds for various transportation system improvements undertaken by the New Jersey Department of Transportation and the New Jersey Transit Corporation. The 2009 Series C Bonds have been issued in a variable rate mode set at a weekly interest rate. Interest is paid on the first business day of each month. The first interest payment date is January 4, 2010. Final maturity on the bonds is June 15, 2032.

On December 14, 2009 the New Jersey Economic Development Authority issued \$26.9 million of federally taxable Revenue Refunding Bonds Series 2009 for the New Jersey Performing Arts Center Project. The bonds were issued to refund the Authority's outstanding 1996 Series A and Series C Bonds. The Series 2009 Bonds were issued as fixed rate debt. Interest on the bonds is payable semi-annually on June 15 and December 15, commencing on December 15, 2010. The final maturity on the Series 2009 Bonds is June 15, 2016.

On December 17, 2009 the State of New Jersey issued \$209.2 million of general obligation bonds for various, voter-approved purposes which included a tax-exempt series totaling \$205.0 million and a taxable series totaling \$4.2 million. Interest is payable semi-annually on June 1 and December 1, commencing on December 1, 2010. Final maturity on the bonds is June 1, 2030.

On December 23, 2009 the New Jersey Transportation Trust Fund Authority issued \$147.5 million of its Transportation System Bonds, 2009 Series D to provide funds for various transportation system improvements undertaken by the New Jersey Department of Transportation and the New Jersey Transit Corporation. The 2009 Series D Bonds have been issued in a variable rate mode set at a weekly interest rate. Interest is paid on the first business day of each month. The first interest payment date is January 4, 2010. Final maturity on the bonds is June 15, 2032.

On January 14, 2010 the New Jersey Transportation Trust Fund Authority issued \$859.3 million of its Transportation System Bonds, 2010 Series A and Series B to provide funds for various transportation system improvements undertaken by the New Jersey Department of Transportation and the New Jersey Transit Corporation. The 2010 Series A and 2010 Series B Bonds were issued as fixed rate debt. Interest on the bonds is payable semi-annually on June 15 and December 15, commencing on June 15, 2010. The final maturity on the 2010 Series A and 2010 Series B Bonds is December 15, 2040.

Calendar Year 2009 Ballot Measure – Green Acres Funding

On November 3, 2009 voters approved the Green Acres, Water Supply, and Floodplain Protection and Farmland and Historic Preservation Bond Act of 2009. The ballot measure authorizes the issuance of \$400.0 million in State general obligation bonds for the acquiring and developing of lands for recreation and conservation purposes. This includes the preservation of farmland and funding historic preservation, as well as “Blue Acre” projects, which allows the State to purchase flood-prone properties from willing sellers.

Unemployment Compensation Trust Fund

To provide for sufficient cash flow to fund unemployment claims, commencing March 2009, the State, under federal law, applied to the United States Department of Labor for cash advances. As of January 31, 2010, \$1.2 billion of such advances have been made. As of June 30, 2009, the amount borrowed was \$324.9 million. In accordance with the provisions of current federal law, these advances are interest free and will continue to be interest free until January 1, 2011.