Notes to the Basic Financial Statements

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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, and have a financial benefit or burden relationship, 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 blended component units:

Garden State Preservation Trust - The Garden State Preservation Trust is a blended component unit based on the governing body which is substantively the same as the governing body of the primary government. It provides services entirely, or almost entirely, to the primary government. The total debt outstanding, including leases, is expected to be repaid entirely with the resources of the primary government.

New Jersey Building Authority - The New Jersey Building Authority is a blended component unit based on its governing body which is substantively the same as the governing body of the primary government. It provides services entirely, or almost entirely, to the primary government or otherwise exclusively, or almost exclusively, benefits the primary government. The total debt outstanding, including leases, is expected to be repaid entirely with the resources of the primary government.

New Jersey Schools Development Authority - The New Jersey Schools Development Authority is a blended component unit based on its governing body which is substantively the same as the governing body of the primary government. It provides services entirely, or almost entirely, to the primary government. Its total debt outstanding, including leases, is expected to be repaid entirely with the resources of the primary government.

New Jersey Transportation Trust Fund Authority - The New Jersey Transportation Trust Fund Authority is a blended component unit based on its governing body which is substantively the same as the governing body of the primary government. It provides services entirely, or almost entirely, to the primary government. The total debt outstanding, including leases, is expected to be repaid entirely, or almost entirely, with the resources of the primary government.

Tobacco Settlement Financing Corporation - The Tobacco Settlement Financing Corporation is a blended component unit based on GASB Technical Bulletin No. 2004-1, *Tobacco Settlement Recognition and Financial Reporting Entity Issues*, in accordance with paragraph 53b, “usually the services provided by a blended component unit are financing services provided solely to 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. Below is a list of all discretely presented component units:

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
Rowan University
Rutgers, The State University of New Jersey
Stockton University
Thomas Edison State University
The William Paterson University of New Jersey

Authorities

Casino Reinvestment Development Authority
Higher Education Student Assistance Authority
New Jersey Economic Development Authority
New Jersey Educational Facilities Authority
New Jersey Infrastructure Bank
New Jersey Health Care Facilities Financing Authority
New Jersey Housing and Mortgage Finance Agency
New Jersey Redevelopment Authority
New Jersey Sports and Exposition Authority
New Jersey Transit Corporation
New Jersey Turnpike Authority
New Jersey Water Supply Authority
South Jersey Port Corporation
South Jersey Transportation Authority
University Hospital

C. Government-wide and Fund Financial Statements

The government-wide financial statements (the statement of net position 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 position 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 and deferred outflows of resources and deferred inflows of resources. The difference between the State's assets and deferred outflows of resources and its liabilities and deferred inflows of resources is its net position. Net position is displayed in three components - invested in capital assets, restricted, and unrestricted. Net position is restricted when constraints are either externally imposed or are imposed by constitutional provisions or enabling legislation. The amount of net position that is 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 revenue (expense) of the State's individual functions. The net revenue (expense) 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 unusual in nature or infrequent in occurrence. An extraordinary item is a transaction or other event that is both unusual in nature and 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), deferred outflows of resources, short and long-term liabilities, deferred inflows of resources, 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. 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 capital 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.

GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, incorporates into GASB's authoritative literature certain accounting and financial reporting guidance included in the Financial Accounting Standards Board (FASB) pronouncements which does not conflict with or contradict GASB pronouncements, and eliminates the option to apply post-November 30, 1989 FASB pronouncements that do not conflict with or contradict GASB pronouncements.

Proprietary funds distinguish operating revenues and expenses from non-operating 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 non-operating revenues and expenses. The State's proprietary 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. For further details of the funds listed below, see the Description of Funds.

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 proprietary 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 dedicated one half of a percent of the Sales and Use Tax rate 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 (Common Pension Fund L) **-** Monies derived from the sale of State lottery tickets are deposited into Common Pension Fund L pursuant to P.L. 2017, c.98, the Lottery Enterprise Contribution Act (LECA). Disbursements are authorized for the payment of prizes to holders of winning lottery tickets, vendor fees in the production and distribution of lottery tickets, and for the administrative expenses of the Division of State Lottery. Remaining balances are solely available to and for the benefit of the Teachers' Pension and Annuity Fund (77.78 percent), Public Employees' Retirement System (21.02 percent), and Police and Firemen's Retirement System (1.20 percent) for a 30 year term effective as of June 30, 2017. The present value of obligations for future installment payments of lottery prizes, which are funded by the purchase of deposit fund contracts and United States Government Treasury securities, 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 or committed 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.

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. The State Constitution allows for certain exceptions to this rule, including for an emergency caused by disaster or act of God.

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 additional 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 global equities; non-convertible preferred stocks, covered call and put options; futures contracts; obligations of the U.S. Treasury, government agencies, corporations, international governments and agencies; global diversified credit investments; interest rate swap transactions; state and municipal general obligations; public authority revenue obligations; collateralized notes and mortgages; commercial paper; certificates of deposit; repurchase 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.

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 statement of net position 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, irrevocable bank letters of credit, or U.S. Treasury obligations 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, 2020, 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 uncollectible amounts and primarily consist of federal grants, 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 additional 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 position at cost or historical cost based on appraisals or other acceptable methods when historical cost information is not available. Donated capital assets are recorded at acquisition 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, equipment, software, and motor vehicles used in general operations with a unit cost of at least $10,000, $5,000, $100,000, and $30,000, respectively. For the purpose of reporting, equipment and software are consolidated into one category.

e. Capital assets in the process of construction.

To measure depreciation expense, the State uses 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 right-of-ways.

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 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 collection. 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 position as receivable from and payable to external parties. See Note 8 for additional details.

7. Deferred Outflows of Resources

A deferred outflow of resources is a consumption of net assets by the government that is applicable to a future reporting period. In the government-wide statements, governmental activities column, the deferred outflows of resources represents three items: (1) pension related amounts, (2) other postemployment benefits (OPEB) liability related amounts, and (3) the unamortized deferral on refunding of long-term obligations. The pension and OPEB related amounts consists of: a) differences between expected and actual experience; b) changes of assumptions; c) net difference between projected and actual investment earnings on pension and OPEB plan investments; d) changes in proportion and differences between employer contributions and proportionate share of contributions; and e) employer contributions and benefit payments subsequent to the measurement date. See Note 10 for additional details.

H. Liabilities

1. Unearned Revenue

Unearned revenues at both the government-wide and fund level arise when potential revenue does not meet the available criterion for recognition in the current period. Unearned 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 unearned revenue is removed from the balance sheet and revenue is recognized.

Unearned revenue consists principally of Coronavirus Aid, Relief, and Economic Security Act (CARES Act) resources not yet recognized as revenues as of June 30. See Note 2 for additional details.

2. Long-term Obligations

The State's long-term obligations are divided into bonded and non-bonded categories. Bonded categories include general obligation bonds, revenue bonds, certain capital leases, installment obligations, certificates of participation, Tobacco Settlement Financing Corporation Bonds (TSFC), unamortized interest on capital appreciation bonds, and unamortized premium. Non-bonded categories include compensated absences, certain capital leases, loans payable, OPEB liability, net pension liability, pollution remediation obligation, other, 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 their net or accreted value rather than at face value. Bonds and notes payable are reported net of the applicable bond premium or discount.

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. See Note 11 for additional details.

3. Deferred Inflows of Resources

A deferred inflow of resources is an acquisition of net assets by the government that is applicable to a future reporting period. In the government-wide statements, governmental activities column, the deferred inflows of resources represents three items: (1) pension related amounts, (2) OPEB related amounts, and (3) deferred tobacco revenue. The pension and OPEB related amounts consists of: a) differences between expected and actual experience; b) changes of assumptions; c) net difference between projected and actual investment earning on pension plan investments; and d) changes in proportion. Additionally, deferred tobacco settlement revenue is recorded as a deferred inflow of resources in the governmental funds as all eligibility criteria excluding timing requirements have been met. See Note 10 for additional details.

I. Net Position

1. **Net Investment in Capital Assets** - This component of net position 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 position is reported as restricted when constraints placed on its use are either: externally imposed by creditors, grantors, contributors, or laws or regulations of the other governments, or imposed by law through constitutional provisions or enabling legislation.

3. **Unrestricted** - Unrestricted net position consists of assets that do not meet the definition of "restricted" or "invested in capital assets".

4. **Held in Trust for Pool Participants** - This is used to accumulate resources held for investment.

5. **Restricted for Pensions** - This is used to accumulate all active member, State, and other employer contributions and investment income from which pension benefit payments are made.

6. **Restricted for OPEB** - This is used to accumulate all local government retired members and employer contributions and investment income from which post-retirement health benefit payments are made.

7. **Restricted for Private Purpose Trust Funds** - This is used to accumulate resources received as a result of trust arrangements.

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. **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 nonspendable, restricted, and committed fund balance classifications, positive

unassigned amounts can exist only in the General Fund. The State's General Fund reflects nonspendable, restricted, 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, 2019:

Component Units – Authorities

Casino Reinvestment Development Authority
New Jersey Economic Development Authority
New Jersey Educational Facilities Authority
New Jersey Health Care Facilities Financing Authority
New Jersey Housing and Mortgage Finance Agency
New Jersey 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

Due to the issuance of Governmental Accounting Standards Board (GASB) Statement No. 95, *Postponement of the Effective Dates of Certain Authoritative Guidance*, the State did not adopt any new GASB standards for Fiscal Year 2020.

B. Coronavirus Relief Fund (CRF)

The Coronavirus Aid, Relief, and Economic Security Act (CARES Act) established the CRF, which distributed $2,393.8 million to the State to support unbudgeted expenditures incurred in order to respond to and recover from the COVID-19 pandemic. CRF aid is eligible to be used for such expenditures incurred between March 1, 2020 and December 31, 2021. As of June 30, 2020, the State incurred $573.2 million worth of eligible expenditures that met the eligibility requirements of this financial assistance. In accordance with GASB Technical Bulletin 2020-1, the residual $1,820.6 million of unearned revenue is shown as a liability.

C. Restatement of Net Position

The July 1, 2019 Net Position for the primary government was adjusted for the following:

	Government-wide Net Position
Balance July 1, 2019 - As Reported	$ (198,672,069,355)
Prior Period Adjustments (correction of an error):	
Increase in Capital Assets	334,818,759
Increase in Accumulated Depreciation	(95,307,758)
Increase in Group Homes	9,561,866
Balance July 1, 2019 - Restated	$ (198,422,996,488)

D. Deficit Fund Balance

It is anticipated that bond sales during Fiscal Year 2021 will relieve the current deficit fund balances in the Cultural Centers and Historic Preservation Fund.

E. Joint Ventures

The Port Authority of New York and New Jersey
4 World Trade Center
150 Greenwich Street, 23rd Floor
New York, NY 10007
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 Authority 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, 2019 disclosed the following (expressed in millions):

Financial Position

		Combined Total
Total Assets and Deferred Outflows of Resources	$	49,627.0
Total Liabilities and Deferred Inflows of Resources		33,159.7
Net Position	$	16,467.3

Operating Results

Operating Revenues	$	5,832.8
Operating Expenses		(3,430.2)
Depreciation and Amortization		(1,457.4)
Income from Operations		944.7
Non-operating Revenues (Expense), Net		(355.8)
Net Income	$	588.9

Changes in Net Position

Balance January 1, 2019	$	15,878.4
Net Income		588.9
Balance December 31, 2019	$	16,467.3

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, 2019, Port Authority debt consisted of the following (expressed in millions):

Bonds, Notes, and Other Obligations

Consolidated Bonds and Notes	$	23,724.6
Special Project Bonds		1,150.4
Operating Asset Financing		570.2
Capital Asset Financing		2,416.5
		27,861.7
Less: Unamortized Discount		(11.5)
Total	$	27,850.2

F. Other

In accordance with GASB Statement No. 14, *The Financial Reporting Entity*, the debt and assets of the New Jersey Building Authority have been reduced for presentation herein in the amount of $144.0 million, consisting of the amount of the present value of future lease payments by the State to the New Jersey Building Authority and deferred outflows of resources related to pensions, OPEB, and bond refundings as of December 31, 2019.

In accordance with GASB Statement No. 24, *Accounting and Financial Reporting for Certain Grants and Other Financial Assistance*, an additional $1.0 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, Property Tax Relief, and Long Term Obligation and Capital Expenditure 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 average aggregate 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 average aggregate 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, 2020, the State's bank balances amounted to $432.3 million. Of these balances, $255.2 million was exposed to custodial credit risk as uninsured and uncollateralized. Of the $255.2 million, $254.2 million represents uninvested cash in the State of New Jersey Cash Management Fund. The cash is held in the custodian's Institutional Liquid Reserve Fund overnight and invested the following business day.

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 global equity investments; non-convertible preferred stocks; covered call and put options; futures contracts; obligations of the U.S. Treasury, government agencies, corporations, international governments and agencies; global diversified credit investments; interest rate swap transactions; state and municipal general obligations; public authority revenue obligations; collateralized notes and mortgages; commercial paper; certificates of deposit; repurchase agreements; money market funds; private equity funds; real estate funds; other real assets; and absolute return strategy funds.

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 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 several Common Pension Trust Fund investment pools by State funds is reflected as investments in the Balance Sheets/Statement of Net Position 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 Position, Investment Trust Fund.

Amounts contributed to the Cash Management Fund investment pool are recorded at fair value. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between independent market participants at the measurement date.

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 $229.0 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 statement of net position. In the event of default in making future payments by the insurance company from which the contracts were purchased, the State would be liable for such future payments.

Investments for all funds as of June 30, 2020, are as follows (expressed in millions):

	Amount Reported As Investments
Domestic fixed income securities	$ 29,377.2
Domestic equities	22,672.4
International equities	14,456.8
Private equities	8,480.1
Global diversified credit funds	4,701.6
Real estate	3,842.1
Equity mutual funds	3,527.8
Absolute return strategy funds	3,101.0
Real assets	1,536.9
International fixed income securities	1,102.3
Fixed income mutual funds	825.7
Opportunistic private equity investments	447.1
Annuity contracts	229.0
Total investments	94,300.0
Unallocated administrative expenses and transaction exchanges	636.7
Net amount recorded as investments	$ 94,936.7

As Reported on the Government-wide Statement of Net Position and Statement of Fiduciary Net Position as of June 30, 2020 (expressed in millions):

	Current Investments	Non-Current Investments	Total
Governmental activities	$ 11,401.5	$ -	$ 11,401.5
Business-type activities	263.9	206.3	470.2
Fiduciary funds	83,065.0	-	83,065.0
Total	$ 94,730.4	$ 206.3	$ 94,936.7

The State Investment Council approved the following asset allocation targets, effective October 1, 2020:

Asset Class	Target
U.S. equity	27.00%
Non-U.S. developed markets equity	13.50
Private equity	13.00
Emerging markets equity	5.50
Total global growth	59.00
Investment grade credit	8.00
Private credit	8.00
High yield	2.00
Total income	18.00
U.S. treasuries	5.00
Cash equivalents	4.00
Risk mitigation strategies	3.00
Total defensive	12.00
Real estate	8.00
Real assets	3.00
Total real return	11.00
Total	100.00%

The asset allocation policy is reviewed on at least an annual fiscal year basis.

A. Deposit and Investment Risk Disclosure

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 obligations. 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, 2020, the following limits were in effect:

Category	Minimum Rating Moody's	S&P	Fitch	Limitation of Issuers' Outstanding Debt	Limitation of Issue	Other Limitations
Global debt obligations	Baa3	BBB-	BBB-	10%	-	Not more than 5% of fund assets can be invested in any one issuer
International government and agency obligations	Baa3	BBB-	BBB-	25%	25%	Not more than 5% of fund assets can be invested in this category
Collateralized notes and mortgages	Baa3	BBB-	BBB-	-	25%	Not more than 5% of fund assets can be invested in any one issuer
Commercial paper	P-1	A-1	F-1	-	-	Not more than 5% of fund assets can be invested in any one issuer
Certificates of deposit:						
Domestic	P-1	A-1	F-1	10%	-	Not more than 5% of fund assets
International	P-1	A-1	F-1	10%	-	can be invested in any one issuer
Global diversified credit investments:						
Direct bank loans	-	-	-	10%	-	Not more than 10% of fund assets can be invested in this category;
Funds	-	-	-	-	-	not more than 5% of fund assets can be invested in any one issuer
Swap transactions	Baa2	BBB	BBB	-	-	Notional value of net exposure to any one counterparty shall not exceed 1% of fund assets; notional value shall not exceed 5% of fund assets but may be increased to 10% for a fixed period of time
Repurchase agreements:						
Bank or trust company	-	-	-	-	-	-
Broker	P-1	A-1	F-1	-	-	-
State, municipal and public authority obligations	A3	A-	A-	10%	10%	Not more than 2% of fund assets can be invested in debt of any one obligor
Money market funds	-	-	-	-	-	Not more than 5% of fund assets can be invested in this category; limited to 5% of shares or units outstanding
Mortgage backed:						
Pass-through securities	A3	A-	A-	-	-	Not more than 10% of fund assets
Senior debt securities	-	-	-	-	25%	can be invested in this category
Non-convertible preferred stocks	Baa3	BBB-	BBB-	10%	25%	Not more than 5% of fund assets can be invested in any one issuer

The preceding table does not include Prudential Retirement investments for the New Jersey State Employees Deferred Compensation Plan (NJSEDCP). The NJSEDCP consists of a number of individual investment managers, which individually have investment guidelines that they comply with and follow.

Up to eight percent of the fair value of the combined assets of the pension funds may be invested in global debt obligations, collateralized notes and mortgages, non-convertible preferred stocks, and mortgage backed pass-through securities that do not meet the minimum credit rating requirements set forth above.

The total amount of a particular class of stock directly purchased of any one entity by the pension funds cannot exceed 10 percent of that class of stock outstanding. The total amount of shares or interests directly purchased or acquired of any one exchange traded fund or global, regional or country fund by the pension funds shall not exceed 10 percent of the total shares outstanding or interests of such fund.

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, 2020. The first table is for fixed income securities rated by Moody's. The second table uses Standard and Poor's and Fitch's ratings for fixed income securities not rated by Moody's (expressed in millions):

	Moody's Rating					
	Aaa	Aa	A	Baa	Ba	P-1
Domestic corporate obligations	$ 605.3	$ 991.1	$ 3,997.5	$ 292.3	$ 293.5	$ -
United States Treasury bills	13,108.1	-	-	-	-	-
United States Treasury notes	1,322.3	-	-	-	-	-
Foreign government obligations	172.0	426.2	77.0	-	-	-
United States Treasury bonds	3,597.2	-	-	-	-	-
Commercial paper	-	-	-	-	-	574.8
Certificates of deposit	-	-	-	-	-	3,555.1
Federal agency obligations	317.1	-	-	-	-	-
International corporate obligations	37.7	95.3	55.4	38.3	54.4	-
Municipal obligations	-	75.5	7.1	-	-	-
Mortgages (FHLMC/FNMA/GNMA)	10.5	-	-	-	-	-
Other	-	-	-	-	0.2	-
Total	$ 19,170.2	$ 1,588.1	$ 4,137.0	$ 330.6	$ 348.1	$ 4,129.9

	Standard & Poor's and Fitch's Rating					
	A	BBB	BB	B	CCC	CC
Domestic corporate obligations*	$ 118.9	$ 36.5	$ 5.3	$ 0.1	$ 2.4	$ 0.2
International corporate obligations**	-	5.0	4.6	2.2	3.3	-
Foreign government obligations	39.4	-	-	-	-	-
Asset backed securities	-	0.3	-	-	-	-
Total	$ 158.3	$ 41.8	$ 9.9	$ 2.3	$ 5.7	$ 0.2

*Fitch's rating - B ($0.1 million) and CC ($0.2 million)

**Fitch's rating - B ($0.8 million) and CCC ($0.7 million)

The above tables do not include the following Moody's rated investments: domestic corporate obligations rated B ($324.7 million), Caa ($125.6 million), Ca ($5.3 million), and C ($0.6 million); international corporate obligations rated B ($65.9 million), Caa ($24.9 million), Ca ($0.1 million), and C ($0.1 million); and other investments rated B ($0.3 million).

The tables do not include certain domestic and international corporate obligations and certain fixed income mutual funds, which invest in an underlying portfolio of fixed income securities totaling $835.6 million, and do not have a Moody's or Standard and Poor's rating.

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Commercial paper must mature within 270 days. Certificates of deposits are limited to a term of one year or less. Repurchase agreements must mature within 30 days. State regulations permit the pension funds to enter into foreign exchange contracts for the purpose of hedging the international portfolio.

The following table summarizes the maturities (or, in the case of Remics and mortgage backed securities, the expected average life) of the fixed income portfolio at June 30, 2020 (expressed in millions):

		Maturities in Years*			
	Total Fair Value	**Less than 1**	**1-5**	**6-10**	**More than 10**
United States Treasury bills	$ 13,108.1	$ 13,108.1	$ -	$ -	$ -
Domestic corporate obligations	6,807.1	234.5	1,844.1	2,400.5	2,328.0
United States Treasury bonds	3,597.2	52.3	1,879.4	859.0	806.5
Certificates of deposit	3,555.1	3,555.1	-	-	-
United States Treasury notes	1,322.3	1,304.0	18.3	-	-
Foreign government obligations	714.6	113.2	280.7	298.2	22.5
Commercial paper	574.8	574.8	-	-	-
International corporate obligations	387.7	11.4	191.1	153.1	32.1
Federal agency obligations	317.1	75.0	242.1	-	-
Municipal obligations	82.6	25.0	20.4	-	37.2
Mortgages (FHLMC/FNMA/GNMA)	10.7	-	0.3	8.6	1.8
Bank loans	0.5	-	0.5	-	-
Asset backed obligations	0.3	-	-	-	0.3
Total	$ 30,478.1	$ 19,053.4	$ 4,476.9	$ 3,719.4	$ 3,228.4

* $827.1 million of additional investments do not have specific maturity dates.

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, which invests in global markets.

At June 30, 2020, 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	Fixed Income	Alternative Investments
Australian dollar	$ 596.0	$ 596.0	$ -	$ -
Brazilian real	241.4	241.4	-	-
Canadian dollar	879.3	821.6	57.7	-
Chilean peso	20.8	20.8	-	-
Columbian peso	1.1	-	1.1	-
Czech koruna	15.9	15.9	-	-
Danish krone	195.4	195.4	-	-
Euro	3,266.5	2,460.5	30.2	775.8
Hong Kong dollar	1,467.3	1,467.3	-	-
Hungarian forint	27.9	27.9	-	-
Indonesian rupiah	90.2	90.2	-	-
Japanese yen	2,133.8	2,133.8	-	-
Malaysian ringgit	72.2	72.2	-	-
Mexican peso	76.2	76.2	-	-
New Israeli shekel	28.1	28.1	-	-
New Taiwan dollar	12.9	12.9	-	-
New Zealand dollar	24.9	24.9	-	-
Norwegian krone	34.5	34.5	-	-
Pakistan rupee	1.1	1.1	-	-
Philippines peso	28.5	28.5	-	-
Polish zloty	35.7	35.7	-	-
Qatari rial	28.1	28.1	-	-
Singapore dollar	102.2	102.2	-	-
South African rand	188.4	188.4	-	-
South Korean won	599.2	599.2	-	-
Swedish krona	261.1	261.1	-	-
Swiss franc	802.1	802.1	-	-
Thailand baht	103.6	103.6	-	-
Turkish lira	39.6	39.6	-	-
UAE dirham	28.6	28.6	-	-
United Kingdom pound sterling	1,272.1	1,186.8	1.2	84.1
Total	$ 12,674.7	$ 11,724.6	$ 90.2	$ 859.9

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. State regulations require that not more than 38 percent of the market value of the pension funds can be invested in alternative investments, with limits on the individual categories of real estate (9 percent), real assets (7 percent), private equity (12 percent), and absolute return strategy (15 percent). Not more than 5 percent of the market value invested through direct investments, separate accounts, fund-of-funds, commingled funds, co-investments and joint ventures in global diversified credit, private equity, real asset and absolute return strategy investments, plus outstanding commitments, may be committed to any one partnership or investment. Investments made through separate accounts, funds-of-funds, comingled funds, co-investments and joint ventures cannot comprise more than 20 percent of any one investment manager's total assets.

B. Derivatives

The Pension Trust Funds invest in derivative securities. A derivative security is an investment whose value is derived from other financial instruments such as commodity prices, bonds and stock prices, or a market index. The Pension Trust Funds' derivative securities are considered investment derivative instruments. The fair value of all derivative securities is reported in the statement of fiduciary net position, and the change in fair value is recorded in the statement of changes in fiduciary net position as a net increase or decrease in fair value of investments.

Derivative transactions involve, to varying degrees, credit risk and market risk. Credit risk is the possibility that a loss may occur because a party to a transaction fails to perform according to terms. Market risk includes, but is not limited to, the possibility that a change in interest rate risk, foreign currency risk or the value of the underlying securities will cause the value of a financial instrument to decrease or become more costly to settle. The market or the value of underlying security, or securities, risk associated with derivatives, the prices of which are constantly fluctuating, is regulated by imposing limits as to the types, amounts and degree of risk that the Pension Trust Funds may undertake as set forth in State Regulations.

The Pension Trust Funds may use financial futures to replicate an underlying security or indices they wish to hold in the portfolio. In certain instances, it may be beneficial to own a futures contract rather than the underlying security. Additionally, the Pension Trust Funds may use futures contracts to improve the yield or adjust the duration of the fixed income portfolio or may sell futures contracts to hedge the portfolio. A financial futures contract is an agreement between a buyer and a seller that is based on a referenced item, such as financial indices, or interest rates or a financial instrument such as equity or fixed income securities, physical commodities, or currencies. Futures contracts may call for physical delivery of specified quantity of the underlying asset of a specified price (futures or strike price) and date, or be settled in cash. Futures contracts must be traded on a securities exchange or over-the-counter market. The net change in the futures contracts value is settled daily in cash with the exchanges. The cash to fulfill these obligations is held in a margin account. As the fair value of the futures contract varies from the original contract price, a gain or loss is paid to or received from the clearinghouse and recognized in the statement of changes in fiduciary net position.

Foreign currency forward contracts are used as a means to hedge against currency risks in the Pension Trust Funds. Foreign currency forward contracts are agreements to buy or sell a specific amount of a foreign currency at a specified delivery or maturity date for an agreed upon price. Foreign currency forward contracts are marked to market on a daily basis with the change in fair value included in investment income in the statement of changes in fiduciary net position.

The Pension Trust Funds utilize covered call and put options in an effort to add value to or reduce the risk level in the portfolio. Options are agreements that give the owner of the option the right, but not obligation, to buy (in the case of a call option) or to sell (in the case of a put option) a specific amount of an asset for a specific price (called the strike price) on or before a specified expiration date. The Pension Trust Funds enter into covered calls when they write (or sell) call options on underlying stocks held by the Pension Trust Funds or stock indices. The Pension Trust Funds enter into covered put options when they purchase put options on underlying stocks held by the Pension Trust Funds or stock indices. The Pension Trust Funds enter into put spreads when they purchase put options while simultaneously writing put options on the same underlying securities or indices at a lower strike price. The purchaser of put options pays a premium at the outset of the agreement and stands to gain from an unfavorable change (i.e., a decrease) in the price of the instrument underlying the option. The writer of call options receives a premium at the outset of the agreement and may bear the risk of an unfavorable change (i.e., an increase) in the price of the instrument underlying the option.

As of June 30, 2020, Pension Trust Fund's derivative investments included foreign currency forward contracts:

		Notional value (local currency)		Receivable		Payable		Change in fair value
Foreign currency forward contracts:								
Buy:								
Euro	€	595,258	$	669,072	$	670,659	$	(1,587)
Sell:								
Euro	€	26,231,538		29,708,708		29,481,884		226,824
Pound sterling	£	1,763,245		2,183,405		2,178,987		4,418
Total Forward contracts			$	32,561,185	$	32,331,530	$	229,655

Certain alternative investment funds and partnerships may use derivative instruments to hedge against market risk and to enhance investment returns. At any point during the year, the Pension Trust Funds may have additional exposure to derivatives primarily through limited liability vehicles such as limited partnerships and commingled investment funds.

C. Fair Value Measurements

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between independent market participants at the measurement date. Inputs refer broadly to the assumptions that market participants would use in pricing the asset or liability, including assumptions about risk. Inputs may be observable or unobservable. Observable inputs are inputs that reflect the assumptions market participants would use in pricing the asset or liability developed based on market data obtained from sources independent of the reporting entity. Unobservable inputs are inputs that reflect the reporting entity's own assumptions about the assumptions market participants would use in pricing the asset or liability developed based on the best information available in the circumstances.

The three levels of the fair value hierarchy are as follows:

Level 1 – Quoted prices are available in active markets for identical investments as of the reporting date.

Level 2 – Pricing inputs are other than quoted prices in active markets, which are either directly or indirectly observable as of the reporting date, and fair value is determined through the use of models or other valuation methodologies.

Level 3 – Pricing inputs are unobservable for the investment and inputs into the determination of fair value require significant management judgment or estimation, including assumptions about risk.

Investments are reported at fair value as follows:

- Domestic and international equity securities and exchange traded funds are valued using closing sales prices reported on recognized securities exchanges on which the securities are principally traded; these securities are included as Level 1 in the chart below. For listed securities having no sales reported and for unlisted securities, such securities will be valued based upon the last reported bid price; these securities are included as Level 2 in the chart below.
- Fixed income and equity mutual funds are valued using the published daily closing prices and are included as Level 1 in the chart below.
- Foreign and domestic government, agency and corporate obligations, municipal bonds, mortgages, bank loans and asset backed securities are valued using an evaluated price which is based on a compilation of primarily observable market information or broker quotes in a non-active market. These are included as Level 2 in the chart below.
- Foreign exchange contracts are valued using industry recognized market-based models to calculate the value that a holder or counterparty would receive within the bid-ask spread, in an orderly transaction under current market conditions. These securities are included as Level 2 in the chart below.
- Distributions from alternative investment vehicles are received as the underlying investments are liquidated. The Plan's ownership interest in partners' capital can never be redeemed, but could be sold subject to approval by the fund's management. As of June 30, 2020, a buyer (or buyers) for these investments have not yet been identified. The partnership interest may be sold at an amount different from the net asset value (NAV) per share (or its equivalent) of the Plan's ownership interest in partners' capital.
- The valuation methods for investments measured at the NAV per share (or its equivalent) is presented in the table below.

The following table summarizes the fair value hierarchy of the investment portfolio as of June 30, 2020 (expressed in millions):

	June 30, 2020	Fair Value Measurements Using: Quoted Prices in Active Market for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Investments by fair value				
Equity securities:				
Domestic equities	$ 22,672.3	$ 22,664.8	$ 7.5	$ -
International equities	14,435.5	13,478.6	956.9	-
Equity mutual funds	3,527.8	3,527.8	-	-
Exchange traded funds	21.3	21.3	-	-
Total equity securities	40,656.9	39,692.5	964.4	-
Debt securities:				
United States Treasury bills	13,108.1	-	13,108.1	-
Corporate obligations	6,807.1	-	6,807.1	-
United States Treasury bonds	3,597.2	-	3,597.2	-
United States Treasury notes	1,322.3	-	1,322.3	-
Fixed income mutual funds	825.7	825.7	-	-
Foreign government obligations	714.6	-	714.6	-
Commercial paper	574.8	-	574.8	-
International corporate obligations	387.7	-	387.7	-
Federal agency obligations	317.1	-	317.1	-
Annuity contracts	229.0	44.2	-	184.8
Municipal obligations	82.6	-	82.6	-
Mortgages (FHLMC/FNMA/GNMA)	10.7	-	10.7	-
Exchange traded funds	1.4	1.4	-	-
Bank loans	0.5	-	0.5	-
Asset backed securities	0.3	-	0.3	-
Total debt securities	27,979.1	871.3	26,923.0	184.8
Total investments by fair value level	$ 68,636.0	$ 40,563.8	$ 27,887.4	$ 184.8
Investments measured at the net asset value (NAV)				
Buyout private equity funds	$ 7,041.1			
Global diversified credit funds	4,701.6			
Real estate funds - equity	3,214.3			
Multi-strategy hedge funds	1,748.9			
Real assets	1,536.9			
Debt related private equity funds	1,039.1			
Real estate funds - debt	627.8			
Credit oriented hedge funds	585.6			
Opportunistic hedge funds	578.3			
Opportunistic private equity investments	447.1			
Venture capital private equity funds	389.3			
Equity oriented hedge funds	188.3			
Secondary private equity funds	10.6			
Total investments measured at the NAV	$ 22,108.9			
Investments measured at cost				
Certificates of deposit	$ 3,555.1			
Total investments measured at cost	$ 3,555.1			
Investment derivative instruments				
Foreign currency forward contracts (assets)	$ 32.5	$ -	$ 32.5	
Foreign currency forward contracts (liabilities)	(32.3)	-	(32.3)	
Total investment derivative instruments	$ 0.2	$ -	$ 0.2	

The following table represents the unfunded commitments, redemptions frequency, and redemption notice period for investments measured at the NAV as of June 30, 2020 (expressed in millions):

	Fair Value	Unfunded Commitments	Redemption Frequency (if currently Eligible)	Notice Period
Buyout private equity funds[1]	$ 7,041.1	$ 3,015.9	None	N/A
Global diversified credit funds[2]	4,701.6	1,153.7	Quarterly, semi-annual	45 and 90 days
Real estate funds - equity[3]	3,214.3	1,551.2	Quarterly	15 and 90 days
Multi-strategy hedge funds[4]	1,748.9	226.8	Quarterly, semi-annual	None
Real assets[5]	1,536.9	950.4	None	None
Debt related private equity funds[6]	1,039.1	514.6	None	N/A
Real estate funds - debt[7]	627.8	304.7	None	N/A
Credit oriented hedge funds[8]	585.6	-	None	N/A
Opportunistic hedge funds[9]	578.3	25.0	Monthly, quarterly	30-60 days
Opportunistic private equity funds[10]	447.1	325.5	None	N/A
Venture capital private equity funds[11]	389.3	94.3	None	N/A
Equity oriented hedge funds[12]	188.3	50.0	Quarterly, semi-annual, annually	65 days
Secondary private equity funds[13]	10.6	12.7	None	N/A
Total investment measured at the NAV	$ 22,108.9	$ 8,224.8		

Notes:

1 Buyout private equity funds include investments in 80 partnerships and eight co-investment vehicles, which invest primarily in the equity of established operating companies in order to restructure the target company's reserve capital, management and/or organizational structure or facilitate ongoing growth of the firm. Return on investment is typically realized through an initial public offering, sale or merger of the company, or a recapitalization. All of the investments provide for transfer or sale of limited partnership interest with the prior written approval of the General Partner and seven investments further require the right of first refusal by the other partner in the investment. It is expected that the underlying assets will be liquidated over the next 6 months to 12 years.

2 Global diversified credit funds include investments in 18 funds and separate account investments that make investment in mezzanine debt, credit structured products, commercial and residential mortgage-backed securities, commercial and residential whole loans, and other similar strategies. One of the funds has a quarterly redemption provision and one fund has a semi-annual redemption provision. Fifteen of these investments cannot be redeemed because the investments include restrictions. As of June 30, 2020, these remaining redemption restriction periods range from one to five years. It is expected that the underlying assets will be liquidated over the next 1 to 10 years.

3 Real estate funds - equity include investments in 48 funds or separate accounts that make investments in the equity of the underlying asset, where the investor acts as a shareholder in a specific property and receives a share of the rental income the property generates. Investments representing approximately 76 percent of real estate equity investments can never be redeemed. Thirty-nine of the investments provide for transfer or sale of the limited partnership interest with the prior written approval of the General Partner and nine investments further require the right of first refusal by the other partners in the investment. Distributions from each fund and separate account will be received as the underlying investments are liquidated. It is expected that the underlying assets will be liquidated over the next 6 months to 14 years.

4 Multi-strategy hedge funds include investments in 11 hedge funds that pursue multiple strategies to diversify risks and reduce volatility. Investments representing approximately 23 percent of the value of the investments cannot be redeemed because the investments include restrictions that do not allow for redemptions. As of June 30, 2020, the remaining redemption restriction periods range from 6 months to 2 years. Five of the investments are being liquidated as part of the redemption process.

5 Real assets includes investments in 17 fund or separate account strategies which invest in the equity or debt of infrastructure, energy, utilities, water, timber, agriculture, metals, mining, and commodity-related and commodity-linked investments. Real asset investments include investments in products, services and technology related to the above. No real asset investments can be redeemed. All of the investments provide for the transfer or sale of limited partnership interest with the prior written approval of the General Partner and one investment further requires the right of first refusal by the other partners in the investment. Distributions from each fund and separate account will be received as the underlying investments are liquidated. It is expected that the underlying assets will be liquidated over the next 1 to 13 years.

6 Debt related private equity funds include investments in 22 funds employing distressed, turnaround and mezzanine debt strategies. Distressed debt involves purchasing debt securities that are trading at a distressed level, in anticipation that those securities will have a higher market valuation and generate profit at a future date, or strategies which take a position to potentially gain control of an asset. Turnaround investments focus on acquiring voting control in companies that are in distress, and aim to subsequently restore the company to profitability. Mezzanine debt strategies provide a middle level of financing in leveraged buyouts, which is below the senior debt layer and above the equity layer. A typical mezzanine investment includes a loan to the borrower, in addition to the borrower's issuance of equity in the form of warrants, common stock, preferred stock, or some other equity investment. All of the investments provide for transfer or sale of limited partnership interest with the prior written approval of the General Partner. Distributions from each fund will be received as the underlying investments of the funds are liquidated. It is expected that the underlying assets of the funds will be liquidated over the next one to nine years.

7 Real estate funds – debt include investments in eight funds or separate accounts that make investments in the debt of the underlying asset, where the investor acts as a lender to the property owner and receives an interest rate on the loan. Investments can never be redeemed. Six of the investments provide for transfer or sale of the limited partnership interest with the prior written approval of the General Partner and two investments further require the right of first refusal by the other partners in the investments. Distributions from each fund and separate account will be received as the underlying investments are liquidated. It is expected that the underlying assets will be liquidated over the next one to six years.

8 Credit oriented hedge funds include investments in six hedge fund and separate account strategies that include both credit and distressed debt funds. Credit strategies typically invest both long and short in high yield and high-grade bonds, and structured products using fundamental credit analysis. These securities tend to be relatively liquid. Distressed debt strategies take advantage of corporate securities in default, under bankruptcy protection, in distress, or in liquidation. All of the investments are being liquidated in an orderly fashion as part of the redemption process.

9 Opportunistic hedge funds include investments in four hedge funds that invest in speculative opportunities with high net market exposure across varied markets. Opportunistic funds include global macro funds, commodity trading advisor funds, and funds employing other similar strategies. Investments representing approximately 59 percent of the value of the investments in this type cannot be redeemed because the investments include restrictions. As of June 30, 2020, this remaining redemption restriction period is one year.

10 Opportunistic private equity funds include investments in four funds and separate accounts, which acquire minority equity interests in investment management companies. Investments in these funds have a perpetual term and cannot be redeemed.

11 Venture capital private equity funds include investments in eight partnership vehicles that make equity investments primarily in-high growth companies during their early or expansion stages. These companies may or may not have revenues or a client base and in most cases will not be cash flow positive. Distributions from each vehicle will be received as the underlying investments are liquidated. It is expected that the underlying assets will be liquidated over the next six months to four years.

12 Equity oriented hedge funds include investments in two hedge fund and separate account strategies that includes both equity long/short and event driven funds. Equity long/short funds hold a combination of long and short positions primarily in publicly traded equities. Event driven funds invest in merger arbitrage, capital structure arbitrage, relative value, activist or other similar strategies. One of the investments is in liquidation and the other investment provides quarterly liquidity.

13 Secondary private equity funds include investments in three funds that purchase secondary interests in private equity partnerships. The underlying investments represent ownership interests in private equity funds managed by buyout or venture capital firms after the capital has been deployed. Distributions from each fund will be received as the underlying investments are liquidated. It is expected that the underlying assets will be liquidated over the next one to three years.

NOTE 5 - SECURITIES LENDING COLLATERAL

The State Investment Council policies permit the Common Pension Funds and several of the individual 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. The publicly traded securities held by the Common Pension Funds and the pension plans, are eligible for the securities lending program. Collateral received may consist of cash, irrevocable bank letters of credit, or U.S. Treasury obligations 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. Collateral is marked to market daily and adjusted as needed to maintain the required minimum level.

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 percent 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 loans of all other types of securities, in the event that the market value of the collateral falls below the collateral requirement of either 102 percent or 105 percent (depending on whether the securities are denominated in U.S. dollars or a foreign currency, respectively) of the market value of the outstanding loaned securities to an individual borrower, additional collateral shall be transferred in an amount that will increase the aggregate of the borrower's collateral to meet the collateral requirements. As of June 30, 2020, the Common Pension Funds had no aggregate credit risk exposure to borrowers because the collateral amount held by the Common Pension Funds exceeded the market value of the securities on loan.

The contract with the securities lending agent requires them to indemnify the Common Pension Funds and pension plans if the brokers or other borrowers fail to return the securities and provides that collateral securities may be sold in the event of a borrower default. The Common Pension Funds and pension plans are also indemnified for any loss of principal or interest on collateral invested in repurchase agreements. The Common Pension Funds and pension plans cannot participate in any dividend reinvestment program or vote with respect to any securities that are on loan on the applicable record date. The securities loans can be terminated by notification by either the borrower or the Common Pension Funds and pension plans. The term to maturity of the securities loans is generally matched with the term to maturity of the investment of the collateral.

The securities lending collateral is subject to various risks. Among these risks are custodial credit risk, credit risk, concentration of credit risk, and interest rate risk. Securities lending collateral is invested in repurchase agreements, the maturities of which cannot exceed 30 days. The collateral for repurchase agreements is limited to obligations of the U.S. Government or certain U.S. Government agencies, collateralized notes and mortgages and corporate obligations meeting certain minimum rating criteria. Total exposure to any individual issuer is limited consistent with internal policies for funds managed by the Division of Investment.

For securities exposed to credit risk in the collateral portfolio, the following table discloses aggregate fair value, by major credit quality rating category at June 30, 2020 (expressed in millions):

	Rating		
	Aaa/AAA	**Not Rated**	**Total**
Repurchase Agreements	$ 1,298.6	$ -	$ 1,298.6
State Street Navigator Securities Lending			
Money Market Portfolio	-	117.9	117.9
Total	$ 1,298.6	$ 117.9	$ 1,416.5

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 Common Pension Fund's name.

As of June 30, 2020, the Pension Funds had outstanding loaned investment securities with an aggregate fair value of $1,397.3 million and did not hold any noncash collateral. 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 position. 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 position 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 by the National Council on Governmental Accounting Statement No. 2 - *Grant, Entitlement and Shared Revenue Accounting and Reporting by State and Local Governments*. 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 $5.2 billion of Federal government awards consisting of encumbrances which are considered unearned and unrecorded as of June 30, 2020.

B. Departmental

Departmental receivables of $7.3 billion are reported net of allowances of $1.5 billion and are mostly comprised of major tax revenues substantially collected within the one month period subsequent to June 30. Amounts included in these receivables, but not collected within the one month period subsequent to June 30, 2020, are deemed to be collectible.

C. Loans

Loan receivables of $1.7 billion are reported net of allowances of $11.3 million. Major loan receivables include $1.6 billion loaned to local units of government and other recipients for environmental projects; $92.3 million loaned for school districts' deficit relief; $33.5 million loaned for economic development projects within local units of government; and $1.7 million loaned for housing and mortgage assistance projects.

D. Other

Other receivables of $563.5 million are reported net of allowances of $400.8 million. Major other receivables include $207.4 million of Transfer Inheritance Tax and Public Utility Gross Receipts and Franchise Taxes due from taxpayers; $120.0 million due from the tobacco companies; $102.0 million due from claimants representing overpaid unemployment benefits; $49.5 million comprised primarily of amounts due from lottery retailers; $38.5 million due from the Port Authority of New York and New Jersey; $12.2 million representing rebates from pharmaceutical companies; and $6.0 million due from the utility industry.

NOTE 7 – CAPITAL ASSETS

A summary of capital assets and related accumulated depreciation by category as of June 30, 2020 is as follows (expressed in millions):

	Balance July 1, 2019*	Additions	Deductions	Transfers/ Adjustments	Balance June 30, 2020
Capital assets, not being depreciated:					
Land and easements	$ 5,356.9	$ 35.4	$ 0.1	$ 15.4	$ 5,407.6
Construction in progress	3,075.3	1,748.2	1.1	(1,077.0)	3,745.4
Capital assets, being depreciated:					
Land improvements	269.0	1.1	-	0.5	270.6
Buildings and improvements	4,114.4	3.6	2.3	24.7	4,140.4
Equipment and software	1,607.2	23.7	22.0	11.5	1,620.4
Infrastructure	32,457.9	-	-	738.5	33,196.4
Total at historical cost	46,880.7	1,812.0	25.5	(286.4)	48,380.8
Less accumulated depreciation:					
Land improvements	180.4	5.5	-	-	185.9
Buildings and improvements	2,419.1	114.0	0.8	-	2,532.3
Equipment and software	1,243.0	121.0	22.7	-	1,341.3
Infrastructure	13,841.7	895.7	-	-	14,737.4
Total accumulated depreciation	17,684.2	1,136.2	23.5	-	18,796.9
Governmental activities capital assets, net	$ 29,196.5	$ 675.8	$ 2.0	$ (286.4)	$ 29,583.9

* The July 1, 2019 capital asset balance has been restated by $334.8 million and the accumulated depreciation balance has been restated by $95.3 million across construction in progress, building improvements, equipment and software, and infrastructure.

Capital Assets were acquired by functions of the primary government as follows (expressed in millions):

	Amount
Public safety and criminal justice	$ 72.3
Physical and mental health	1.0
Educational, cultural, and intellectual development	21.2
Community development and environmental management	45.2
Economic planning, development, and security	9.9
Transportation programs	1,645.0
Government direction, management, and control	13.8
Special government services	3.6
Total	$ 1,812.0

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
Buildings and improvements	12-60
Equipment and software	3-30
Infrastructure	4-70

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

	Amount
Public safety and criminal justice	$ 92.8
Physical and mental health	18.1
Educational, cultural, and intellectual development	22.9
Community development and environmental management	18.8
Economic planning, development, and security	38.1
Transportation programs	908.7
Government direction, management, and control	26.5
Special government services	10.3
Total	$ 1,136.2

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 from/due to 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, 2020 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	$ -	$ -	$ 239.5	$ -	$ 6.3	$ 376.6	$ 622.4
Property Tax Relief Fund	2,098.3	-	56.4	-	5.1	597.9	2,757.7
Non-Major Governmental Funds	309.9	2.3	179.4	-	3.6	-	495.2
State Lottery Fund	10.9	-	-	-	-	164.0	174.9
Unemployment Compensation Fund	-	3.8	1.1	-	-	-	4.9
Fiduciary Funds	56.3	11.8	-	-	-	186.3	254.4
Total Due from	$ 2,475.4	$ 17.9	$ 476.4	$ -	$ 15.0	$ 1,324.8	$ 4,309.5
Due to:							
General Fund	$ -	$ 2,098.3	$ 309.9	$ 10.9	$ -	$ 56.3	$ 2,475.4
Property Tax Relief Fund	-	-	2.3	-	3.8	11.8	17.9
Non-Major Governmental Funds	239.5	56.4	179.4	-	1.1	-	476.4
Unemployment Compensation Fund	6.3	5.1	3.6	-	-	-	15.0
Fiduciary Funds	376.6	597.9	-	164.0	-	186.3	1,324.8
Total Due to	$ 622.4	$ 2,757.7	$ 495.2	$ 174.9	$ 4.9	$ 254.4	$ 4,309.5

B. Transfer In/(Out)

Interfund transfers for the fiscal year ended June 30, 2020 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	$ -	$ (57.1)	$ (1,449.9)	$ -	$ -	$ (0.3)	$ (1,507.3)
Non-Major Governmental Funds	(4,462.7)	(231.2)	(1,877.9)	-	-	-	(6,571.8)
Total Transfers (Out)	$ (4,462.7)	$ (288.3)	$ (3,327.8)	$ -	$ -	$ (0.3)	$ (8,079.1)
Transfers in from:							
General Fund	$ -	$ -	$ 4,491.5	$ -	$ -	$ -	$ 4,491.5
Property Tax Relief Fund	57.1	-	231.2	-	-	-	288.3
Non-Major Governmental Funds	1,449.9	-	1,877.9	-	-	-	3,327.8
Fiduciary Funds	0.3	-	-	-	-	-	0.3
Total Transfers In	$ 1,507.3	$ -	$ 6,600.6	$ -	$ -	$ -	$ 8,107.9
Net Transfers	$ (2,955.4)	$ (288.3)	$ 3,272.8	$ -	$ -	$ (0.3)	$ 28.8

* The New Jersey Building Authority (a blended component unit included in the Non-Major Governmental Funds) has a fiscal year end of December 31, 2019. Due to the State having a June 30, 2020 fiscal year end, transactions between the New Jersey Building Authority and the General Fund have created an imbalance within the transfers.

NOTE 9 - SHORT-TERM OBLIGATIONS

Tax and Revenue Anticipation Notes

The State issues short-term debt instruments in the form of Tax and Revenue Anticipation Notes (TRAN) 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 2020, the State, under a resolution executed by the Treasurer on July 31, 2019, authorized the issuance of $2.0 billion of TRAN. On December 3, 2019, the State issued $1.5 billion of TRAN through a private placement. These notes bear interest from their date of issuance through maturity or earlier redemption by the State at an adjustable rate per annum equal to the adjusted Securities Industry and Financial Markets Association (SIFMA) Municipal Swap Index rate plus 37 basis points. Due to the State extending the Budget Fiscal Year end to September 30, 2020, an amendment to the notes was negotiated. This amendment changed the maturity of the notes to September 25, 2020, and the interest rate from April 15, 2020 to maturity or earlier redemption by the State to 4.0 percent.

Short-term debt activity for the year ended June 30, 2020, was as follows (expressed in millions):

	Outstanding July 1, 2019	Issued	Redeemed	Outstanding June 30, 2020
Tax and Revenue Anticipation Notes-Series 2020 A	$ -	$ 750.0	$ -	$ 750.0
Tax and Revenue Anticipation Notes-Series 2020 B	-	750.0	-	750.0
Total Tax and Revenue Anticipation Notes	$ -	$ 1,500.0	$ -	$ 1,500.0

NOTE 10 - DEFERRED OUTFLOWS/INFLOWS OF RESOURCES

Deferred outflows and inflows of resources reported on the statement of net position as of June 30, 2020, consists of the following (expressed in millions):

		Governmental Activities
Deferred Outflows of Resources:		
Net Pension Liability related items	$	15,608.1
OPEB Liability related items		4,518.4
Unamortized deferral on refundings of long-term obligations		408.4
Total Deferred Outflows of Resources	$	20,534.9
Deferred Inflows of Resources:		
Net Pension Liability related items	$	23,595.0
OPEB Liability related items		37,906.6
Deferred tobacco revenue		120.0
Total Deferred Inflows of Resources	$	61,621.6

Deferred Outflows of Resources:

The pension related amounts consist of: 1) changes of assumptions of $10,224.1 million; 2) differences between expected and actual experience of $1,434.0 million; 3) changes in proportion of $208.9 million; 4) net difference between projected and actual earnings on pension plan investments of $69.2 million; and, 5) employer contributions of $3,671.9 million subsequent to the measurement date.

The OPEB related amounts consist of: 1) changes in proportion and differences between actual and proportionate share of contribution of $2,935.8 million; 2) net difference between projected and actual earnings on OPEB plan investments of $4.6 million; and, 3) benefit payments of $1,578.0 million subsequent to the measurement date.

Deferred outflows of resources in the statement of net position consists of unamortized deferral on refunding of long-term obligations and pension related amounts. The $408.4 million of unamortized deferral on refunding of long-term obligations is in accordance with GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, implemented in Fiscal Year 2014.

Deferred Inflows of Resources:

The pension related amounts consist of: 1) changes of assumptions of $22,501.6 million; 2) differences between expected and actual experience of $478.6 million; 3) changes in proportion of $439.7 million; and, 4) net difference between projected and actual earnings on pension plan investments of $175.1 million.

The OPEB related amounts consist of: 1) differences between expected and actual experience of $18,878.9 million; 2) changes of assumptions of $16,237.9 million; and, 3) changes in proportion of $2,789.8 million.

Deferred inflows of resources in the statement of net position consists of $120.0 million of deferred tobacco revenue reported in accordance with GASB Statement No. 65.

NOTE 11 - LONG-TERM OBLIGATIONS

The State's long-term obligations are divided into bonded and non-bonded categories. Bonded categories include General Obligation Bonds, Revenue Bonds Payable, certain Capital Leases, Installment Obligations, Certificates of Participation (COPs), Tobacco Settlement Financing Corporation (TSFC) Bonds, Unamortized Interest on Capital Appreciation Bonds, and Unamortized Premium. Non-bonded categories include Compensated Absences, certain Capital Leases, Loans Payable, OPEB Liability, Net Pension Liability, Pollution Remediation Obligation, Other, and Deposit Fund Contracts.

A. Changes in Long-term Obligations

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

	Outstanding July 1, 2019	Additions	Deductions	Outstanding June 30, 2020	Amounts Due within One Year
Governmental Activities					
Bonded Debt					
General Obligation Bonds	$ 1,550.6	$ 325.0	$ 277.0	$ 1,598.6	$ 216.6
Revenue Bonds Payable	23,860.1	2,566.1	2,567.0	23,859.2	975.6
Less: Unamortized Interest on CABS	(3,829.2)	-	(209.6)	(3,619.6)	(221.4)
Revenue Bonds Payable, net	20,030.9	2,566.1	2,357.4	20,239.6	754.2
Capital Leases	237.2	-	11.9	225.3	11.6
Installment Obligations	16,834.6	1,195.7	2,271.9	15,758.4	1,206.7
Direct Borrowings and Direct Placements	979.9	666.4	8.6	1,637.7	98.0
Less: Unamortized Interest on CABS	(508.0)	-	(141.3)	(366.7)	(135.3)
Installment Obligations Payable, net	17,306.5	1,862.1	2,139.2	17,029.4	1,169.4
Certificates of Participation	135.7	35.1	46.9	123.9	31.0
Tobacco Settlement Financing Corporation Bonds	3,037.8	-	104.4	2,933.4	118.9
Unamortized Premium	2,113.8	358.3	243.5	2,228.6	202.6
Non-Bonded Debt					
Compensated Absences	495.0	313.7	317.5	491.2	313.7
Capital Leases	204.7	16.4	37.5	183.6	32.8
Loans Payable	1,279.4	-	-	1,279.4	-
OPEB Liability	75,961.5	-	10,470.0	65,491.5	-
Net Pension Liability	93,738.1	-	2,926.0	90,812.1	-
Pollution Remediation Obligation	52.4	-	8.9	43.5	-
Other	1,537.3	367.0	341.5	1,562.8	376.3
Subtotal Governmental Activities	$ 217,680.9	$ 5,843.7	$ 19,281.7	$ 204,242.9	$ 3,227.1
Business-type Activities					
Compensated Absences	$ 0.5	$ 0.3	$ 0.3	$ 0.5	$ 0.3
Deposit Fund Contracts	235.1	12.7	18.7	229.1	23.2
Subtotal Business-type Activities	235.6	13.0	19.0	229.6	23.5
Total Governmental and Business-type Activities	$ 217,916.5	$ 5,856.7	$ 19,300.7	$ 204,472.5	$ 3,250.6

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[1] Obligations	Direct Borrowings/ Placements	COPs	TSFC[2]	Total
2021	$ 216.6	$ 975.6	$ 44.5	$ 1,206.7	$ 98.0	$ 31.0	$ 118.9	$ 2,691.3
2022	144.5	1,026.6	43.0	1,304.2	104.7	25.3	118.0	2,766.3
2023	105.1	1,080.8	36.5	1,309.9	208.7	14.8	123.3	2,879.1
2024	68.2	1,113.1	30.9	1,143.6	322.4	4.9	129.8	2,812.9
2025	71.0	1,161.7	30.7	1,218.9	322.6	3.5	120.1	2,928.5
2026-2030	401.4	6,179.6	122.7	5,819.4	497.3	21.3	488.0	13,529.7
2031-2035	427.5	4,563.2	92.4	1,698.3	84.0	22.5	689.5	7,577.4
2036-2040	125.6	4,957.4	6.4	1,203.7	-	0.6	738.6	7,032.3
2041-2045	38.7	2,244.7	0.3	639.6	-	-	339.1	3,262.4
2046-2050	-	556.5	0.3	214.1	-	-	68.1	839.0
2051-2065	-	-	1.2	-	-	-	-	1.2
Total Principal	1,598.6	23,859.2	408.9	15,758.4	1,637.7	123.9	2,933.4	46,320.1
2021	64.6	779.9	27.8	690.3	71.0	3.1	145.0	1,781.7
2022	56.1	728.8	24.8	650.1	64.7	3.0	140.1	1,667.6
2023	50.0	678.0	21.9	609.9	57.7	2.1	135.1	1,554.7
2024	45.3	627.3	19.5	570.5	43.8	1.8	128.9	1,437.1
2025	42.3	580.2	17.3	531.7	29.8	1.6	122.4	1,325.3
2026-2030	166.3	2,359.4	55.8	1,720.2	36.5	6.3	537.9	4,882.4
2031-2035	80.0	1,541.1	24.3	707.9	4.1	2.1	395.1	2,754.6
2036-2040	22.6	993.0	9.9	365.5	-	-	210.1	1,601.1
2041-2045	2.9	328.6	0.2	128.2	-	-	69.6	529.5
2046-2050	-	69.4	0.1	21.2	-	-	3.5	94.2
2051-2065	-	-	0.2	-	-	-	-	0.2
Total Interest	530.1	8,685.7	201.8	5,995.5	307.6	20.0	1,887.7	17,628.4
2021	281.2	1,755.5	72.3	1,897.0	169.0	34.1	263.9	4,473.0
2022	200.6	1,755.4	67.8	1,954.3	169.4	28.3	258.1	4,433.9
2023	155.1	1,758.8	58.4	1,919.8	266.4	16.9	258.4	4,433.8
2024	113.5	1,740.4	50.4	1,714.1	366.2	6.7	258.7	4,250.0
2025	113.3	1,741.9	48.0	1,750.6	352.4	5.1	242.5	4,253.8
2026-2030	567.7	8,539.0	178.5	7,539.6	533.8	27.6	1,025.9	18,412.1
2031-2035	507.5	6,104.3	116.7	2,406.2	88.1	24.6	1,084.6	10,332.0
2036-2040	148.2	5,950.4	16.3	1,569.2	-	0.6	948.7	8,633.4
2041-2045	41.6	2,573.3	0.5	767.8	-	-	408.7	3,791.9
2046-2050	-	625.9	0.4	235.3	-	-	71.6	933.2
2051-2065	-	-	1.4	-	-	-	-	1.4
Total Principal and Interest	$ 2,128.7	$ 32,544.9	$ 610.7	$ 21,753.9	$ 1,945.3	$ 143.9	$ 4,821.1	$ 63,948.5

Notes:

[1] Fiscal Years 2026 and 2028 include maturing Floating Rate Notes that the State anticipates refunding prior to maturity.

[2] 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, subject to certain Constitutional exceptions, and are backed by the State's full faith and credit. As of June 30, 2020, the State had $1.6 billion of State general obligation bonds outstanding with another $768.2 million of bonding authorization remaining from various State general obligation bond acts. The amount provided by the State's General Fund for debt service payments for Fiscal Year 2020 was $347.4 million.

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

During Fiscal Year 2020, the State issued $325.0 million in general obligation bonds. As of June 30, 2020, the amount of defeased general obligation debt outstanding, but removed from the State's long- term obligations, amounted to zero.

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 2020, the TTFA issued $2.6 billion of bonds, of which $1.6 billion were 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 $204.0 million and resulted in a net present value savings of $156.7 million. The NJBA and GSPT issued no debt. Total authorized but unissued revenue bonds equal $10.1 billion as of June 30,2020.

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 certain facilities. The New Jersey Health Care Facilities Financing Authority (HCFFA) issued no debt during Fiscal Year 2020.

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 2020, these authorities issued $1.9 billion of bonds, of which $414.6 million were refunding bonds, that were issued in order to defease $395.3 million of existing debt. Total debt service payments over the next 13 years will decrease by $14.9 million and result in a net present value savings of $12.2 million. The State's installment obligations outstanding as of June 30, 2020 total $17.4 billion. Total authorized but unissued installment obligations equal $1.8 billion as of June 30, 2020.

The state has $1.6 billion of outstanding agreements from direct borrowings and direct placements related to governmental activities. Of the $1.6 billion, $1.5 billion was issued by the Economic Development Authority on behalf of the New Jersey Schools Development Authority. These agreements are secured by the pledge and assignment of revenues and other pledged property. While events of default vary between each agreement, they generally include failure to pay the loan or any other obligation. If an event of default occurs, the trustee may sue to collect sums due and compel performance of any covenant made. While not considered a default, an additional clause contained in various agreements can trigger an increased interest rate.

G. Certificates of Participation

These obligations represent two separate contracts with several Lines of Credit that were drawn on to finance State equipment needs through the State's Master Lease Program, as well as an energy master lease program. The initial lines of credit were issued for $100 million each. One contract has expired, although debt service payments continue through June 30, 2022. The second contract expired in April 2019, but had an option to extend up to two, one year periods. This contract was extended through April 2021, and is currently in negotiations for another extension. The energy contract expired January 2021, but was renewed and will expire in January 2022. The State has an unused line of credit in the amount of $46 million which relates to the purchasing of vehicles and information technology equipment.

H. Tobacco Settlement Financing Corporation (TSFC)

In November 1998, the State entered into a Master Settlement Agreement (MSA) 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 MSA and decree of Final Judgment. In return, in 2002 and 2003, the TSFC issued $3.5 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 Entity 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.

On March 7, 2014, the TSFC entered into a credit enhancement transaction. Pursuant to the Series 2007-1B Pledge Agreement, the TSFC pledged an additional 15.99 percent of the Tobacco Settlement Revenues (TSRs) received on and after July 1, 2016, to be applied to the optional redemption of the Series 2007-1B bonds. Pursuant to the Series 2007-1C Pledge Agreement, the TSFC additionally pledged 7.75 percent of the TSRs received on and after July 1, 2016, to be applied to the optional redemption of the Series 2007-1C bonds. As a result of these Pledge Agreements, a bond enhancement premium of $96.5 million was received by the TSFC in Fiscal Year 2014, of which $91.6 million was paid to the State of New Jersey, in accordance with the Pledge Agreements, and the remaining $4.9 million was paid to various professionals as a transaction fee.

On April 11, 2018, the TSFC issued Series 2018 A Senior Bonds in the amount of $2.1 billion and Series 2018 B Subordinate Bonds in the amount of $1.0 billion. These bonds were issued to refund the balances of the Series 2007 bonds. The liability on these refunded bonds has been removed from the TSFC's long-term obligations. Total debt service payments over the next 27.0 years were decreased by $131.7 million and resulted in a net present value savings of $162.2 million. The MSA revenue received totaling $265.6 million in April 2018, was transferred to the General Fund of the State of New Jersey. Master Settlement Revenues received subsequent to 2018 will remain in the TSFC. The proceeds of the Series 2018 bonds are secured by TSFC's right, title and interest in the pledged TSRs, consisting of 100 percent of the tobacco assets received by the Corporation on or after December 1, 2018.

I. 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.

J. 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 bonds.

K. Compensated Absences

Pursuant to GASB Statement No. 16, *Accounting for Compensated Absences*, Compensated Absences represents the liability due to employees for unused sick and vacation time.

L. 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 State Police facilities.

M. 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. The repayment of the loans depends upon a number of contingencies, including the legislature voting to appropriate funds to pay the loans.

N. OPEB Liability

In accordance with the provisions of GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, the State is required to quantify and disclose its obligations to pay Other Postemployment Benefits

(OPEB) to active, inactive, and retired employees. This new standard supersedes the previously issued guidance, GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, effective for Fiscal Year 2018. The State is now required to accrue a liability in all instances where statutory language names the State as the legal obligor for benefit payments. The State's OPEB liability for Fiscal Year 2020 is $65.5 billion.

O. Net Pension Liability

GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, requires the reporting of net pension liability as a State general long-term obligation. GASB Statement No. 68 requires participating employers in cost sharing plans to recognize their proportionate share of the collective net pension liability, collective deferred inflows of resources, collective deferred outflows of resources and collective pension expense, excluding that attributable to employer-paid member contributions. The net pension liability represents the liability of employers and nonemployer contributing entities to employees for defined benefit pensions. The liability is measured as the portion of the present value of projected benefit payments to be provided through the pension plans to current active and inactive employees that is attributed to those employees' past periods of service (total pension liability), less the amount of the pension plans' fiduciary net position. The Net Pension Liability as of June 30, 2020 is $90.8 billion.

P. Pollution Remediation Obligation

GASB Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations,* requires the reporting of Pollution Remediation Obligations as a State general long-term obligation. The Pollution Remediation Obligation represents State contractual commitments 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 cleanup/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, 2020 is $43.5 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.

Q. 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 State general long-term obligation. This includes Business Employment Incentive Program (BEIP) grants of $797.8 million which have been incurred but not reported. This also includes Medicaid benefit claims ($169.9 million of which $106.9 million is federally reimbursable) which have been incurred but not reported. South Jersey Port Corporation has an obligation of $347.6 million, health benefit claims of $131.5 million also have been incurred but not reported, and Unclaimed Property of $61.6 million has been deemed to be payable to other states. Governmental Accounting Standards Board (GASB) Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*, resulted in the inclusion of the State's estimated future obligation relating to the South Jersey Port Corporation bonds. The State, when necessary, 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, 2019, 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 2020 in the amount of $28.4 million. This obligation also includes $54.4 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.*

R. 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 $229.1 million are recorded as liabilities in both the fund financial statements and the government-wide statements.

S. Nonexchange Financial Guarantees

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.

NOTE 12 - TAX ABATEMENTS

The State of New Jersey, through the New Jersey Economic Development Authority (NJEDA), provides various tax credit programs subject to the disclosure requirements of GASB Statement No. 77, *Tax Abatement Disclosures:* Grow New Jersey Assistance Program, Economic Redevelopment and Growth Program, Angel Investor Tax Credit Program, Technology Business Tax Certificate Transfer (NOL) Program, Urban Transit Hub Tax Credit Program, Business Retention and Relocation Assistance Grant Program, Business Employment Incentive Program, Public Infrastructure Projects, and Film and Digital Media Tax Credit Program. Only tax credit programs with greater than $5.0 million in taxes abated during Fiscal Year 2020 are disclosed.

Pursuant to N.J.S.A. 34:1B-120.1, the NJEDA is authorized to issue a recapture assessment of all or a portion of tax credits, which shall be based upon the proportionate value of the grant of tax credits that corresponds to the amount and period of noncompliance.

A. Grow New Jersey Assistance Program

The NJEDA administers the Grow New Jersey Assistance Program (GROW NJ), which was created in 2012 to provide tax credits to encourage job creation and job retention that strengthen New Jersey's competitive edge in the increasingly global marketplace. Revised through P.L. 2013, c.161, the intent of the program is to provide tax credits to eligible businesses which make, acquire, or lease a capital investment equal to or greater than certain minimum capital investment amounts at a qualified business facility at which it will employ a certain number of employees in retained and/or new full-time jobs. Qualified eligible businesses receive tax credits ranging from $500 to $5,000 per job annually for up to ten years, plus potential bonus credits based on specific criteria, for each new or retained full-time job to be located at the qualified business facility. The maximum amount of the annual tax credits is generally determined by applying the gross amount per job per year plus all applicable bonuses which must fall at or below annual caps. Credits can be used to lower corporation business tax and insurance premium tax liabilities. The program stopped accepting applications on June 30, 2019.

In order to qualify for consideration to GROW NJ, a business must meet the following eligibility requirements:

- Locate the project in a Qualified Incentive Area, defined as one of the following: Urban Transit Hub Municipality, distressed municipality, Garden State Growth Zone, a project in a priority area, or another eligible area not located within a distressed municipality or priority area.
- Meet or exceed the minimum employment and capital investment requirements.
- Demonstrate that the award of the tax credit is a "material factor" in the company's decision to create or retain at least the minimum number of full-time jobs.
- Demonstrate the capital investment and creation of eligible positions will yield a net positive benefit of at least 110 percent of the requested tax credit amount.
- Ascertain that all projects meet Green Building Requirements.
- Meet certain compliance requirements within 12 months following application approval.
- Use "prevailing wage" labor rates and affirmative action requirements in any construction contracts signed.
- Maintain the project and related employment at the project site for 1.5 times the period in which the business received the tax credit.
- Maintain a minimum of its 80 percent full-time New Jersey workforce from the last tax period prior to grant approval and 80 percent of new and retained full-time jobs at the qualified business facility specified in the incentive agreement.

B. Economic Redevelopment and Growth Program

The Economic Redevelopment and Growth (ERG) Program is another program offered by the NJEDA as an incentive for developers and businesses to address revenue gaps in development projects, defined as having insufficient resources to support the projects' debt service under a standard financing scenario. While not meant as a substitute for conventional debt and equity financing, ERG can also apply to projects that have a below market development margin or rate of return.

Created by law in 2012, and revised through P.L. 2013, c.161 and the "Economic Opportunity Act of 2014, Part 3," P.L. 2014, c.63, the intent of this program is to provide State incentive grants to a developer or non-profit organization on behalf of a qualified developer, in order to capture new State incremental taxes derived from a project's development to address a financing gap. The program offers incentives in the form of cash reimbursements and tax credits. In Fiscal Year 2018, over 80 percent of incentive payments were in the form of tax credits, with offsets being available to corporation business tax, insurance premiums tax, and gross income tax liabilities.

Per N.J.S.A. 34:1B-207 et seq. / N.J.A.C. 19:31-4 and the program's rules, the applicant must:

- Have a redevelopment project that is located in a qualifying area and not have begun any construction at the project site prior to submitting an application, except: if the NJEDA determines the project would not be completed otherwise or if the project is undertaken in phases, a developer may apply for phases for which construction has not yet commenced.
- Demonstrate to the NJEDA that: 1) the project shall be constructed in accordance with certain minimum environmental standards; 2) except with regards to a qualified residential project, the project will yield a net positive benefit equaling no less than 110 percent of the grant assistance, not to exceed 20 years; and, 3) the project has a financing gap.
- Meet a 20 percent equity requirement.

A comprehensive net benefit analysis is conducted to ensure the project has a positive net benefit to the State of no less than 110 percent. The economic impact model used by the NJEDA includes criteria published by the U.S. Department of Commerce along with internal econometric analysis and modeling to assess economic outputs, impacts, and likely jobs creation.

Residential projects that do not generate tax revenues can qualify for tax credits that can be assigned to lenders for project financing. A tax credit of up to 20 percent of total project cost, with additional tax credit amounts possible based on project type and/or location is available. Residential projects have an affordable housing requirement.

Mixed use parking projects that do not generate tax revenues can qualify for tax credits that may be assigned to lenders for project financing. A tax credit of up to 100 percent of the parking component project costs and up to 40 percent (including additional tax credit amounts) of the non-parking component project costs. Aggregate tax credits available to qualified residential and mixed-use parking projects under ERG are limited to $718 million.

The program stopped accepting applications on June 30, 2019, but has been renewed with recent legislation enacted during Fiscal Year 2021.

C. Angel Investor Tax Credit Program

The Angel Investor Tax Credit Program, offered by the NJEDA, is where businesses investing in a qualifying New Jersey emerging technology business may benefit from a tax credit of up to 20 percent of the investment, capped at $500,000 for each investment transaction per investor. Pursuant to P.L. 2019, c.145 effective for investments made after January 1, 2020, available tax credits have increased from 10 to 20 percent of the qualified investment. Additionally, taxpayers may be eligible for a tax credit up to 25 percent of the qualified investment if the emerging technology business is located in a qualified opportunity zone or low-income community as defined by federal law, or is certified as a minority business or a women's business by the State. If the cumulative credits claimed by taxpayers exceed the amount available in a given year, then credits will be applied in the order in which applications are received and completed, starting on the first day of the succeeding calendar year in which Angel Investor Tax Credits do not exceed the amount of credits available. The purpose of the credit is to stimulate investment in New Jersey emerging technology businesses.

Pursuant to P.L. 2013, c.14, and as amended by P.L. 2019, c.145, the New Jersey emerging technology business must meet the following criteria:

- Employs fewer than 225 full-time employees, at least 75 percent of whom work in New Jersey.
- Does business, employs or owns capital or property, or maintains an office in New Jersey.
- Conducts at least one of the following activities in New Jersey: incurs qualified research expenses in the State; conducts pilot scale manufacturing in the State; commercializes one or more various eligible technologies in the State; advanced computing, advanced materials, biotechnology, electronic devices, information technology, life sciences, medical devices, mobile communications, and renewable energy technology.
- Has as its primary business an eligible technology (advanced computing, advanced materials, biotechnology, electronic devices, information technology, life sciences, medical devices, mobile communications, and renewable energy technology).
- Qualified investments include non-refundable transfers of cash made directly to the New Jersey emerging technology business or indirectly, through the New Jersey Emerging Technology Business Holding Company in connection with at least one of the items listed below. To be considered non-refundable, the following items must be held or not expire for at least two calendar years from the date of the transfer of cash, with an exception being made for initial public offerings (IPOs), mergers and acquisitions, damage awards for the business's default of an agreement, or other return of initial cash outlay beyond the investor's control:

- Stock, interests in partnerships or joint ventures, licenses (exclusive or non-exclusive), rights to use technology, marketing rights, warrants, options, or any similar items, including, but not limited to, options or rights to acquire any of the listed.
- A purchase, production, or research agreement.

Credits may be treated as an overpayment and refunded with no interest on the overpayment paid. For corporate taxpayers, the tax credits may be carried over up to 15 tax years following the tax year for which the credit was allowed. Individuals cannot carryforward the tax credits. Credits may not be carried forward in a tax year in which the taxpayer was a target for corporate acquisition or in which the taxpayer was party to a merger or consolidation unless the taxpayer can demonstrate to the New Jersey Division of Taxation the identity of the acquiring corporation. The credits may be claimed on the taxpayer's New Jersey tax return in the tax year applicable to the effective date of approval. The program has a cap of $25 million approved per calendar year.

D. Technology Business Tax Certificate Transfer (NOL) Program

Pursuant to N.J.S.A. 34:1B-7.42a, The Technology Business Tax Certificate Transfer Program enables qualified, unprofitable NJ-based technology or biotechnology companies with fewer than 225 U.S. employees (including parent company and all subsidiaries) to sell a percentage of net operating losses and research and development tax credits to unrelated profitable corporations. Net operating losses and research and development tax credits may be sold for at least 80 percent of their value, up to a maximum lifetime benefit of $15 million per business. Up to $60 million is available annually.

An eligible company must own, have filed for, or have a license to use protected, proprietary intellectual property, defined as a patent or a registered copyright. Additionally, the company must have at least one full-time employee working in New Jersey if incorporated or formed less than three years, five full-time employees in New Jersey if incorporated or formed more than three years but less than five years, or ten full-time employees in New Jersey if incorporated or formed more than five years. Only technology and biotechnology companies whose primary business involves the provision of a scientific process, product, or service are eligible.

An eligible company cannot have had positive net operating income on either of its last two full-year income statements. The two most recent years of operations must be compiled, reviewed or audited by an independent certified public accounting firm and prepared according to the United States Generally Accepted Accounting Principles. In addition, an eligible company cannot have a parent company with positive net operating income or be part of a consolidated group of affiliates for federal income tax purposes with positive net operating income.

The application deadline falls on June 30th of each program year. The applicant company's Corporate Business Tax returns, with all required schedules and attachments, must also be filed with the New Jersey Division of Taxation by the application deadline. Failure to file by the program deadline results in the applicant company having no available tax benefit for the current program year.

E. Urban Transit Hub Tax Credit Program

The Urban Transit Hub Tax Credit Program (HUB) was previously offered by the NJEDA and phased out during Fiscal Year 2014. Pursuant to P.L. 2007, c.346, the Urban Transit Hub Tax Credit Act established a program available to individuals or businesses making a qualified capital investment within a designated Urban Transit Hub. Tax credits equal up to 100 percent of the qualified capital investments made within an eight year period. Taxpayers can apply ten percent of the total credit amount per year over a ten-year period against their corporate business tax, insurance premiums tax or gross income tax liability. Tax credits may be sold under the tax credit certificate transfer program of not less than 75 percent of the transferred credit amount. Total credits approved under this program are capped at $1.75 billion, with $250 million allocated towards residential projects which may receive up to a 35 percent credit.

This incentive program was designed to spur private capital investment, business development, and employment by providing tax credits for businesses planning a large expansion or relocating to a designated transit hub located within one of nine New Jersey urban municipalities. Urban Transit Hubs are located within one-half mile of a New Jersey Transit, Port Authority Trans-Hudson Corporation (PATH), Port Authority Transit Corporation Speedline (PATCO), or light rail station in Camden (expanded to one mile), East Orange, Elizabeth, Hoboken, Jersey City, Newark, New Brunswick, Paterson, and Trenton. Eligibility was expanded to locations within these municipalities that had active freight adjacent or connected to the proposed building and utilized by the occupant.

Businesses were able to apply for the tax credits within five years of the program's January 13, 2008 effective date and satisfy the capital investment and employment conditions within eight years of that date. The tax credits may be reduced or forfeited if facility or employment levels are not maintained.

Developers, owners, and tenants were eligible to qualify for the Urban Transit Hub Tax Credit Program if they met the following criteria:

- Developers or owners must have made a minimum $50 million capital investment in a single business facility located in one of the nine designated Urban Transit Hubs. In addition, at least 250 employees must work full-time at that facility.
- Tenants must occupy space in a qualified business facility that represents at least $17.5 million of the capital investment in the facility and employ at least 250 full-time employees in that facility. Up to three tenants may aggregate to meet the 250 employee requirement.
- Projects retaining 250 full-time jobs were eligible for tax credits of up to 80 percent of the qualified capital investment, while projects which created 200 or more jobs were qualified for up to 100 percent of the qualified capital investment.
- Mixed-use components are part of the "qualified residential project" definition.
- Applicants must have demonstrated at the time of application that the State's financial support of the proposed capital investment in a qualified business facility will yield a net positive benefit to both the State and the eligible municipality.
- S corporations, limited liability corporations and partnerships were eligible; however, tax credits cannot be applied against an individual's New Jersey gross income tax liability.

F. Business Retention and Relocation Assistance Grant Program

A business relocating operations within New Jersey and retaining jobs, or a business maintaining jobs at a current location and making a qualified capital investment may have been eligible to apply for the Business Retention and Relocation Assistance Grant (BRRAG) program, pursuant to N.J.S.A. 34:1B-114. BRRAG, which stopped accepting applications in Fiscal Year 2014, offered eligible companies corporate business tax credits of up to $2,250 per year for up to six years, per job retained in the State. Offered by the NJEDA, the BRRAG program helped companies preserve jobs, expand operations, and reinvest in the State. The total amount of credits that can be applied against a single company's tax liability in a fiscal year may not exceed $10 million.

In order to have qualified for BRRAG, a company must have done the following:

- Retained a minimum of 50 full-time jobs.
- Committed to remain in the State for the tax credit term and an additional five years. For leased project locations, the business must have signed a written lease for a period of no less than the commitment duration or eight years, whichever is greater.
- Offered its employees healthcare benefits.
- Demonstrated that the grant was a "material factor" in moving the relocation project forward in New Jersey. Applicants must not have signed a lease, entered into a purchase contract, or otherwise committed to a site in New Jersey that will host the relocation project prior to receiving NJEDA Board of Directors' approval. For companies relocating 1,500 or more employees from outside a designated urban center to one or more new locations within a designated urban center, the "material factor" did not apply if the application was received within six months of the company signing its lease or purchase agreement.
- Demonstrated that the capital investment and job retention resulting from a proposed project would yield a net positive benefit to the State.
- Entered into any construction contracts associated with the project using "prevailing wage" labor rates and affirmative action requirements.
- Have operated continuously in New Jersey in whole or in part, in its current form or as a predecessor entity, for at least ten years.

G. Business Employment Incentive Program

The Business Employment Incentive Program (BEIP) created business employment incentives to approved New Jersey companies. Pursuant to P.L. 1996, c.26, BEIP offered cash incentives to economically viable expanding or relocating businesses that created at least 25 jobs in a two year period, or at least ten jobs if positioned in the technology or biotech industries. Businesses must have also demonstrated the BEIP grant was a material factor in moving the job expansion or relocation forward in the State. The grant program stopped accepting applications in 2013. Pursuant to P.L. 2015, c.194, businesses previously approved for the program were granted 180 days to direct the NJEDA to convert the grant to a refundable corporation business tax credit or an insurance premium tax credit in lieu of a cash incentive. Approximately 77 percent of incentive payments were in the form of tax credits during Fiscal Year 2020, with issuance based on the chronological order of program acceptance.

H. Public Infrastructure Projects

Pursuant to N.J.S.A. 34:1B-251, the State allocated $25 million in corporate business tax or realty transfer fee credits for public infrastructure projects. The credit is equal to 100 percent of the cost of providing infrastructure up to $5 million. In order to qualify, the public infrastructure must have a minimum fair market value of $5 million, or if open space without improvement, $1 million. The business must demonstrate that a new capital investment has been made of at least $10 million. Public infrastructure includes three general types of infrastructure projects:

- Buildings and structures, including schools, fire houses, police stations, recreation centers, public works garages, water and sewer treatment facilities, and pumping facilities.
- Open space improvements, including athletic fields, playgrounds, and planned parks.
- Public transportation facilities, including train stations and public parking facilities.

I. Film and Digital Media Tax Credit Program

The New Jersey Film and Digital Media Tax Credit Program provides a credit against the corporation business tax and the gross income tax for certain expenses incurred for the production of certain films and digital media content in New Jersey. The goal of the program is to encourage production of filming and digital media content in the State. The type of media production utilized will affect the eligibility of the credit and how it is calculated.

Film tax credits will equal 30 percent of qualified film production expenses, or 35 percent of qualified film production expenses incurred for services performed and tangible personal property purchased through vendors whose primary place of business is located in Atlantic, Burlington, Camden, Cape May, Cumberland, Gloucester, Mercer or Salem counties.

In order for a film project to be eligible for tax credits under the NJ Film Tax Credit Program, the film project must be a feature film, a television series, or a television show of 22 minutes or more in length, intended for a national audience, or a television series or a television show of 22 minutes or more in length intended for a regional audience, filmed and produced at a nonprofit arts and cultural venue receiving State funding. Productions featuring news, current events, weather, and market reports or public programming, talk show, sports event, or reality show, a production that solicits funds, a production containing obscene material as defined under N.J.S.2C:34-2 and N.J.S.2C:34-3, or a production primarily for private, industrial, corporate, or institutional purposes are not eligible for film tax credits.

Pursuant to P.L. 2018, c.56, additional eligibility requirements include:

- 60 percent of the total film production expenses, exclusive of post-production costs, must be incurred for services performed and goods used or consumed in New Jersey, or the qualified film production expenses exceed $1 million.
- Principal photography of the project must commence within the earlier of 180 days from the date of the original application or 150 days after the approval of the application for the credit.
- End credits must include "Filmed in New Jersey" statement or logo.

For digital media, tax credits up to 20 percent of qualified digital media production expenses, or 25 percent of qualified digital media production expenses are eligible when incurred for services performed and tangible personal property purchased through vendors whose primary place of business is located in Atlantic, Burlington, Camden, Cape May, Cumberland, Gloucester, Mercer or Salem counties.

Pursuant to P.L. 2018, c.56, film projects are eligible for tax credits under the NJ Digital Media Tax Credit Program if at least $2 million of the total digital media production expenses are incurred for services performed and goods purchased through vendors authorized to do business in New Jersey and at least 50 percent of the qualified digital media content production expenses are incurred for wages and salaries paid to full-time employees in New Jersey.

J. Fiscal Year 2020 Revenues Reduced by Abatement Programs

Program		Amount (in thousands)
Grow New Jersey Assistance Program (GROW NJ)	$	133,126
Urban Transit Hub Tax Credit Program (HUB)		86,454
Economic Redevelopment and Growth Program (ERG)		62,523
Technology Business Tax Certificate Transfer Program (NOL)		60,000
Business Employment Incentive Program (BEIP)		45,860
Business Retention and Relocation Assistance Grant Program (BRRAG)		5,922
Other programs listed above		2,380
Total Tax Abatements	$	396,265

NOTE 13 - 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, 2020, 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 Years 2020 and 2019 are detailed below (expressed in millions):

	Fiscal Year	
Type of Claim	**2020**	**2019**
Tort	$ 6.7	$ 18.9
Workers' compensation	88.6	90.1
Automobile	2.6	5.3

Property exposure is handled by a commercial insurance carrier. There were no reductions in commercial insurance coverage during the fiscal year ended June 30, 2020. No settlements exceeded commercial insurance coverage during each of the past three fiscal years. The State does not participate in any risk pools.

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

A. Net Position Restricted by Enabling Legislation

As of June 30, 2020, $7,007.4 million of restricted net position is reported in the Statement of Net Position. Net position is 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 ($1,530.5 million) have been deducted from the restricted net position 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 Jersey Tischler Memorial Fund ($0.4 million) that are legally required to remain intact.

Restricted

Similar to the net position 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.

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 1.0 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, of the total $159.3 million restricted fund balance, $71.0 million has been reserved as of June 30, 2020, for the school bond reserve.

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.

Restricted and Committed fund balances are categorized as follows (expressed in millions):

	Restricted Fund Balance	Committed Fund Balance
Public safety and criminal justice	$ -	$ 427.2
Physical and mental health	10.4	437.8
Educational, cultural and intellectual development	992.7	187.6
Community development and environmental management	3,121.6	1,026.9
Economic planning development and security	638.5	519.4
Transportation programs	1,416.0	321.4
Government direction, management and control	-	539.0
Special government services	-	76.6
Contributory life insurance	735.6	-
Debt service	291.3	-
Unclaimed property payments	-	210.0
Property tax relief	80.7	-
	$ 7,286.8	$ 3,745.9

As mentioned above, both restricted and committed fund balances 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 expenditures as of June 30, 2020 (expressed in millions):

Major Components of:	General Fund	Property Tax Relief Fund	Non-Major Governmental Funds	Total Governmental Funds
Restricted Fund Balance:	**$ 1,812.1**	**$ 80.7**	**$ 5,394.0**	**$ 7,286.8**
Encumbrances	188.7	31.4	135.3	355.4
Long-term loans and receivables	238.7	-	1,376.7	1,615.4
School Bond Reserve	-	-	71.0	71.0
Committed Fund Balance:	**$ 3,177.4**	**$ -**	**$ 568.5**	**$ 3,745.9**
Encumbrances	1,227.9	-	239.4	1,467.3
Long-term loans and receivables	111.8	-	2.3	114.1
Subtotal - Encumbrances	**$ 1,416.6**	**$ 31.4**	**$ 374.7**	**$ 1,822.7**

Unassigned

Unassigned balance is $2,161.2 million. This classification represents fund balance that has not been restricted or committed to specific purposes within the General Fund. Of the $2,161.2 million unassigned balance in the General Fund, $6.7 million is included in the Surplus Revenue Fund.

NOTE 15 - 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, 2020, are as follows (expressed in millions):

Fiscal Year	Amount
2021	$ 60.1
2022	52.4
2023	34.8
2024	24.5
2025	16.0
2026 - 2030	29.5
Total Future Minimum Lease Payments	$ 217.3

NOTE 16 - RETIREMENT SYSTEMS

The State of New Jersey sponsors and administers the following contributory defined benefit public employee retirement systems (retirement systems; pension plans) covering substantially all state and local government employees. For additional information about all pension plans, please refer to the State of New Jersey Division of Pension and Benefits (the Division), Comprehensive Annual Financial Report, which can be found at www.state.nj.us/treasury/pensions.

In accordance with Governmental Accounting Standards Board Statement No. 68, *Accounting and Financial Reporting for Pensions* (GASB Statement No. 68), the State has elected to use the prior fiscal year end (June 30, 2019), as the measurement date for reporting purposes.

A. Descriptions of Retirement Systems

1. Single-Employer Defined Benefit Pension Plans

Judicial Retirement System (JRS):

The State of New Jersey JRS is a single-employer defined benefit pension plan administered by the Division. The vesting and benefit provisions are set by N.J.S.A. 43:6A. JRS provides retirement benefits as well as death and disability benefits. Retirement is mandatory at age 70. Service retirement benefits are available to members who have reached certain ages and various years of service. Benefits of 75 percent of final salary are available to members at age 70 with 10 years or more of judicial service; members between ages 65-69 with 15 years or more of judicial service or between ages 60-64 with 20 years or more of judicial service. Benefits of 50 percent of final salary are available to those with both judicial service and non-judicial service for which five or more consecutive years were judicial service. These benefits are available at age 65 or older with 15 years or more of aggregate service or age 60 or older with 20 or more years of aggregate service. Benefits of two percent of final salary for each year of public service up to 25 years plus one percent of final salary for each year in excess of 25 years are available at age 60 with 5 consecutive years of judicial service plus 15 years in the aggregate of public service or at age 60 while serving as a judge.

Early retirement benefits of two percent of final salary for each year of service up to 25 years and one percent of final salary for each year over 25 years is available to members who retire before age 60, have 5 or more consecutive years of judicial service, and 25 years or more in aggregate public service. The amount of benefits is actuarially reduced for the number of months remaining until the member reaches age 60.

Prison Officers' Pension Fund (POPF):

The State of New Jersey POPF is a single-employer defined benefit pension plan administered by the Division. This plan includes various employees in the state penal institutions appointed prior to January 1, 1960. There are no active members in POPF. The vesting and benefit provisions were set by N.J.S.A.43:7.

State Police Retirement System (SPRS):

The State of New Jersey SPRS is a single-employer defined benefit pension plan administered by the Division. The vesting and benefit provisions are set by N.J.S.A. 53:5A. SPRS provides retirement benefits as well as death and disability benefits. All benefits vest after ten years of service, as defined, and members are always fully vested in their contributions. Mandatory retirement is at age 55. Voluntary retirement is prior to age 55 with 20 years of credited service. The benefit is an annual retirement allowance equal to the greater of (a), (b), or (c), as follows: (a) 50 percent of final compensation; (b) for members retiring with 25 years or more of service, 65 percent of final compensation, plus 1 percent for each year of service in excess of 25 years to a maximum of 70 percent of final compensation; or (c) for members as of August 29, 1985 who would not have 20 years of service by age 55, benefit as defined in (a) above. For members as of August 29, 1985, who would have 20 years of service, but would not have 25 years of service at age 55, benefit is as defined in (a) above plus three percent for each year of service.

Single-Employer Plan Membership

Single-employer defined membership pension plans consisted of the following as of the measurement date:

Number of Employees Covered by Single-Employer Defined Benefit Pension Plans

	JRS	POPF	SPRS
Active plan members	453	-	2,713
Inactive plan members or beneficiaries currently receiving benefits	614	71	3,404
Inactive plan members entitled to but not yet receiving benefits	4	-	-
Total	1,071	71	6,117

2. Multiple-Employer Defined Benefit Pension Plans

Consolidated Police and Firemen's Pension Fund (CPFPF):

The State of New Jersey CPFPF is a cost-sharing multiple-employer defined benefit pension plan administered by the Division. The plan includes county and municipal police officers and firemen appointed prior to July 1, 1944. There are no active members in CPFPF. The vesting and benefit provisions were set by N.J.S.A.43:16.

Public Employees' Retirement System (PERS):

The State of New Jersey PERS is a cost-sharing multiple-employer defined benefit pension plan with a special funding situation administered by the Division. The vesting and benefit provisions are set by N.J.S.A. 43:15A. PERS provides retirement, death, and disability benefits. All benefits vest after 10 years of service, except for medical benefits, which vest after 25 years of service or under the disability provisions of PERS.

The following represents the membership tiers for PERS:

Tier	Definition
1	Members who were enrolled prior to July 1, 2007
2	Members who were eligible to enroll on or after July 1, 2007 and prior to November 2, 2008
3	Members who were eligible to enroll on or after November 2, 2008 and prior to May 22, 2010
4	Members who were eligible to enroll on or after May 22, 2010 and prior to June 28, 2011
5	Members who were eligible to enroll on or after June 28, 2011

Service retirement benefits of 1/55th of final average salary for each year of service credit are available to tier 1 and 2 members upon reaching age 60 and to tier 3 members upon reaching age 62. Service retirement benefits of 1/60th of final average salary for each year of service credit are available to tier 4 members upon reaching age 62 and tier 5 members upon reaching age 65. Early retirement benefits are available to tier 1 and 2 members before reaching age 60, tier 3 and 4 members with 25 years or more of service credit before age 62, and tier 5 members with 30 years or more of service credit before age 65. Benefits are reduced by a fraction of a percent for each month that a member retires prior to the age at which a member can receive full early retirement benefits in accordance with their respective tier. Tier 1 members can receive an unreduced benefit from age 55 to age 60 if they have at least 25 years of service. Deferred retirement is available to members who have at least ten years of service credit and have not reached the service retirement age for the respective tier.

Police and Firemen's Retirement System (PFRS):

The State of New Jersey PFRS is a cost-sharing multiple-employer defined benefit pension plan with a special funding situation administered by the Division. The vesting and benefit provisions are set by N.J.S.A. 43:16A. PFRS provides retirement benefits as well as death and disability benefits. All benefits vest after ten years of service, except disability benefits, which vest after four years of service.

The following represents the membership tiers for PFRS:

Tier	Definition
1	Members who were enrolled prior to May 22, 2010
2	Members who were eligible to enroll on or after May 22, 2010 and prior to June 28, 2011
3	Members who were eligible to enroll on or after June 28, 2011

Service retirement benefits are available at age 55 and are generally determined to be two percent of final compensation for each year of creditable service, as defined, up to 30 years plus one percent for each year of service in excess of 30 years. Members may seek special retirement after achieving 25 years of creditable service, in which benefits would equal 65 percent (tier 1 and 2 members) and 60 percent (tier 3 members) of final compensation plus 1 percent for each year of creditable service over 25 years, but not to exceed 30 years. Members may elect deferred retirement benefits after achieving ten years of service, in which case, benefits would begin at age 55 equal to two percent of final compensation for each year of service.

Teachers' Pension and Annuity Fund (TPAF):

The State of New Jersey TPAF is a cost-sharing multiple-employer defined benefit pension plan with a special funding situation, which the State is responsible to fund 100 percent of the employer contributions, excluding any local employer early retirement incentive (ERI) contributions. TPAF is administered by the Division. The vesting and benefit provisions are set by N.J.S.A. 18A:66. TPAF provides retirement, death, and disability benefits. All benefits vest after 10 years of service, except for medical benefits, which vest after 25 years of service or under the disability provisions of TPAF. Members are always fully vested for their own contributions and, after three years of service credit, become vested for two percent of related interest earned on the contributions. In the case of death before retirement, members' beneficiaries are entitled to full interest credited to the members' accounts.

The following represents the membership tiers for TPAF:

Tier	Definition
1	Members who were enrolled prior to July 1, 2007
2	Members who were eligible to enroll on or after July 1, 2007 and prior to November 2, 2008
3	Members who were eligible to enroll on or after November 2, 2008 and prior to May 22, 2010
4	Members who were eligible to enroll on or after May 22, 2010 and prior to June 28, 2011
5	Members who were eligible to enroll on or after June 28, 2011

Service retirement benefits of $1/55^{th}$ of final average salary for each year of service credit is available to tier 1 and 2 members upon reaching age 60 and to tier 3 members upon reaching age 62. Service retirement benefits of $1/60^{th}$ of final average salary for each year of service credit is available to tier 4 members upon reaching age 62 and tier 5 members upon reaching age 65. Early retirement benefits are available to tier 1 and 2 members before reaching age 60, tier 3 and 4 members with 25 years or more of service credit before age 62, and tier 5 members with 30 years or more of service credit before age 65. Benefits are reduced by a fraction of a percent for each month that a member retires prior to the retirement age for his/her respective tier. Deferred retirement is available to members who have at least ten years of service credit and have not reached the service retirement age for the respective tier.

3. 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 administers the Defined Contribution Retirement Program. Individuals eligible for membership include State or Local Officials who are elected or appointed on or after July 1, 2007; employees enrolled in the PERS or TPAF on or after July 1, 2007, who earn salary in excess of established annual maximum compensation limits (equivalent to annual maximum wage base for Social Security deductions): employees enrolled in the PFRS or SPRS after May 21, 2010, who earn salary in excess of established annual maximum compensation limits (equivalent to annual maximum wage base for Social Security deductions); and employees otherwise eligible to enroll in the PERS or TPAF on or after November 2, 2008, who do not earn the minimum annual salary required for PERS or TPAF tier 3 enrollment or do not work the minimum hours per week required for PERS or TPAF tier 4 and tier 5 enrollments.

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 in 2011 (P.L.2011, c.78), PAF 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 CPF, CPFPF, and POPF. 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.

Likewise, while the cost-of-living increase for JRS, PFRS, PERS, SPRS, and TPAF is suspended, the cost-of-living adjustment is still funded directly by each of the respective systems.

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.

B. Basis of Presentation

Pension plans administered by the State are accounted for using the accrual basis of accounting. Under the accrual basis of accounting, employee and employer contributions are recognized in the period in which employees services are performed; investment gains and losses are recognized as incurred; benefits and refunds are recognized when due and payable in accordance with the terms of the applicable plan. For purposes of measuring the net pension liability, all components including information about the fiduciary net position of all plans and additions to/deductions from all plans' fiduciary net position have been determined in all material respects on the same basis as they are reported by the plans.

C. Cost-Sharing Pension Plans Allocation

Public Employees' Retirement System (PERS)

GASB Statement No. 68 requires participating employers in PERS to recognize their proportionate share of the collective net pension liability, collective deferred outflows of resources, collective deferred inflows of resources, and collective pension expense. For the fiscal year ended June 30, 2020, the State reported net pension liability (excluding the State colleges and universities) of $19,378,973,896 for its proportionate share of the collective net pension liability for PERS. The State's proportionate share of net pension liability for PERS was 84.21 percent, a decrease of 0.49 percent since the prior reporting period. The proportion is based on the State's contributions of all participating employers.

Police and Firemen's Retirement System (PFRS)

GASB Statement No. 68 requires participating employers in PFRS to recognize their proportionate share of the collective net pension liability, collective deferred outflows of resources, collective deferred inflows of resources, and collective pension expense. For the fiscal year ended June 30, 2020, the State reported net pension liability (excluding the State colleges and universities) of $4,027,401,923 (comprised of the State proportionate share of the collective net pension liability of $4,016,704,210 and special location Palisades Interstate Park Commission of $10,697,713). The State's proportionate share of the net pension liability for PFRS was 95.85 percent, an increase of 0.05 percent since the prior reporting period. The proportion is based on the State's contributions of all participating employers.

Teachers' Pension Annuity Fund (TPAF)

For the fiscal year ended June 30, 2020, the State reported net pension liability of $148,168,573. The State's proportionate share of the net pension liability for TPAF was 0.24 percent, a decrease of 0.06 percent since the prior reporting period. The proportion is based on the State's contributions of all participating employers.

D. Special Funding Situations

Public Employee's Retirement System

A special funding situation exists for certain local employers of the State of New Jersey PERS. The State of New Jersey, as a nonemployer, is required to pay the additional costs incurred by local employers under P.L.2001, c.366. Under N.J.S.A. 43:15A-15, local participating employers are responsible for their own contributions based on actuarially determined amounts, except where legislation was passed which legally obligated the State if certain circumstances occurred. P.L.2001, c.366 established the Prosecutors Part of the PERS which provides enhanced retirement benefits for Prosecutors enrolled in the

PERS. The State is liable for the increased pension costs to a County that resulted from the enrollment of Prosecutors in the Prosecutors Part. The amounts contributed on behalf of the local participating employers under this legislation is considered to be a special funding situation as defined by GASB Statement No. 68, and the State is treated as a nonemployer contributing entity.

For the fiscal year ended June 30, 2020, the State, as a nonemployer contributing entity, reported a net pension liability of $125,349,163 for the PERS special funding situation. This represents the accumulated difference between the annual actuarially determined State obligation under the special funding situation and the actual State contributions through the valuation date. The pension expense for this special funding situation is $132,178,297, which is the actuarially determined contribution amount that the State recognized for the current fiscal year end. The pension expense is deemed to be a State administrative expense due to the special funding situation.

Police and Firemen's Retirement System

A special funding situation exists for the local employers of the State of New Jersey PFRS. The State of New Jersey, as a nonemployer, is required to pay the additional costs incurred by local employers. Under N.J.S.A. 43:16A-15, local participating employers are responsible for their own contributions based on actuarially determined amounts, except where legislation was passed which legally obligated the State if certain circumstances occurred. The legislation, which legally obligate the State is as follows: P.L.2000, c.8; P.L.2001, c.318; P.L.2001, c.86; P.L.1991, c.511; P.L.1979, c.109; P.L.1993, c. 247; and P.L.2001, c.201. The amounts contributed on behalf of the local participating employers under this legislation is considered to be a special funding situation as defined by GASB Statement No. 68, and the State is treated as a nonemployer contributing entity.

For the fiscal year ended June 30, 2020, the State, as a nonemployer contributing entity, reported a net pension liability of $1,932,374,825 for the PFRS special funding situation. This represents the accumulated difference between the annual actuarially determined State obligation under the special funding situation and the actual State contributions through the valuation date. The pension expense for this special funding situation is $224,526,138, which is the actuarially determined contribution amount that the State recognized for the current fiscal year end. The pension expense is deemed to be a State administrative expense due to the special funding situation.

Teachers' Pension Annuity Fund

The employer contributions for local participating employers are legally required to be funded 100 percent by the State, excluding any local ERI contributions in accordance with N.J.S.A. 18:66-33. Therefore, these local participating employers are considered to be in a special funding situation as defined by GASB Statement No. 68 and the State is treated as a nonemployer contributing entity.

For the fiscal year ended June 30, 2020, the State, as a nonemployer contributing entity, reported a net pension liability of $61,370,943,870 for the TPAF special funding situation. This represents the accumulated difference between the annual actuarially determined State obligation under the special funding situation and the actual State contributions through the valuation date. The pension expense for this special funding situation is $3,642,191,152, which is the actuarially determined contribution amount that the State recognized for the current fiscal year end. The pension expense is deemed to be a State administrative expense due to the special funding situation.

E. Contributions

Judicial Retirement System (JRS):

The contribution policy is set by N.J.S.A. 43:6A and requires contributions by active members and the State. Members enrolled on January 1, 1996 or after, contribute on their entire base salary. Contributions by active members enrolled prior to January 1, 1996 are based on the difference between their current salary and the salary of the position on January 18, 1982. Pursuant to the provisions of P.L.2011, c.78, the active member contribution rate was 12.00 percent in Fiscal Year 2019. The State's contribution is based on an actuarially determined amount, which includes the normal cost and unfunded accrued liability. During Fiscal Year 2019, the State contributed $29,702,700 to JRS, which was less than the actuarial determined amount.

Prison Officers' Pension Fund (POPF):

Based on the recent actuarial valuation, there was no normal cost or unfunded accrued liability contribution required by the State during Fiscal Year 2019.

State Police Retirement System (SPRS):

The contribution policy is set by N.J.S.A. 53:5A and requires contributions by active members and the State. Pursuant to the provisions of P.L.2011, c.78, the active member contribution rate was nine percent in the Fiscal Year 2019. The State's contribution is based on an actuarially determined amount, which includes the normal cost and unfunded accrued liability. During Fiscal Year 2019, the State contributed $98,182,956 to SPRS, which was less than the actuarial determined amount.

Consolidated Police and Firemen's Pension Fund (CPFPF):

Based on the recent actuarial valuation, the State made no contribution towards the normal cost or unfunded accrued liability during Fiscal Year 2019.

Public Employees' Retirement System (PERS):

The contribution policy is set by N.J.S.A. 43:15A and requires contributions by active members and contributing employers. Pursuant to the provisions of P.L.2011, c.78, the active member contribution rate was 7.50 percent in the Fiscal Year 2019. The rate for members who are eligible for the Prosecutors Part of PERS (P.L.2001, c.366) was ten percent in the Fiscal Year 2019. Employers' contributions are based on an actuarially determined amount, which includes the normal cost and unfunded accrued liability. During Fiscal Year 2019, the State contributed $756,307,460 to PERS, which was less than the actuarial determined amount.

Police and Firemen's Retirement System (PFRS):

The contribution policy is set by N.J.S.A. 43:16A and requires contributions by active members and contributing employers. Pursuant to the provisions of P.L.2011, c.78, the active member contribution rate was ten percent in the Fiscal Year 2019. Employers' contributions are based on an actuarially determined amount, which includes the normal cost and unfunded accrued liability. During Fiscal Year 2019, the State contributed $318,479,249 to PFRS, which was less than the actuarial determined amount.

Teachers' Pension and Annuity Fund (TPAF):

The contribution policy is set by N.J.S.A. 18A:66 and requires contributions by active members and contributing employers. Pursuant to the provisions of P.L.2011, c.78, the active member contribution rate was 7.50 percent in the Fiscal Year 2019. The State's contribution is based on an actuarially determined amount, which includes the normal cost and unfunded accrued liability. During Fiscal Year 2019, the State contributed $2,015,496,648 to TPAF, which was less than the actuarial determined amount.

F. Aggregate Pension Amounts

The following table represents the aggregate pension amounts for all plans for the State as an employer for the fiscal year ended June 30, 2020:

Aggregate Pension Amounts - All Plans	
Net pension asset	$ (200,901)
Net pension liability	90,812,068,247
Deferred outflows of resources related to pension	11,936,246,389
Deferred inflows of resources related to pension	23,595,026,439
Pension expense	5,554,742,778

G. Collective Net Pension Liability

1. Components of Net Pension Liability

The components of the net pension liability of the participating employers for PFRS as of the measurement date are as follows:

	Police and Firemen's Retirement System		
	State	**Local**	**Total**
Total pension liability	$ 5,682,770,577	$ 40,481,531,749	$ 46,164,302,326
Plan fiduciary net position	1,481,082,814	26,311,338,131	27,792,420,945
Net pension liability	$ 4,201,687,763	$ 14,170,193,618	$ 18,371,881,381
Plan fiduciary net position as a percentage of the total pension liability	26.06%	65.00%	60.20%

The components of the net pension liability of the participating employers for PERS as of the measurement date are as follows:

	Public Employees' Retirement System		
	State	**Local**	**Total**
Total pension liability	$ 29,512,766,255	$ 41,491,463,886	$ 71,004,230,141
Plan fiduciary net position	6,500,345,915	23,347,631,751	29,847,977,666
Net pension liability	$ 23,012,420,340	$ 18,143,832,135	$ 41,156,252,475
Plan fiduciary net position as a percentage of the total pension liability	22.03%	56.27%	42.04%

The components of the net pension liability (asset) of the participating employers for the defined benefit plans as of the measurement date are as follows:

Components of Net Pension Liability (Asset)

	CPFPF	**JRS**	**PFRS**	**PERS**
Total pension liability	$ 4,291,213	$ 1,110,222,406	$ 46,164,302,326	$ 71,004,230,141
Plan fiduciary net position	1,387,550	157,864,193	27,792,420,945	29,847,977,666
Net pension liability	$ 2,903,663	$ 952,358,213	$ 18,371,881,381	$ 41,156,252,475
Plan fiduciary net position as a percentage of the total pension liability	32.33%	14.22%	60.20%	42.04%

	SPRS	**TPAF**	**Total**
Total pension liability	$ 4,619,851,586	$ 84,215,846,719	$ 207,118,744,391
Plan fiduciary net position	1,791,789,567	22,696,734,276	82,288,174,197
Net pension liability	$ 2,828,062,019	$ 61,519,112,443	$ 124,830,570,194
Plan fiduciary net position as a percentage of the total pension liability	38.78%	26.95%	39.73%

	POPF
Total pension liability	$ 4,725,031
Plan fiduciary net position	4,925,932
Net pension asset	$ (200,901)
Plan fiduciary net position as a percentage of the total pension liability	104.25%

2. Net Pension Liability Reconciliation to Government-wide Financial Statements

For the fiscal year ended June 30, 2020, the State reported net pension liability of $90,812,068,247 in governmental activities for its respective proportionate share of collective net pension liability.

	Amount
Net Pension Liability per GASB Statement No. 68	$ 124,830,570,194
PERS Adjustments:	
Include Nonemployer Local Government Group (Special Funding Situation)	125,349,163
Exclude Local Government Group	(18,143,832,135)
Exclude State Colleges and Universities	(3,633,446,444)
PFRS Adjustments:	
Include Nonemployer Local Government Group (Special Funding Situation)	1,932,374,825
Exclude Local Government Group	(14,170,193,618)
Exclude State Colleges and Universities	(174,285,840)
Blended Component Units:	
Include New Jersey Building Authority (PERS)	1,486,725
Include New Jersey Schools Development Authority (PERS)	44,045,377
Net Pension Liability per Statement of Net Position	$ 90,812,068,247

H. Pension Expense, Deferred Outflows of Resources, and Deferred Inflows of Resources Related to Pensions

For the fiscal year ended June 30, 2020, the State recognized pension expense of $5,554,742,778. At June 30, 2020, the State reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	JRS		SPRS	
	Deferred Outflows of Resources	**Deferred Inflows of Resources**	**Deferred Outflows of Resources**	**Deferred Inflows of Resources**
Differences between expected and actual experience	$ 16,049,259	$ 3,879,274	$ 13,445,242	$ 27,638,186
Changes of assumptions	110,167,520	19,453,706	250,810,776	852,971,112
Net difference between projected and actual earnings on pension plan investments	-	441,573	-	11,343,988
Changes in proportion	-	-	-	-
Contributions subsequent to the measurement date	37,496,113	-	117,911,260	-
Total	$ 163,712,892	$ 23,774,553	$ 382,167,278	$ 891,953,286

	PERS*		PFRS	
	Deferred Outflows of Resources	**Deferred Inflows of Resources**	**Deferred Outflows of Resources**	**Deferred Inflows of Resources**
Differences between expected and actual experience	$ 200,974,703	$ 138,957,934	$ -	$ 94,771,029
Changes of assumptions	1,080,540,244	3,902,270,004	53,333,849	563,770,461
Net difference between projected and actual earnings on pension plan investments	18,037,182	-	51,152,204	-
Changes in proportion	2,227,911	227,742,260	10,345,262	15,546,858
Contributions subsequent to the measurement date	866,982,934	-	379,818,269	-
Total	$ 2,168,762,974	$ 4,268,970,198	$ 494,649,584	$ 674,088,348

	TPAF		Total	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ 1,203,503,264	$ 213,344,311	$ 1,433,972,468	$ 478,590,734
Changes of assumptions	8,729,264,342	17,163,131,436	10,224,116,731	22,501,596,719
Net difference between projected and actual earnings on pension plan investments	-	163,369,676	69,189,386	175,155,237
Changes in proportion	196,394,631	196,394,631	208,967,804	439,683,749
Contributions subsequent to the measurement date	2,269,676,615	-	3,671,885,191	-
Total	$ 12,398,838,852	$ 17,736,240,054	$ 15,608,131,580	$ 23,595,026,439

*The PERS deferred outflows/inflows of resources include the blended component units (New Jersey Building Authority and New Jersey Schools Development Authority).

The State reported $3,671,885,191 as collective deferred outflows of resources related to pensions resulting from State contributions subsequent to the measurement date, which will be recognized as a reduction of the collective net pension liability in the fiscal year ended June 30, 2021. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in future pension expense as follows:

For the Fiscal Year Ending June 30,

Year	JRS	SPRS	PERS*
2021	$ 32,188,296	$ (80,080,151)	$ (413,071,736)
2022	38,746,051	(180,392,092)	(1,041,305,755)
2023	31,186,715	(213,844,099)	(979,048,516)
2024	321,164	(120,283,209)	(482,922,220)
2025	-	(33,097,717)	(50,841,931)
Thereafter	-	-	-
Total	$ 102,442,226	$ (627,697,268)	$ (2,967,190,158)

Year	PFRS	TPAF	Total
2021	$ (108,416,211)	$ (272,405,510)	$ (841,785,312)
2022	(182,882,459)	(704,260,700)	(2,070,094,955)
2023	(141,365,179)	(630,562,767)	(1,933,633,846)
2024	(79,606,926)	(1,216,378,743)	(1,898,869,934)
2025	(46,986,258)	(2,381,316,232)	(2,512,242,138)
Thereafter	-	(2,402,153,865)	(2,402,153,865)
Total	$ (559,257,033)	$ (7,607,077,817)	$ (11,658,780,050)

*The PERS deferred outflows/inflows of resources include the blended component units (New Jersey Building Authority and New Jersey Schools Development Authority).

I. Actuarial Assumptions and Other Inputs

The total pension liability was determined by an actuarial valuation as of July 1, 2018, with the results rolled forward to the measurement date using the following actuarial assumptions, applied to all periods included in the measurement:

	CPFPF	JRS	POPF	SPRS
Inflation rate:				
Price	N/A	2.75%	N/A	2.75%
Wage	N/A	3.25%	N/A	3.25%
Salary increases:				
Through fiscal year	N/A	2025	N/A	2025
Rate	N/A	Varies through 2025	N/A	2.95%
Thereafter	N/A	2.75%	N/A	3.95%
Long-term expected rate of return	2.00%	7.00%	2.00%	7.00%
Period of actuarial experience study upon which actuarial assumptions were based	N/A	July 1, 2014 - June 30, 2018	N/A	July 1, 2014 - June 30, 2018

	PERS	PFRS	TPAF
Inflation rate			
Price	2.75%	2.75%	2.75%
Wage	3.25%	3.25%	3.25%
Salary increases:			
Through fiscal year	2026	All future years	2026
Rate	2.00% - 6.00% based on years of service	3.25% - 15.25% based on years of service	1.55% - 4.45% based on years of service
Thereafter	3.00% - 7.00% based on years of service	N/A	2.75% - 5.65% based on years of service
Long-term expected rate of return	7.00%	7.00%	7.00%
Period of actuarial experience study upon which actuarial assumptions were based	July 1, 2014 - June 30, 2018	July 1, 2013 - June 30, 2018	July 1, 2015 - June 30, 2018

The following table represents the mortality table and improvement assumptions used:

Plan	Pre-retirement mortality	Post-retirement mortality	Disability
CPFPF	Not applicable as there are no active members.	The Pub-2010 Safety Healthy Retiree mortality tables for healthy retirees and Pub-2010 General Healthy Retiree mortality tables for beneficiaries, with future improvements from the base year of 2010 on a generational basis. Mortality improvement is based on Scale MP-2019.	Not applicable as there are no disabled members.
JRS	The Pub-2010 Teachers Above-Median Income Employee mortality table, unadjusted, and with future improvement from the base year of 2010 on a generational basis. Mortality improvement is based on Scale MP-2019.	The Pub-2010 Teachers Above-Median Income Employee mortality table, unadjusted, and with future improvement from the base year of 2010 on a generational basis. Mortality improvement is based on Scale MP-2019.	The Pub-2010 Non-Safety Disabled Retiree mortality table, unadjusted, and with future improvement from the base year of 2010 on a generational basis. Mortality improvement is based on Scale MP-2019.
POPF	Not applicable as there are no active members.	The Pub-2010 Safety Healthy Retiree mortality tables for healthy retirees and Pub-2010 General Healthy Retiree mortality tables for beneficiaries, with future improvements from the base year of 2010 on a generational basis. Mortality improvement is based on Scale MP-2019.	The Pub-2010 Safety Disabled Retiree mortality tables with future improvements from the base year of 2010 on generational basis. Mortality improvement is based on Scale MP-2019.
SPRS	The Pub-2010 Public Safety Above-Median Income Employee mortality table, unadjusted, and with future improvement from the base year of 2010 on a generational basis. Mortality improvement is based on Scale MP-2019.	The Pub-2010 Public Safety Above-Median Income Healthy Retiree mortality table for healthy retirees (Healthy Annuitants) and Pub-2010 General Above-Median Income Healthy Retiree mortality table for beneficiaries (Contingent Annuitants), unadjusted, and with future improvement from the base year of 2010 on generational basis. Mortality improvement is based on Scale MP-2019.	The Pub-2010 Public Safety Disabled Retiree mortality table, unadjusted, and with future improvement from the base year of 2010 on a generational basis. Mortality improvement is based on Scale MP-2019.
PERS	The Pub-2010 General Below-Median Income Employee mortality table with a 82.2 percent adjustment for males and 101.4 percent adjustment for females, and with future improvement from the base year of 2010 on a generational basis. Mortality improvement is based on Scale MP-2019.	The Pub-2010 General Below-Median Income Healthy Retiree mortality table with a 91.4 percent adjustment for males and 99.7 percent adjustment for females, and with future improvement from the base year of 2010 on a generational basis. Mortality improvement is based on Scale MP-2019.	The Pub-2010 Non-Safety Disabled Retiree mortality table with a 127.7 percent adjustment for males and 117.2 percent adjustment for females, and with future improvement from the base year of 2010 on a generational basis. Mortality improvement is based on Scale MP-2019.

PFRS	The Pub-2010 Safety Employee mortality table with a 105.6 percent adjustment for males and 102.5 percent adjustment for females, and with future improvement from the base year of 2010 on a generational basis. Mortality improvement is based on Scale MP-2019.	The Pub-2010 Safety Retiree Below-Median Income Weighted mortality table with a 96.7 percent adjustment for males and 96.0 percent adjustment for females, and with future improvement from the base year of 2010 on a generational basis. Mortality improvement is based on Scale MP-2019. Beneficiaries (Contingent Annuitants): The Pub-2010 General Retiree Below-Median Income Weighted mortality table, unadjusted, and with future improvement from the base year of 2010 on a generational basis. Mortality improvement is based on Scale MP-2019.	The Pub-2010 Safety Disabled Retiree mortality table with a 152.0 percent adjustment for males and 109.3 percent adjustment for females, and with future improvement from the base year of 2010 on a generational basis. Mortality improvement is based on Scale MP-2019.
TPAF	The Pub-2010 Teachers Above-Median Income Employee mortality table with a 93.9 percent adjustment for males and 85.3 percent adjustment for females, and with future improvement from the base year of 2010 on a generational basis. Mortality improvement is based on Scale MP-2019.	The Pub-2010 Teachers Above-Median Income Healthy Retiree mortality table with a 114.7 percent adjustment for males and 99.6 percent adjustment for females, and with future improvement from the base year of 2010 on a generational basis. Mortality improvement is based on Scale MP-2019.	The Pub-2010 Non-Safety Disabled Retiree mortality table with a 106.3 percent adjustment for males and 100.3 percent adjustment for females, and with future improvement from the base year of 2010 on a generational basis. Mortality improvement is based on Scale MP-2019.

Long-Term Expected Rate of Return

In accordance with State statute, the long-term expected rate of return on pension plan investments (seven percent at the measurement date) is determined by the State Treasurer, after consultation with the Directors of the Division of Investment and Division of Pensions and Benefits, the board of trustees, and the actuaries. The long-term expected rate of return was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plans' investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic rates of return for each major asset class included in pension plans' target asset allocation as of the measurement date are summarized in the following table:

	JRS, SPRS, PERS, PFRS, TPAF	
Asset Class	**Target Allocation**	**Long-Term Rate of Return**
Risk mitigation strategies	3.00%	4.67%
Cash equivalents*	5.00%	2.00%
U.S. Treasuries	5.00%	2.68%
Investment grade credit	10.00%	4.25%
High yield	2.00%	5.37%
Private credit	6.00%	7.92%
Real assets	2.50%	9.31%
Real estate	7.50%	8.33%
U.S. equity	28.00%	8.26%
Non-U.S. developed markets equity	12.50%	9.00%
Emerging markets equity	6.50%	11.37%
Private equity	12.00%	10.85%

*All CPFPF & POPF pension plan investments are in cash equivalents with a long-term expected rate of return of two percent.

Discount Rates

The discount rates used to measure the total pension liabilities of each pension plan as of the measurement date were as follows. The single blended discount rate per pension plan was based on the long-term expected rate of return on pension plan investments of 7.00 percent and a municipal bond rate of 3.50 percent as of the measurement date based on the Bond Buyer GO 20-Bond Municipal Bond Index, which includes tax-exempt general obligation municipal bonds with an average rating of AA/Aa or higher. The projection of cash flows used to determine the discount rates assumed that contributions from plan members will be made at the current member contribution rates and that contributions from employers will be made based on the contribution rate in the most recent fiscal year. Based on those assumptions, the pension plans' fiduciary net positions were projected to be available to make projected future benefit payments of current plan members through crossover periods shown in the following table per pension plan. Therefore, the long-term expected rate of return on plan investments was applied to projected benefit payments through the crossover periods, and the municipal bond rate was applied to projected benefit payments after those periods in determining the total pension liabilities.

Pension Plan	Discount Rate
Consolidated Police and Firemen's Pension Fund	3.50%
Judicial Retirement System	4.07%
Police and Firemen's Retirement System	6.85%
Prison Officers' Pension Fund	3.50%
Public Employees' Retirement System	6.28%
State Police Retirement System	5.51%
Teachers' Pension and Annuity Fund	5.60%

The following table represents the crossover period, if applicable, for each defined benefit plan:

Period of projected benefit payments for which the following rates were applied:	CPFPF	JRS	PFRS	POPF	PERS	SPRS	TPAF
Long-term expected rate of return	Not applicable	Through June 30, 2030	Through June 30, 2076	Not applicable	Through June 30, 2057	Through June 30, 2051	Through June 30, 2054
Municipal bond rate	All periods	From July 1, 2030 and thereafter	From July 1, 2076 and thereafter	All periods	From July 1, 2057 and thereafter	From July 1, 2051 and thereafter	From July 1, 2054 and thereafter

Sensitivity of Net Pension Liability (Asset)

The following presents the net pension liability (asset) of each pension plan calculated using the discount rates as disclosed above as well as what each plan's net pension liability (asset) would be if it were calculated using a discount rate that is one percentage point lower or one percentage point higher than the current rate:

Pension Plan	Rates Used	At 1% Decrease	At Current Discount Rate	At 1% Increase
CPFPF	(2.50%, 3.50%, 4.50%)	$ 3,086,213	$ 2,903,663	$ 2,737,893
JRS	(3.07%, 4.07%, 5.07%)	1,079,043,478	952,358,213	845,620,938
PFRS	(5.85%, 6.85%, 7.85%)	7,322,396,918	5,959,776,748	4,832,443,189
POPF	(2.50%, 3.50%, 4.50%)	32,390	(200,901)	(412,014)
PERS*	(5.28%, 6.28%, 7.28%)	22,511,300,970	19,549,855,161	17,061,210,834
SPRS	(4.51%, 5.51%, 6.51%)	3,485,236,159	2,828,062,019	2,296,038,312
TPAF	(4.60%, 5.60%, 6.60%)	72,544,649,801	61,519,112,443	52,371,397,951

*Includes the blended component units of New Jersey Building Authority and New Jersey Schools Development Authority.

NOTE 17 – OTHER POSTEMPLOYMENT BENEFITS AND ACTIVE EMPLOYEE HEALTH BENEFITS

General Information about the Other Postemployment Benefits (OPEB) Plans:
The State of New Jersey (the State) implemented Governmental Accounting Standards Board Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* (GASB Statement No. 75), for Fiscal Year 2018. For additional information regarding the available plans, please refer to the State of New Jersey Division of Pension and Benefits website at www.state.nj.us/treasury/pensions.

In accordance with GASB Statement No. 75, the State has elected to use the prior fiscal year end (June 30, 2019), as the measurement date for reporting purposes.

A. Descriptions of OPEB Plans

State Health Benefit State Retired Employees Plan:
The State Health Benefit State Retired Employees Plan (State Retired OPEB Plan) is a single-employer defined benefit OPEB plan with a special funding situation. The State Retired OPEB Plan is administered on a pay-as-you-go basis. Accordingly, no assets are accumulated in a qualifying trust that meets the criteria in paragraph 4 of GASB Statement No. 75. The State Retired OPEB Plan covers the State, State colleges and universities, the Palisades Interstate Park Commission, and the New Jersey Building Authority (referred to collectively as "the employers") for which the State is legally obligated to pay for benefits. The State Retired OPEB Plan is treated as a cost-sharing multiple employer plan with a special funding situation for allocating the total OPEB liability and related OPEB amounts since each employer mentioned above is required to issue stand-alone financial statements. The State Retired OPEB Plan provides medical, prescription drug, and Medicare Part B reimbursement to retirees and the covered dependents of the employees. The State also offers dental care to retirees, however, since dental benefits are completely paid for by the retirees, there is no OPEB liability for these benefits.

In accordance with N.J.S.A. 52:14-17.32, the State is required to pay the premiums or periodic charges for health benefits of State employees who retire with 25 years or more of service credit in, or retires on a disability pension from, one or more of the following plans: the Judicial Retirement System (JRS), the State Police Retirement System (SPRS), the Teachers' Pension and Annuity Fund (TPAF), the Public Employees' Retirement System (PERS), the Police and Firemen's Retirement System (PFRS), and the Alternate Benefit Program (ABP). In addition, N.J.S.A. 52:14-17.26 provides that for purposes of the State Retired OPEB Plan, an employee of Rutgers, the State University of New Jersey, and New Jersey Institute of Technology shall be deemed to be an employee of the State. Further, P.L.1966, c.302, addresses the other State colleges and universities, whereas while these institutions were provided autonomy from the State, their employees retained any and all rights to health benefits within the State Retired OPEB Plan and are therefore classified as State employees.

N.J.S.A. 34:14 states that employees of the Palisades Interstate Park Commission whose salary is paid in full from funds appropriated by the State shall be deemed to be employees of the State.

Pursuant to P.L.2011, c.78, future retirees eligible for postemployment medical coverage who have less than 20 years of creditable service on June 28, 2011 will be required to pay a percentage of the cost of their health care coverage in retirement provided they retire with 25 or more years of pension service credit. The percentage of the premium for which the retiree will be responsible will be determined based on the retiree's annual retirement benefit and level of coverage.

State Health Benefit Local Education Retired Employees Plan:
The State Health Benefit Local Education Retired Employees Plan (Local Education Retired OPEB Plan) is a multiple-employer defined benefit OPEB plan with a special funding situation. The Local Education Retired OPEB Plan is administered on a pay-as-you-go basis. Accordingly, no assets are accumulated in a qualifying trust that meets the criteria in paragraph 4 of GASB Statement No. 75. The Local Education Retired OPEB Plan provides medical, prescription drug, and Medicare Part B reimbursement to retirees and the covered dependents of local education employees. The State also offers dental care to retirees, however, since dental benefits are completely paid for by the retirees, there is no OPEB liability for these benefits.

The employer contributions for the participating local education employers are legally required to be funded by the State in accordance with N.J.S.A. 52:14-17.32f. According to this law, the State provides employer-paid coverage to employees who retire from a board of education or county college with 25 years or more of service credit in, or retires on a disability pension from, one or more of the following plans: TPAF, PERS, PFRS, or ABP.

Pursuant to P.L.2011, c.78, future retirees eligible for postemployment medical coverage who have less than 20 years of creditable service on June 28, 2011 will be required to pay a percentage of the cost of their health care coverage in retirement provided they retire with 25 or more years of pension service credit. The percentage of the premium for which the retiree will be responsible will be determined based on the retiree's annual retirement benefit and level of coverage.

State Health Benefit Local Government Retired Employees Plan:

The State Health Benefit Local Government Retired Employees Plan (Local Government Retired OPEB Plan) is a cost-sharing multiple-employer defined benefit OPEB plan with a special funding situation. The Local Government Retired OPEB Plan is administered on a pay-as-you-go basis; therefore, there is no prefunding of the OPEB liability. However, due to premium rates being set prior to each calendar year, there is a minimal amount of net position available to cover benefits in future years. The Local Government Retired OPEB Plan covers employees of local government employers that have adopted a resolution to participate in this plan, as well as the employees' covered dependents. The Local Government Retired OPEB Plan provides medical and prescription drug coverage to local police officers and firefighters, who retire with 25 years of service or on a disability retirement from an employer who does not provide postretirement medical coverage. The State also offers dental care to retirees, however, since dental benefits are completely paid for by the retirees, there is no OPEB liability for these benefits.

In accordance with P.L.1997, c.330, which is codified in N.J.S.A. 52:14-17.32i, the State provides medical and prescription coverage to local police officers and firefighters, who retire with 25 years of service or on a disability pension from an employer who does not provide postretirement medical coverage. Local employers were required to file a resolution with the State of New Jersey Division of Pensions and Benefits in order for their employees to qualify for State-paid retiree health benefits coverage under this law. The State also provides funding for retiree health benefits to survivors of local police officers and firefighters who die in the line of duty under P.L.1989, c.271.

Pursuant to P.L.2011, c.78, future retirees eligible for postretirement medical coverage who have less than 20 years of creditable service on June 28, 2011 will be required to pay a percentage of the cost of their health care coverage in retirement provided they retire with 25 or more years of pension service credit. The percentage of the premium for which the retiree will be responsible will be determined based on the retiree's annual retirement benefit and level of coverage.

Employees Covered by Benefit Terms

The following employees were covered by benefit terms as of the measurement date:

	State Retired OPEB Plan	Local Education Retired OPEB Plan	Local Government Retired OPEB Plan*
Active employees	103,691	216,892	24,752
Inactive employees or beneficiaries currently receiving benefit payments	47,334	148,051	3,899
Total Plan Members	151,025	364,943	28,651

*Includes the New Jersey Schools Development Authority.

B. Aggregate OPEB Amounts

The following table represents the aggregate OPEB amounts for the aforementioned plans for the fiscal year ended June 30, 2020:

Aggregate OPEB Amounts - All Plans	
OPEB liability	$ 65,491,562,252
Deferred outflows of resources related to OPEB	2,940,379,091
Deferred inflows of resources related to OPEB	37,906,615,416
OPEB expense	689,450,576

C. Special Funding Situations

State Health Benefit State Retired Employees Plan:
The State is legally required to pay for the OPEB benefit coverage for eligible retirees of the various State colleges and universities. Therefore, these employers are considered to be in a special funding situation as defined by GASB Statement No. 75 and the State is treated as a nonemployer contributing entity. The State, as a nonemployer contributing entity, reported a Fiscal Year 2020 total OPEB liability of $5,492,432,567 for this special funding situation.

State Health Benefit Local Education Retired Employees Plan:
The State is legally required to pay for the OPEB benefit coverage for the participating local education employers. Therefore, these employers are considered to be in a special funding situation as defined by GASB Statement No. 75 and the State is treated as a nonemployer contributing entity. The State, as a nonemployer contributing entity, reported a Fiscal Year 2020 total OPEB liability of $41,729,081,045 for this special funding situation.

State Health Benefit Local Government Retired Employees Plan:
The State is legally required to pay for the OPEB benefit coverage for the qualified local police officer and firefighter retirees and dependents under P.L.1997, c.330 and P.L.1989, c.271. Therefore, these employers are considered to be in a special funding situation as defined by GASB Statement No. 75 and the State is treated as a nonemployer contributing entity. The State, as a nonemployer contributing entity, reported a Fiscal Year 2020 net OPEB liability of $5,525,718,739 for this special funding situation.

Under P.L.1997, c.330, the State shall pay the premium or periodic charges for the qualified local police officers and firefighter retirees and dependents equal to 80 percent of the premium or periodic charge for the category of coverage elected by the qualified retiree under the State managed care plan or a health maintenance organization participating in the program providing the lowest premium or periodic charge. The State also provides funding for retiree health benefits to survivors of local police officers and firefighters who die in the line of duty under P.L.1989, c.271.

D. Total OPEB Liability

The State of New Jersey reported total OPEB liability of $59,934,955,491 was determined by an actuarial valuation as of June 30, 2018, which was rolled forward to the measurement date.

	State Retired OPEB Plan	Local Education Retired OPEB Plan	Total
Total OPEB Liability - Beginning	$ 23,601,362,208	$ 46,110,832,982	$ 69,712,195,190
Changes for the Year:			
Service cost	829,363,849	1,734,404,850	2,563,768,699
Interest on total OPEB liability	933,104,452	1,827,787,206	2,760,891,658
Changes of benefit terms	20,523,847	-	20,523,847
Difference between expected and actual experience	(5,316,961,201)	(7,323,140,818)	(12,640,102,019)
Changes of assumptions	(1,216,395,242)	622,184,027	(594,211,215)
Contributions - member	37,385,816	37,971,171	75,356,987
Benefit payments	(682,509,283)	(1,280,958,373)	(1,963,467,656)
Net Changes in Total OPEB Liability	(5,395,487,762)	(4,381,751,937)	(9,777,239,699)
Total OPEB Liability - Ending	$ 18,205,874,446	$ 41,729,081,045	$ 59,934,955,491

E. Net OPEB Liability

The State of New Jersey reported net OPEB liability of $5,556,606,761 was determined by an actuarial valuation as of June 30, 2018, which was rolled forward to the measurement date.

		Local Government Retired OPEB Plan*
Total OPEB Liability - Beginning	$	6,381,095,454
Changes for the Year:		
Service cost		273,429,339
Interest on total OPEB liability		260,921,420
Changes in benefit terms		(781,004)
Difference between expected and actual experience		(574,248,844)
Changes of assumptions		(670,989,855)
Changes in proportion		177,062,237
Contributions - member		17,741,157
Benefit payments		(192,867,969)
Net Changes in Total OPEB Liability		(709,733,519)
Total OPEB Liability - Ending	$	5,671,361,935
Plan Fiduciary Net Position - Beginning	$	131,701,212
Contributions - employer and nonemployer		160,088,820
Contributions - member		17,741,157
Net investment (loss) income		1,980,014
Benefit payments		(192,867,969)
Administrative expense		(3,888,060)
Net Change in Plan Fiduciary Net Position		(16,946,038)
Plan Fiduciary Net Position - Ending	$	114,755,174
Net OPEB Liability - Ending	$	5,556,606,761

*Includes the New Jersey Schools Development Authority.

F. Actuarial Assumptions and Other Inputs

The OPEB liability was determined by an actuarial valuation as of June 30, 2018, with the results rolled forward to the measurement date using the following actuarial assumptions. These assumptions vary for each plan member depending on the pension plan the member is enrolled in and are based on normal entry age into the plan. These assumptions are based on the results of actuarial experience studies for the period of July 1, 2014 through June 30, 2018 for the JRS, SPRS, and PERS; July 1, 2013 through June 30, 2018 for the PFRS; and July 1, 2015 through June 30, 2018 for the TPAF and the ABP.

This actuarial valuation used the following actuarial assumptions, applied to all periods in the measurement:

	State Retired OPEB Plan				
	JRS	**SPRS**	**TPAF/ABP**	**PERS**	**PFRS**
Inflation rate:	2.50%	2.50%	2.50%	2.50%	2.50%
Salary increases:					
Through fiscal year	2025	2025	2026	2026	All future years
Rate	Varies through 2025	2.95%	1.55% - 4.45% based on years of service	2.00% - 6.00% based on years of service	3.25% - 15.25% based on years of service
Thereafter	2.75%	3.95%	1.55% - 4.45% based on years of service	3.00% - 7.00% based on years of service	Not Applicable

	Local Education Retired OPEB Plan			Local Government Retired OPEB Plan*	
	TPAF/ABP	**PERS**	**PFRS**	**PERS**	**PFRS**
Inflation rate:	2.50%	2.50%	2.50%	2.50%	2.50%
Salary increases:					
Through fiscal year	2026	2026	All future years	2026	All future years
Rate	1.55% - 3.05% based on years of service	2.00% - 6.00% based on years of service	3.25% - 15.25% based on years of service	2.00% - 6.00% based on years of service	3.25% - 15.25% based on years of service
Thereafter	1.55% - 3.05% based on years of service	3.00% - 7.00% based on years of service	Not Applicable	3.00% - 7.00% based on years of service	Not Applicable

* PERS includes retirees from the New Jersey Schools Development Authority and PFRS includes retirees covered under P.L. 1997, c.330

Discount Rate

The discount rate for all OPEB plans was 3.50 percent. The source is the Bond Buyer GO 20-Bond Municipal Bond Index, which includes tax-exempt general obligation municipal bonds with an average rating of AA/Aa or higher.

Mortality Rates

State Retired OPEB Plan:
Pre-retirement mortality rates were based on the Pub-2010 Healthy “Public Safety Worker” for SPRS/PFRS, Healthy “Teachers” for TPAF/ABP, and Healthy “General” for JRS/PERS classification headcount-weighted mortality tables with fully generational mortality improvement projections from the central year using Scale MP-2019. Post-retirement mortality rate for all retirees was based on the Pub-2010 Healthy “General” classification headcount-weighted mortality table with fully generational mortality improvement projections from the central year using Scale MP-2019. Disability mortality rates were based on the Pub-2010 Disabled “Public Safety Worker” for future SPRS/PFRS, Disabled “Teachers” for future TPAF/ABP, and Disabled “General” for all current disabled retirees and future JRS/PERS classification headcount-weighted disabled mortality tables with fully generational mortality improvement projections from the central year using Scale MP-2019.

Local Education Retired OPEB Plan:

Pre-retirement mortality rates were based on the Pub-2010 Healthy "Public Safety Worker" for PFRS, Healthy "Teachers" for TPAF/ABP, and Healthy "General" for PERS classification headcount-weighted mortality tables with fully generational mortality improvement projections from the central year using Scale MP-2019. Post-retirement mortality rate for all retirees was based on the Pub-2010 Healthy "General" classification headcount-weighted mortality table with fully generational mortality improvement projections from the central year using Scale MP-2019. Disability mortality rates were based on the Pub-2010 Disabled "Public Safety Worker" for future PFRS, Disabled "Teachers" for future TPAF/ABP, and Disabled "General" for all current disabled retirees and future PERS classification headcount-weighted disabled mortality tables with fully generational mortality improvement projections from the central year using Scale MP-2019.

Local Government Retired OPEB Plan:

Pre-retirement and healthy post-retirement mortality rates were based on the Pub-2010 Healthy "Public Safety Worker" for PFRS and Healthy "General" for PERS classification headcount-weighted mortality table with fully generational mortality improvement projections from the central year using Scale MP-2019. Disability mortality rates were based on the Pub-2010 Disabled "Public Safety Worker" for PFRS and Disabled "General" for PERS classification headcount-weighted mortality table with fully generational mortality improvement projections from the central year using Scale MP-2019.

Health Care Trends

The trend rate for pre-Medicare medical benefits is initially 5.7 percent and decreases to a 4.5 percent long-term trend rate after eight years. The actual fully-insured Medicare Advantage trend rate for post-65 medical benefits is reflected and the assumed trend rate is 4.5 percent for all future years. The initial trend rate for prescription drug benefits is 7.5 percent and decreases to a 4.5 percent long-term trend rate after eight years. The Medicare Part B reimbursement trend rate is 5.0 percent for the State Retired OPEB Plan and the Local Education Retired OPEB Plan.

Sensitivity of the Total OPEB Liability to Changes in the Discount Rate as of the measurement date:

	At 1% Decrease (2.50%)	At Current Discount Rate (3.50%)	At 1% Increase (4.50%)
State Retired OPEB Plan	$ 21,079,592,318	$ 18,205,874,446	$ 15,882,174,271
Local Education Retired OPEB Plan	49,298,534,898	41,729,081,045	35,716,321,820
Total	$ 70,378,127,216	$ 59,934,955,491	$ 51,598,496,091

Sensitivity of the Net OPEB Liability to Changes in the Discount Rate as of the measurement date:

	At 1% Decrease (2.50%)	At Current Discount Rate (3.50%)	At 1% Increase (4.50%)
Local Government Retired OPEB Plan*	$ 6,424,850,945	$ 5,556,606,761	$ 4,851,043,603

*Includes the New Jersey Schools Development Authority.

Sensitivity of the Total OPEB Liability to Changes in the Healthcare Cost Trend Rates as of the measurement date:

	At 1% Decrease	At Current Health Care Trend Rate	At 1% Increase
State Retired OPEB Plan	$ 15,310,956,223	$ 18,205,874,446	$ 21,919,471,119
Local Education Retired OPEB Plan	34,382,902,820	41,729,081,045	51,453,912,586
Total	$ 49,693,859,043	$ 59,934,955,491	$ 73,373,383,705

Sensitivity of the Net OPEB Liability to Changes in the Healthcare Cost Trend Rates as of the measurement date:

	At 1% Decrease	At Current Health Care Trend Rate	At 1% Increase
Local Government Retired OPEB Plan*	$ 4,689,091,332	$ 5,556,606,761	$ 6,663,268,731

*Includes the New Jersey Schools Development Authority.

G. OPEB Expense, Deferred Outflows of Resources, and Deferred Inflows of Resources Related to OPEB

For the fiscal year ended June 30, 2020, the State recognized OPEB expense of $689,450,576. At June 30, 2020, the State reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	State Retired OPEB Plan		Local Education Retired OPEB Plan	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ -	$ 6,768,973,686	$ -	$ 10,484,965,300
Changes of assumptions	-	5,787,229,823	-	8,481,529,343
Net difference between projected and actual investment earnings on OPEB plan investments	-	-	-	-
Changes in proportion and differences between actual and proportionate share of contributions	362,883,527	362,883,527	1,921,145,183	1,921,145,183
Benefit payments subsequent to the measurement date	507,737,989	-	1,035,666,211	-
Total	$ 870,621,516	$ 12,919,087,036	$ 2,956,811,394	$ 20,887,639,826

	Local Government Retired OPEB Plan*		Total	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ -	$ 1,624,968,422	$ -	$ 18,878,907,408
Changes of assumptions	-	1,969,137,852	-	16,237,897,018
Net difference between projected and actual investment earnings on OPEB plan investments	4,577,105	-	4,577,105	-
Changes in proportion and differences between actual and proportionate share of contributions	651,773,276	505,782,280	2,935,801,986	2,789,810,990
Benefit payments subsequent to the measurement date	34,573,723	-	1,577,977,923	-
Total	$ 690,924,104	$ 4,099,888,554	$ 4,518,357,014	$ 37,906,615,416

*Includes the New Jersey Schools Development Authority.

Amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

For the Fiscal Year Ending June 30,

Year		State Retired OPEB Plan		Local Education Retired OPEB Plan		Local Government Retired OPEB Plan*		Total
2021	$	(1,826,528,580)	$	(2,546,527,182)	$	(559,326,182)	$	(4,932,381,944)
2022		(1,826,528,580)		(2,546,527,182)		(559,326,182)		(4,932,381,944)
2023		(1,826,528,580)		(2,546,527,182)		(559,684,970)		(4,932,740,732)
2024		(1,826,528,580)		(2,546,527,182)		(560,264,916)		(4,933,320,678)
2025		(1,826,528,580)		(2,546,527,182)		(560,794,839)		(4,933,850,601)
Thereafter		(3,423,560,609)		(6,233,858,733)		(644,141,084)		(10,301,560,426)
Total	$	(12,556,203,509)	$	(18,966,494,643)	$	(3,443,538,173)	$	(34,966,236,325)

*Includes the New Jersey Schools Development Authority.

H. Active Employee Health Benefits

The State sponsors and administers the State Health Benefits Program (SHBP). The following programs cover substantially all State and local government employees:

State Health Benefits Program Fund – Local Education Active (including Prescription Drug Program Fund) – N.J.S.A. 52:14-17.46a established the School Employees Health Benefits Program Fund which provides medical coverage to qualified active education participants. Also, education employees are eligible for the Prescription Drug Program coverage after 60 days of employment.

State Health Benefits Program Fund – Local Government Active (including Prescription Drug Program Fund) – N.J.S.A. 52:14-17.38b established rules allowing for the participation of non-State employers to participate in the SHBP. Also, local employees are eligible for the Prescription Drug Program coverage after 60 days of employment.

State Health Benefits Program Fund – State Active (including Prescription Drug Program Fund) – N.J.S.A. 52:14-17.25 provides medical coverage to qualified active State participants. The Prescription Drug Program 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 prescription written by a physician. State employees are eligible for Prescription Drug Program coverage after 60 days of employment.

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*, and GASB Statement No. 61, *The Financial Reporting Entity: Omnibus, an amendment of GASB Statements No. 14 and No. 34*, 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, addresses and websites from which separately issued audited financial statements and accompanying notes may be obtained, are provided below:

Casino Reinvestment Development Authority (N.J.S.A. 5:12-153)
15 S. Pennsylvania Avenue
Atlantic City, New Jersey 08401
https://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-income through middle-income residents. CRDA is also responsible for promoting the tourist industry in New Jersey, especially in Atlantic County.

Within the Atlantic City Tourism District, the Authority has jurisdiction to implement initiatives to promote cleanliness, safety and commercial development, institute coordinated public safety improvements, undertake redevelopment projects, adopt a tourism district master plan and impose use regulations.

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
https://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 needs-based 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
https://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
https://www.nj.gov/njefa

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 Health Care Facilities Financing Authority (N.J.S.A. 26:2I-4)
22 South Clinton Avenue, Station Plaza, Bldg. #4
P.O. Box 366
Trenton, New Jersey 08625-0366
https://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 08650-2085
https://www.nj.gov/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-income through 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 Infrastructure Bank (N.J.S.A. 58:11B-4)
3131 Princeton Pike, Bldg. 4, Suite 216
Lawrenceville, New Jersey 08648-2201
https://www.njib.gov

On October 14, 2016, the Governor signed into law an amendment of the Trust Enabling Act. The amendments changed the name of the Trust to the New Jersey Infrastructure Bank and authorized the Trust to fund local transportation infrastructure projects in addition to environmental infrastructure projects with separately appropriated funds.

The New Jersey Infrastructure Bank provides low-cost financing for the construction of 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 and the New Jersey Department of Transportation, the New Jersey Infrastructure Bank 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, open space acquisition and transportation infrastructure projects.

New Jersey Redevelopment Authority (P.L. 1996, c.62)
150 West State Street, 2nd Floor, P.O. Box 790
Trenton, New Jersey 08625-0790
https://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)
One DeKorte Park Plaza
P.O. Box 640
Lyndhurst, New Jersey 07071
https://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. Effective February 5, 2015, the New Jersey Meadowlands Commission merged and became part of the New Jersey Sports and Exposition Authority.

New Jersey Transit Corporation (N.J.S.A. 27:25-1)
One Penn Plaza East
Newark, New Jersey 07105-2246
https://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)
1 Turnpike Plaza, P.O. Box 5042
Woodbridge, New Jersey 07095-5042
https://www.njta.com/

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.

New Jersey Water Supply Authority (N.J.S.A. 58:1B-1)
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-2)
101 Joseph A. Balzano Blvd.
Camden, New Jersey 08103
http://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
https://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.

University Hospital (P.L. 2012, c.45)
150 Bergen Street
Newark, New Jersey 07103
http://www.uhnj.org

In accordance with Public Law 2012, c.45, the "New Jersey Medical and Health Science Education and Restructuring Act" (the Restructuring Act), effective July 1, 2013, University Hospital (the Hospital), a public institution of healthcare and a body politic of the State of New Jersey was separated from University of Medicine and Dentistry of New Jersey as a new stand-alone entity and is the primary teaching hospital for the Newark-based schools of the Rutgers School of Biomedical and Health Sciences. The Hospital shall maintain its public mission to provide a comprehensive healthcare program and services in collaboration with the Newark-based schools of the Rutgers School of Biomedical and Health Sciences. The Hospital is committed to act in accordance with the spirit and intent of the "Agreements Reached between Community and Government Negotiators Regarding New Jersey College of Medicine and Dentistry and Related Matters of April 30, 1968."

B. Colleges and Universities

Enactment of P.L. 1986, c.42 and c.43, provided autonomous status for New Jersey's eight 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 eleven of the State's Senior Public institutions of higher education (three Public Research universities and the aforementioned eight 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 Position 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 eleven institutions include financial activities related to their foundations and other similar organizations.

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 08628-0718
https://www.tcnj.edu

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

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

Rutgers, The State University of New Jersey
(N.J.S.A. 18A:65-1)
University Accounting, West Wing, 2nd floor
33 Knightsbridge Road
Piscataway, New Jersey 08854
https://www.rutgers.edu

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

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

New Jersey Institute of Technology
(N.J.S.A. 18A:64E-14)
323 Martin Luther King Jr. Boulevard
General Accounting Office
Fenster Hall, Room 550
University Heights
Newark, New Jersey 07102-1982
https://www.njit.edu

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

Stockton University
(N.J.S.A. 18A:62-1)
101 Vera King Farris Drive, N119
Galloway, New Jersey 08205
https://www.stockton.edu

Thomas Edison State University
(N.J.S.A. 18A:62-1)
111 West State Street
Trenton, New Jersey 08608
https://www.tesu.edu

William Paterson University of New Jersey
(N.J.S.A. 18A:62-1)
300 Pompton Road
Wayne, New Jersey 07470
https://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, 2020, the exact amount involved in these legal proceedings is not fully determinable.

Unapplied overpayments of Corporation 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, 2020, there were approximately $1,040.0 million of overpayments.

New Jersey Lawyers' Fund for Client Protection

Claims of approximately $5.7 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 $2.4 million. The ultimate disposition of these claims is not determinable at this time.

New Jersey Spill Compensation Fund

Various claims totaling approximately $12.5 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, 2020, there were approximately $2,382.0 million of overpayments.

Sanitary Landfill Facility Contingency Fund

Various claims totaling approximately $4.9 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.

Medical Malpractice Self Insurance Fund

The State has the ultimate liability for tort and malpractice claims in excess of the resources of the Fund. The University of Medicine and Dentistry of New Jersey (UMDNJ) – Self-Insurance Reserve Fund was dissolved as of July 1, 2013. A new fund was established, the Medical Malpractice Self-Insurance Fund, which encompasses three successor entities; University Hospital, Rowan University, which includes UMDNJ's former school of Osteopathic Medicine, and Rutgers University, which now includes all other components of the former UMDNJ. As of June 30, 2020 projected unpaid claims were $120.6 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.

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 $7.3 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, 2020, audits of expenditures for Fiscal Year 2019 and prior years may not be completed. Disallowances which may result from these audits are not determinable at this time. In addition, Medicaid disallowances may be issued during federal Fiscal Year 2020 (which ends September 30, 2020) or 2021 (which ends September 30, 2021) based on a series of federal Office of the Inspector General program audits of claim documentation and cost allocation methodologies. The Department of Human Services disputes these findings and is taking steps to minimize the final impact of these audits. Twenty-two audits, which in the aggregate total approximately one billion dollars, are currently in draft or final form but, due to the possible revisions or appeals, the final amounts and timing of any repayments are uncertain. The State is unable at this time to estimate its exposure.

The Adoption Assistance Program provides funds to states to facilitate the timely placement of children with adoptive families whose special needs or circumstances would otherwise make it difficult to place. Authorized under Title IV-E of the Social Security Act, the program provides federal matching funds of 50 percent to the State. Currently, there are approximately 16,000 contracts entered into whereby the State agrees to provide family assistance payments until the child turns 18 or some other ineligibility occurs. Federal money is reimbursed subsequent to the claim approval process. The State is currently obligated to pay approximately $983.4 million in monthly payments and to receive federal matching funds of approximately $491.7 million over the life of the contracts.

New Jersey Economic Development Authority Incentive Programs

The State of New Jersey through the New Jersey Economic Development Authority (NJEDA) provides various types of tax incentive programs to qualifying businesses. The objectives are to help stimulate business development, job creation, and community revitalization in New Jersey. The businesses must meet certain statute and program requirements to qualify and must annually certify that all eligibility criteria have been met. There are currently eleven programs approved for future cash or tax incentive credits, some of which have been discontinued, but the approved amounts are still available for future use. As of June 30, 2020, the State approved $8.7 billion in incentives to be issued through fiscal year 2040, which are subject to each recipient attaining the milestones set forth in each respective program. Historically, the full amount of available incentives are not utilized. A portion of the incentives are forfeited or otherwise reduced due to non-compliance. Once earned, the tax incentive credits can be utilized to offset corporation business tax, insurance premium tax, and in some instances, gross income tax liabilities. For more information, please see https://www.njeda.com/financing-and-incentives.

NOTE 20 - SUBSEQUENT EVENTS

Short-term Obligations

For Fiscal Year 2021, 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 timing imbalances that occur in the collection of revenues and the disbursement of appropriations. On October 1, 2020, the State authorized $2.0 billion of Tax and Revenue Anticipation Notes though a private placement. The Notes were authorized to be issued at a rate equal to the Securities Industry and Financial Markets Association municipal swap index plus 42.0 basis points, with accrued interest payable at final maturity on June 24, 2021. The terms of the notes state that if not issued by January 15, 2021, the notes are no longer valid. As of the date of this Comprehensive Annual Financial Report, the State has not utilized these short-term notes.

Long-term Obligations

On November 24, 2020, the State issued $3.7 billion of COVID-19 General Obligation Emergency Bonds Series 2020 A. Interest on the bonds ranges from 3.0 to 5.0 percent per annum and is payable June 1 and December 1, commencing on June 1, 2021. See "Judicial Decisions" below for further details.

On December 15, 2020, the New Jersey Transportation Trust Fund Authority issued $1.5 billion of Transportation Program Bonds Series 2020 AA. Interest on the bonds ranges from 3.0 to 5.0 percent per annum and is payable June 15 and December 15, commencing on June 15, 2021.

On January 14, 2021, the New Jersey Economic Development Authority issued $350.0 million of School Facilities Construction Bonds Series 2021 QQQ. Interest on the bonds ranges from 4.0 to 5.0 percent per annum and is payable June 15 and December 15, commencing on June 15, 2021.

Litigation

In 2009 the Tobacco Settlement Financing Corporation (TSFC) filed a claim against Lehman Brothers Holding Company (LBHI) and Lehman Brothers Special Financing, Inc. (LBSF) for its guaranteed return on investment of $81.6 million from investments held at Lehman Brothers prior to their Chapter 11 bankruptcy. In August 2015, a settlement was reached in the amount of $53 million for both claims. The TSFC's claim against LBSF is expected to be treated as a Class 4A Claim, while the TSFC's claim against LBHI is expected to be treated as a Class 9A Claim. On October 1, 2015, TSFC received $30.2 million in settlement payments. Additional payments totaling $1.5 million were received during Fiscal Year 2016, $1.4 million during fiscal year 2017, $1.3 million during fiscal year 2018, $700,000 during fiscal year 2019, $200,000 during Fiscal Year 2020, and $27,000 for Fiscal Year 2021, year to date. At this time, it is not known by management if any additional payments will be received.

Pension Plans

The State Treasurer has authorized a five-year plan to gradually reduce the assumed rate of return from 7.5 percent to 7.0 percent. Under the administration's five-year plan, the assumed rate of return will drop from 7.5 percent to 7.3 percent effective with the July 1, 2019 actuarial valuations (Fiscal Year 2021) and then from 7.3 percent to 7.0 percent effective with the July 1, 2021 actuarial valuations (Fiscal Year 2023).

Collective Bargaining Agreements

The Communication Workers of America (CWA), the International Federation of Professional and Technical Engineers (IFPTE) and Department of Attorneys General (DAsG) agreed prior to June 30, 2020 to defer certain cost-of-living adjustments (COLAs). These agreements were ratified subsequent to June 30, 2020 and were effective as of July 1, 2020.

The New Jersey State Troopers Non-Commissioned Officers Association (STNCOA) and the State Troopers Superior Officers Association (STSOA) settled on December 31, 2020 to retroactively institute COLAs, effective as of July 1, 2018.

Judicial Decisions

The New Jersey COVID-19 Emergency Bond Act, P.L. 2020, c. 60 (Emergency Bond Act) was enacted on July 16, 2020. This Act authorizes, through June 30, 2021, the issuance of general obligation bonds in an aggregate amount not to exceed $9.9 billion to address the financial problems of the State that arose due to the COVID-19 Pandemic. Lawsuits were filed challenging the constitutionality of the Emergency Bond Act. The New Jersey Supreme Court upheld the constitutionality of the Emergency

Bond Act on August 12, 2020. The Court found that the Debt Limitation Clause (Emergency Exception) provides an exception from the voter approval requirement of subparagraph 3(a) of the Debt Limitation Clause for any debts or liabilities created to meet an emergency caused by a disaster, and that the COVID-19 Pandemic and subsequent State fiscal crisis constituted an "emergency" within the confines of the Emergency Exception. The Court also held that the Appropriations Clause does not prohibit borrowing for applicable purposes under the Emergency Exception, and that the State could borrow and appropriate funds for an emergency caused by a disaster.

Federal Relief Programs

The Coronavirus Aid, Relief, and Economic Security (CARES) Act, enacted on March 27, 2020, was amended and supplemented by the Coronavirus Response and Relief Supplemental Appropriations Act (CRRSA) on December 27, 2020. The CRRSA extended expenditures eligible for Coronavirus Relief Fund aid until December 31, 2021. The CRRSA also approved additional stimulus checks for certain individuals and dependent children under 17 years old. Additionally, the CRRSA appropriated additional monies to extend various unemployment insurance programs, as well as extending other economic relief measures initially enacted by the CARES Act.

The American Rescue Plan was signed into law March 11, 2021. This law approved an additional $1.9 trillion for COVID relief, with an estimated $6.4 billion to be sent to the State as part of $10.2 billion in total New Jersey government aid. The American Rescue Plan contains various economic relief measures, including a third stimulus check for individuals, an extension of additional federal aid for unemployment insurance programs, aid for emergency rental assistance, and funding for vaccines and testing, transportation assistance, nutrition, health care, schools, and child care.

Unemployment Compensation Fund

As a result of the COVID-19 pandemic, additional federal assistance has been needed to support the Unemployment Compensation Fund. In August 2020, the State, under federal law, applied to the United States Department of Labor for cash advances to provide for sufficient cash flow to fund unemployment claims. As of March 22, 2021, the State has received $945.3 million in advances which are interest free and will continue to be so until September 6, 2021.