# *Basic Financial Statements*

**STATE OF NEW JERSEY**
**STATEMENT OF NET ASSETS**
**JUNE 30, 2012**

| | Primary Government | | | |
|---|---|---|---|---|
| | Governmental Activities | Business-type Activities | Total | Component Units |
| **ASSETS** | | | | |
| **Current Assets** | | | | |
| Cash and cash equivalents | $ 120,875,783 | $ 3,105,731 | $ 123,981,514 | $ 3,745,950,391 |
| Investments | 3,938,588,388 | 269,283,320 | 4,207,871,708 | 5,234,051,868 |
| Receivables, net of allowances for uncollectibles | | | | |
| Federal government | 691,812,743 | 89,400,695 | 781,213,438 | 182,669,641 |
| Departmental accounts | 2,987,454,427 | 865,089,876 | 3,852,544,303 | - |
| Loans | 1,675,318,169 | - | 1,675,318,169 | 269,269,082 |
| Mortgages | - | - | - | 98,075,000 |
| Other | 805,917,205 | 81,291,854 | 887,209,059 | 744,554,407 |
| Internal balances | 109,711,045 | (109,711,045) | - | - |
| Due from external parties | 9,604,905 | - | 9,604,905 | 155,523,345 |
| Inventories | - | - | - | 153,076,425 |
| Deferred charges | - | 14,453,490 | 14,453,490 | - |
| Other | 323,805,084 | - | 323,805,084 | 221,476,077 |
| **Total Current Assets** | 10,663,087,749 | 1,212,913,921 | 11,876,001,670 | 10,804,646,236 |
| **Noncurrent Assets** | | | | |
| Investments | - | 305,775,771 | 305,775,771 | 5,460,981,310 |
| Receivables, net of allowances for uncollectibles | | | | |
| Loans | - | - | - | 3,787,501,833 |
| Mortgages | - | - | - | 2,567,486,208 |
| Other | - | - | - | 120,578,131 |
| Pension assets | 5,935,136 | - | 5,935,136 | - |
| Capital assets - nondepreciated | 7,418,569,647 | - | 7,418,569,647 | 5,518,540,752 |
| Capital assets - depreciated, net | 16,148,480,937 | - | 16,148,480,937 | 17,391,503,917 |
| Derivative instrument asset | - | - | - | 16,574,020 |
| Other | 219,989,772 | - | 219,989,772 | 416,381,887 |
| **Total Noncurrent Assets** | 23,792,975,492 | 305,775,771 | 24,098,751,263 | 35,279,548,058 |
| **Deferred Outflows** | 23,660,386 | - | 23,660,386 | 203,393,690 |
| **Total Assets and Deferred Outflows** | 34,479,723,627 | 1,518,689,692 | 35,998,413,319 | 46,287,587,984 |

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

# STATE OF NEW JERSEY
## STATEMENT OF NET ASSETS (Continued)
## JUNE 30, 2012

| | Primary Government | | | |
|---|---|---|---|---|
| | Governmental Activities | Business-type Activities | Total | Component Units |
| **LIABILITIES** | | | | |
| **Current Liabilities** | | | | |
| Accounts payable and accruals | 2,125,659,625 | 196,216,799 | 2,321,876,424 | 1,149,325,345 |
| Due to external parties | 48,178,274 | - | 48,178,274 | 241,918,983 |
| Interest payable | 283,343,259 | - | 283,343,259 | 312,436,572 |
| Deferred revenue | 276,448,981 | - | 276,448,981 | 298,313,817 |
| Current portion of long-term liabilities | 2,775,248,332 | 94,163,004 | 2,869,411,336 | 927,454,241 |
| Other | 389,533,196 | 110,346,244 | 499,879,440 | 546,173,188 |
| **Total Current Liabilities** | 5,898,411,667 | 400,726,047 | 6,299,137,714 | 3,475,622,146 |
| **Noncurrent Liabilities** | | | | |
| Advance from federal government | - | 1,052,178,034 | 1,052,178,034 | - |
| Net pension obligation | 12,838,529,449 | - | 12,838,529,449 | 31,406,499 |
| Net OPEB obligation | 16,818,300,000 | - | 16,818,300,000 | 644,962,617 |
| Pollution remediation obligation | 92,174,562 | - | 92,174,562 | 51,087,150 |
| Derivative instrument liability | 672,613,876 | - | 672,613,876 | 262,589,013 |
| Other | 38,565,586,819 | 306,815,323 | 38,872,402,142 | 24,313,456,128 |
| **Total Noncurrent Liabilities** | 68,987,204,706 | 1,358,993,357 | 70,346,198,063 | 25,303,501,407 |
| **Deferred Inflows** | - | - | - | 227,646,563 |
| **Total Liabilities and Deferred Inflows** | 74,885,616,373 | 1,759,719,404 | 76,645,335,777 | 29,006,770,116 |
| **NET ASSETS** | | | | |
| **Invested in capital assets, net of related debt** | 7,192,227,532 | - | 7,192,227,532 | 9,092,326,604 |
| **Restricted for:** | | | | |
| Capital projects | - | - | - | 110,804,528 |
| Public safety and criminal justice | 152,570 | - | 152,570 | - |
| Physical and mental health | 2,297,637 | - | 2,297,637 | - |
| Educational, cultural, and intellectual development | 466,445,451 | - | 466,445,451 | - |
| Community development and environmental management | 2,689,857,245 | - | 2,689,857,245 | - |
| Economic planning, development and security | 375,198,981 | - | 375,198,981 | - |
| Transportation programs | 2,374,581 | - | 2,374,581 | - |
| Debt service | - | - | - | 1,051,510,615 |
| Other | - | 12,083,292 | 12,083,292 | 4,837,223,860 |
| **Unrestricted** | (51,134,446,743) | (253,113,004) | (51,387,559,747) | 2,188,952,261 |
| **Total Net Assets** | $ (40,405,892,746) | $ (241,029,712) | $ (40,646,922,458) | $ 17,280,817,868 |

## STATE OF NEW JERSEY
## STATEMENT OF ACTIVITIES
## FOR THE FISCAL YEAR ENDED JUNE 30, 2012

| | | Program Revenues | | |
|---|---|---|---|---|
| | Expenses | Charges for Services | Operating Grants and Contributions | Capital Grants and Contributions |
| **Functions - Programs** | | | | |
| **Primary Government** | | | | |
| Governmental activities: | | | | |
| Public safety and criminal justice | $ 3,274,015,158 | $ 1,120,402,116 | $ 399,903,731 | $ 1,595,142 |
| Physical and mental health | 11,794,396,012 | 858,698,740 | 1,072,229,124 | - |
| Educational, cultural, and intellectual development | 15,249,457,993 | 111,727,701 | 1,231,002,163 | - |
| Community development and environmental management | 1,560,623,235 | 271,111,096 | 709,189,836 | 75,937,317 |
| Economic planning, development, and security | 6,861,920,730 | 1,313,185,629 | 898,845,974 | - |
| Transportation programs | 1,715,935,105 | 30,523,659 | 924,543,439 | 248,261,148 |
| Government direction, management, and control | 11,489,454,219 | 971,228,556 | 7,991,196,198 | - |
| Special government services | 342,084,534 | 143,961,034 | 11,715,587 | - |
| Interest expense | 1,275,826,916 | - | - | - |
| Total governmental activities | 53,563,713,902 | 4,820,838,531 | 13,238,626,052 | 325,793,607 |
| Business-type activities: | | | | |
| State Lottery Fund | 1,845,655,927 | 2,797,638,855 | 204,726 | - |
| Unemployment Compensation Fund | 5,822,265,305 | 3,055,168,945 | 3,308,900,613 | - |
| Total business-type activities | 7,667,921,232 | 5,852,807,800 | 3,309,105,339 | - |
| **Total Primary Government** | $ 61,231,635,134 | $ 10,673,646,331 | $ 16,547,731,391 | $ 325,793,607 |
| **Component Units** | | | | |
| Authorities | $ 5,843,791,283 | $ 2,540,591,984 | $ 1,427,039,267 | $ 1,324,064,034 |
| Colleges and Universities | 5,853,967,500 | 3,165,107,712 | 2,056,876,072 | 27,841,714 |
| **Total Component Units** | $ 11,697,758,783 | $ 5,705,699,696 | $ 3,483,915,339 | $ 1,351,905,748 |
| 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, 2011 (Restated)** | | | | |
| **Net Assets - June 30, 2012** | | | | |

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 |
| $ (1,752,114,169) | $ - | $ (1,752,114,169) | $ - |
| (9,863,468,148) | - | (9,863,468,148) | - |
| (13,906,728,129) | - | (13,906,728,129) | - |
| (504,384,986) | - | (504,384,986) | - |
| (4,649,889,127) | - | (4,649,889,127) | - |
| (512,606,859) | - | (512,606,859) | - |
| (2,527,029,465) | - | (2,527,029,465) | - |
| (186,407,913) | - | (186,407,913) | - |
| (1,275,826,916) | - | (1,275,826,916) | - |
| (35,178,455,712) | - | (35,178,455,712) | - |
| - | 952,187,654 | 952,187,654 | - |
| - | 541,804,253 | 541,804,253 | - |
| - | 1,493,991,907 | 1,493,991,907 | - |
| (35,178,455,712) | 1,493,991,907 | (33,684,463,805) | - |
| - | - | - | (196,991,811) |
| - | - | - | 155,149,057 |
| - | - | - | (41,842,754) |
| 11,128,418,349 | - | 11,128,418,349 | - |
| 8,080,130,928 | - | 8,080,130,928 | - |
| 2,037,103,743 | - | 2,037,103,743 | - |
| 5,420,657,071 | - | 5,420,657,071 | - |
| (274,863,927) | (885,793) | (275,749,720) | - |
| - | - | - | 1,114,395,246 |
| 851,208,367 | - | 851,208,367 | - |
| 950,082,268 | (950,082,268) | - | - |
| 28,192,736,799 | (950,968,061) | 27,241,768,738 | 1,114,395,246 |
| (6,985,718,913) | 543,023,846 | (6,442,695,067) | (41,842,754) |
| (33,420,173,833) | (784,053,558) | (34,204,227,391) | 17,322,660,622 |
| $ (40,405,892,746) | $ (241,029,712) | $ (40,646,922,458) | $ 17,280,817,868 |

**STATE OF NEW JERSEY**
**BALANCE SHEET**
**GOVERNMENTAL FUNDS**
**JUNE 30, 2012**

| | General Fund | Property Tax Relief Fund | Non-Major Governmental Funds | Total Governmental Funds |
|---|---|---|---|---|
| **ASSETS** | | | | |
| **Cash and cash equivalents** | $ 55,245,368 | $ - | $ 65,630,415 | $ 120,875,783 |
| **Investments** | 1,204,543,259 | - | 2,734,045,129 | 3,938,588,388 |
| **Receivables, net of allowances for uncollectibles** | | | | |
| Federal government | 458,583,519 | - | 100,183,528 | 558,767,047 |
| Departmental accounts | 1,985,912,853 | 535,627,253 | 465,914,321 | 2,987,454,427 |
| Loans | 380,033,966 | - | 1,295,284,203 | 1,675,318,169 |
| Other | 174,704,971 | - | 223,023,720 | 397,728,691 |
| **Due from other funds** | 841,097,664 | 11,197,067 | 364,583,816 | 1,216,878,547 |
| **Other** | 4,986,001 | - | 6,198,444 | 11,184,445 |
| **Total Assets** | $ 5,105,107,601 | $ 546,824,320 | $ 5,254,863,576 | $ 10,906,795,497 |
| **LIABILITIES AND FUND BALANCES** | | | | |
| **Liabilities** | | | | |
| Accounts payable and accruals | $ 1,500,549,489 | $ 48,564,993 | $ 576,545,143 | $ 2,125,659,625 |
| Deferred revenue | 269,582,724 | - | 122,396,257 | 391,978,981 |
| Due to other funds | 233,759,535 | 349,301,368 | 562,679,968 | 1,145,740,871 |
| Other | 200,483,708 | 143,000,714 | 46,048,774 | 389,533,196 |
| Total Liabilities | 2,204,375,456 | 540,867,075 | 1,307,670,142 | 4,052,912,673 |
| **Fund Balances** | | | | |
| Nonspendable | 20,416,073 | - | - | 20,416,073 |
| Restricted | 884,257,776 | - | 3,494,595,906 | 4,378,853,682 |
| Committed | 1,570,702,994 | 5,957,245 | 452,597,528 | 2,029,257,767 |
| Unassigned | 425,355,302 | - | - | 425,355,302 |
| Total Fund Balances | 2,900,732,145 | 5,957,245 | 3,947,193,434 | 6,853,882,824 |
| **Total Liabilities and Fund Balances** | $ 5,105,107,601 | $ 546,824,320 | $ 5,254,863,576 | $ 10,906,795,497 |

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, 2012

| | | |
|---|---|---|
| **Total fund balances - governmental funds** | | $ 6,853,882,824 |
| Amounts reported for governmental activities in the statement of net assets are different as a result of the following items: | | |
| Some of the State's revenues will be collected after year-end, but are not available soon enough to pay for the current period's expenditures and therefore are deferred in the funds. | | 541,234,210 |
| 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. | | 312,620,639 |
| 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 | $ 22,311,960,151 | |
| Buildings and improvements | 3,411,076,332 | |
| Land and land improvements | 5,046,986,894 | |
| Other capital assets | 3,567,743,645 | |
| Accumulated depreciation | (10,770,716,438) | 23,567,050,584 |
| Deferred tobacco settlement revenue recorded in the fund perspective is recognized as revenue and not deferred in the statement of net assets. | | 115,530,000 |
| Deferred outflows are not current resources and therefore are not reported in the fund perspective. | | 23,660,386 |
| The pension and other assets are not current resources and therefore are not reported in the fund perspective. | | 225,924,908 |
| 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 | (283,343,259) | |
| Current portion of long-term obligations | (2,775,248,332) | (3,058,591,591) |
| Noncurrent Liabilities | | |
| Bonds and notes payable | (22,271,915,001) | |
| Installment obligations | (17,153,001,876) | |
| Loans payable | (1,279,358,087) | |
| Capital leases | (502,842,502) | |
| Compensated absences | (274,181,248) | |
| Unamortized deferral on refunding bonds | 994,775,062 | |
| Unamortized premium | (1,518,506,080) | |
| Tobacco Settlement Financing Corporation Bonds | (4,424,327,441) | |
| Unamortized discount on Capital Appreciation Bonds | 7,863,770,354 | |
| Net pension obligation | (12,838,529,449) | |
| Net OPEB obligation | (16,818,300,000) | |
| Pollution remediation obligation | (92,174,562) | |
| Derivative instrument liability | (672,613,876) | (68,987,204,706) |
| **Net assets of governmental activities** | | $ (40,405,892,746) |

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, 2012

| | General Fund | Property Tax Relief Fund | Non-Major Governmental Funds | Total Governmental Funds |
|---|---|---|---|---|
| **REVENUES** | | | | |
| Taxes | $ 13,322,342,618 | $ 11,751,670,559 | $ 1,563,804,021 | $ 26,637,817,198 |
| Federal and other grants | 11,426,543,840 | - | 899,043,782 | 12,325,587,622 |
| Licenses and fees | 1,168,023,182 | - | 106,240,408 | 1,274,263,590 |
| Services and assessments | 1,617,823,551 | - | 1,242,959,897 | 2,860,783,448 |
| Investment earnings | 11,749,692 | - | 8,740,159 | 20,489,851 |
| Contributions | 1,140 | - | 79,135 | 80,275 |
| Other | 2,775,135,360 | - | 532,860,226 | 3,307,995,586 |
| **Total Revenues** | 30,321,619,383 | 11,751,670,559 | 4,353,727,628 | 46,427,017,570 |
| **EXPENDITURES** | | | | |
| **Current:** | | | | |
| Public safety and criminal justice | 3,253,200,559 | - | 107,539,960 | 3,360,740,519 |
| Physical and mental health | 11,394,035,518 | 130,584,126 | 283,139,982 | 11,807,759,626 |
| Educational, cultural, and intellectual development | 4,459,445,345 | 10,820,331,293 | 219,301,069 | 15,499,077,707 |
| Community development and environmental management | 1,301,588,529 | 248,077,470 | 137,445,697 | 1,687,111,696 |
| Economic planning, development, and security | 5,547,246,713 | 29,678,000 | 1,340,638,439 | 6,917,563,152 |
| Transportation programs | 516,392,408 | - | 1,949,837,796 | 2,466,230,204 |
| Government direction, management, and control | 5,453,092,689 | 948,011,001 | 221,834,014 | 6,622,937,704 |
| Special government services | 340,382,154 | - | 169,518 | 340,551,672 |
| **Capital Outlay** | 122,514,647 | - | - | 122,514,647 |
| **Debt Service:** | | | | |
| Principal | 182,230,000 | - | 398,244,311 | 580,474,311 |
| Interest | 95,132,261 | - | 825,519,418 | 920,651,679 |
| **Total Expenditures** | 32,665,260,823 | 12,176,681,890 | 5,483,670,204 | 50,325,612,917 |
| **Excess (deficiency) of revenues over expenditures** | (2,343,641,440) | (425,011,331) | (1,129,942,576) | (3,898,595,347) |
| **OTHER FINANCING SOURCES (USES)** | | | | |
| Issuance of debt | - | - | 1,315,000,000 | 1,315,000,000 |
| Transfers from other funds | 2,473,321,153 | - | 2,311,472,254 | 4,784,793,407 |
| Transfers to other funds | (1,113,035,206) | - | (2,721,667,085) | (3,834,702,291) |
| Other sources | 1,841,499,189 | - | 447,649,309 | 2,289,148,498 |
| Other uses | (1,718,877,171) | - | (395,657,456) | (2,114,534,627) |
| **Total other financing sources (uses)** | 1,482,907,965 | - | 956,797,022 | 2,439,704,987 |
| **Net Change in Fund Balance** | (860,733,475) | (425,011,331) | (173,145,554) | (1,458,890,360) |
| **Fund Balances - July 1, 2011 (Restated)** | 3,761,465,620 | 430,968,576 | 4,120,338,988 | 8,312,773,184 |
| **Fund Balances - June 30, 2012** | $ 2,900,732,145 | $ 5,957,245 | $ 3,947,193,434 | $ 6,853,882,824 |

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 30, 2012**

| | | |
|---|---|---|
| **Net change in fund balance - total governmental funds** | | $ (1,458,890,360) |
| 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 | $ 1,507,885,311 | |
| Depreciation expense | (740,617,901) | |
| Excess of capital outlay over depreciation expense | | 767,267,410 |
| 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. | | (1,315,000,000) |
| 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. | | (122,514,647) |
| The changes in fair value related to nonqualifying swap agreements are not considered current resources and are only reported in the statement of activities. | | (287,363,282) |
| 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 | 570,595,000 | |
| Capital lease payments | 66,741,932 | |
| Installment obligation retirement | 417,418,779 | |
| Certificates of participation retirement | 23,508,771 | |
| Tobacco Settlement Financing Corp. bond retirement | 25,820,000 | |
| Total long-term obligations repayment | | 1,104,084,482 |
| 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 2012 receivable balances increased by this amount. | | 62,609,582 |
| Some revenues recorded in the statement of activities do not provide current financial resources and therefore are deferred in the fund perspective. | | (33,710,000) |
| 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 | 93,767,032 | |
| Decrease in deferral on refunding issues | (163,756,318) | |
| Increase in deferred issuance costs | (23,185,103) | |
| Decrease in bond discount | (879,685) | |
| Total capitalized and amortized items | | (94,054,074) |
| 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 | (337,235,308) | |
| Decrease in compensated absences, medicaid, and other | 36,376,819 | |
| Decrease in pension assets | (515,016) | |
| Increase in net pension and OPEB obligations | (5,298,110,079) | |
| Increase in pollution remediation obligation | (11,774,096) | |
| Increase in other assets | 3,109,656 | |
| Total additional expenditures and revenue reductions | | (5,608,148,024) |
| **Change in net assets of governmental activities** | | $ (6,985,718,913) |

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

# STATE OF NEW JERSEY
# STATEMENT OF NET ASSETS
# PROPRIETARY FUNDS
# JUNE 30, 2012

| | State Lottery Fund | Unemployment Compensation Fund | Total Proprietary Funds |
|---|---|---|---|
| **ASSETS** | | | |
| **Current Assets** | | | |
| Cash and cash equivalents | $ 2,650,488 | $ 455,243 | $ 3,105,731 |
| Investments | 269,182,306 | 101,014 | 269,283,320 |
| Receivables, net of allowances for uncollectibles | | | |
| Federal government | - | 89,400,695 | 89,400,695 |
| Departmental accounts | - | 865,089,876 | 865,089,876 |
| Other | 11,526,442 | 69,765,412 | 81,291,854 |
| Due from other funds | - | 17,882,840 | 17,882,840 |
| Deferred charges | 13,912,288 | 541,202 | 14,453,490 |
| **Total Current Assets** | 297,271,524 | 1,043,236,282 | 1,340,507,806 |
| **Noncurrent Assets** | | | |
| Investments | 305,775,771 | - | 305,775,771 |
| **Total Assets** | 603,047,295 | 1,043,236,282 | 1,646,283,577 |
| **LIABILITIES** | | | |
| **Current Liabilities** | | | |
| Accounts payable and accruals | 82,250,918 | 113,965,881 | 196,216,799 |
| Due to other funds | 107,734,758 | 19,859,127 | 127,593,885 |
| Current portion of long-term obligations | 94,163,004 | - | 94,163,004 |
| Other | - | 110,346,244 | 110,346,244 |
| **Total Current Liabilities** | 284,148,680 | 244,171,252 | 528,319,932 |
| **Noncurrent Liabilities** | | | |
| Advance from federal government | - | 1,052,178,034 | 1,052,178,034 |
| Due in more than one year | 306,815,323 | - | 306,815,323 |
| **Total Noncurrent Liabilities** | 306,815,323 | 1,052,178,034 | 1,358,993,357 |
| **Total Liabilities** | 590,964,003 | 1,296,349,286 | 1,887,313,289 |
| **NET ASSETS** | | | |
| Restricted for: | | | |
| Other purposes | 12,083,292 | - | 12,083,292 |
| Unrestricted | - | (253,113,004) | (253,113,004) |
| **Total Net Assets** | $ 12,083,292 | $ (253,113,004) | $ (241,029,712) |

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, 2012

| | State Lottery Fund | Unemployment Compensation Fund | Total Proprietary Funds |
|---|---|---|---|
| **OPERATING REVENUES** | | | |
| Sales and charges for services | $ 2,758,899,785 | $ - | $ 2,758,899,785 |
| Assessments | - | 2,980,147,356 | 2,980,147,356 |
| From federal agencies | - | 3,308,900,613 | 3,308,900,613 |
| Other | 38,739,070 | 440,254 | 39,179,324 |
| **Total Operating Revenues** | 2,797,638,855 | 6,289,488,223 | 9,087,127,078 |
| **OPERATING EXPENSES** | | | |
| Unemployment compensation | - | 5,822,265,305 | 5,822,265,305 |
| Lottery prize awards | 1,617,771,751 | - | 1,617,771,751 |
| Other | 227,884,176 | - | 227,884,176 |
| **Total Operating Expenses** | 1,845,655,927 | 5,822,265,305 | 7,667,921,232 |
| **Operating Income (Loss)** | 951,982,928 | 467,222,918 | 1,419,205,846 |
| **NONOPERATING REVENUES (EXPENSES)** | | | |
| Investment income | (681,067) | - | (681,067) |
| Other | - | 74,581,335 | 74,581,335 |
| **Total Nonoperating Revenues (Expenses)** | (681,067) | 74,581,335 | 73,900,268 |
| **Income (Loss) Before Transfers** | 951,301,861 | 541,804,253 | 1,493,106,114 |
| Transfers to other funds | (950,082,268) | - | (950,082,268) |
| **Change in Net Assets** | 1,219,593 | 541,804,253 | 543,023,846 |
| **Net Assets - July 1, 2011** | 10,863,699 | (794,917,257) | (784,053,558) |
| **Net Assets - June 30, 2012** | $ 12,083,292 | $ (253,113,004) | $ (241,029,712) |

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, 2012**

| | State Lottery Fund | Unemployment Compensation Fund | Total Proprietary Funds |
|---|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | | |
| Receipts received from customers | $ 1,385,166,786 | $ - | $ 1,385,166,786 |
| Receipts from federal and local agencies | - | 3,534,998,725 | 3,534,998,725 |
| Receipts from assessments | - | 2,742,830,405 | 2,742,830,405 |
| Payments to suppliers | (38,758,860) | - | (38,758,860) |
| Payments to prize winners | (412,972,456) | - | (412,972,456) |
| Claims paid | - | (5,781,986,902) | (5,781,986,902) |
| Other receipts (payments) | 44,212,824 | - | 44,212,824 |
| **Net cash provided (used) by operating activities** | 977,648,294 | 495,842,228 | 1,473,490,522 |
| **CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES** | | | |
| Loan from (payment to) federal government | - | (494,878,435) | (494,878,435) |
| Transfers to other funds | (953,000,111) | - | (953,000,111) |
| Other | - | (747,865) | (747,865) |
| **Net cash provided (used) by noncapital financing activities** | (953,000,111) | (495,626,300) | (1,448,626,411) |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | | |
| Proceeds from sales and maturities of investments | 1,215,541,000 | - | 1,215,541,000 |
| Purchase of investments | (1,238,140,000) | - | (1,238,140,000) |
| **Net cash provided (used) by investing activities** | (22,599,000) | - | (22,599,000) |
| **Net increase (decrease) in cash and cash equivalents** | 2,049,183 | 215,928 | 2,265,111 |
| **Cash and cash equivalents - July 1, 2011** | 601,305 | 239,315 | 840,620 |
| **Cash and cash equivalents - June 30, 2012** | $ 2,650,488 | $ 455,243 | $ 3,105,731 |
| **Reconciliation of operating income (loss) to net cash provided (used) by operating activities:** | | | |
| Operating income (loss) | $ 951,982,928 | $ 467,222,918 | $ 1,419,205,846 |
| Adjustments to reconcile operating income to net cash provided (used) by operating activities | | | |
| Net changes in assets and liabilities: | | | |
| Current assets | 31,122,650 | 20,965,284 | 52,087,934 |
| Noncurrent assets | 29,654,840 | - | 29,654,840 |
| Current liabilities | 10,667,182 | 7,654,026 | 18,321,208 |
| Noncurrent liabilities | (45,779,306) | - | (45,779,306) |
| **Net cash provided (used) by operating activities** | $ 977,648,294 | $ 495,842,228 | $ 1,473,490,522 |

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

## STATE OF NEW JERSEY
## STATEMENT OF FIDUCIARY NET ASSETS
## FIDUCIARY FUNDS
## JUNE 30, 2012

| | Agency Funds | Investment Trust Fund |
|---|---|---|
| **ASSETS** | | |
| **Cash and cash equivalents** | $ 9,054,786 | $ 515 |
| **Securities lending collateral** | - | - |
| **Investments** | 100,021,751 | 2,538,953,795 |
| **Receivables, net of allowances for uncollectibles** | | |
| Members | 43,835 | - |
| Employers | 852,147 | - |
| Interest and dividends | - | - |
| Other | - | 118,039,530 |
| **Due from other funds** | 32,621,627 | - |
| **Other** | - | - |
| **Total Assets** | 142,594,146 | 2,656,993,840 |
| **LIABILITIES** | | |
| **Accounts payable** | 141,921,370 | - |
| **Benefits payable** | - | - |
| **Securities lending collateral and rebates payable** | - | - |
| **Due to other funds** | 672,776 | 1,877,586 |
| **Total Liabilities** | 142,594,146 | 1,877,586 |
| **NET ASSETS** | | |
| **Held in Trust for Pension Benefits and Other Purposes** | $ - | $ 2,655,116,254 |

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

| Pension and Other Employee Benefits Trust Funds | Private Purpose Trust Funds |
|---|---|
| $ 721,882,694 | $ 2,574,620 |
| 1,209,086,214 | - |
| 74,028,878,813 | 12,448,072 |
| 176,414,212 | - |
| 3,034,973,673 | - |
| 5,406,223 | - |
| - | - |
| 1,304,988,771 | - |
| 16,074,243 | - |
| 80,497,704,843 | 15,022,692 |
| 132,747,277 | 4,282,917 |
| 1,267,168,212 | - |
| 1,207,235,246 | - |
| 7,256,705 | 315,434 |
| 2,614,407,440 | 4,598,351 |
| $ 77,883,297,403 | $ 10,424,341 |

## STATE OF NEW JERSEY
## STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
## FIDUCIARY FUNDS
## FOR THE FISCAL YEAR ENDED JUNE 30, 2012

| | Investment Trust Fund | Pension and Other Employee Benefits Trust Funds | Private Purpose Trust Funds |
|---|---|---|---|
| **ADDITIONS** | | | |
| Contributions: | | | |
| Members | $ - | $ 2,309,269,955 | $ - |
| Employers | - | 6,907,585,164 | - |
| Other | 13,491,167,281 | 4,251,107 | - |
| Total Contributions | 13,491,167,281 | 9,221,106,226 | - |
| Investment Income: | | | |
| Net increase (decrease) in fair value of investments | - | (222,910,462) | - |
| Interest and dividends | 3,507,537 | 1,958,041,278 | 19,277 |
| Total Investment Income | 3,507,537 | 1,735,130,816 | 19,277 |
| Less investment expense | - | 13,056,983 | - |
| Net Investment Income | 3,507,537 | 1,722,073,833 | 19,277 |
| Miscellaneous | - | - | 1,277,212 |
| **Total Additions** | 13,494,674,818 | 10,943,180,059 | 1,296,489 |
| **DEDUCTIONS** | | | |
| Benefit payments | - | 13,923,434,132 | - |
| Refunds of contributions | - | 157,270,934 | - |
| Refunds and transfers to other systems | - | - | 8,848 |
| Administrative expense | 1,877,586 | 46,498,279 | - |
| Payments in accordance with trust agreements | - | - | 736,978 |
| Distributions to shareholders | 14,183,849,500 | - | - |
| **Total Deductions** | 14,185,727,086 | 14,127,203,345 | 745,826 |
| Total Changes in Net Assets Held in Trust | (691,052,268) | (3,184,023,286) | 550,663 |
| **Net Assets - July 1, 2011** | 3,346,168,522 | 81,067,320,689 | 9,873,678 |
| **Net Assets - June 30, 2012** | $ 2,655,116,254 | $ 77,883,297,403 | $ 10,424,341 |

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

(This page left intentionally blank)

**STATE OF NEW JERSEY**
**STATEMENT OF NET ASSETS**
**COMPONENT UNITS**
**JUNE 30, 2012**

| | New Jersey Transit Corporation | New Jersey Turnpike Authority | Rutgers, The State University of New Jersey |
|---|---|---|---|
| **ASSETS** | | | |
| **Current Assets** | | | |
| Cash and cash equivalents | $ 114,809,772 | $ 203,513,456 | $ 413,579,000 |
| Investments | 30,477,409 | 577,821,037 | 330,738,000 |
| Receivables, net of allowances for uncollectibles | | | |
| Federal government | 124,257,603 | - | - |
| Loans | - | - | - |
| Mortgages | - | - | - |
| Other | 39,503,250 | 47,965,099 | 155,942,000 |
| Due from external parties | 93,742,559 | 3,638,603 | - |
| Inventories | 114,531,017 | 16,197,661 | 4,012,000 |
| Other | 10,496,351 | 24,864,867 | 14,143,000 |
| **Total Current Assets** | 527,817,961 | 874,000,723 | 918,414,000 |
| **Noncurrent Assets** | | | |
| Investments | 1,402,534,548 | 1,634,697,898 | 882,048,000 |
| Receivables, net of allowances for uncollectibles | | | |
| Loans | - | - | - |
| Mortgages | - | - | - |
| Other | 4,487,550 | 217,165 | 98,738,000 |
| Capital assets - nondepreciated | 1,370,085,640 | 2,701,790,032 | 487,380,000 |
| Capital assets - depreciated, net | 6,027,642,528 | 4,053,161,663 | 1,730,908,000 |
| Derivative instrument asset | - | - | - |
| Other | 17,008 | 137,081,122 | 16,229,000 |
| **Total Noncurrent Assets** | 8,804,767,274 | 8,526,947,880 | 3,215,303,000 |
| **Deferred Outflows** | 10,750,452 | 88,029,208 | 44,689,000 |
| **Total Assets and Deferred Outflows** | 9,343,335,687 | 9,488,977,811 | 4,178,406,000 |
| **LIABILITIES** | | | |
| **Current Liabilities** | | | |
| Accounts payable and accrued expenses | 252,695,994 | 161,759,357 | 175,042,000 |
| Due to external parties | 26,890,815 | 189,101,524 | - |
| Interest payable | - | 208,887,966 | 7,333,000 |
| Deferred revenue | - | 3,967,650 | 61,991,000 |
| Current portion of long-term obligations | 282,911,483 | 135,666,660 | 40,818,000 |
| Other | 128,861,043 | 198,650 | 81,505,000 |
| **Total Current Liabilities** | 691,359,335 | 699,581,807 | 366,689,000 |
| **Noncurrent Liabilities** | | | |
| Net pension obligation | - | - | - |
| Net OPEB obligation | 294,739,481 | 208,258,200 | - |
| Pollution remediation | 17,647,150 | 31,090,000 | - |
| Derivative instrument liability | - | 141,400,963 | 44,689,000 |
| Other | 3,019,208,873 | 8,378,019,541 | 1,075,887,000 |
| **Total Noncurrent Liabilities** | 3,331,595,504 | 8,758,768,704 | 1,120,576,000 |
| **Deferred Inflows** | - | - | - |
| **Total Liabilities and Deferred Inflows** | 4,022,954,839 | 9,458,350,511 | 1,487,265,000 |
| **NET ASSETS** | | | |
| **Invested in capital assets, net of related debt** | 5,662,256,988 | (119,761,434) | 1,201,661,000 |
| **Restricted for:** | | | |
| Capital projects | 4,970,767 | - | 43,425,000 |
| Debt service | - | 133,839,244 | - |
| Other purposes | - | - | 777,512,000 |
| **Unrestricted** | (346,846,907) | 16,549,490 | 668,543,000 |
| **Total Net Assets** | $ 5,320,380,848 | $ 30,627,300 | $ 2,691,141,000 |

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 |
|---|---|---|
| $ 203,178,000 | $ 2,810,870,163 | $ 3,745,950,391 |
| 44,941,000 | 4,250,074,422 | 5,234,051,868 |
| 7,118,000 | 51,294,038 | 182,669,641 |
| 4,833,000 | 264,436,082 | 269,269,082 |
| - | 98,075,000 | 98,075,000 |
| 301,897,000 | 199,247,058 | 744,554,407 |
| - | 58,142,183 | 155,523,345 |
| 16,798,000 | 1,537,747 | 153,076,425 |
| 22,618,000 | 149,353,859 | 221,476,077 |
| 601,383,000 | 7,883,030,552 | 10,804,646,236 |
| 169,974,000 | 1,371,726,864 | 5,460,981,310 |
| 33,605,000 | 3,753,896,833 | 3,787,501,833 |
| - | 2,567,486,208 | 2,567,486,208 |
| - | 17,135,416 | 120,578,131 |
| 29,079,000 | 930,206,080 | 5,518,540,752 |
| 835,208,000 | 4,744,583,726 | 17,391,503,917 |
| - | 16,574,020 | 16,574,020 |
| 80,179,000 | 182,875,757 | 416,381,887 |
| 1,148,045,000 | 13,584,484,904 | 35,279,548,058 |
| - | 59,925,030 | 203,393,690 |
| 1,749,428,000 | 21,527,440,486 | 46,287,587,984 |
| 275,551,000 | 284,276,994 | 1,149,325,345 |
| - | 25,926,644 | 241,918,983 |
| 3,552,000 | 92,663,606 | 312,436,572 |
| 75,717,000 | 156,638,167 | 298,313,817 |
| 18,273,000 | 449,785,098 | 927,454,241 |
| - | 335,608,495 | 546,173,188 |
| 373,093,000 | 1,344,899,004 | 3,475,622,146 |
| - | 31,406,499 | 31,406,499 |
| - | 141,964,936 | 644,962,617 |
| - | 2,350,000 | 51,087,150 |
| - | 76,499,050 | 262,589,013 |
| 698,883,000 | 11,141,457,714 | 24,313,456,128 |
| 698,883,000 | 11,393,678,199 | 25,303,501,407 |
| - | 227,646,563 | 227,646,563 |
| 1,071,976,000 | 12,966,223,766 | 29,006,770,116 |
| 282,443,000 | 2,065,727,050 | 9,092,326,604 |
| 10,455,000 | 51,953,761 | 110,804,528 |
| 2,212,000 | 915,459,371 | 1,051,510,615 |
| 366,104,000 | 3,693,607,860 | 4,837,223,860 |
| 16,238,000 | 1,834,468,678 | 2,188,952,261 |
| $ 677,452,000 | $ 8,561,216,720 | $ 17,280,817,868 |

**STATE OF NEW JERSEY**
**STATEMENT OF ACTIVITIES**
**COMPONENT UNITS**
**FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

| | New Jersey Transit Corporation | New Jersey Turnpike Authority | Rutgers, The State University of New Jersey |
|---|---|---|---|
| **Expenses** | $ 2,529,270,531 | $ 1,128,169,483 | $ 1,936,277,000 |
| **Net (Expense) Revenue and Changes in Net Assets** | | | |
| **Program Revenues** | | | |
| Charges for services | 960,282,114 | 1,025,217,662 | 905,432,000 |
| Operating grants and contributions | 758,519,052 | 12,850,505 | 815,250,000 |
| Capital grants and contributions | 468,187,818 | - | 7,607,000 |
| **Net (Expense) Revenue** | (342,281,547) | (90,101,316) | (207,988,000) |
| **General Revenue** | | | |
| Payments from State | 285,026,996 | 8,074,367 | 262,360,000 |
| **Total General Revenue** | 285,026,996 | 8,074,367 | 262,360,000 |
| **Change in Net Assets** | (57,254,551) | (82,026,949) | 54,372,000 |
| **Net Assets - Beginning of Year (Restated)** | 5,377,635,399 | 112,654,249 | 2,636,769,000 |
| **Net Assets - End of Year** | $ 5,320,380,848 | $ 30,627,300 | $ 2,691,141,000 |

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 |
|---|---|---|
| $ 1,825,779,000 | $ 4,278,262,769 | $ 11,697,758,783 |
| | | |
| 1,103,928,000 | 1,710,839,920 | 5,705,699,696 |
| 502,231,000 | 1,395,064,782 | 3,483,915,339 |
| 4,826,000 | 871,284,930 | 1,351,905,748 |
| (214,794,000) | (301,073,137) | (1,156,238,000) |
| | | |
| 205,938,000 | 352,995,883 | 1,114,395,246 |
| 205,938,000 | 352,995,883 | 1,114,395,246 |
| (8,856,000) | 51,922,746 | (41,842,754) |
| 686,308,000 | 8,509,293,974 | 17,322,660,622 |
| $ 677,452,000 | $ 8,561,216,720 | $ 17,280,817,868 |

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

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

### AUTHORITIES

Atlantic City Convention and Visitors Authority
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

## 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 obligations. 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 principal 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 principal 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 Annual Appropriations Act enacted by the State 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 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 and Use Tax rate to seven percent from six percent. Of the additional one percent, one half of a percent was dedicated to the Property Tax Relief Fund. Annual appropriations are made from the fund, pursuant to formulas established by the State Legislature, to counties, municipalities, and school districts.

c. State Lottery Fund - Monies derived from the sale of State lottery tickets are deposited into this fund. Disbursements are authorized for the payment of prizes to holders of winning lottery tickets and for the administrative expenses of the Division of State Lottery. Remaining balances are paid to the General Fund in support of the amounts annually appropriated for State institutions and for education. The present value of obligations for future installment payments of lottery prizes funded by the purchase of deposit fund contracts are accounted for in this fund.

d. Unemployment Compensation Fund - This fund accounts for monies deposited from contributions of employers and employees for unemployment compensation, amounts credited or advances made by the federal government, and amounts received herein from any other source. After consideration is given to any claim for refund of overpayment of contributions, the remainder is transferred by the Division of Employment Security to the Treasurer of the United States for credit to the State of New Jersey Unemployment Compensation Fund and held by the Treasurer of the United States in the State of New Jersey Unemployment Trust Fund. Drawdowns against the State of New Jersey Unemployment Trust Fund are made by requests submitted to the Treasurer of the United States by the Division of Employment Security on an as-needed basis, whereby amounts are transferred back to the Unemployment Compensation Fund and are then disbursed by the Division of Employment Security to persons entitled to receive unemployment benefits. Any shortfall in the Unemployment Compensation Fund needed to pay benefits is covered by federal statutes, which authorize advances from the federal government for unemployment benefits. Such advances are repayable by increased rates on federally taxable wages reported by New Jersey employers, or the advances may be repaid out of the fund assets at any time by the Governor.

**2. Governmental Fund Types**

a. Special Revenue Funds **–** These funds are used to account for and report the proceeds of specific revenue sources that are restricted or committed to expenditures for specified purposes other than debt service or capital projects. The term "proceeds of specific revenue sources" establishes that one or more specific restricted or committed revenues should be the foundation for a special revenue fund.

b. Capital Projects Funds - These funds are used to account for and report financial resources that are restricted, committed, or assigned to expenditures for capital outlays, including the acquisition or construction of capital facilities and other capital assets. Capital projects funds exclude those types of capital related outflows financed by proprietary funds or for assets that will be held in trust for individuals, private organizations, or other governments.

**3. Fiduciary Fund Types**

a. Pension and Other Employee Benefits 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 or 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 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, 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.

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, 2012, 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, assessments, loans, interest and dividends, 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, development rights, highways, and right-of-ways.

b. Infrastructure assets such as roads, bridges, and dams.

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, easements, 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. See Note 7 for additional details.

## 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. 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, certain capital leases, installment obligations, certificates of participation, unamortized premium, Tobacco Settlement Financing Corporation 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, advance from federal government, and deposit fund contracts. 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. **Nonspendable** - Fund balance includes amounts that are not in a spendable form or are legally or contractually required to be maintained intact (i.e., the principal of a permanent fund).

2. **Restricted** - Fund balance includes amounts that can be spent only for the specific purposes stipulated by external resource providers or imposed by law through constitutional provisions, or through enabling legislation.

3. **Committed** - Fund balance includes amounts that can be used only for the specific purposes determined by a formal action of the government's highest level of decision-making authority. Commitments may be changed or lifted only by the government taking the same formal action that imposed the constraint originally.

4. **Assigned** - Fund balance comprises amounts intended to be used by the government for specific purposes. Intent can be expressed by the governing body or by an official or body to which the governing body delegates the authority. In governmental funds other than the General Fund, assigned fund balance represents the amount that is not restricted or committed. This indicates that resources in other governmental funds are, at a minimum, intended to be used for the purpose of that fund.

5. **Unassigned** - Fund balance is the residual classification for the General Fund and includes all amounts not contained in the other classifications. Unassigned amounts are technically available for any purpose. If another governmental fund has a fund balance deficit, then it will be reported as a negative amount in the unassigned classification in that fund. Based on the definitions of the restricted, committed, and assigned fund balance classifications, positive unassigned amounts can exist only in the General Fund. The State's General Fund reflects both committed and unassigned fund balances. Initially, expenditures are made from existing committed fund balances, and if necessary, additional expenditures are made from unassigned fund balances.

## K. Fiscal Year End Differences

The following component units have fiscal years that ended on December 31, 2011:

**Component Units - Authorities**

Atlantic City Convention and Visitors Authority
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/Reclassifications

The State has adopted GASB Statement No. 64, *Derivative Instruments: Application of Hedge Accounting Termination Provisions*-an amendment of GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*, the provisions of this statement are effective for financial statements for periods beginning after June 15, 2011.

As a result of GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definition,* the following fund has been reclassified.

| Fund Name | Fund Classification June 30, 2011 | Fund Classification June 30, 2012 |
|---|---|---|
| Remediation Guarantee Fund | General Fund | Special Revenue Fund |

### B. Deficit Net Asset Balance

The Health Benefits Fund-State is on an actuarial basis of accounting, therefore, it has recorded a claims liability of $178 million. There are sufficient cash balances to pay claims that are billed to the fund. In order to pay unemployment claims in excess of available resources, it was necessary for the Unemployment Compensation Fund to borrow from the federal government, resulting in a deficit net asset balance of $253.1 million.

### C. Deficit Fund Balance

It is anticipated that bond sales during Fiscal Year 2013 will relieve the current deficit fund balances of the 2009 Farmland Preservation Fund, the 2009 Green Acres Fund, and the 2009 Historic Preservation Fund.

### D. 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, 2011 disclosed the following (expressed in millions):

**Financial Position**

| | | Combined Total |
|---|---|---|
| Total Assets | $ | 33,917.7 |
| Total Liabilities | | 22,191.8 |
| **Net Assets** | $ | 11,725.9 |

**Operating Results**

| | | |
|---|---|---|
| Operating Revenues | $ | 4,014.9 |
| Operating Expenses | | (2,564.9) |
| Depreciation and Amortization | | (930.3) |
| Income from Operations | | 519.7 |
| Non-operating Revenues (Expense), Net | | 181.6 |
| **Net Income** | $ | 701.3 |

**Changes in Net Assets**

| | | |
|---|---|---|
| Balance January 1, 2011 | $ | 11,024.6 |
| Net Income | | 701.3 |
| **Balance December 31, 2011** | $ | 11,725.9 |

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, 2011, Port Authority debt consisted of the following (expressed in millions):

**Bonds, Notes, and Other Obligations**

| | | |
|---|---|---|
| Consolidated Bonds and Notes | $ | 15,550.0 |
| Special Project Bonds | | 1,741.4 |
| Operating Asset Financing | | 474.1 |
| Capital Asset Financing | | 1,783.1 |
| | | 19,548.6 |
| Less: Unamortized Discount and Premium | | (1.2) |
| **Total** | $ | 19,547.4 |

## E. 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 $640.1 million, the amount of the present value of future lease payments by the State to the New Jersey Building Authority as of December 31, 2011.

In accordance with GASB Statement No. 24, *Accounting and Financial Reporting for Certain Grants and Other Financial Assistance*, an additional $1.3 billion 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 (c.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, 2012 the State’s bank balances amounted to $281.1 million. Of these balances, $2.2 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, international governments and agencies; bank loans; interest rate swap transactions; credit default swaps; fixed income exchange traded funds; U.S. Treasury futures contracts; 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 funds; real estate funds; 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.

Approximately $399.9 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 | $ 24,716.5 |
| Domestic equities | 19,733.2 |
| International equities | 13,943.8 |
| Absolute return strategy funds | 5,547.0 |
| Private equities | 5,489.0 |
| Real estate funds | 3,106.7 |
| International fixed income securities | 2,877.2 |
| Real assets | 1,448.2 |
| Bank loan funds | 1,365.0 |
| Mortgages | 963.9 |
| Annuity contracts | 399.9 |
| Mutual funds | 293.4 |
| Put options | 0.7 |
| **Total investments** | 79,884.5 |
| Unallocated administrative expenses and transaction exchanges | 1,309.4 |
| **Net amount recorded as investments** | $ 81,193.9 |

As Reported on the Government-wide Statement of Net Assets and Statement of Fiduciary Net Assets (expressed in millions):

| | Current Investments | Non-Current Investments | Total |
|---|---|---|---|
| Governmental activities | $ 3,938.5 | $ - | $ 3,938.5 |
| Business-type activities | 269.3 | 305.8 | 575.1 |
| Fiduciary funds | 76,680.3 | - | 76,680.3 |
| **Total** | $ 80,888.1 | $ 305.8 | $ 81,193.9 |

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, 2012 the following limits were in effect:

| Category | Minimum Rating (1) Moody's | S&P | Fitch | Limitation of Issuers' Outstanding Debt | Limitation of Issue | Other Limitations |
|---|---|---|---|---|---|---|
| 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; not more than 10% of fund assets (or 20% of the Common Pension Fund B account within the Common Pension Fund pool) can be invested in this category |
| 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 of the fund; limited to 5% of the shares or units outstanding |
| 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- | - | - | - |
| State and municipal obligations | A3 | A- | A- | 10% | 10% | Limit of 2% of fund assets can be invested in debt of any one entity maturing more than 12 months from purchase |
| 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- | 10% | - | Limit of 10% of fund assets |

(1) Short term ratings (e.g. P-1, A-1, F-1) are used for commercial paper and certificates of deposit.

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.

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, 2012. The first table is for bonds rated by Moody's. The second table uses Standard and Poor's and Fitch'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 | $ 1,515.9 | $ - | $ - | $ - | $ - | $ - |
| United States Treasury notes | 3,816.4 | - | - | - | - | - |
| United States Treasury TIPS | 1,821.5 | - | - | - | - | - |
| United States Treasury bonds | 1,000.5 | - | - | - | - | - |
| United States Treasury strips | 583.7 | - | - | - | - | - |
| United States Government Agency | 289.1 | 5.4 | 4.8 | - | - | - |
| Mortgages/FHLMC/FNMA/GNMA | 363.5 | - | - | - | - | - |
| Domestic corporate obligations | 928.7 | 1,005.7 | 3,487.1 | 3,837.7 | 351.1 | - |
| International corporate obligations | 10.5 | - | 370.7 | 275.2 | 38.9 | - |
| Foreign government obligations | 618.2 | 1,431.4 | 54.1 | - | - | - |
| SBA pass through certificates | 158.8 | - | - | - | - | - |
| Asset backed obligations | 16.6 | - | - | - | - | - |
| Certificates of deposit | - | - | - | - | - | 1,646.7 |
| Commercial paper | - | - | - | - | - | 1,096.0 |
| Other | 94.4 | 815.7 | 244.9 | 18.1 | 1.2 | - |
| **Total** | $ 11,217.8 | $ 3,258.2 | $ 4,161.6 | $ 4,131.0 | $ 391.2 | $ 2,742.7 |

| | Standard & Poor's Rating | | | | | |
|---|---|---|---|---|---|---|
| | AAA | AA | A | BBB | B | A-1+ |
| Domestic corporate obligations | $ - | $ 86.5 | $ 164.8 | $ 92.6 | $ 12.7 | $ - |
| International corporate obligations | - | 18.1 | - | - | 0.3 | - |
| Certificates of deposit | - | - | - | - | - | 220.0 |
| Other | 56.6 | 53.8 | 17.7 | - | - | - |
| **Total** | $ 56.6 | $ 158.4 | $ 182.5 | $ 92.6 | $ 13.0 | $ 220.0 |

The tables do not include various domestic corporate obligations given a Moody's rating of B ($487.0 million), Ca ($0.8 million), Caa ($171.3 million), and a Standard and Poor's rating of BB ($0.2 million), CCC ($5.2 million), international corporate obligations given a Moody's rating of B ($36.1 million), and Caa ($12.5 million).

In addition, the Police and Firemen's mortgages of $963.9 million, domestic corporate obligations of $46.2 million, foreign government obligations of $18.1 million, asset backed obligations of $51.4 million, and other various investment types of $130.2 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, 2012 (expressed in millions):

| | | Maturities in Years | | | |
|---|---|---|---|---|---|
| | Total Fair Value | Less than 1 | 1-5 | 6-10 | More than 10 |
| United States Treasury bills | $ 1,515.9 | $ 1,515.9 | $ - | $ - | $ - |
| United States Treasury notes | 3,816.4 | 3,801.3 | 15.1 | - | - |
| United States Treasury TIPS | 1,821.5 | - | 56.1 | 249.1 | 1,516.3 |
| United States Treasury bonds | 1,000.5 | 10.3 | 175.8 | 93.5 | 720.9 |
| United States Treasury strips | 583.7 | - | - | - | 583.7 |
| United States Government Agency | 299.3 | 0.4 | 12.9 | 190.3 | 95.7 |
| Mortgages/FHLMC/FNMA/GNMA | 363.5 | - | 2.5 | 1.6 | 359.4 |
| Domestic corporate obligations | 10,677.7 | 269.7 | 937.9 | 3,889.7 | 5,580.4 |
| International corporate obligations | 755.4 | - | 44.7 | 265.4 | 445.3 |
| Foreign government obligations | 2,121.8 | - | 156.9 | 1,136.3 | 828.6 |
| Police & Firemen's mortgages | 963.9 | - | 2.0 | 6.6 | 955.3 |
| SBA pass through certificates | 158.8 | - | 5.4 | 153.4 | - |
| Asset backed obligations | 68.0 | - | - | 16.6 | 51.4 |
| Certificates of deposit | 1,866.7 | 1,866.7 | - | - | - |
| Commercial paper | 1,096.0 | 1,096.0 | - | - | - |
| Other | 1,298.8 | 3.0 | 20.1 | 26.4 | 1,249.3 |
| **Total** | $ 28,407.9 | $ 8,563.3 | $ 1,429.4 | $ 6,028.9 | $ 12,386.3 |

Due to unavailability, the table does not include terms for the category of other investment types totaling $133.7 million.

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. The fair value of international preferred and common stocks and issues convertible into common stocks, when combined with the fair value of international government, agency, and corporate obligations, cannot exceed 30 percent of the fair value of the Common Pension Fund D account. 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 capitalization of the companies included in the MSCI All-Country World Ex-United States Index of the total market value of the assets held by Common Pension Fund D account. Not more than ten 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 five 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 contract receivables at June 30, 2012 totaling $423.3 million and payables totaling approximately $420.9 million (with a $2.4 million net gain). At June 30, 2012, the credit ratings of the counterparties to the forward currency contracts had credit ratings of no less than A3 using Moody’s rating scale. At June 30, 2012, 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 | Alternative Investments |
|---|---|---|---|
| Australian dollar | $ 405.0 | $ 405.0 | $ - |
| Brazilian real | 172.8 | 172.8 | - |
| Canadian dollar | 992.0 | 992.0 | - |
| Czech koruna | 2.6 | 2.6 | - |
| Danish krone | 99.0 | 99.0 | - |
| Egyptian pound | 20.4 | 20.4 | - |
| Euro dollar | 2,043.8 | 1,683.3 | 360.5 |
| Hong Kong dollar | 539.7 | 539.7 | - |
| Hungarian forint | 18.2 | 18.2 | - |
| Indonesian rupiah | 78.4 | 78.4 | - |
| Israeli shekel | 7.5 | 7.5 | - |
| Japanese yen | 1,987.3 | 1,987.3 | - |
| Malaysian ringgit | 38.0 | 38.0 | - |
| Mexican peso | 44.0 | 44.0 | - |
| Norwegian krone | 107.9 | 107.9 | - |
| Pakistan rupee | 7.4 | 7.4 | - |
| Philippines peso | 29.4 | 29.4 | - |
| Polish zolty | 19.9 | 19.9 | - |
| Singapore dollar | 219.2 | 219.2 | - |
| South African rand | 148.3 | 148.3 | - |
| South Korean won | 303.6 | 303.6 | - |
| Swedish krona | 358.1 | 358.1 | - |
| Swiss franc | 716.2 | 716.2 | - |
| Taiwan new dollar | 14.1 | 14.1 | - |
| Thailand baht | 66.0 | 66.0 | - |
| Turkish lira | 78.8 | 78.8 | - |
| United Kingdom sterling | 1,293.7 | 1,281.3 | 12.4 |
| Total | $ 9,811.3 | $ 9,438.4 | $ 372.9 |

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. Effective April 18, 2011, State regulations require that not more than 38 percent of the market value of the Pension Fund can be invested in alternative investments, with limits on the individual categories of real estate (nine percent), real assets (seven percent), private equity (12 percent), and absolute return strategy (15 percent). Prior to that, the overall limitation was 28 percent with a seven percent limit on each of the individual categories. The Common Pension Fund E account within the Common Pension Trust Fund pool reflects the State's alternative investments. Not more than five 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 State Investment Council policies permit Common Pension Funds A, B, D and E and several of the direct pension plan portfolios to participate in securities lending programs, whereby securities are loaned to brokers or other borrowers and, in return, the Funds have rights to the collateral received. All of the publicly traded securities held in Common Pension Funds A, B, D and E, and certain securities held directly by the pension plans, 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% (U.S. dollar denominated) or 105% (non-U.S. dollar denominated) of the value of the loaned securities at the time the loan is made. Collateral is marked to market daily and adjusted as needed to maintain the required minimum level.

Effective December 2010, for loans of U.S government securities or sovereign debt issued by non-U.S governments, in the event that the market value of the collateral falls below 100% of the market value of the outstanding loaned securities to an individual borrower, or the market value of the collateral of all loans of such securities falls below the collateral requirement, additional collateral shall be transferred by the borrower to the respective funds no later than the close of the next business day so that the market value of such additional collateral together with collateral previously delivered meets the collateral requirements.

For securities exposed to credit risk in the collateral portfolio, the following table disclosures aggregate fair value, by major credit quality rating category at June 30, 2012 (expressed in millions):

| | Rating | | |
|---|---|---|---|
| | Aaa/AAA | Not Rated | Total |
| Repurchase Agreements | $ 1,203.3 | $ - | $ 1,203.3 |
| Cash | - | 3.9 | 3.9 |
| Totals | $ 1,203.3 | $ 3.9 | $ 1,207.2 |

Custodial credit risk for investments is the risk that the Pension Funds will not recover the value of the investments, which are in the possession of an outside party, if the counterparty to the transaction does not fulfill its obligations. The repurchase agreements' underlying securities are held in the Pension Fund's name.

As of June 30, 2012, the Pension Funds had outstanding loaned investment securities with an aggregate fair value of $1,202.2 million. In accordance with GASB accounting standards, the non-cash collateral is not reflected in the financial statements. There were no borrowers or lending agent default losses, and no recoveries or prior-period losses during the year.

## 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 $3.4 billion of Federal government awards consisting of encumbrances which are considered unearned and unrecorded as of June 30, 2012.

Federal receivable balances in the Unemployment Compensation Fund ($89.4 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 $3.9 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, 2012 are deemed to be collectible, and are reflected net of allowances ($549.1 million).

### C. Loans

Loans receivable of $1.7 billion are reduced by allowances of $65.9 million and include $1.5 billion due from local units of government and other recipients for environmental projects, $30.3 million loaned for economic development within local units of government, and $15.1 million loaned for housing and mortgage assistance.

### D. Other

Other receivables totaling $987.6 million are reduced by allowances of $508.6 million and include tax receivables due of $408.2 million, $172.8 million due from the Port Authority of New York and New Jersey, $115.5 million from the tobacco companies, and $32.7 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, 2012 is as follows (expressed in millions):

| | Balance July 1, 2011 | Additions | Deductions | Transfers/ Adjustments | Balance June 30, 2012 |
|---|---|---|---|---|---|
| Capital assets, not being depreciated: | | | | | |
| Land and easements | $ 4,765.1 | $ 56.7 | $ - | $ 2.5 | $ 4,824.3 |
| Construction in progress* | 3,887.7 | 1,392.8 | - | (2,686.2) | 2,594.3 |
| Capital assets, being depreciated: | | | | | |
| Land improvements | 219.2 | - | - | 3.5 | 222.7 |
| Buildings and improvements | 3,380.8 | 37.6 | 90.9 | 83.5 | 3,411.0 |
| Machinery, equipment, and software | 878.9 | 39.5 | 6.6 | 61.6 | 973.4 |
| Infrastructure | 19,698.2 | - | - | 2,613.8 | 22,312.0 |
| Total at historical cost | 32,829.9 | 1,526.6 | 97.5 | 78.7 | 34,337.7 |
| Less accumulated depreciation: | | | | | |
| Land improvements | 133.3 | 7.3 | - | (0.1) | 140.5 |
| Buildings and improvements | 1,789.7 | 124.4 | 83.9 | 13.9 | 1,844.1 |
| Machinery, equipment, and software | 466.3 | 115.3 | 5.3 | - | 576.3 |
| Infrastructure | 7,640.8 | 567.3 | - | 1.7 | 8,209.8 |
| Total accumulated depreciation | 10,030.1 | 814.3 | 89.2 | 15.5 | 10,770.7 |
| Governmental activities capital assets, net | $ 22,799.8 | $ 712.3 | $ 8.3 | $ 63.2 | $ 23,567.0 |

* 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:

| Asset | Years |
|---|---|
| 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):

| | Amount |
|---|---|
| Public safety and criminal justice | $ 82.5 |
| Physical and mental health | 23.6 |
| Educational, cultural, and intellectual development | 22.1 |
| Community development and environmental management | 22.6 |
| Economic planning, development, and security | 24.3 |
| Transportation programs | 575.4 |
| Government direction, management, and control | 56.6 |
| Special government services | 7.2 |
| | $ 814.3 |

## 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, 2012 are presented below (expressed in millions):

| | General Fund | Property Tax Relief Fund | Non-Major Governmental Funds | State Lottery Fund | Unemployment Compensation Fund | Fiduciary Funds | Total |
|---|---|---|---|---|---|---|---|
| **Due from:** | | | | | | | |
| General Fund | $ - | $ 1.5 | $ 183.0 | $ - | $ 1.1 | $ 48.2 | $ 233.8 |
| Property Tax Relief Fund | 328.9 | - | 3.5 | - | 16.8 | - | 349.2 |
| Non-Major Governmental Funds | 402.1 | 1.3 | 159.3 | - | - | - | 562.7 |
| State Lottery Fund | 107.7 | - | - | - | - | - | 107.7 |
| Unemployment Compensation Fund | - | 1.2 | 18.7 | - | - | - | 19.9 |
| Fiduciary Funds | 2.4 | 7.2 | - | - | - | 0.5 | 10.1 |
| **Total Due from** | $ 841.1 | $ 11.2 | $ 364.5 | $ - | $ 17.9 | $ 48.7 | $ 1,283.4 |
| **Due to:** | | | | | | | |
| General Fund | $ - | $ 328.9 | $ 402.1 | $ 107.7 | $ - | $ 2.4 | $ 841.1 |
| Property Tax Relief Fund | 1.5 | - | 1.3 | - | 1.2 | 7.2 | 11.2 |
| Non-Major Governmental Funds | 183.0 | 3.5 | 159.3 | - | 18.7 | - | 364.5 |
| Unemployment Compensation Fund | 1.1 | 16.8 | - | - | - | - | 17.9 |
| Fiduciary Funds | 48.2 | - | - | - | - | 0.5 | 48.7 |
| **Total Due to** | $ 233.8 | $ 349.2 | $ 562.7 | $ 107.7 | $ 19.9 | $ 10.1 | $ 1,283.4 |

### B. Transfer In/(Out)

Interfund transfers for the fiscal year ended June 30, 2012 are presented below (expressed in millions):

| | General Fund | Property Tax Relief Fund | Non-Major Governmental Funds | State Lottery Fund | Unemployment Compensation Fund | Fiduciary Funds | Total |
|---|---|---|---|---|---|---|---|
| **Transfers (out) to:** | | | | | | | |
| General Fund | $ - | $ - | $ (1,523.2) | $ (950.1) | $ - | $ - | $ (2,473.3) |
| Non-Major Governmental Funds | (1,113.0) | - | (1,198.5) | - | - | - | (2,311.5) |
| **Total Transfers (Out)** | $ (1,113.0) | $ - | $ (2,721.7) | $ (950.1) | $ - | $ - | $ (4,784.8) |
| **Transfers in from:** | | | | | | | |
| General Fund | $ - | $ - | $ 1,113.0 | $ - | $ - | $ - | $ 1,113.0 |
| Non-Major Governmental Funds | 1,523.2 | - | 1,198.5 | - | - | - | 2,721.7 |
| State Lottery Fund | 950.1 | - | - | - | - | - | 950.1 |
| **Total Transfers In** | $ 2,473.3 | $ - | $ 2,311.5 | $ - | $ - | $ - | $ 4,784.8 |
| **Net Transfers** | $ 1,360.3 | $ - | $ (410.2) | $ (950.1) | $ - | $ - | $ - |

## 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. For Fiscal Year 2012, the State, under a resolution executed by the Treasurer on July 1, 2011, authorized the issuance of Tax and Revenue Anticipation Notes (TRAN). On September 1, 2011 the State issued $600 million of TRAN which matured on June 21, 2012 through a private placement. The State issued an additional $1.1 billion of TRAN on October 28, 2011, which also matured on June 21, 2012 through a private placement. These notes bear interest from their date of issuance through maturity or earlier redemption by the State at a fluctuating rate per annum equal to the adjusted Securities Industry and Financial Markets Association (SIFMA) rate plus a spread. On December 15, 2011, the State issued $2.15 billion of TRAN that bear an interest rate of 2.0 percent per annum. These notes matured on June 21, 2012. Part of the proceeds from these notes were used to refund and retire the $1.7 billion of TRAN issued under private placements on September 1, 2011 and October 28, 2011.

Short-term debt activity for the year ended June 30, 2012 was as follows (expressed in millions):

| | Outstanding July 1, 2011 | Issued | Redeemed | Outstanding June 30, 2012 |
|---|---|---|---|---|
| Tax and Revenue Anticipation Notes | $ - | $ 3,850.0 | $ (3,850.0) | $ - |

## 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, Tobacco Settlement Financing Corporation Bonds (TSFC), Unamortized Deferral on Refunding, Unamortized Interest on Capital Appreciation Bonds, and Unamortized Premium. Non-bonded categories include Accumulated Sick and Vacation Payable, certain Capital Leases, Loans Payable, Net OPEB Obligation, Net Pension Obligation, Pollution Remediation Obligation, Advance from Federal Government, 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 July 1, 2011 | Additions | Deductions | Outstanding June 30, 2012 | Amounts Due Within One Year |
|---|---|---|---|---|---|
| **Governmental Activities** | | | | | |
| **Bonded Debt** | | | | | |
| General Obligation Bonds | $ 2,566.9 | $ - | $ 182.2 | $ 2,384.7 | $ 333.8 |
| Revenue Bonds Payable | 19,770.6 | 1,650.6 | 722.2 | 20,699.0 | 477.9 |
| Capital Leases | 232.5 | - | 19.9 | 212.6 | 10.7 |
| Installment Obligations | 18,714.6 | 1,579.3 | 2,000.0 | 18,293.9 | 1,213.5 |
| Certificates of Participation | 85.4 | 38.4 | 23.5 | 100.3 | 27.7 |
| Tobacco Settlement Financing Corp. Bonds (TSFC) | 4,469.0 | - | 24.9 | 4,444.1 | 19.8 |
| Unamortized Premium | 1,404.0 | 260.4 | 145.8 | 1,518.6 | - |
| Unamortized Deferral on Refunding | (970.5) | (188.1) | (163.8) | (994.8) | - |
| Unamortized Interest on Capital Appreciation Bonds | (8,216.2) | - | (352.4) | (7,863.8) | - |
| **Non-Bonded Debt** | | | | | |
| Accumulated Sick and Vacation Payable | 623.2 | 331.9 | 349.0 | 606.1 | 331.9 |
| Capital Leases | 311.2 | 75.5 | 46.9 | 339.8 | 39.0 |
| Loans Payable | 1,279.4 | - | - | 1,279.4 | - |
| Net OPEB Obligation | 13,501.0 | 4,696.7 | 1,379.4 | 16,818.3 | - |
| Net Pension Obligation | 10,857.7 | 1,980.8 | - | 12,838.5 | - |
| Pollution Remediation Obligation | 80.4 | 11.8 | - | 92.2 | - |
| Other | 340.3 | 225.8 | 245.0 | 321.1 | 321.1 |
| **Subtotal Governmental Activities** | 65,049.5 | 10,663.1 | 4,622.6 | 71,090.0 | 2,775.4 |
| **Business-type Activities** | | | | | |
| Accumulated Sick and Vacation Payable | $ 1.0 | $ 0.6 | $ 0.6 | $ 1.0 | $ 0.6 |
| Advance from Federal Government | 1,547.1 | 2,581.0 | 3,075.9 | 1,052.2 | - |
| Deposit Fund Contracts | 445.7 | 43.6 | 89.4 | 399.9 | 94.2 |
| Subtotal Business-type Activities | 1,993.8 | 2,625.2 | 3,165.9 | 1,453.1 | 94.8 |
| **Total Governmental and Business-type Activities** | $ 67,043.3 | $ 13,288.3 | $ 7,788.5 | $ 72,543.1 | $ 2,870.2 |

**B. Debt Service Payments**

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

| | Debt Service | | | | | | |
|---|---|---|---|---|---|---|---|
| **Fiscal Year** | **General Obligation Bonds** | **Revenue Bonds** | **Capital Leases** | **Installment Obligations** | **Certificates of Participation** | **TSFC*** | **Total** |
| 2013 | $ 333.8 | $ 478.0 | $ 49.7 | $ 1,213.5 | $ 27.7 | $ 19.8 | $ 2,122.5 |
| 2014 | 232.7 | 505.5 | 45.6 | 774.4 | 23.7 | 21.8 | 1,603.7 |
| 2015 | 298.3 | 535.7 | 40.9 | 827.7 | 19.6 | 23.8 | 1,746.0 |
| 2016 | 351.0 | 564.0 | 40.9 | 1,095.5 | 11.4 | 41.1 | 2,103.9 |
| 2017 | 222.4 | 583.5 | 43.4 | 1,066.2 | 8.9 | 57.3 | 1,981.7 |
| 2018-2022 | 906.4 | 3,434.4 | 184.5 | 5,585.9 | 9.0 | 381.1 | 10,501.3 |
| 2023-2027 | 40.1 | 4,270.5 | 107.5 | 4,600.6 | - | 480.3 | 9,499.0 |
| 2028-2032 | - | 3,697.2 | 34.3 | 2,261.9 | - | 611.5 | 6,604.9 |
| 2033-2037 | - | 3,436.4 | 5.6 | 788.7 | - | 777.8 | 5,008.5 |
| 2038-2042 | - | 3,193.8 | - | 79.5 | - | 2,029.6 | 5,302.9 |
| **Total Principal** | 2,384.7 | 20,699.0 | 552.4 | 18,293.9 | 100.3 | 4,444.1 | 46,474.4 |
| 2013 | 115.3 | 673.0 | 47.7 | 677.3 | 1.4 | 154.5 | 1,669.2 |
| 2014 | 96.4 | 646.8 | 43.7 | 648.6 | 1.3 | 153.5 | 1,590.3 |
| 2015 | 84.1 | 619.9 | 40.5 | 626.4 | 0.6 | 152.4 | 1,523.9 |
| 2016 | 68.7 | 592.0 | 36.5 | 598.4 | 0.4 | 151.2 | 1,447.2 |
| 2017 | 53.8 | 562.7 | 32.3 | 562.1 | 0.3 | 149.2 | 1,360.4 |
| 2018-2022 | 112.8 | 2,349.5 | 97.8 | 2,257.1 | 0.1 | 698.6 | 5,515.9 |
| 2023-2027 | 1.4 | 1,440.9 | 33.1 | 1,538.9 | - | 603.0 | 3,617.3 |
| 2028-2032 | - | 909.8 | 3.5 | 450.3 | - | 475.2 | 1,838.8 |
| 2033-2037 | - | 608.8 | 0.8 | 107.5 | - | 313.0 | 1,030.1 |
| 2038-2042 | - | 249.1 | - | 2.9 | - | 99.0 | 351.0 |
| **Total Interest** | 532.5 | 8,652.5 | 335.9 | 7,469.5 | 4.1 | 2,949.6 | 19,944.1 |
| 2013 | 449.1 | 1,151.0 | 97.4 | 1,890.8 | 29.1 | 174.3 | 3,791.7 |
| 2014 | 329.1 | 1,152.3 | 89.3 | 1,423.0 | 25.0 | 175.3 | 3,194.0 |
| 2015 | 382.4 | 1,155.6 | 81.4 | 1,454.1 | 20.2 | 176.2 | 3,269.9 |
| 2016 | 419.7 | 1,156.0 | 77.4 | 1,693.9 | 11.8 | 192.3 | 3,551.1 |
| 2017 | 276.2 | 1,146.2 | 75.7 | 1,628.3 | 9.2 | 206.5 | 3,342.1 |
| 2018-2022 | 1,019.2 | 5,783.9 | 282.3 | 7,843.0 | 9.1 | 1,079.7 | 16,017.2 |
| 2023-2027 | 41.5 | 5,711.4 | 140.6 | 6,139.5 | - | 1,083.3 | 13,116.3 |
| 2028-2032 | - | 4,607.0 | 37.8 | 2,712.2 | - | 1,086.7 | 8,443.7 |
| 2033-2037 | - | 4,045.2 | 6.4 | 896.2 | - | 1,090.8 | 6,038.6 |
| 2038-2042 | - | 3,442.9 | - | 82.4 | - | 2,128.6 | 5,653.9 |
| **Total Principal and Interest** | **$** 2,917.2 | **$** 29,351.5 | **$** 888.3 | **$** 25,763.4 | **$** 104.4 | **$** 7,393.7 | **$** 66,418.5 |

* 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, 2012, the State had $2.4 billion of State general obligation bonds outstanding with another $893.2 million of bonding authorization remaining from various State general obligation bond acts. During the fiscal year, no General Obligation debt was issued. The amount provided by the State's General Fund for debt service payments for Fiscal Year 2012 was $316.0 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. As of June 30, 2012, the amount of defeased general obligation debt outstanding, but removed from the State's long-term obligations amounted to $549.0 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 (GSPT), and the New Jersey Transportation Trust Fund Authority (TTFA). During Fiscal Year 2012, the TTFA issued $1.3 billion of bonds used to fund transportation system improvements. The NJBA issued $54.4 million of refunding bonds in order to defease $54.5 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 four years were decreased by $1.0 million which resulted in $0.9 million in present value savings. During Fiscal Year 2012, GSPT issued $281.1 million of refunding bonds in order to defease $279.3 million of existing debt. Total debt service payments over the next 17 years were decreased by $30.1 million which resulted in $29.4 million in present value savings. Total authorized but unissued revenue bonds equal $3.8 billion as of June 30, 2012. Due to the nation's credit crisis, inefficiencies in the auction rate market resulted in TTFA having to remarket $297.5 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 2012, these authorities issued $1.6 billion of refunding bonds that were issued in order to defease $1.6 billion 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 22 years were decreased by $268.5 million and resulted in a net present value gain of $126.6 million. The State's installment obligations outstanding as of June 30, 2012 total $18.3 billion. Total authorized but unissued installment obligations equal $4.8 billion as of June 30, 2012.

### 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. Tobacco Settlement Financing Corporation (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.

### I. 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 2012, the State issued $1.9 billion of refunding bonds that are to be amortized over a time period of three years to nine 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 $994.8 million.

### J. 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.

### K. 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.

### 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 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 OPEB Obligation**

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, 2012 is estimated to be $16.8 billion.

**P. Net Pension Obligation**

Net Pension Obligation (NPO) represents a $12.8 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.*

**Q. 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 cleanup 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, 2012 is $92.2 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.

**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 ($223.2 million of which $108.5 million is federally reimbursable) which have been incurred but not reported. This obligation also includes $97.8 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. Advance from Federal Government**

As of June 30, 2012, the Unemployment Compensation Fund owed the Federal Government $1.1 billion. These funds were used in order to pay unemployment benefits. Until the economic conditions in the State improve, such borrowings are likely to continue.

**T. Deposit Fund Contracts**

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 $399.9 million are recorded as liabilities in both the fund financial statements and the government-wide statements.

### U. 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, 2011, 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 2012 in the amount of $19.8 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, 2012 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 2012 and Fiscal Year 2011 are detailed below (expressed in millions):

| Type of Claim | Fiscal Year 2012 | Fiscal Year 2011 |
|---|---|---|
| Tort | $ 12.1 | $ 24.5 |
| Workers' compensation | 96.9 | 98.6 |
| Automobile | 2.6 | 3.2 |

Property exposure is handled by a commercial insurance carrier. There were no reductions in commercial insurance coverage during the fiscal year ended June 30, 2012. 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. The State currently has two policies in place. The first of which is set to expire on December 1, 2012, and the second financial guaranty policy insurance commitment expires on July 1, 2016.

## 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 and the New Jersey Economic Development 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, 2012 the State has 21 active swap agreements with 9 swap providers for a combined, notional amount of $2.5 billion.

### B. Interest Rate Swap Agreements – Synthetic Rate

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. On June 8, 2010 the State terminated one of these swaps in the notional amount of $250 million. The swap that remains outstanding leaves the State with a net fixed rate of interest on the related agreement through September 1, 2015.

On January 20, 2011 the State terminated various outstanding New Jersey Economic Development Authority swap agreements. The notional amount of the swap agreements was $784.8 million and the termination payment amount paid to the swap providers was $122.6 million.

On February 22, 2011 the State terminated additional outstanding New Jersey Economic Development Authority swap agreements. The notional amount of the swap agreements was $488.4 million and the termination payment amount paid to the swap providers was $63.2 million.

On December 22, 2011 the State terminated five outstanding New Jersey Transportation Trust Fund Authority swap agreements. The notional amount of the swap agreements was $345.0 million, and there was no termination payment made to the swap providers.

| Issuer/Counterparty | Notional Amount ($ Millions) | Effective Date | Fixed Rate | Floating Index |
|---|---|---|---|---|
| **NJ Economic Development Authority(NJEDA)** | | | | |
| **School Facilities Construction Program** | | | | |
| Variable-to-Fixed Swaps | | | | |
| Bank of America, N.A. | $ 96.829 | 9/1/06 | 4.407 | 71.98% 1-month LIBOR |
| Bank of America, N.A. | 312.751 | 5/1/10 | 4.251 | 62% 1-month LIBOR + 40 bps |
| Bank of Montreal* | 244.200 | 11/1/09 | 3.153 | No Floating Payment |
| | | 11/1/12 | 4.549 | 62% 1-month LIBOR + 40 bps |
| Goldman Sachs Mitsui Marine Derivative, Products L.P. | 78.168 | 3/1/06 | 4.296 | 70.8% 1-month LIBOR |
| Goldman Sachs Mitsui Marine Derivative, Products L.P. | 91.660 | 9/1/06 | 4.407 | 71.98% 1-month LIBOR |
| Goldman Sachs Mitsui Marine Derivative, Products L.P. | 112.069 | 9/1/07 | 4.399 | 71.57% 1-month LIBOR |
| IXIS Financial Products, LLC. | 214.948 | 11/1/08 | 4.489 | 62% 1-month LIBOR + 40 bps |
| Royal Bank of Canada | 138.193 | 5/1/09 | 4.512 | 62% 1-month LIBOR + 40 bps |
| UBS AG, Stamford Branch | 64.323 | 9/1/04 | 4.063 | 71.13% 1-month LIBOR |
| UBS AG, Stamford Branch | 67.110 | 3/1/05 | 4.176 | 74.24% 1-month LIBOR |
| UBS AG, Stamford Branch | 116.098 | 9/1/07 | 4.399 | 71.57% 1-month LIBOR |
| Wells Fargo Bank, N.A. | 140.596 | 9/1/04 | 4.063 | 71.13% 1-month LIBOR |
| Wells Fargo Bank, N.A. | 72.583 | 3/1/05 | 4.176 | 74.24% 1-month LIBOR |
| Wells Fargo Bank, N.A. | 163.445 | 3/1/06 | 4.296 | 70.8% 1-month LIBOR |
| Fixed-to-Variable Swap | | | | |
| UBS AG, Stamford Branch | 380.515 | 5/1/08 | 3.036 | 75% 1-month LIBOR |
| **Total NJEDA** | 2,293.488 | | | |
| **NJ Building Authority(NJBA)** | | | | |
| Citibank, N.A., New York | $ 66.950 | 8/20/03 | 3.640 | 62% 1-month LIBOR + 20 bps |
| Citibank, N.A., New York | 28.690 | 8/20/03 | 3.640 | 62% 1-month LIBOR + 20 bps |
| Goldman Sachs Mitsui Marine Derivative, Products L.P. | 22.310 | 8/20/03 | 3.640 | 62% 1-month LIBOR + 20 bps |
| Goldman Sachs Mitsui Marine Derivative, Products L.P. | 9.570 | 8/20/03 | 3.640 | 62% 1-month LIBOR + 20 bps |
| Morgan Stanley Capital Services, Inc. | 22.310 | 8/20/03 | 3.640 | 62% 1-month LIBOR + 20 bps |
| Morgan Stanley Capital Services, Inc. | 9.570 | 8/20/03 | 3.640 | 62% 1-month LIBOR + 20 bps |
| **Total NJBA** | 159.400 | | | |
| **Total** | $ 2,452.888 | | | |

* This swap pays at a fixed rate with no floating rate receipt through November 1, 2012. Beginning November 1, 2012, the swap has both fixed and floating payments as indicated.

The swap agreements listed above have final maturities ranging from November 1, 2012 through March 1, 2035. The swap agreements total current notional amount is $2,452.9 million. Under the swap agreements, the State pays the counterparties a fixed payment ranging from 3.153 percent to 4.549 percent and receives a variable payment as computed for each associated variable rate transaction as shown above. In regards to the 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. 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 - Fair Value

As of June 30, 2012, the State, acting through its public authorities, is party to 21 swap agreements. General interest rates have declined since the execution of the swap agreements which were executed between August 20, 2003 and May 1, 2010. As a result, the projected net present value of the State's entire portfolio as of June 30, 2012 is negative $672.6 million. A breakdown of this amount is shown below ($ millions):

| | Changes in Fair Value | | Fair Value at June 30, 2012 | |
|---|---|---|---|---|
| **Governmental Activities** | **Classification** | **Amount** | **Classification** | **Amount** |
| **Cash Flow Hedges:** | | | | |
| Pay fixed interest rate swaps | | | | |
| NJ Building Authority | Deferred Outflows | $ (5.483) | Debt | $ (23.660) |
| NJ Transportation Trust Fund Authority | Deferred Outflows | 6.733 | Debt | - |
| Total Cash Flow Hedges | | 1.250 | | (23.660) |
| **Investment Derivatives:** | | | | |
| Pay fixed interest rate swaps | | | | |
| NJ Economic Development Authority | | | | |
| School Facilities Construction Program | Investment earnings | $ (287.278) | Investment | $ (648.954) |
| NJ Transporation Trust Fund Authority | Investment earnings | (0.086) | Investment | - |
| Total Investment Derivatives: | | (287.364) | | (648.954) |
| **Total** | | $ (286.114) | | $ (672.614) |

The fair values of the swaps take into consideration the prevailing interest rate environment and the specific terms and conditions of each swap. The fair market values were calculated using the zero-coupon method. The zero-coupon method calculates the future net settlement payments required by each swap, assuming that the current forward rates implied by the yield curve correctly anticipate future spot interest rates. These payments are then discounted using the spot rates implied by the current yield curve for hypothetical zero-coupon bonds due on the date of each future net settlement on the swap.

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, 2012. 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.

## D. 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 onset of the swap contract. 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, 2012.

## E. 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.

### F. 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 "Baa2". 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 $430.6 million.

In addition, the Unemployment Compensation Interest Repayment Fund reflects other liabilities of $34.5 million to the federal government representing interest accrued on outstanding loans to the Unemployment Compensation Fund. The New Jersey Schools Development Authority reflects other liabilities of $11.2 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 New Jersey Schools Development Authority school districts.

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

### A. Net Assets Restricted by Enabling Legislation

As of June 30, 2012, $3.5 billion of restricted net assets are reported in the Statement of Net Assets. Net assets are restricted when constraints have been placed upon the use of resources through enabling legislation initiated by voter referendum, constitutional provisions, debt covenants, or other external parties such as the federal government. Unexpended debt proceeds that are recorded as assets and restricted fund balance in the governmental funds ($862.9 million) have been deducted from the restricted net asset balance.

### B. Governmental Fund Balances

In the governmental fund financial statements, fund balances are segregated into the following categories: nonspendable, restricted, committed, and unassigned.

#### Nonspendable

The nonspendable fund balance classification includes amounts in the New Jersey Cultural Trust Fund ($20.0 million) and the State of New Tischler Memorial Fund ($0.4 million) that are legally required to remain intact.

#### Restricted

Similar to the net assets restricted by enabling legislation definition, the restricted fund balance classification is used when constraints have been placed upon the use of resources through enabling legislation initiated by voter referendum, constitutional provisions, debt covenants, or other external parties such as the federal government.

#### Committed

The committed fund balance classification is used for amounts that can only be used for purposes specified in enabling legislation, with the consent of both the legislative and executive branches. In contrast to the restricted fund balance classification, amounts in this category may be redeployed for other purposes with appropriate due process.

As mentioned above, both restricted and committed fund balances, respectively, may only be used for purposes specified in enabling legislation. Within these balances, however, money has been set aside (encumbered) pending vendor performance. In addition, within these balances are long-term loans and other items such as legally mandated reserves and escrow balances that represent balances that are not currently available for expenditure in subsequent accounting periods.

The following table reflects restricted and committed fund balances in the aggregate that have been encumbered or are currently unavailable for current expenditure as of June 30, 2012 (expressed in millions):

| **Major Components of:** | **General Fund** | **Property Tax Relief Fund** | **Non-Major Governmental Funds** | **Total Governmental Funds** |
|---|---|---|---|---|
| **Restricted Fund Balances** | **$ 884.2** | **$ -** | **$ 3,494.5** | **$ 4,378.7** |
| Encumbrances | 299.2 | - | 384.3 | 683.5 |
| Long-term loans | 355.6 | - | 1,278.6 | 1,634.2 |
| School Bond Reserve | - | - | 82.9 | 82.9 |
| **Committed Fund Balances** | **$ 1,570.7** | **$ 6.0** | **$ 452.7** | **$ 2,029.4** |
| Encumbrances | 620.2 | 3.5 | 151.4 | 775.1 |
| Long-term loans | 24.5 | - | 11.6 | 36.1 |

Restricted Fund Balance – School Bond Reserve:

**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 one 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, $82.9 million has been reserved as of June 30, 2012.

### Unassigned

Unassigned balance is $425.4 million. This classification represents fund balance that has not been restricted or committed to specific purposes within the General Fund ($441.4 million) and is offset by negative residual balances ($16.0 million) whereby expenditures have exceeded available resources.

## 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):

| | General Fund | Non-Major Funds | Total Governmental Funds |
|---|---|---|---|
| Refunding debt issued | $ 1,718.9 | $ 395.7 | $ 2,114.6 |
| Capital lease acquisitions | 75.5 | - | 75.5 |
| Premium related to new debt issuances | 0.1 | 51.9 | 52.0 |
| Certificates of participation issued | 38.4 | - | 38.4 |
| Installment obligations issued | 8.6 | - | 8.6 |
| Payments to escrow agents on refunding bonds | (1,718.9) | (395.6) | (2,114.5) |
| **Other Financing Sources (Uses) - Other** | $ 122.6 | $ 52.0 | $ 174.6 |

## 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, 2012 are as follows (expressed in millions):

| Fiscal Year | Amount |
|---|---|
| 2013 | $ 46.2 |
| 2014 | 33.8 |
| 2015 | 26.0 |
| 2016 | 21.5 |
| 2017 | 16.9 |
| 2018-2022 | 32.2 |
| 2023-2027 | 3.8 |
| 2028-2030 | 0.8 |
| **Total Future Minimum Lease Payments** | $ 181.2 |

## 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 (CPFPF)**--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 five years of successive service as a judge and ten 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 ten 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 eight to ten 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 ten 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 ten 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 Pension Adjustment Fund (PAF). Prior to the adoption of pension reform legislation, P.L. 2011, c.78, it provided 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 CPFPF, POPF, and CPF. Cost-of-living increases provided under the State's Pension Adjustment Program are currently suspended as a result of the reform legislation. This benefit is funded by the State as benefit allowances become payable. The State also administers the Defined Contribution Retirement Program, which is not presented in the Pension statements in the CAFR

The cost of living increase for PFRS, PERS, TPAF, SPRS, and JRS are funded directly by each of the respective systems , but are currently suspended as a result of reform legislation.

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. 2011, c.78, effective June 28, 2011, made various changes to the manner in which TPAF, PERS, PFRS, SPRS, and JRS operate and to the benefit provisions of those systems.

This legislation's provisions impacting employee pension and health benefits include:

- For new members of TPAF and PERS hired on or after June 28, 2011 (Tier 5 members), the years of creditable service needed for early retirement benefits increased from 25 to 30 years and the early retirement age increased from 55 to 65.
- The eligibility age to qualify for a service retirement in the TPAF and PERS increased from age 62 to 65 for Tier 5 members.
- The annual benefit under special retirement for new PFRS members enrolled after June 28, 2011 (Tier 3 members), decreased from 65 percent of final compensation to 60 percent of final compensation after 25 years of service and from 70 percent of final compensation to 65 percent of final compensation after 30 or more years of service.
- It increased the active member contribution rates as follows: TPAF and PERS active member rates increased from 5.5 percent of annual compensation to 6.5 percent plus an additional 1 percent phased-in over 7 years; PFRS and PERS Prosecutors Part active member rates increased from 8.5 percent to 10 percent; SPRS active member rates increased from 7.5 percent to 9 percent; and JRS active member rates increased from 3 percent to 12 percent phased-in over seven years for members hired or reappointed on or after June 28, 2011. For Fiscal Year 2012, the member contribution rates increased in October 2011. The phase-in of the additional incremental member contributions for TPAF, PERS and JRS members takes place in July of each subsequent fiscal year.
- The payment of automatic cost-of-living adjustment (COLA) additional increases to current and future retirees and beneficiaries was suspended. COLA increases may be reactivated at a future date as permitted by this law.
- It changed the method for amortizing the pension systems' unfunded accrued liability (from a level percent of pay method to a level dollar of pay method).

**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 July 1, 2011, the most recent actuarial valuation date, the aggregate funded ratio for the retirement systems (TPAF, PERS, PFRS, POPF, CPFPF, JRS, and SPRS) is 67.5 percent with an unfunded actuarial accrued liability of $41.7 billion. The aggregate funded ratio and unfunded accrued liability for the State-funded systems is 60.8 percent and $30.1 billion, respectively, and the aggregate funded ratio and unfunded accrued liability for local PERS and PFRS is 77.5 percent and $11.6 billion, respectively.

The required supplementary information regarding the funded status and funding progress of the retirement systems includes 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 funding limitations on the pattern of cost sharing between the employer and members in the future.

**Actuarial Methods and Assumptions**

In the revised July 1, 2011 actuarial valuations, 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 (a) a revised investment rate of return for all the retirement systems from 8.25 percent to 7.95 percent except for POPF (5 percent) and CPFPF (2 percent), and (b) revised projected salary increases which vary by fund and are presented on the following pages.

**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, 2012 for CPFPF 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, 2012 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, represents the APC divided by the covered payroll as reflected in the Schedule of Funding Progress per the actuarial valuations as of June 30, 2010. In Fiscal Year 2011, the State made a decision to reduce the PFRS lag period between the valuation year and the contribution year from three years to two years which brings the PFRS in line with the other pension trust funds.

| | | CPFPF | JRS | PFRS |
|---|---|---|---|---|
| **Annual Pension Cost (APC)** | | | | |
| **State:** | **June 30, 2010** | $ 1,110,290 | $ 33,693,313 | $ 7,326,383 |
| | **June 30, 2011** | (785,728) | 40,312,651 | 7,629,519 * |
| | **June 30, 2012** | 712,146 | 41,418,589 | 61,707,967 |
| **Local:** | **June 30, 2010** | - | - | 751,395,802 |
| | **June 30, 2011** | - | - | 882,095,029 |
| | **June 30, 2012** | - | - | 763,182,795 |
| **Contributions Made** | | | | |
| **State:** | **June 30, 2010** | - | 1,032,857 | 7,326,383 |
| | **June 30, 2011** | - | 651,718 * | 7,629,519 * |
| | **June 30, 2012** | 173,790 | 6,437,938 | 61,707,967 |
| **Local:** | **June 30, 2010** | - | - | 751,395,802 |
| | **June 30, 2011** | - | - | 882,095,029 * |
| | **June 30, 2012** | - | - | 763,182,795 |
| **Percentage of APC Contributed** | | | | |
| **State:** | **June 30, 2010** | - | 3.1% | 100.0% |
| | **June 30, 2011** | - | 1.6%* | 100.0% |
| | **June 30, 2012** | 24.4% | 15.5% | 100.0% |
| **Local:** | **June 30, 2010** | - | - | 100.0% |
| | **June 30, 2011** | - | - | 100.0% |
| | **June 30, 2012** | - | - | 100.0% |
| **Net Pension Obligation** | | | | |
| **State:** | **June 30, 2010** | 1,314,442 | 85,719,478 | - |
| | **June 30, 2011** | 528,714 | 125,380,411 * | - |
| | **June 30, 2012** | 1,067,070 | 160,361,062 | - |
| **Local:** | **June 30, 2010** | - | - | - |
| | **June 30, 2011** | - | - | - |
| | **June 30, 2012** | - | - | - |
| **Contribution rates** | | | | |
| **State** | | N/A | 57.7% | 11.6% |
| **State-related employers** | | N/A | N/A | 23.9% |
| **Employees** | | N/A | 4.3% | 10.0% |
| **Significant Actuarial Assumptions and Methods** | | | | |
| **Date of actuarial valuation** | | 6/30/11 | 6/30/11 | 6/30/11 |
| **Actuarial cost method** | | Projected Unit Credit | Projected Unit Credit | Projected Unit Credit |
| **Amortization method** | | Level Dollar Closed | Level Dollar Open | Level Dollar Open |
| **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% | 7.95% | 7.95% |
| **Projected salary increases** | | N/A | 2.50% | 6.32% |
| **Cost-of-Living adjustments** | | N/A | 0.00% | 0.00% |

* Restated

| | | POPF | PERS | SPRS | TPAF |
|---|---|---|---|---|---|
| **Annual Pension Cost (APC)** | | | | | |
| **State:** | **June 30, 2010** | $ 21,555 | $ 27,910,317 | $ 100,220,381 | $ 1,896,879,039 |
| | **June 30, 2011** | 276,668 | 31,079,384 * | 125,084,190 | 2,254,837,321 |
| | **June 30, 2012** | 515,016 | 157,964,207 | 93,578,396 | 2,184,639,605 |
| **Local:** | **June 30, 2010** | - | 612,372,679 | - | - |
| | **June 30, 2011** | - | 800,936,802 * | - | - |
| | **June 30, 2012** | - | 825,980,958 | - | - |
| **Contributions Made** | | | | | |
| **State:** | **June 30, 2010** | - | 27,910,317 | 1,018,200 | 33,199,655 |
| | **June 30, 2011** | - | 31,079,384 * | 2,201,604 * | 30,655,332 * |
| | **June 30, 2012** | - | 157,964,207 | 14,610,249 | 317,927,358 |
| **Local:** | **June 30, 2010** | - | 612,372,679 | - | - |
| | **June 30, 2011** | - | 800,936,802 * | - | - |
| | **June 30, 2012** | - | 825,980,958 | - | - |
| **Percentage of APC Contributed** | | | | | |
| **State:** | **June 30, 2010** | - | 100.0% | 1.0% | 1.8% |
| | **June 30, 2011** | - | 100.0% | 1.8%* | 1.4%* |
| | **June 30, 2012** | - | 100.0% | 15.6% | 14.6% |
| **Local:** | **June 30, 2010** | - | 100.0% | - | - |
| | **June 30, 2011** | - | 100.0% | - | - |
| | **June 30, 2012** | - | 100.0% | - | - |
| **Net Pension Obligation** | | | | | |
| **State:** | **June 30, 2010** | (6,726,820) | - | 504,720,735 | 7,879,635,613 |
| | **June 30, 2011** | (6,450,152) | - | 627,603,321 * | 10,103,817,602 * |
| | **June 30, 2012** | (5,935,136) | - | 706,571,468 | 11,970,529,849 |
| **Local:** | **June 30, 2010** | - | - | - | - |
| | **June 30, 2011** | - | - | - | - |
| | **June 30, 2012** | - | - | - | - |
| **Contribution rates** | | | | | |
| **State** | | N/A | 3.5% | 32.3% | 21.8% |
| **State-related employers** | | N/A | 11.1% | N/A | N/A |
| **Employees** | | N/A | 6.5% (10% for County Prosecutors) | 9.0% | 6.5% |
| **Significant Actuarial Assumptions and Methods** | | | | | |
| **Date of actuarial valuation** | | 6/30/11 | 6/30/11 | 6/30/11 | 6/30/11 |
| **Actuarial cost method** | | Projected Unit Credit | Projected Unit Credit | Projected Unit Credit | Projected Unit Credit |
| **Amortization method** | | Level Dollar Closed | Level Dollar Open | Level Dollar Open | Level Dollar Open |
| **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% | 7.95% | 7.95% | 7.95% |
| **Projected salary increases** | | N/A | 4.52% | 3.45% | 3.90% |
| **Cost-of-Living adjustments** | | N/A | 0.00% | 0.00% | 0.00% |

* 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, 2012 are presented below:

| | SINGLE EMPLOYER PLANS | | |
|---|---|---|---|
| | **JRS** | **POPF** | **SPRS** |
| Annual Required Contribution, June 30, 2012 | $ 42,475,660 | $ (5,935,136) | $ 98,869,662 |
| Interest adjustment on NPO | 10,343,884 | (322,508) | 51,777,274 |
| Adjustment to Annual Required Contribution | (11,400,955) | 6,772,660 | (57,068,540) |
| APC as of June 30, 2012 | 41,418,589 | 515,016 | 93,578,396 |
| Total Fiscal Year 2012 Contributions | 6,437,938 | - | 14,610,249 |
| Increase (Decrease) in NPO | 34,980,651 | 515,016 | 78,968,147 |
| NPO as of June 30, 2011 | 125,380,411 * | (6,450,152) | 627,603,321 * |
| NPO as of June 30, 2012 | $ 160,361,062 | $ (5,935,136) | $ 706,571,468 |

| | COST SHARING PLANS WITH SPECIAL FUNDING SITUATIONS | | |
|---|---|---|---|
| | **CPFPF** | **TPAF** | **Total All Plans** |
| Annual Required Contribution, June 30, 2012 | $ 1,240,860 | $ 2,269,823,968 | $ 2,406,475,014 |
| Interest adjustment on NPO | 10,574 | 833,564,952 | 895,374,176 |
| Adjustment to Annual Required Contribution | (539,288) | (918,749,315) | (980,985,438) |
| APC as of June 30, 2012 | 712,146 | 2,184,639,605 | 2,320,863,752 |
| Total Fiscal Year 2012 Contributions | 173,790 | 317,927,358 | 339,149,335 |
| Increase (Decrease) in NPO | 538,356 | 1,866,712,247 | 1,981,714,417 |
| NPO as of June 30, 2011 | 528,714 | 10,103,817,602 * | 10,850,879,896 * |
| NPO as of June 30, 2012 | $ 1,067,070 | $ 11,970,529,849 | $ 12,832,594,313 |

* Restated

## B. HEALTH BENEFITS AND POST-RETIREMENT MEDICAL BENEFITS

As a result of implementing 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 566 state and local participating employers and contributing entities for Fiscal Year 2012.

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.

**Significant Legislation**

P.L. 2011, c.78, effective October 2011, sets new employee contribution requirements towards the cost of employer-provided health benefit coverage. Employees are required to contribute a certain percentage of the cost of coverage. The rate of contribution is determined based on the employee's annual salary and the selected level of coverage. The increased employee contributions will be phased in over a four-year period for those employed prior to this new legislation's effective date with a minimum contribution required to be at least 1.5% of salary.

**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 July 1, 2011, the most recent actuarial valuation date, the unfunded actuarial accrued liability for OPEB is $48.9 billion which is made up of $18.0 billion for state active and retired members and $30.9 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 July 1, 2011, actuarial valuation, the projected unit credit was used as the actuarial cost method. The actuarial assumptions included an assumed investment rate of return of 4.50 percent.

## 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, 2012, there were 97,661 retirees receiving post-retirement medical benefits, and the State contributed $958.9 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 $112.6 million for 8,810 eligible retired members for Fiscal Year 2012. 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 $146.6 million toward Chapter 126 benefits for 16,618 eligible retired members in Fiscal Year 2012.

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 $36.6 million in the current year to provide benefits under Chapter 330 to qualified retirees.

**Annual OPEB Cost (AOC)**

The annual OPEB cost for the fiscal year ending June 30, 2012 and related information, including a summary of the significant actuarial methods and assumptions used by OPEB, are presented below.

The calculation of the employer contributions rates listed below for OPEB represents the AOC divided by the covered payroll as reflected in the Schedule of Funding Progress per the actuarial valuations as of June 30, 2011.

**OPEB - STATE**

| | | | |
|---|---|---|---|
| **Annual OPEB Cost (AOC)** | | | |
| **State:** | **June 30, 2010** | $ | 4,719,500,000 |
| | **June 30, 2011** | | 4,917,000,000 |
| | **June 30, 2012** | | 4,696,700,000 |
| **Contributions Made** | | | |
| **State:** | **June 30, 2010** | $ | 1,327,000,000 |
| | **June 30, 2011** | | 1,444,900,000 |
| | **June 30, 2012** | | 1,379,400,000 |
| **Percentage of AOC Contributed** | | | |
| **State:** | **June 30, 2010** | | 28.1% |
| | **June 30, 2011** | | 29.4% |
| | **June 30, 2012** | | 29.4% |
| **Net OPEB Obligation (NOO)** | | | |
| **State:** | **June 30, 2010** | $ | 10,028,800,000 |
| | **June 30, 2011** | | 13,501,000,000 |
| | **June 30, 2012** | | 16,818,300,000 |

| | |
|---|---|
| **Contribution rates** | |
| **State** | 22.5% |
| **Employees** | N/A |

**Significant Actuarial Assumptions and Methods**

| | |
|---|---|
| **Date of actuarial valuation** | 6/30/11 |
| **Actuarial cost method** | Projected Unit Credit |
| **Amortization method** | Level Percent Open |
| **Remaining amortization period** | 30 years |
| **Actuarial assumptions** | |
| **Investment rate of return** | 4.50% (assuming no prefunding) |
| **Projected salary increases** | N/A |
| **Cost-of-Living adjustments** | N/A |

For medical benefits, the healthcare cost trend rate assumption initially is at 8.0 percent or 9.0 percent (depending on the medical plan) and decreases to a 5.0 percent long-term trend rate for all medical benefits after six or eight years. For prescription drug benefits, the initial healthcare cost trend rate assumption is 9.0 percent or 9.5 percent (depending on the retirement status), decreasing to a 5.0 percent long-term trend rate after eight or nine years. For Medicare Part B reimbursement, the healthcare cost trend rate assumption is 5.0 percent throughout 11 years.

The AOC and NOO for the State-funded post-retirement medical obligations for the fiscal year ending June 30, 2012 are presented below:

| | | |
|---|---|---|
| Annual Required Contribution, June 30, 2012 | $ | 4,918,000,000 |
| Interest Adjustment on NOO | | 607,500,000 |
| Adjustment to Annual Required Contribution | | (828,800,000) |
| AOC as of June 30, 2012 | | 4,696,700,000 |
| Total Fiscal Year 2012 Contributions | | 1,379,400,000 |
| Increase in NOO | | 3,317,300,000 |
| NOO as of June 30, 2011 | | 13,501,000,000 |
| NOO as of June 30, 2012 | $ | 16,818,300,000 |

## NOTE 18 – COMPONENT UNITS

### A. Authorities

Managed independently of the appropriated budget process, the Authorities are legally separate entities with powers generally vested in a governing board. Established for the benefit of the State's citizenry, Authorities exist for a variety of purposes such as financing economic development, public transportation, low-cost housing, environmental protection, and capital development for health and education. Unlike the State itself, Authorities are not subject to State constitutional restrictions on the incurrence of debt; however, similar to the State, Authorities may issue bonds and notes within legislatively authorized amounts.

With the approval of the State Senate, the Governor 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 annual budget information on operations and capital construction to the Governor and the State Legislature. From time to time, the Governor has exercised the statutory power to veto actions.

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.

In accordance with GASB Statement No. 14, *The Financial Reporting Entity,* all other Authorities have been presented discretely as major and non-major component units in the State's financial statements. These component units are included in the State's reporting entity because of the significance of their operational or financial relationship with the State. Financial statements for the Authorities are derived from their most recently issued financial statements. Descriptions of the discretely presented Authorities, and addresses from which separately issued audited financial statements and accompanying notes may be obtained, are provided below:

**Atlantic City Convention & Visitors Authority (N.J.S.A. 52:27H-29 et seq.)**
**2314 Pacific Avenue**
**Atlantic City, New Jersey 08401**
**http://www.atlanticcitynj.com**

The Atlantic City Convention & Visitors Authority was established to promote the tourist, resort, convention, and casino industries, as well as operate and maintain the Atlantic City Convention Center, the Historic Boardwalk Hall, and the West Hall. The Authority serves as the destination's principal marketing arm, stimulating economic growth through convention and leisure tourism development.

**Casino Reinvestment Development Authority (N.J.S.A. 5:12-153)**
**15 S. Pennsylvania Avenue**
**Atlantic City, New Jersey 08401**
**http://www.njcrda.com**

The Casino Reinvestment Development Authority (CRDA) was created to maintain public confidence in the casino gaming industry as a tool of urban redevelopment throughout New Jersey, and to facilitate the direct redevelopment of blighted areas by providing eligible projects in which licensees (casinos) can invest. CRDA encourages investment in, or financing of, projects which are made as part of a comprehensive plan to improve blighted areas or targeted to benefit low- through middle-income residents. CRDA 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**
**http://www.hesaa.org**

New Jersey's Higher Education Student Assistance Authority (HESAA) was established to provide a single statewide agency for the coordination and delivery of student financial assistance. HESAA 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. In addition to administering the delivery of a number of need- and merit-based State scholarship programs, to include Tuition Aid Grants (TAG), New Jersey Student Tuition Assistance Reward Scholarship (NJSTARS), and World Trade Center Scholarship Fund, HESAA oversees the State's 529 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 08625-0990**
**http://www.njeda.com**

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

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

The New Jersey Educational Facilities Authority (NJEFA) 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 their debt instruments (bonds, notes, and other obligations). NJEFA may finance academic and auxiliary facilities for the State's public and independent institutions of higher education.

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

The New Jersey Environmental Infrastructure Trust provides low-cost financing for the construction of environmental infrastructure projects that enhance and protect ground and surface water resources, ensure the safety of drinking water supplies, and make possible responsible and sustainable economic development.

Working in partnership with the New Jersey Department of Environmental Protection, the Trust has devised a system to leverage the funds available from the federal government to make money available at the lowest possible cost. The financing program has provided funds to local and county government units, as well as some private water companies, to finance wastewater systems, combined sewer overflow abatement, nonpoint source pollution control, safe drinking water supplies, and open space acquisition.

**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 08625-0366**
**http://www.njhcffa.com**

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

**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**
**http://www.state.nj.us/dca/hmfa**

The Housing and Mortgage Finance Agency (HMFA) 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, HMFA 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, HMFA 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)**
**One DeKorte Park Plaza**
**Lyndhurst, New Jersey 07071**
**http://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). If needed, the Commission is able to raise funds through the issuance of tax-exempt bonds and notes.

**New Jersey Redevelopment Authority (P.L. 1996, c.62)**
**150 West State Street, P.O. Box 790**
**Trenton, New Jersey 08625**
**http://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**
**http://www.njsea.com**

The New Jersey Sports and Exposition Authority (NJSEA) owns, operates, and manages a variety of sports, entertainment, wagering, and convention facilities throughout New Jersey; it also has been responsible for the financing, construction, and management of the Meadowlands Racetrack, the IZOD Center, and the MetLife stadium. In addition to being authorized to issue bonds and notes and provide the terms and security thereof, NJSEA is charged with the responsibility to own, operate, and build various facilities for athletic and entertainment events, trade shows, and other expositions located throughout the State.

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

New Jersey Transit Corporation (NJ TRANSIT) is empowered to acquire, own, operate, and contract for the operation of public transportation services. Both the State, by legislative appropriation, and the federal government, by defined formula grants under the Federal Transit Administration, provide NJ TRANSIT with operating subsidies. NJ TRANSIT uses these subsidies to operate public transportation services through 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 the cost of maintaining right-of-way as well as propulsion costs.

**New Jersey Turnpike Authority (N.J.S.A. 27:23-3)**
**581 Main Street, P.O. Box 5042**
**Woodbridge, New Jersey 07095-5042**
**http://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. Subject to prior approval by the Governor and by either or both the State Treasurer and the Director, Division of Budget and Accounting, the Authority also may issue turnpike revenue bonds or notes that are payable solely from Authority tolls and other revenues. 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**
**http://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 Transmission Center, the Spruce Run/Round Valley Reservoirs Complex, and the Manasquan Reservoir Water Supply System. Upon the request of a municipality, county, the State, or agencies thereof, the Authority may 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)**
**101 Joseph A. Balzano Blvd.**
**Camden, New Jersey 08103**
**http://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, to include 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**
**http://www.sjta.com**

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

**B. Colleges and Universities**

Enactment of P.L. 1986, c.42 and c.43, provided autonomous status for New Jersey's nine State colleges and universities. Prior to the July 1, 1987 effective date of this legislation, revenues and expenses for these public institutions of higher education were included in the General Fund of the State of New Jersey.

The financial statements of all twelve of the State's Senior Public institutions of higher education (three Public Research universities and the aforementioned nine State 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*. Due to the significance of their operational or financial relationships and fiscal dependency with the State, these component units are included in the State's reporting entity. State appropriations, tuition, federal grants, and private donations and grants provide funding for these institutions. Based upon the relative size of assets, liabilities, revenues, and expenses in relation to the total, the financial statements of these institutions have been presented discretely in either the major or non-major categories in both the Statement of Net Assets and the Statement of Activities. In addition, pursuant to GASB Statement No. 39, *Determining Whether Certain Organizations are Component Units*, the financial statements of all twelve institutions include financial activities related to their foundations and other similar organizations.

Effective July 1, 2013, the "New Jersey Medical and Health Sciences Education Restructuring Act" of 2012 abolishes the University of Medicine and Dentistry of New Jersey (UMDNJ), transfers UMDNJ's various schools and institutes to Rutgers University and Rowan University, respectively, and establishes Rowan University as a public research university. Currently, UMDNJ is classified as a public research university and Rowan University is classified as a State university.

Separately issued independent audited financial statements and accompanying notes may be obtained directly from the State's Senior Public institutions of higher education at the following addresses and websites:

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

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

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

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

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

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

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

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

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

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

**William Paterson University of New Jersey**
**(N.J.S.A. 18A:62-1)**
**358 Hamburg Turnpike**
**Wayne, New Jersey 07470**
**http://www.wpunj.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, 2012, 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, 2012 there was approximately $366.0 million of overpayments.

### New Jersey Lawyers' Fund for Client Protection

Claims of approximately $19.6 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 $12.3 million. The ultimate disposition of these claims is not determinable at this time.

### New Jersey Spill Compensation Fund

Various claims totaling approximately $37.0 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, 2012 there were approximately $964.0 million of overpayments.

### Sanitary Landfill Facility Contingency Fund

Various claims totaling approximately $19.0 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 2012 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 July 2010, the participating manufacturers filed a Statement of Claim before an arbitration panel regarding the 2003 non-participating manufacturers (NPM) adjustment. On November 3, 2011, the participating manufacturers released the State from the 2003 diligent enforcement action arbitration. As a result, when the multi-state arbitration is finally concluded, the Tobacco Settlement Financing Corporation will receive the $30 million withheld in 2006 relating to 2003. On April 15, 2011, notice was given by the tobacco companies to the State that they are seeking arbitration of diligent enforcement disputes for the years 2004 through 2008. While New Jersey believes it has meritorious defenses to any claim by participating manufacturers for 2004 through 2008 NPM adjustments, it could stand to lose between $27 million and $49 million. For 2004 through 2012, New Jersey's Master Settlement Agreement (MSA) payments are at risk, with a potential liability of between $162.0 million and $1.6 billion if it is found to not have diligently enforced its Model Statute. 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 $25.7 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, 2012, audits of expenditures for Fiscal Year 2011 and prior years may not be completed. Disallowances which may result from these audits are not determinable at this time. As of June 30, 2012, it is management's opinion that disallowances, if any, would not be material.

## NOTE 20 – SUBSEQUENT EVENTS

### Short-term Debt

For Fiscal Year 2013, the State authorized the issuance of short-term notes. The short-term note proceeds are 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 July 9, 2012, the State issued $1.2 billion of Tax and Revenue Anticipation Notes, Series Fiscal 2013A and on August 31, 2012, the State issued $900 million of Tax and Revenue Anticipation Notes, Series Fiscal 2013B. Both series were issued at a rate of LIBOR plus 0.25 percent per annum, adjusting monthly, with accrued interest payable at final maturity of June 27, 2013. On November 20, 2012, the State issued $2.6 billion of Tax and Revenue Anticipation Notes, Series Fiscal 2013C, a portion of which refunded the Series Fiscal 2013A and 2013B notes in their entirety prior to their maturity. The Series Fiscal 2013C notes bear interest at a fixed rate of 2.5 percent per annum with interest payable at final maturity on June 27, 2013. The State may issue additional short-term notes in Fiscal Year 2013.

### Long-term Obligations

On August 30, 2012, the New Jersey Economic Development Authority issued $24.2 million of School Facilities Construction Refunding Bonds, 2012 Series LL. The bonds were issued at a rate of 0.75 percent per annum, with a final maturity of October 31, 2012. On October 3, 2012, the New Jersey Economic Development Authority issued $399.4 million of School Facilities Construction Bonds, consisting of $136.9 million 2012 Series KK Bonds, $24.3 million 2012 Series MM Refunding Bonds, $119.1 million 2012 Series G Notes, and $119.1 million 2012 Series H Notes. Interest on the 2012 Series KK bonds ranges from 3.0 to 5.0 percent per annum and is payable on March 1 and September 1, commencing on September 1, 2013. Final maturity is March 1, 2038. The Series MM bonds were issued to refund the 2012 Series LL in their entirety prior to their maturity. Interest on the Series MM bonds ranges from 1.047 to 1.651 percent per annum and is payable on March 1 and September 1, commencing on September 1, 2013. Final maturity is September 1, 2017. Interest on the 2012 Series G notes varies at a rate of SIFMA plus 0.58 percent per annum, and is payable on the first business day of each month, commencing on November 1, 2012. Final maturity is February 1, 2015. Interest on the 2012 Series H notes varies at a rate of SIFMA plus 0.90 percent per annum, and is payable on the first business day of each month, commencing on November 1, 2012. Final maturity is February 1, 2017.

On October 17, 2012, The South Jersey Port Corporation issued $60.1 million of refunding bonds, Series 2012 Q. Interest on the bonds ranges from 3.0 to 3.25 percent per annum and is payable on January 1 and July 1, commencing on July 1, 2013. Final maturity of the bonds is January 1, 2033. Also on October 17, 2012, the South Jersey Port Corporation issued $16.0 million of refunding bonds, Series 2012 R. Interest on the bonds is 4.0 percent per annum and payable on January 1 and July 1, commencing on July 1, 2013. Final maturity of the bonds is January 1, 2024.

On December 11, 2012, the New Jersey Transportation Trust Fund Authority issued $326.3 million of its Transportation System Bonds, 2012 Series A and $920.7 million of its Transportation Program Bonds, 2012 Series AA. Interest on the 2012 Series A bonds is at a fixed rate of 5.0 percent per annum and is payable on June 15 and December 15, commencing on June 15, 2013. Final maturity is June 15, 2042. Interest on the 2012 Series AA bonds ranges from 2.0 to 5.0 percent per annum and is payable on June 15 and December 15, commencing on June 15, 2013. Final maturity is June 15, 2038.

On December 18, 2012 the New Jersey Building Authority issued $20.0 million of its State Building Revenue Bond Anticipation Notes, 2012 Series. Interest on the notes is at a fixed rate of 1.50 percent per annum and is payable at final maturity on December 18, 2013. The Building Authority expects to issue bonds or notes in Fiscal Year 2013 to refund the 2012 Series notes prior to their maturity.

### Superstorm Sandy

On October 29, 2012, Superstorm Sandy made landfall five miles south of Atlantic City. The storm caused widespread damage to State, county and municipal infrastructures. As in past events, including the recovery from the impact of Tropical Storm Irene in 2011, the State expects to secure substantial federal assistance, including reimbursement of certain associated costs from the Federal Emergency Management Agency ("FEMA") to allow the State to recover a substantial portion of storm-related losses.

On November 1, 2012, President Barack Obama approved an adjustment of the federal cost share for the storm from 75% to 100% for 15 days (October 30 to November 14) for emergency power restoration and emergency public transportation assistance, including direct federal assistance, for those areas of New Jersey within counties designated as federal disaster areas. On November 5, 2012, FEMA Public Assistance was made available in all twenty-one (21) counties of the State.

Currently, the State, its counties and municipal governments are in the process of tabulating the associated costs and expenses as a result of the storm preparation, evacuation and shutdown as well as the costs for remediation, clean-up, mitigation and the restoration of services. These costs will be categorized by agency and expense type according to FEMA allowances. The State intends to maximize its recovery from all available FEMA sources, subject to any sublimits and retentions. The amount and timing for receipt of funds from FEMA cannot be predicted at this time.

It is not yet possible for the State to estimate the impact of Superstorm Sandy-related losses on revenue collections or expenditures.

(This page left intentionally blank)