

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

NOTE 1 - 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 for the College and University Funds have been prepared in conformity with the American Institute of Certified Public Accountants' "Industry Audit Guide - Audits of Colleges and Universities." Component Units - Authorities that use proprietary fund accounting adhere to Financial Accounting Standard Board (FASB) pronouncements issued after November 30, 1989.

The financial statements have been prepared primarily from accounts and records maintained by the State Comptroller. 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, account groups, departments, and agencies of the State, as well as boards, commissions, authorities, colleges and universities, for which the State is financially accountable. The following circumstances set forth the State's financial accountability for a legally separate organization:

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

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

The following organizations comprise the State's component units. The New Jersey Building Authority and the New Jersey Transportation Trust Fund Authority are blended component units since they provide services entirely, or almost entirely to the State. Their activities are reported in a special revenue fund, debt service fund, and general long-term debt account group. Additional pertinent information related to them is disclosed in the notes of the primary government. All other component units have been discretely presented. Additional pertinent information related to the discretely presented component units is reported separately from the notes of the primary government in Notes 18 and 19, respectively.

AUTHORITIES

Casino Reinvestment Development Authority
Hackensack Meadowlands Development Commission
Higher Education Student Assistance Authority
New Jersey Building Authority
New Jersey Commerce and Economic Growth Commission
New Jersey Development Authority for Small Businesses,
Minorities' and Women's Enterprises

New Jersey Economic Development Authority
New Jersey Educational Facilities Authority
New Jersey Environmental Infrastructure Trust
New Jersey Health Care Facilities Financing Authority
New Jersey Highway Authority
New Jersey Housing and Mortgage Finance Agency
New Jersey Redevelopment Authority
New Jersey Sports and Exposition Authority
New Jersey Transit Corporation
New Jersey Transportation Trust Fund Authority
New Jersey Turnpike Authority
New Jersey Water Supply Authority
South Jersey Port Corporation
South Jersey Transportation Authority

COLLEGES AND UNIVERSITIES

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

C. Fund Accounting

The State uses funds, account groups, and component units to report on its financial position and the results of its operations. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain functions or activities. A fund is a separate accounting entity with a self-balancing set of accounts which represent the fund's assets, liabilities, equity, revenues, and expenditures or expenses. State funds are classified into two categories: governmental and fiduciary. Each category is then divided into separate "Fund Types".

1. Governmental Fund Types

- a. General Fund - The fund into which all State revenues, not otherwise restricted by statute, are deposited and from which appropriations are made. The largest part of the total financial operations of the State is accounted for in the General Fund. Most revenues received from taxes, federal sources, and certain miscellaneous revenue items are recorded in this fund. The Appropriations Act enacted by the Legislature provides the basic framework for the operations of the General Fund.
- b. Special Revenue Funds - Are used to account for the proceeds of specific revenue sources (other than special assessments, expendable trusts, or major capital projects) that are legally restricted to expenditure for specific purposes.
- c. Debt Service Fund - Accounts for the accumulation of resources for, and the payment of, general long-term debt principal and interest. Amounts provided by the General Fund are deposited with banks that serve as paying agents.

- d. Capital Projects Funds - Account for financial resources to be used for the acquisition or construction of major capital facilities for State use. Funds granted to other units of government are not classified as capital projects funds and are included as expenditures of special revenue funds.

2. Fiduciary Fund Types

- a. Expendable Trust Funds - Account for assets held by the State as a legal trustee when both principal and interest may be expended for designated purposes.
- b. Non-expendable Trust Funds - Account for assets held by the State as legal trustee in situations requiring that the principal be preserved intact and only the interest be expended as designated.
- c. Investment Trust Fund - Accounts for investment pool assets held by the State for legally separate entities that are not part of the State's financial reporting entity.
- d. Pension Trust Funds - Account for monies received for, expenses incurred by, and net assets available for plan benefits of the various public employee retirement systems.
- e. Agency Funds - Account for monies held by the State for custodial purposes only.

3. Account Groups

- a. General Long-Term Debt Account Group - Accounts for the unmatured general long-term liabilities of the State.
- b. General Fixed Asset Account Group - Accounts for the State's fixed assets acquired or constructed for general government purposes. The State acquires and retains title to certain property shown in the college and university funds and would be entitled to any proceeds from the ultimate disposition of such property.

4. Component Units

Account for the activities of legally separate organizations for which the elected officials of the State are financially accountable. The activities of blended component units are reported in special revenue funds, the debt service fund, and general long-term debt account group. The activities of boards, commissions, and authorities other than those blended are discretely presented as Component Units - Authorities. Colleges and universities for which the State is financially accountable are discretely presented as Component Units - College and University Funds.

D. Budgetary Process

Annual budgets are adopted for the General Fund and certain special revenue funds (Casino Control, Casino Revenue, Gubernatorial Elections, and Property Tax Relief funds). The Legislature enacts the Budget through passage of specific departmental appropriations, the sum of which may not exceed estimated resources. It is a constitutional requirement that the Budget be balanced. The Governor certifies the revenues. Before signing the Appropriations Act, the Governor may veto or reduce any specific appropriation, subject to Legislative override. Once passed and signed, the Budget becomes the State's financial plan for the coming year. During the year, the Budget may be revised by supplemental appropriations approved by both the Legislature and the Governor. Expenditures are presented on the accompanying budgetary basis financial statements by statewide program classifications, not by the legal level of budgetary control. Detail at the legal level of budgetary control (i.e., the departmental level) is presented on the accompanying Schedules of Appropriations and Expenditures.

For the General Fund and budgeted special revenue funds, budgetary control (legal control) is maintained within the department (as indicated on the organization chart) at the appropriation line item level. Budget revisions during the year, reflecting program changes or interdepartmental transfers of an administrative nature, may be effected with certain executive and legislative branch approval. Only the Legislature, however, may transfer appropriations between departments. Transfers within a department are permitted within certain guidelines and management approval.

Appropriations are authorized for expenditure during the fiscal year and for a period of one month thereafter, and unencumbered appropriations lapse at the end of the fiscal year, unless otherwise specified by the Appropriations Act.

The State's budgetary basis of accounting differs from that utilized to present financial statements in conformance with generally accepted accounting principles (GAAP). The main differences between the budgetary basis and the GAAP basis are that under the budgetary basis encumbrances are recognized as expenditures, the federal revenue related to such encumbrances is also recognized, and the budgetary basis reflects transactions only for the current fiscal year. In addition, under the GAAP basis certain grants and other financial assistance are required to be recorded as revenues and expenditures (See Note 2G). A reconciliation of the differences between the budgetary basis and GAAP basis is presented in Note 2.

E. Bond Fund Appropriations

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.

F. Basis of Accounting

All of the governmental funds and expendable trust and agency funds are accounted for on the modified accrual basis of accounting. In accordance with this 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. Those revenues which are considered to be susceptible to accrual include sales tax, individual income taxes, corporate income taxes, and federal grants. Licenses, fees, permits, and other sources are recognized when received since they normally are measurable only at that time. Revenue refunds payable are recorded as other liabilities on the combined balance sheet. Unapplied overpayments of Corporation Business Tax are recorded when a final determination is made as to the ultimate disposition of the overpayment.

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

Expenditures for incurred but not reported health benefit and medical assistance claims are reported in the General Long-Term Debt Account Group.

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All governmental funds and expendable trust funds are accounted for using a current financial resources measurement focus. With this measurement, only current assets and liabilities generally are included on the balance sheet. Operating statements of these funds present increases and decreases in net current assets. Agency funds are accounted for and reported in the same manner as governmental funds; however, since they are custodial in nature they do not involve measurement of results of operations.

All non-expendable trust funds, investment trust funds, and pension trust funds use the accrual basis of accounting and are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and liabilities associated with the operation of these funds are included on the balance sheet. Fund equity (i.e., net total assets) is segregated into contributed capital and retained earnings components. Operating statements of these funds present increases and decreases in net total assets.

The activities of Component Units - College and University Funds are accounted for on the accrual basis of accounting including student tuition and fees when a semester covers more than one fiscal period. This revenue is deferred to the period in which it is earned.

The activities of Component Units - Authorities are accounted for using both the modified accrual basis and the accrual basis. Activities that are accounted for using the modified accrual basis are presented in a column in the combined statement of revenues, expenditures and changes in fund balance. Activities that are accounted for using the accrual basis are presented in a column in the combined statement of revenues, expenses and changes in retained earnings/fund equity and in the combined statement of cash flows. For balance sheet purposes, however, the activities of all Authorities are shown together in a separate column on the combined balance sheet.

The General Long-Term Debt Account Group and General Fixed Asset Account Group are not funds. An account group is concerned only with the measurement of financial position and does not involve measurement of results of operations.

G. New Pronouncements

In June 1999, GASB issued Statement No. 34, Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments. The statement establishes financial reporting standards for state and local governments. It establishes that the basic financial statements and required supplementary information for general purpose governments should consist of management’s discussion and analysis, basic financial statements, including government-wide financial statements, fund financial statements and notes to the financial statements, and required supplementary information. The State is in the process of assessing the impact of this Statement and will implement it as of the effective date for the fiscal period beginning after June 15, 2001.

H. Assets and Other Debits

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 Notes 3, 18 and 19 for details.

2. Investments

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

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

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 Notes 4, 18, and 19 for additional details.

3. Receivables

Receivables in the State's governmental and fiduciary funds, Component Units - Authorities, and Component Units - College and University Funds, primarily consist of federal revenues, taxes, loans, mortgages, and other receivables. See Notes 5, 18 and 19 for details.

4. Fixed Assets

General fixed assets are reported at cost or estimated historical cost based on appraisals or other acceptable methods when historical cost information is not available. Donated fixed assets are stated at market value at the date of donation. The State's general fixed assets consist of:

- a. All land, including parks and forests.
- b. All general government buildings, including hospitals, care, and correctional facilities.
- c. Land improvements, machinery and equipment, and motor vehicles used in general operations, with unit costs above \$25,000, \$20,000, and \$30,000 respectively.
- d. Capital projects in the process of construction. Certain public domain fixed assets (including highways, bridges, highway lands, and rights-of-way) are not capitalized. No depreciation is provided on general fixed assets.

For the Component Units - Authorities, which use the accrual basis of accounting, fixed assets are generally recorded at cost and depreciated over the respective lives of the various assets.

For presentation purposes, the maintenance reserve expense of the New Jersey Turnpike Authority has been reclassified from non-operating to operating expense in an amount equal to the estimated depreciation. A similar adjustment was made for the New Jersey Highway Authority and the South Jersey Transportation Authority.

For the Component Units - College and University Funds, fixed assets are generally recorded at cost or fair value at date of donation in the case of gifts. Certain colleges and universities include the recognition of depreciation in their general fixed assets.

Capital leases are classified as fixed assets in amounts equal to the lesser of the fair market value of the asset or the present value of the net minimum lease payments at the inception of the lease. See Notes 6, 18 and 19 for details.

5. Other Assets

- a. Due from other funds - 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, and service debt. The accompanying financial statements generally reflect such transactions as transfers. 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 reimbursements of expenses. See Note 7 for details.
- b. Due from intergovernmental agencies - Includes any receivable or payable and due to or due from Component Units - Authorities that relates to federal or other governmental agencies.

I. Equity and Other Credits

- 1. Contributed Capital** - Equity provided by other funds or governmental units for property, plant, and equipment or for original start up costs of Component Units - Authorities.
- 2. Investment in General Fixed Assets** - Used to record the net investment in fixed assets, including land and land improvements, buildings, equipment, and construction in progress, as accounted for in the General Fixed Asset Account Group.
- 3. Cost of Investment in Facilities** - Used to record the net investment in fixed assets, including land and land improvements, buildings, equipment, and construction in progress.
- 4. Retained Earnings**
 - a. Reserved - Used to earmark a portion of the retained earnings currently unavailable for expense, or a restriction on current retained earnings.
 - b. Unreserved - An equity account reflecting the accumulated unrestricted earnings of Component Units - Authorities.
- 5. Fund Balance**
 - a. Reserved - Encumbrances - Used to segregate a portion of fund balance to provide for expenditure upon vendor performance of purchase agreements.
 - b. Reserved - Higher education programs - Used to record the portion of fund balance set aside for instruction, research, loans to students, and current operations.
 - c. Reserved - Employees' pension benefits - Used to accumulate all active member, State and other employer contributions and investment income from which all benefit payments are made.
 - d. Reserved - External investment pool participants - Used to identify the portion of fund balance that represents amounts due to non-state participants of the State of New Jersey Cash Management Fund - external portion.
 - e. Reserved - Surplus revenue - Used to identify that portion of fund balance, commonly called the "Rainy Day Fund," which represents excess revenues that have been set aside pursuant to P.L. 1990, c.44.
 - f. Reserved - Other - Used to earmark a portion of the fund balance to indicate it is either a resource currently unavailable for appropriation or expenditure, or a statutory restriction on current fund balance.
 - g. Unreserved Designated - Unrealized gains - Used to represent the portion of fund balance that resulted from the fair value reporting of investments, i.e., the difference between investments reported at fair value and the amortized cost of those investments.
 - h. Unreserved Designated - Continuing appropriations - Used to represent that portion of fund balance which has been appropriated by the Legislature, as well as those portions of fund balance of non-budgeted governmental funds so designated by management.
 - i. Unreserved Designated - Debt service - Used to identify that portion of the fund balance of the New Jersey Transportation Trust Fund which is made available to satisfy the debt service requirements of the subsequent period.

- j. Unreserved Undesignated - Used to represent that portion of fund balance resources available for appropriation.

J. Fiscal Year End Differences

The following component units have fiscal years that ended on December 31, 2000:

Special Revenue Funds

New Jersey Building Authority (blended component unit)

Component Units - Authorities

Casino Reinvestment Development Authority
Hackensack Meadowlands Development Commission
New Jersey Development Authority for Small Businesses, Minorities'
and Women's Enterprises
New Jersey Economic Development Authority
New Jersey Educational Facilities Authority
New Jersey Health Care Facilities Financing Authority
New Jersey Highway Authority
New Jersey Redevelopment Authority
New Jersey Sports and Exposition Authority
New Jersey Turnpike Authority
South Jersey Port Corporation
South Jersey Transportation Authority

NOTE 2 - OTHER ACCOUNTING DISCLOSURES

A. Change in Accounting Policy

The State has adopted GASB Statement No. 33, "Accounting and Financial Reporting for Nonexchange Transactions." As a result, certain revenues previously deferred (\$89.3 million) have been recorded as revenue in the current period.

As a result of a change in the method of recording the incurred but not reported health benefit and medical assistance claims, \$229.0 million has been recorded in the Long-Term Debt Account Group.

B. Reclassification

State activity within the Health Benefits Program Fund, the Dental Expense Program Fund, and the Prescription Drug Program, is now reflected in the financial statements of the General Fund. In prior years, State activity had been combined with non-State activity and was reflected in expendable trust funds. Non-State activity for health benefits and prescription drugs are reflected in the Health Benefits Local Government Employers Program Fund and the Prescription Drug Local Government Employers Program Fund, respectively.

C. Deficit Fund Balances

The following funds have deficit fund balances as of June 30, 2001:

- Hazardous Discharge Fund of 1981 - \$0.5 million. It is anticipated that bond sales during Fiscal Year 2002 will relieve this deficit.
- Korean Veterans' Memorial Fund - \$0.8 million. It is anticipated that private and public charitable donations during Fiscal Year 2002 will relieve this deficit.
- Health Benefits Local Government Employers Program Fund - \$2.2 million. Fiscal Year 2002 rates were increased in order to offset the current deficit.

D. Revenue and Expenditure Budgets

1. The General Fund and four special revenue funds consisting of the Casino Control, Casino Revenue, Gubernatorial Elections, and Property Tax Relief Funds operate under a budgetary control system comprised of:
 - a. The Annual Appropriations Act for Fiscal Year 2001 and various supplemental appropriations approved during the fiscal year.
 - b. Other authorized appropriations which include reappropriations (authorized by the Annual Appropriations Act) of prior year funds which are available for expenditure in the current year.
 - c. Appropriated revenues (authorized by the Annual Appropriations Act) which established appropriations based on certain revenues.

The above items provided the following amounts for the Fiscal Year 2001 budget:

| | Revenue and Other Increases (Expressed In Millions) | |
|---------------------------------|--|--------------------------------------|
| | General Fund | Special Revenue Funds |
| Annual Appropriations Act | \$ 12,975.5 | \$ 8,150.0 |
| Other Authorized Appropriations | 2,706.5 | 35.9 |
| Appropriated Revenue | <u>9,183.6</u> | <u>49.8</u> |
| Totals | \$ 24,865.6 | \$ 8,235.7 |

| | Expenditures and Other Decreases (Expressed In Millions) | |
|---------------------------------|---|--------------------------------------|
| | General Fund | Special Revenue Funds |
| Annual Appropriations Act | \$ 13,123.4 | \$ 8,719.5 |
| Other Authorized Appropriations | 2,706.5 | 35.9 |
| Appropriated Revenue | <u>9,183.6</u> | <u>49.8</u> |
| Totals | \$ 25,013.5 | \$ 8,805.2 |

The Fiscal Year 2001 expenditure budget includes as other authorized appropriations all estimated federal entitlements.

The accompanying Statement of Revenues, Expenditures and Changes in Fund Balances, Budget and Actual-Budgetary Basis presents comparisons of the legally adopted budget with actual data on a budgetary basis.

There were no expenditures in excess of appropriations for those funds operating under an annual budgetary control system. The following presents a reconciliation of the budgetary basis to the GAAP basis of reporting:

**Actual on Budgetary Basis to GAAP Basis
June 30, 2001
(Expressed In Millions)**

| | General Fund | Special Revenue Funds |
|--|-------------------------|--------------------------------------|
| Budgeted Funds: | | |
| Budgetary basis - net increase (decrease) in fund balances for the fiscal year | \$ 179.0 | \$ (269.7) |
| Federal revenue and other financing sources | 549.9 | 15.2 |
| Residual equity transfers | -- | (0.2) |
| Prior year expenditures and other financing uses | (1,109.9) | (74.3) |
| Encumbrances | 992.2 | 33.0 |
| GAAP basis - net increase (decrease) in fund balances for the fiscal year | 611.2 | (296.0) |
| Non-Budgeted Funds: | | |
| GAAP basis - net increase (decrease) in fund balances for the fiscal year | -- | (191.4) |
| Total All Funds: | | |
| GAAP basis - net increase (decrease) in fund balances for the fiscal year | \$ 611.2 | \$ (487.4) |

2. Other special revenue funds, capital projects funds, and trust funds do not operate under an annual budgetary control system, but expenditures are authorized by the enabling legislation. Accordingly, the Statement of Revenues, Expenditures and Changes in Fund Balances, Budget and Actual-Budgetary Basis does not include these funds.
3. The State Lottery operates under an informal budgetary control system approved by the New Jersey State Lottery Commission which for Fiscal Year 2001 resulted in a transfer of \$712.5 million from the State Lottery Fund to the General Fund for administration (\$15.1 million) and for state institutions and education (\$697.4 million).

E. Joint Ventures

**The Port Authority of New York and New Jersey
241 Erie Street
Jersey City, New Jersey 07310**

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

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

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

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

Consolidated financial statements for the Port Authority for the fiscal year ended December 31, 2000 disclosed the following (expressed in thousands):

| | Financial Position | | |
|---|------------------------------|--------------------|-----------------------|
| | <u>Port Authority</u> | <u>PFC Program</u> | <u>Combined Total</u> |
| Total Assets | \$ 13,968,228 | \$ 921,837 | \$ 14,890,065 |
| Total Liabilities | 9,926,494 | -- | 9,926,494 |
| Net Assets | <u>\$ 4,041,734</u> | <u>\$ 921,837</u> | <u>\$ 4,963,571</u> |
| | Operating Results | | |
| Operating Revenues | \$ 2,648,328 | \$ 120,404 | \$ 2,768,732 |
| Operating Expenses | (1,772,361) | -- | (1,772,361) |
| Depreciation and Amortization | (424,455) | (6,230) | (430,685) |
| Income from Operations | 451,512 | 114,174 | 565,686 |
| Financial Income (Expense), Net | (165,900) | 4,322 | (161,578) |
| Net Income | <u>\$ 285,612</u> | <u>\$ 118,496</u> | <u>\$ 404,108</u> |
| | Changes in Net Assets | | |
| Balance January 1, 2000 | \$ 3,751,636 | \$ 803,341 | \$ 4,554,977 |
| Net Income | 285,612 | 118,496 | 404,108 |
| Government Contributions in Aid of Construction | 4,486 | -- | 4,486 |
| Balance December 31, 2000 | <u>\$ 4,041,734</u> | <u>\$ 921,837</u> | <u>\$ 4,963,571</u> |

Except for Special Project Bonds, the Authority's debt is secured by its full faith and credit, its reserve funds, or a pledge of future revenues. Special Project Bonds are secured by a mortgage on the financed properties. At December 31, 2000, Port Authority debt consisted of the following (expressed in thousands):

Bonds, Notes and Other Obligations

| | | |
|--|-----------|------------------|
| Consolidated Bonds and Notes | \$ | 5,889,613 |
| Special Project Bonds | | 1,468,965 |
| Operating Asset Financing | | 503,896 |
| Capital Asset Financing | | 1,038,175 |
| | | 8,900,649 |
| Less: Unamortized Discount and Premium | | (176,381) |
| Total | \$ | 8,724,268 |

F. 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, 2001 no liability for unpaid claims has been established since the amount of loss cannot be reasonably estimated. However, any unpaid claims are not expected to be material. Claims are reported as expenditures in the General Fund in the year they are paid. Amounts expended for tort, workers' compensation, and automobile liability claims for Fiscal Year 2001 and Fiscal Year 2000 are detailed below (expressed in millions):

| <u>Type of Claim</u> | <u>Fiscal Year 2001</u> | <u>Fiscal Year 2000</u> |
|-----------------------|-------------------------|-------------------------|
| Tort | \$ 24.9 | \$ 8.9 |
| Workers' compensation | 18.7 | 20.8 |
| Automobile | 2.8 | 2.1 |

Property exposure is handled by a commercial insurance carrier. There were no reductions in commercial insurance coverage during the fiscal year ended June 30, 2001. No settlements exceeded commercial insurance coverage during each of the past three fiscal years. The State does not participate in any risk pools.

G. Other

In accordance with Governmental Accounting and Financial Reporting Standards (GASB) Codification L20.126, "Leases between State and Local Governments and Public Authorities", the debt and assets of the New Jersey Building Authority have been reduced for presentation herein in the amount of \$651.7 million, the amount of the present value of future lease payments by the State to the New Jersey Building Authority as of December 31, 2000.

In accordance with GASB Statement 24, "Accounting and Financial Reporting for Certain Grants and Other Financial Assistance," an additional \$303.2 million in federal grant revenues and economic planning, development, and security expenditures and \$0.8 million in other assets and deferred revenues relating to the State's food stamp program have been recorded.

NOTE 3 - CASH AND CASH EQUIVALENTS

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

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

guaranteed by, the United States or the State of New Jersey. Securities are pledged in the State Treasurer's name and held by a custodian bank under a custodian agreement.

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

The State Department of the Treasury monitors the level of collateral required to be maintained by the banks.

The Governmental Accounting Standards Board Statement 3 requires the bank balances of deposits to be categorized to indicate the level of risk assumed by the entity. Category 1 consists of deposits that are insured or collateralized with securities held by the entity or by its agent in the entity's name. Category 2 consists of deposits collateralized with securities held by the pledging financial institutions trust department or agent in the entity's name. Category 3 consists of deposits which are uncollateralized.

Cash and cash equivalents are categorized below for all funds excluding discretely presented component units (expressed in millions):

| | <u>Category 1</u> | <u>Category 2</u> | <u>Category 3</u> | <u>Total Bank Balance</u> | <u>Total Carrying Amount</u> |
|---|-------------------|-------------------|-------------------|-----------------------------------|--------------------------------------|
| Cash | \$ 143.8 | \$ -- | \$ 4.6 | \$ 148.4 | \$ 321.5 |
| Certificates of deposit and related items | -- | -- | 854.8 | 854.8 | 854.8 |
| Totals | <u>\$ 143.8</u> | <u>\$ --</u> | <u>\$ 859.4</u> | <u>\$ 1,003.2</u> | <u>\$ 1,176.3</u> |

Negative book balances of \$354.0 million representing a managed overdraft have been reclassified and are included in the accounts payable balance on the balance sheet as follows:

| <u>Funds</u> | <u>Amount (In Millions)</u> |
|------------------------|---------------------------------|
| General Fund | \$ 257.8 |
| Special Revenue Funds | 19.4 |
| Capital Projects Funds | 1.3 |
| Trust and Agency Funds | <u>75.5</u> |
| Total | <u>\$ 354.0</u> |

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 obligations of the U.S. Treasury, foreign governments, agencies, municipal or political subdivisions of the State, commercial paper, bankers acceptances, revenue obligations of public authorities, debt instruments of banks, collateralized notes and mortgages, certificates of deposit, repurchase agreements, equity and convertible equity securities, and other common types of investment securities. Investee institutions and organizations are prescribed by the statutes and regulations based on such criteria as minimum capital, dividend paying history, credit history, and other evaluation factors.

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

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

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

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

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

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

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

Approximately \$1.2 billion of investments represents deposit fund contracts for future installment payments of lottery prizes due beyond one year from the balance sheet date. 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. An agency fund has been established to record the deposit fund contracts and related liabilities. Annuity contracts are carried at their current contract values which are based upon their original purchase price adjusted for credited interest and amounts already received. The estimated fair value of annuity contracts approximates the carrying value reflected in the balance sheet. In the event of default in making future payments by the insurance company from which the contracts were purchased, the State Lottery Commission would be liable for such future payments. The projected future costs of installment prize obligations amount to \$1.8 billion which are due in installments ranging from ten years to the lifetime of the recipient.

The Governmental Accounting Standards Board Statement 3 requires investments be categorized to indicate the level of risk assumed by the entity. Category 1 consists of investments that are insured or registered or for which the securities are held by the entity or its agent in the entity's name. Category 2 consists of uninsured and unregistered investments for which the securities are held by the counterparty's trust department or agent in the entity's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty or by its trust department or agent but not in the entity's name. Investments for all funds are classified as Category 1 and are detailed as follows (expressed in millions):

| | Amount Reported |
|--|------------------------|
| | As Investments |
| Common stock | \$ 36,066.6 |
| Finance companies - senior debt | 1,481.9 |
| Foreign currency | 26.0 |
| Foreign government bonds and notes | 1,984.5 |
| Foreign stock | 10,162.8 |
| Gas, electric, and water bonds | 473.0 |
| Government bonds and obligations | 15,186.5 |
| Industrial bonds and commercial paper | 11,493.2 |
| Mortgage - backed certificates | 5,325.4 |
| Preferred stock | 45.4 |
| Repurchase agreements | 76.2 |
| Telephone bonds | 706.7 |
| Investments subject to risk categorization | 83,028.2 |
| Annuity contracts | 1,171.7 |
| Miscellaneous | 3.4 |
| Mutual funds | 21.5 |
| Total | \$ 84,224.8 |

NOTE 5 - RECEIVABLES

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 20 - Contingent Liabilities.

These Federal receivables are reported in conformance with generally accepted accounting principles as defined in Statement 2 - Grant, Entitlement and Shared Revenue Accounting and Reporting by State and Local Governments published by the National Council on Governmental Accounting. Inasmuch as encumbrances do not constitute expenditures, and since recognition of grants and entitlements as revenue is primarily based on expenditures, there is an additional \$2.6 billion of Federal government awards consisting of encumbrances and appropriation balances which are considered unearned and unrecorded as of June 30, 2001.

Federal receivable balances in the Unemployment Compensation Fund (\$3.2 billion) represent unemployment contributions transferred to the Federal Reserve Bank for deposit in the Federal Unemployment Trust Fund. All monies are invested by the Federal Government and interest earnings are credited to the Unemployment Compensation Fund.

B. Departmental

Departmental accounts receivable of \$2,471.6 million include amounts which were substantially collected within the one month period subsequent to June 30 and include most major tax revenues. Amounts included in these receivables but not collected within the one month period subsequent to June 30 are deemed to be collectible, and are reflected net of allowances (\$257.9 million).

C. Loans

Loans receivable of \$2,034.4 million are reduced by allowances of \$14.4 million and include \$768.9 million due from local units of government and other recipients for environmental projects, \$1,184.6 million representing loans from respective pension funds to participating members of the pension funds, \$38.5 million loaned for economic development within local units of government, and \$15.0 million loaned for housing and mortgage assistance.

D. Other

Other receivables totaling \$2,149.6 million are reduced by allowances of \$540.3 million and include \$460.9 million of accrued earnings on investments and accrued interest on loans to third parties, contributions due from employers and members to the respective pension funds of \$814.3 million, contributions due from employers and members to the Health Benefits Local Government Employers Program Fund of \$54.6 million, and \$208.8 million due from the Port Authority of New York and New Jersey.

NOTE 6 - FIXED ASSETS

A. Summary of Fixed Assets

A summary of fixed assets by category at June 30, 2001 is as follows (expressed in millions):

| | General Fixed Asset Account Group |
|---------------------------|--|
| Land | \$ 515.0 |
| Land improvements | 75.7 |
| Building and improvements | 1,989.9 |
| Machinery and equipment | 258.8 |
| Construction in progress | 146.5 |
| Total | \$ 2,985.9 |

B. Changes in Fixed Assets

A summary reflecting changes in the General Fixed Asset Account Group and the resulting June 30, 2001 balances follows (expressed in millions):

| | Balance July 1, 2000 * | Additions | Deductions | Balance June 30, 2001 |
|----------------------------|-----------------------------------|------------------|-------------------|----------------------------------|
| Land | \$ 449.8 | \$ 65.2 | \$ -- | \$ 515.0 |
| Land improvements | 72.1 | 3.6 | -- | 75.7 |
| Buildings and improvements | 1,872.7 | 117.2 | -- | 1,989.9 |
| Machinery and equipment | 248.0 | 22.7 | 11.9 | 258.8 |
| Construction in progress | 181.3 | 12.0 | 46.8 | 146.5 |
| Total | \$ 2,823.9 | \$ 220.7 | \$ 58.7 | \$ 2,985.9 |

*The opening balance has been restated to correct an error in the amount (\$20.1 million) of construction in progress at June 30, 2000.

NOTE 7 - INTERFUND TRANSACTIONS

A. Due From/Due To Other Funds

Interfund receivables and payables are referred to respectively as Due from other funds and Due to other funds on the balance sheet. A schedule of interfund receivables and payables at June 30, 2001 is presented below (expressed in thousands):

| | Due From | Due To |
|---|---------------------|-------------------|
| General Fund | \$ 630,605 | \$ 198,469 |
| Special Revenue Funds | | |
| Casino Control Fund | 6,970 | -- |
| Casino Revenue Fund | 45,770 | |
| Garden State Farmland Preservation Trust Fund | 27,707 | -- |
| Garden State Green Acres Preservation Trust Fund | 31,877 | -- |
| Hazardous Discharge Site Cleanup Fund | 19,845 | 24,802 |
| Health Care Subsidy Fund | 65,738 | 83,147 |
| New Jersey Spill Compensation Fund | -- | 37,182 |
| New Jersey Workforce Development Partnership Fund | 1,794 | 41,526 |
| Property Tax Relief Fund | 50,756 | 108,841 |
| Resource Recovery and Solid Waste Disposal Facility Fund | -- | 31,409 |
| State Lottery Fund | -- | 82,516 |
| Unemployment Compensation Auxiliary Fund | 2 | 16,734 |
| Urban and Rural Centers Unsafe Buildings Demolition Revolving Loan Fund | 188 | 6,223 |
| 1992 Wastewater Treatment Fund | 246 | 7,328 |
| Other Special Revenue Funds (under \$5 million) | 12,237 | 38,066 |
| Total Special Revenue Funds | 263,130 | 477,774 |
| Capital Projects Funds | | |
| Special Transportation Fund | -- | 62,845 |
| Other Capital Projects Funds (under \$5 million) | 602 | 3,851 |
| Total Capital Projects Funds | 602 | 66,696 |
| Trust and Agency Funds | | |
| Expendable Trust Funds | | |
| Fund for Support of Free Public Schools | 1,605 | 9,248 |
| State Disability Benefit Fund | 30,183 | 56,131 |
| Unclaimed Personal Property Trust Fund | 886 | 74,450 |
| Unemployment Compensation Fund | 28,537 | 53,721 |
| Pension Trust Funds | | |
| Public Employees' Retirement System | 6,658 | 3,315 |
| Other Trust and Agency Funds (under \$5 million) | 7,712 | 30,114 |
| Total Trust and Agency Funds | 75,581 | 226,979 |
| Total All Funds | \$ 969,918 | \$ 969,918 |

B. Transfer From/To Other Funds

Transfers from and Transfers to other funds in the Statement of Revenues, Expenditures and Changes in Fund Balance represent transfers between funds. A schedule of Transfers from and Transfers to at June 30, 2001 is presented below (expressed in thousands):

| | Transfers From | Transfers To |
|--|---------------------------|-------------------------|
| General Fund | \$ 1,676,344 | \$ 1,508,451 |
| Debt Service Fund | 668,105 | -- |
| Special Revenue Funds | | |
| Casino Revenue Fund | 6,905 | -- |
| Drinking Water Revolving Fund | 11,725 | 1,612 |
| Garden State Farmland Preservation Trust Fund | 57,707 | -- |
| Garden State Green Acres Preservation Fund | 91,535 | -- |
| Garden State Historic Preservation Trust Fund | 12,575 | -- |
| Gubernatorial Elections Fund | 8,298 | -- |
| Hazardous Discharge Fund of 1986 | 15,529 | -- |
| Hazardous Discharge Site Cleanup Fund | 23,894 | 24,802 |
| Health Care Subsidy Fund | 209,082 | 437,661 |
| Legal Services Fund | -- | 10,377 |
| New Jersey Insolvent Health Maintenance Fund | 25,000 | 666 |
| New Jersey Spill Compensation Fund | -- | 37,182 |
| New Jersey Transportation Trust Fund Authority | 701,400 | 928,438 |
| New Jersey Workforce Development Partnership Fund | -- | 41,526 |
| Property Tax Relief Fund | -- | 40,016 |
| State Lottery Fund | -- | 712,516 |
| Tobacco Settlement Fund | -- | 357,383 |
| Unemployment Compensation Auxiliary Fund | -- | 13,176 |
| Wastewater Treatment Fund | -- | 13,974 |
| Other Special Revenue Funds (under \$5 million) | 1,977 | 28,079 |
| Total Special Revenue Funds | 1,165,627 | 2,647,408 |
| Capital Projects Funds | | |
| Special Transportation Fund | 785,379 | -- |
| Other Capital Projects Funds (under \$5 million) | -- | 3,851 |
| Total Capital Projects Fund | 785,379 | 3,851 |
| Expendable Trust Funds | | |
| Fund for Support of Free Public Schools | -- | 13,113 |
| State Disability Benefit Fund | -- | 33,018 |
| Unclaimed Personal Property Trust Fund | -- | 89,800 |
| Other Expendable Trust Funds (under \$5 million) | 6,214 | 6,028 |
| Total Expendable Trust Funds | 6,214 | 141,959 |
| Total All Funds | \$ 4,301,669 | \$ 4,301,669 |

C. Residual Equity Transfers In (Out)

Residual Equity Transfers In (Out) in the Statement of Revenues, Expenditures and Changes in Fund Balance represent nonroutine or nonrecurring transfers between funds and are reported as additions or deductions from fund balance. A schedule of Residual Equity Transfers In (Out) at June 30, 2001 is presented below (expressed in thousands):

| Special Revenue Funds | | | | |
|--|----|------------|----|------------|
| Boarding House Rental Assistance Fund | \$ | -- | \$ | 200 |
| Casino Revenue Fund | | <u>200</u> | | <u>--</u> |
| Total Special Revenue Funds | | <u>200</u> | | <u>200</u> |
| Total Residual Equity Transfers | \$ | <u>200</u> | \$ | <u>200</u> |

NOTE 8 - DEFERRED REVENUE

Deferred revenue at June 30, 2001 in the General Fund (\$255.4 million) consists principally of amounts due from the Port Authority of New York and New Jersey and food stamp inventory (in accordance with the provisions of GASB Statement 24).

NOTE 9 - LONG-TERM OBLIGATIONS

A. Summary of Long-Term Obligations

A summary of long-term obligations at June 30, 2001 is shown below (expressed in thousands):

| <u>General Long-Term Debt</u> | <u>Amount</u> |
|---------------------------------------|----------------------|
| General obligation bonds | \$ 3,470,920 |
| Revenue bonds | 5,026,327 |
| Accumulated sick and vacation payable | 449,045 |
| Capital leases | 264,755 |
| Installment obligations | 5,323,875 |
| Certificates of participation | 138,623 |
| Loans payable | 1,279,358 |
| Other | <u>228,980</u> |
| Total General Long-Term Debt | <u>\$ 16,181,883</u> |

B. Debt Service Payments

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

| <u>Fiscal Year</u> | General Long-Term Debt Account Group | | |
|--------------------|---|--------------------------|---------------------|
| | <u>State Bonded Debt</u> | <u>Revenue Bonds</u> | <u>Total</u> |
| 2002 | \$ 306,945 | \$ 208,573 | \$ 515,518 |
| 2003 | 291,975 | 217,065 | 509,040 |
| 2004 | 271,574 | 229,551 | 501,125 |
| 2005 | 252,690 | 240,659 | 493,349 |
| 2006 | 234,965 | 253,435 | 488,400 |
| Thereafter | 2,112,771 | 3,877,044 | 5,989,815 |
| Total | \$ 3,470,920 | \$ 5,026,327 | \$ 8,497,247 |

The general obligation bonded debt outstanding as of June 30, 2001 is \$3.5 billion which is secured by the full faith and credit of the State (the General Fund). The amount to be provided for retirement of general obligation bonds on the balance sheet represents appropriations to be provided in the future from the General Fund for principal payments.

The New Jersey Transportation Trust Fund did not issue any new bonds during Fiscal Year 2001.

The amount provided by the General Fund to the Debt Service Fund for interest and principal payments for the fiscal year ended June 30, 2001 was \$525.0 million. This is reflected in the Statement of Revenues, Expenditures and Changes in Fund Balances as a Transfer to other funds in the General Fund and a Transfer from other funds in the Debt Service Fund.

In prior years, the State has refunded various bond issuances by creating separate irrevocable trust funds. Refunding debt has been issued and the proceeds have been used to purchase United States Treasury Obligations--State and Local Government Series that were placed in the trust funds. The investments and fixed earnings from the investments are sufficient to fully service the defeased debt until the debt is called or matures. For financial reporting purposes, the debt has been considered defeased and therefore removed as a liability from the State's General Long-Term Debt Account Group. As of June 30, 2001, the amount of defeased general obligation debt outstanding, but removed from the General Long-Term Debt Account Group amounted to \$644.7 million.

In addition, the State (the General Fund) has guaranteed the principal and interest payments on certain bonds issued by the New Jersey Sports and Exposition Authority. The amount outstanding on these bonds as of December 31, 2000 is \$86.1 million. The State's liability is contingent upon the Authority's inability to meet such debt service requirements through derived revenues. The State believes that the revenue of the Authority will be sufficient to provide for the payment of debt service on these obligations without recourse to the State's guarantee. The State has contracted with the Authority to provide annual appropriations to the Authority in amounts sufficient to provide for the debt service on certain other bonds issued by the Authority (State Contract Bonds). At June 30, 2001, the amount outstanding was \$694.5 million.

The State may be required to provide appropriations to meet any annual deficiencies in debt service for the South Jersey Port Corporation and the New Jersey Housing and Mortgage Finance Agency. However, the Legislature is not legally bound to make such appropriations for these "moral obligation" bonds. Furthermore, the New Jersey Housing and Mortgage Finance Agency has not had a deficiency in debt service reserve which required the State to appropriate funds.

The State provides the South Jersey Port Corporation with funds to cover all debt service and property tax requirements when the Corporation's earned revenues are anticipated to be insufficient to cover these obligations. On December 1, 2000, the Corporation certified that it would be unable to provide sufficient funds from operations for debt reserve and, therefore, required a State appropriation for Fiscal Year 2001 in the amount of \$4.4 million.

C. Changes in Long-Term Debt

The following schedule represents the changes in the General Long-Term Debt Account Group (expressed in thousands):

| | Outstanding July 1, 2000 | Additions | Deductions | Outstanding June 30, 2001 |
|---------------------------------------|-------------------------------------|---------------------|-------------------|--------------------------------------|
| General obligation bonds | \$ 3,790,570 | \$ -- | \$ 319,650 | \$ 3,470,920 |
| Revenue bonds | 5,188,954 | 29,000 | 191,627 | 5,026,327 |
| Accumulated sick and vacation payable | 428,155 | 20,890 | -- | 449,045 |
| Capital leases | 236,585 | 41,203 | 13,033 | 264,755 |
| Installment obligations | 4,633,682 | 802,715 | 112,522 | 5,323,875 |
| Certificates of participation | 147,575 | 32,924 | 41,876 | 138,623 |
| Loans payable | 1,279,358 | -- | -- | 1,279,358 |
| Other | -- | 228,980 | -- | 228,980 |
| Total | \$ 15,704,879 | \$ 1,155,712 | \$ 678,708 | \$ 16,181,883 |

D. Capital Lease and Installment Obligations

The State has entered into various lease and installment purchase agreements as a means of acquiring capital assets.

The following is a schedule, by fiscal year, of future minimum lease payments under capital leases together with the present value of the net minimum lease payments as of June 30, 2001 (expressed in thousands):

| <u>Fiscal Year</u> | <u>Amount</u> |
|---|----------------------|
| 2002 | \$ 50,496 |
| 2003 | 50,648 |
| 2004 | 50,539 |
| 2005 | 51,731 |
| 2006 | 50,712 |
| Thereafter | 344,778 |
| Total minimum lease payments | 598,904 |
| Less: Amount representing interest | 334,149 |
| Present value of lease principal payments | \$ 264,755 |

Installment obligations represent agreements between the State and several authorities which have issued their obligations to purchase or construct facilities to be rented by the State or to provide financing for other State projects. The State agrees to make payments equal to the debt service of the respective authorities' funds, subject to and dependent upon appropriations being made by the State Legislature for such purchases. At the conclusion of the term of the installment agreements, title to the various facilities is to be transferred to the State. The following is a schedule, by fiscal year, of future installment payments together with the present value of net minimum installment payments, as of June 30, 2001 (expressed in thousands) for both installment purchases as well as various other installment obligations of the State:

| <u>Fiscal Year</u> | <u>Amount</u> |
|------------------------------------|---------------------|
| 2002 | \$ 390,688 |
| 2003 | 401,315 |
| 2004 | 411,636 |
| 2005 | 398,125 |
| 2006 | 411,947 |
| Thereafter | <u>11,836,537</u> |
| Total minimum installment payments | 13,850,248 |
| Less: Amount representing interest | <u>8,526,373</u> |
| Total principal payments | <u>\$ 5,323,875</u> |

Those obligations identified as certificates of participation represent a series of master lease agreements with a trustee from the sale of certificates of participation. The State is required to make payments that approximate the principal and interest payments to be made by the trustee to certified holders. The following is a schedule, by fiscal year, of future payments together with the present value of net minimum payments, as of June 30, 2001 (expressed in thousands):

| <u>Fiscal Year</u> | <u>Amount</u> |
|--|-------------------|
| 2002 | \$ 50,156 |
| 2003 | 42,018 |
| 2004 | 34,496 |
| 2005 | 17,962 |
| 2006 | 4,705 |
| Thereafter | <u>10,656</u> |
| Total minimum certificates of participation payments | 159,993 |
| Less: Amount representing interest | <u>21,370</u> |
| Total principal payments | <u>\$ 138,623</u> |

E. Loans Payable

The New Jersey Automobile Insurance Guaranty Fund has received a loan of \$1.28 billion from the New Jersey Property-Liability Insurance Guaranty Association. This loan will be repaid to the Association when the financial obligations of the Joint Underwriters Association (JUA) have been fully satisfied.

F. Other

This obligation is claims that represent unmatured long-term indebtedness which is required (NCGA Statement 1) to be reported as general long-term liabilities of the government. This includes health (\$89.0 million), dental (\$2.2 million), and medicaid benefit claims (\$137.8 million) which have been incurred but not been reported.

NOTE 10 - OTHER LIABILITIES

Other liabilities at June 30, 2001 in the General Fund (\$58.5 million), the Property Tax Relief Fund (\$72.0 million), and the Unemployment Compensation Fund (\$63.4 million) consist principally of revenue refunds payable.

NOTE 11 - FUND BALANCE RESERVED-OTHER

The following portions of fund balances have been reserved:

General Fund

The \$74.7 million reservation in the General Fund that is considered not currently available for appropriations consists principally of long-term advances, receivables due from individuals, estates, municipalities, railroads, and other funds, an amount designated by legislation to economically defease or retire long-term obligations, and a portion of bond receipts which is earmarked to pay debt service the next fiscal year.

Special Revenue Funds

Reservations of fund balance in various Special Revenue Funds consists principally of long-term loans and receivables due from individuals, municipalities, and authorities, that are considered not currently available for expenditure in subsequent accounting periods. Other reservations include legally mandated escrow balances and amounts set aside for lottery prizes that are not currently available for expenditure.

| | Amount (Expressed in millions) |
|---|---|
| Beaches and Harbor Fund | \$ 1.3 |
| 1992 Dam Restoration and Clean Waters Trust Fund | 7.6 |
| Drinking Water State Revolving Fund | 19.4 |
| 1996 Economic Development Site Fund | 2.2 |
| Garden State Green Acres Preservation Trust Fund | 3.7 |
| Green Trust Fund | 71.4 |
| Hazardous Discharge Site Cleanup Fund | 8.3 |
| Historic Preservation Revolving Loan Fund | 0.4 |
| Housing Assistance Fund | 2.9 |
| 1996 Lake Restoration Fund | 0.7 |
| Mortgage Assistance Fund | 12.1 |
| Natural Resources Fund | 0.1 |
| New Jersey Automobile Insurance Guaranty Fund | 16.0 |
| 1995 New Jersey Coastal Blue Acres | 0.3 |
| 1989 New Jersey Green Trust Fund | 72.7 |
| 1992 New Jersey Green Trust Fund | 37.6 |
| 1995 New Jersey Green Trust Fund | 42.7 |
| New Jersey Local Development Financing Fund | 30.8 |
| New Jersey Transportation Trust Fund Authority | 173.7 |
| Petroleum Overcharge Reimbursement Fund | 3.5 |
| Pinelands Infrastructure Trust Fund | 5.2 |
| Resource Recovery and Solid Waste Disposal Facility Fund | 11.0 |
| Shore Protection Fund | 1.2 |
| State Lottery Fund | 8.5 |
| State Recycling Fund | 2.7 |
| Urban and Rural Centers Unsafe Buildings Demolition Revolving Loan Fund | 5.5 |
| Volunteer Emergency Service Organizations Loan Fund | 1.6 |
| Wastewater Treatment Fund | 364.5 |
| 1992 Wastewater Treatment Fund | 15.6 |
| Water Conservation Fund | 0.5 |
| Water Supply Fund | <u>112.1</u> |
| Total Special Revenue Funds | \$ <u>1,035.8</u> |

Capital Projects Funds

Special Transportation Fund

An amount of \$5.0 million represents loans to municipalities to be repaid in future years, which is not currently available for expenditure.

Trust Funds

Fund for Support of Free Public Schools

New Jersey Statutes provide for the establishment of a School Bond Reserve within this fund, in an amount equal to at least one and one-half percent of the aggregate issued and outstanding bonded indebtedness of counties, municipalities, or school districts for school purposes, exclusive of the debt service for bonds as provided by State appropriations. Accordingly, \$72.4 million of this fund balance has been reserved at June 30, 2001.

Unsatisfied Claim and Judgment Fund

An amount of \$8.2 million represents receivables to be paid to the fund over an extended period of years.

NOTE 12 - OTHER FINANCING SOURCES/USES - OTHER

During Fiscal Year 2001, the following items were recorded as other financing sources-other:

- \$972.4 million in the General Fund which represents proceeds (\$502.8 million) and premium (\$19.3 million) generated from the sale of school construction bonds, proceeds from sale of an option by the New Jersey Economic Development Authority (a component unit) on debt issued by the Authority on behalf of the State (\$44.5 million), and additions to long-term debt in the amount of \$405.8 million. Additions to long-term debt include increases in capital leases (\$41.2 million), increases in installment obligations (\$302.7 million), increases in certificates of participation (\$32.9 million), and increases in revenue bonds payable of the New Jersey Building Authority (\$29.0 million).

During Fiscal Year 2001, the following item was recorded as other financing uses-other:

- \$502.8 million in the General Fund which represents proceeds from the sale of school construction bonds for programs being administered by the New Jersey Economic Development Authority.

NOTE 13 - OPERATING LEASES

The State of New Jersey has commitments to lease certain buildings and equipment under arrangements representing operating leases. Future minimum rental commitments for noncancellable operating leases as of June 30, 2001 are as follows (expressed in thousands):

| <u>Fiscal Year</u> | <u>Amount</u> |
|--|-------------------|
| 2002 | \$ 64,457 |
| 2003 | 57,368 |
| 2004 | 51,552 |
| 2005 | 48,456 |
| 2006 | 42,213 |
| Thereafter | <u>227,471</u> |
| Total Future Minimum Lease Payments | <u>\$ 491,517</u> |

NOTE 14 - ACCUMULATED UNPAID SICK AND VACATION BENEFITS

Cash payments for accumulated sick leave balances are made to retiring employees upon regular retirement. The payment is based on fifty percent of the employee's sick leave accumulation, at the pay rate in effect at the time of retirement up to a maximum of \$15,000. Employees separating from State service prior to retirement are not entitled to payments for accumulated sick leave balances.

At June 30, 2001, accumulated employee sick leave balances had an estimated value of \$340.7 million which is reflected in the General Long-Term Debt Account Group. Cash payments for sick leave at retirement are made from annual legislative appropriations for salaries and wages on a "pay-as-you-go" basis. Sick leave accumulations may also be used by an employee for a personal illness or injury as a means of continuing regular pay.

As of June 30, 2001, the liability for accumulated vacation pay of approximately \$108.3 million is reflected in the General Long-Term Debt Account Group. Employees annually earn 12 to 25 vacation days based on years of service and are permitted to carry over those days earned within a one-year period.

NOTE 15 - DEFERRED COMPENSATION

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

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

The New Jersey State Employees' Deferred Compensation Plan is reported as an expendable trust fund in the financial statements.

NOTE 16 - RETIREMENT SYSTEMS

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

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

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

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

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

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

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

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

Other Pension Funds:

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

The State also administers the Central Pension Fund (CPF) which is a single-employer noncontributory defined benefit plan for special groups which are not included in other State-administered systems. There are no employees covered by CPF.

The State also administers the Pension Adjustment Fund (PAF) which provides cost of living increases, equal to 60 percent of the change in the average consumer price index, to eligible retirees in all State-sponsored pension systems except SACT. In the CPF, POPF, and CPF, the cost of living increases are payable from the State of New Jersey Pension Adjustment Fund which is funded by the State as benefit allowances become payable. The cost of living increases for PFRS, PERS, TPAF, SPRS, and JRS are funded directly by each of the respective systems and are considered in the annual actuarial calculation of the required State contribution for that system.

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

The State of New Jersey, Department of the Treasury, Division of Pensions and Benefits, issues publicly available financial reports that include the financial statements and required supplementary information of each of the above systems, funds, and trust. The financial reports may be obtained by writing to the State of New Jersey, Department of the Treasury, Division of Pensions and Benefits, P.O. Box 295, Trenton, New Jersey 08625-0295.

Basis of Accounting

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

Investment Valuation

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

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

Significant Legislation

Two pieces of legislation passed during the year having a significant impact on the benefit provisions under the PERS and TPAF. Chapter 133, P.L. 2001, increases retirement benefits for service, deferred and early retirement by changing the formula from 1/60 to 1/55 of final compensation for each year of service. This legislation also increases the retirement benefit for veteran members with 35 or more years of service and reduces the age qualification from 60 to 55. The legislation further provides that existing retirees and beneficiaries would also receive a comparable percentage increase in their retirement allowance. The benefit enhancements are effective with the November 1, 2001 benefit checks. Chapter 120, P.L. 2001, establishes an additional retirement option for plan members. Under the new option, a retiree's actuarially reduced allowance (to provide a benefit to the retiree's beneficiary upon the death of the retiree) would "pop-up" to the maximum retirement allowance if the beneficiary predeceases the retiree.

Chapter 4, P.L. 2001 provides increased benefits to certain members of the PERS, PFRS, and CPFPPF who retired prior to December 29, 1989 with at least 25 years of creditable service. The maximum amount of the increase is 5 percent of the retiree's final compensation. For those with 30 or more years of service, the total pension would increase from 65 percent to 70 percent of final compensation.

Due to the enactment of 1997 legislation, Chapter 114, P.L. 1997 and Chapter 115, P.L. 1997, the State of New Jersey's portion of the unfunded accrued liability under each retirement system was eliminated. In addition, excess valuation assets were available to fund, in full or in part, the State of New Jersey's normal contribution from 1997 to 2001, excluding the contribution for post-retirement medical benefits in the PERS and TPAF.

Contribution Requirements

The contribution policy is set by laws of the State of New Jersey and, in most retirement systems, contributions are required by active members and contributing employers. Plan member and employer contributions may be amended by State of New Jersey legislation. The various pension funds provide for employee contributions based on percentages ranging from 3.00 percent to 8.50 percent of employees' annual compensation, as defined. Employers are required to contribute at an actuarially determined rate in all Funds except the SACT, CPF, and PAF. The actuarially determined employer contribution includes funding for cost-of-living adjustments and noncontributory death benefits in the JRS, PFRS, PERS, SPRS, and TPAF. In the PERS and TPAF, the employer contribution includes funding for post-retirement medical premiums.

During the year ended June 30, 2001 for CPFPPF and TPAF, which are cost sharing plans with special funding situations, and for JRS, POPF, and SPRS, which are single employer plans, annual pension cost equals annual required contribution. For PFRS and PERS, which are cost sharing multi-employer defined benefit pension plans, the annual pension cost differs from the annual required contribution due to the enactment of Chapter 114, P.L. 1997.

The annual pension cost for the fiscal year ending June 30, 2001 and related information, including a summary of the significant actuarial methods and assumptions used by the Funds, are presented on the following pages. Note that the assumption regarding post-retirement benefit increases has not been disclosed because post-retirement health care benefits are currently being funded on a modified pay-as-you-go basis and not on an actuarial reserve basis.

| | CPFPE | JRS | PFRS |
|--|-----------------------------------|-----------------------------------|-----------------------------------|
| Annual Pension Cost (APC) | | | |
| State: | | | |
| 06/30/99 | \$ 9,430,849 | \$ 9,558,959 | \$ 23,730,087 |
| 06/30/00 | 12,468,727 | 10,010,428 | 60,521,749 |
| 06/30/01 | 1,347,945 | 9,886,598 | -- |
| Local: | | | |
| 06/30/99 | -- | -- | 256,551,862 |
| 06/30/00 | -- | -- | 214,164,848 |
| 06/30/01 | -- | -- | 75,670,018 |
| Contributions Made | | | |
| State: | | | |
| 06/30/99 | -- | -- | 23,730,087 |
| 06/30/00 | -- | -- | 60,521,749 |
| 06/30/01 | -- | -- | -- |
| Local: | | | |
| 06/30/99 | -- | -- | 256,551,862 |
| 06/30/00 | -- | -- | 214,164,848 |
| 06/30/01 | -- | -- | 75,670,018 |
| Percentage of APC Contributed | | | |
| State: | | | |
| 06/30/99 | 0.0% | 0.0% | 100.0% |
| 06/30/00 | 0.0% | 0.0% | 100.0% |
| 06/30/01 | 0.0% | 0.0% | 100.0% |
| Local: | | | |
| 06/30/99 | -- | -- | 100.0% |
| 06/30/00 | -- | -- | 100.0% |
| 06/30/01 | -- | -- | 100.0% |
| Net Pension Obligation | | | |
| State: | | | |
| 06/30/99 | (15,936,526) | (85,161,823) | -- |
| 06/30/00 | (3,467,799) | (75,151,395) | -- |
| 06/30/01 | (2,119,854) | (65,264,797) | -- |
| Local: | | | |
| 06/30/99 | -- | -- | -- |
| 06/30/00 | -- | -- | -- |
| 06/30/01 | -- | -- | -- |
| Contribution rates | | | |
| State | N/A | 20.2% | 0.0% |
| State-related employers | N/A | N/A | 4.0% |
| Employees | N/A | 3.0% | 8.5% |
| Significant Actuarial Assumptions and Methods | | | |
| Date of actuarial valuation | 6/30/00 | 6/30/00 | 6/30/00 |
| Actuarial cost method | Projected Unit Credit | Projected Unit Credit | Projected Unit Credit |
| Amortization method | Level Dollar Closed | Level Dollar Closed | Level Percent Closed |
| Remaining amortization period | 1 year | 32 years | 31 years |
| Asset valuation method | Five Year Average of Market Value | Five Year Average of Market Value | Five Year Average of Market Value |
| Actuarial assumptions | | | |
| Investment rate of return | 8.75% | 8.75% | 8.75% |
| Projected salary increases | N/A | 5.95% | 5.95% |
| Cost-of-Living Adjustments | N/A | 2.40% | 2.40% |

| | <u>POPF</u> | <u>PERS</u> | <u>SPRS</u> | <u>TPAF</u> |
|--|-----------------------|--------------------------------|--------------------------------|--------------------------------|
| Annual Pension Cost (APC) | | | | |
| State: | | | | |
| 06/30/99 | \$ 2,044,425 | \$ -- | \$ 31,252,513 | \$ 315,444,727 |
| 06/30/00 | 2,148,604 | -- | 33,020,226 | 361,722,446 |
| 06/30/01 | 2,257,482 | -- | 36,063,044 | 77,627,755 |
| Local: | | | | |
| 06/30/99 | -- | 19,599,153 | -- | -- |
| 06/30/00 | -- | 20,541,177 | -- | -- |
| 06/30/01 | -- | 21,670,774 | -- | -- |
| Contributions Made | | | | |
| State: | | | | |
| 06/30/99 | -- | -- | -- | 258,816,649 |
| 06/30/00 | -- | -- | -- | -- |
| 06/30/01 | -- | -- | -- | -- |
| Local: | | | | |
| 06/30/99 | -- | 19,599,153 | -- | -- |
| 06/30/00 | -- | 20,541,177 | -- | -- |
| 06/30/01 | -- | 21,670,774 | -- | -- |
| Percentage of APC Contributed | | | | |
| State: | | | | |
| 06/30/99 | 0.0% | 100.0% | 0.0% | 82.0% |
| 06/30/00 | 0.0% | 100.0% | 0.0% | 0.0% |
| 06/30/01 | 0.0% | 100.0% | 0.0% | 0.0% |
| Local: | | | | |
| 06/30/99 | -- | 100.0% | -- | -- |
| 06/30/00 | -- | 100.0% | -- | -- |
| 06/30/01 | -- | 100.0% | -- | -- |
| Net Pension Obligation | | | | |
| State: | | | | |
| 06/30/99 | (13,939,287) | -- | (14,506,933) | (896,133,432) |
| 06/30/00 | (11,790,683) | -- | 18,513,293 | (534,410,986) |
| 06/30/01 | (9,533,201) | -- | 54,576,337 | (456,783,231) |
| Local: | | | | |
| 06/30/99 | -- | -- | -- | -- |
| 06/30/00 | -- | -- | -- | -- |
| 06/30/01 | -- | -- | -- | -- |
| Contribution rates | | | | |
| State | N/A | 0.0% | 20.2% | 5.6% |
| State-related employers | N/A | 0.5% | N/A | N/A |
| Employees | N/A | 3.0% | 7.5% | 4.5% |
| Significant Actuarial Assumptions and Methods | | | | |
| Date of actuarial valuation | 6/30/00 | 6/30/00 | 6/30/00 | 6/30/00 |
| Actuarial cost method | Projected Unit Credit | Projected Unit Credit | Projected Unit Credit | Projected Unit Credit |
| Amortization method | Level Dollar Closed | Level Percent Closed | Level Dollar Closed | Level Percent Closed |
| Remaining amortization period | 2 years | 32 years | 32 years | 8 years |
| Asset valuation method | Market Value | Five Year Average Market Value | Five Year Average Market Value | Five Year Average Market Value |
| Actuarial assumptions | | | | |
| Investment rate of return | 5.00% | 8.75% | 8.75% | 8.75% |
| Projected salary increases | N/A | 5.95% | 5.95% | 5.95% |
| Cost-of-Living Adjustments | N/A | 2.40% | 2.40% | 2.40% |

The Annual Pension Cost (APC) and Net Pension Obligation (NPO) for the single employer plans and cost sharing plans with special funding situations, which are administered by the State of New Jersey for the fiscal year ending June 30, 2001 are presented below:

| | SINGLE EMPLOYER PLANS | | |
|--|------------------------------|-----------------------|----------------------|
| | JRS | POPF | SPRS |
| Annual Required Contribution, 6/30/01 | \$ 12,816,557 | \$ (1,482,624) | \$ 35,341,259 |
| Interest adjustment on NPO | (6,575,747) | (589,534) | 1,619,913 |
| Adjustment to Annual Required Contribution | 3,645,788 | 4,329,640 | (898,128) |
| APC as of 6/30/01 | <u>9,886,598</u> | <u>2,257,482</u> | <u>36,063,044</u> |
| Total Fiscal Year 2001 Contributions | -- | -- | -- |
| Increase in NPO | 9,886,598 | 2,257,482 | 36,063,044 |
| NPO as of June 30, 2000 | (75,151,395) | (11,790,683) | 18,513,293 |
| NPO as of June 30, 2001 | <u>\$ (65,264,797)</u> | <u>\$ (9,533,201)</u> | <u>\$ 54,576,337</u> |

| | COST SHARING PLANS WITH SPECIAL FUNDING SITUATIONS | | |
|--|---|-------------------------|----------------------------|
| | CPFPF | TPAF | TOTAL ALL PLANS |
| Annual Required Contribution, 6/30/01 | \$ (2,119,854) | \$ -- | \$ 44,555,338 |
| Interest adjustment on NPO | (303,432) | (46,760,961) | (52,609,761) |
| Adjustment to Annual Required Contribution | 3,771,231 | 124,388,716 | 135,237,247 |
| APC as of 6/30/01 | <u>1,347,945</u> | <u>77,627,755</u> | <u>127,182,824</u> |
| Total Fiscal Year 2001 Contributions | -- | -- | -- |
| Increase in NPO | 1,347,945 | 77,627,755 | 127,182,824 |
| NPO as of June 30, 2000 | (3,467,799) | (534,410,986) | (606,307,570) |
| NPO as of June 30, 2001 | <u>\$ (2,119,854)</u> | <u>\$ (456,783,231)</u> | <u>\$ (479,124,746)</u> |

NOTE 17 - POST-RETIREMENT MEDICAL BENEFITS

Chapter 384 of Public Laws 1987 and Chapter 6 of Public Laws 1990 required the Teachers' Pension and Annuity Fund (TPAF) and the Public Employees' Retirement System (PERS), respectively, to fund post-retirement medical benefits for those State employees who retire after accumulating 25 years of credited service or on a disability retirement. As of June 30, 2001, there were 51,482 retirees eligible for post-retirement medical benefits. The cost of these benefits is funded through contributions by the State in accordance with Chapter 62, P.L. 1994. Funding of post-retirement medical premiums changed from a prefunding basis to a pay-as-you-go basis beginning in Fiscal Year 1994 with an additional contribution beginning in Fiscal Year 1996 to maintain a medical reserve of one half of one percent of the active State payroll each year.

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

The State contributed \$85.4 million to the PERS and \$175.6 million to the TPAF in Fiscal Year 2001 for post-retirement medical benefits.

In addition, Chapter 136, P.L. 1977 provides for the State to pay health benefits coverage of retired state employees regardless of retirement date whose pensions are based upon 25 years or more of credited service (except those who elect a deferred retirement) or a disability retirement regardless of years of service. Excluded from these benefits are retirees from the PERS and the TPAF which finance the cost of providing the same health benefits coverage to the retirees.

These benefits are funded by the State on a "pay-as-you-go" basis. For Fiscal Year 2001, the State contributed \$28.5 million for 4,236 eligible retired members.

The State is also responsible for the cost attributable to Chapter 126, P.L. 1992, which provides free health benefits to members of PERS and the Alternate Benefit Program who retired from a board of education or county college with 25 years of service. In Fiscal Year 2001, the State paid \$34.5 million toward Chapter 126 benefits for 6,917 eligible retired members.

NOTE 18 - COMPONENT UNITS - AUTHORITIES

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

The activities of the New Jersey Building Authority and the New Jersey Transportation Trust Fund Authority have been blended into the financial activities of the State as special revenue funds, debt service fund, and general long-term debt account group. All other Authorities have been discretely presented as component units in the State's financial statements in accordance with GASB Statement 14. Accordingly, the statements of these Authorities have been discretely presented in separate columns in the State's financial statements.

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

The Governor, with the approval of the State Senate, appoints the members of the board of most Authorities. Authorities generally submit annual reports to the Governor, the Legislature, and the Comptroller on their operations and finances accompanied by an independent auditor's report thereon. Authorities also submit to the Governor and the Legislature annual budget information on operations and capital construction. The Governor has from time to time exercised the statutory power to veto actions.

Descriptions of the discretely presented Authorities and addresses from which complete financial statements of the respective Authority may be obtained are provided at the conclusion of Note 18. These component units are included in the State's reporting entity because of the significance of their operational or financial relationship with the State.

The following pages represent condensed financial statements for each major discretely presented Authority included in the component unit column in the general purpose financial statements (GPFS). All nonmajor discretely presented Authorities are presented in the aggregate.

**STATE OF NEW JERSEY
CONDENSED BALANCE SHEET
COMPONENT UNITS - AUTHORITIES
JUNE 30, 2001
(Expressed in Thousands)**

| | New Jersey Educational Facilities Authority | New Jersey Health Care Facilities Financing Authority | New Jersey Highway Authority | New Jersey Housing and Mortgage Finance Agency |
|---|--|--|---|---|
| Assets | | | | |
| Current assets | \$ 710,332 | \$ 766,691 | \$ 367,793 | \$ 1,389,468 |
| Receivables, net | 2,282,283 | 3,225,326 | 7,805 | 2,546,558 |
| Fixed assets, net | 283 | 648 | 1,565,030 | 18,592 |
| Amount to be provided for: Bonds and notes | 2,305,858 | 3,878,677 | - | - |
| Total Assets | \$ 5,298,756 | \$ 7,871,342 | \$ 1,940,628 | \$ 3,954,618 |
| Liabilities | | | | |
| Current liabilities | \$ 61,303 | \$ 94,185 | \$ 142,886 | \$ 543,266 |
| Revenue bonds and notes payable | 2,305,858 | 3,878,677 | 621,735 | 2,664,010 |
| Capital leases | - | - | - | - |
| Total Liabilities | 2,367,161 | 3,972,862 | 764,621 | 3,207,276 |
| Fund Equity | | | | |
| Contributed capital | - | - | - | - |
| Investment in general fixed assets | 283 | 648 | - | - |
| Retained earnings | - | - | - | - |
| Reserved | - | - | - | 469,969 |
| Unreserved | - | - | 1,176,007 | 277,373 |
| Fund balances | 2,899,025 | 3,209,341 | - | - |
| Reserved-Other | 32,287 | 688,491 | - | - |
| Unreserved undesignated | - | - | - | - |
| Total Fund Equity | 2,931,595 | 3,898,480 | 1,176,007 | 747,342 |
| Total Liabilities and Fund Equity | \$ 5,298,756 | \$ 7,871,342 | \$ 1,940,628 | \$ 3,954,618 |

**STATE OF NEW JERSEY
CONDENSED BALANCE SHEET
COMPONENT UNITS - AUTHORTIES
JUNE 30, 2001
(Expressed in Thousands)**

| | New Jersey Transit Corporation | New Jersey Turnpike Authority | All Other Component Units Authorities | Total Component Units Authorities |
|--|---|--|--|--|
| Assets | | | | |
| Current assets | \$ 3,124,903 | \$ 1,341,140 | \$ 2,412,491 | \$ 10,112,818 |
| Receivables, net | 102,061 | 19,805 | 2,596,188 | 10,780,026 |
| Fixed assets, net | 4,905,796 | 3,392,346 | 1,599,149 | 11,481,844 |
| Amount to be provided for: | | | | |
| Bonds and notes | - | - | 864,061 | 7,048,596 |
| Total Assets | \$ 8,132,760 | \$ 4,753,291 | \$ 7,471,889 | \$ 39,423,284 |
| Liabilities | | | | |
| Current liabilities | \$ 748,899 | \$ 100,444 | \$ 935,005 | \$ 2,625,988 |
| Revenue bonds and notes payable | 2,475,655 | 3,430,154 | 4,197,322 | 19,573,411 |
| Capital leases | 1,279,607 | - | - | 1,279,607 |
| Total Liabilities | 4,504,161 | 3,530,598 | 5,132,327 | 23,479,006 |
| Fund Equity | | | | |
| Contributed capital | 3,758,396 | - | 237,301 | 3,995,697 |
| Investment in general fixed assets | - | - | 1,492 | 2,423 |
| Retained earnings: | | | | |
| Reserved | - | 85,103 | 148,176 | 703,248 |
| Unreserved | (129,797) | 1,137,590 | 604,790 | 3,065,963 |
| Fund balances | | | | |
| Reserved-Other | - | - | 399,534 | 6,507,900 |
| Unreserved undesignated | - | - | 948,269 | 1,669,047 |
| Total Fund Equity | 3,628,599 | 1,222,693 | 2,339,562 | 15,944,278 |
| Total Liabilities and Fund Equity | \$ 8,132,760 | \$ 4,753,291 | \$ 7,471,889 | \$ 39,423,284 |

STATE OF NEW JERSEY
CONDENSED STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE
COMPONENT UNITS - AUTHORITIES
FOR FISCAL YEAR ENDED JUNE 30, 2001
(Expressed in Thousands)

Governmental Fund Type

| | New Jersey Educational Facilities Authority | New Jersey Health Care Facilities Financing Authority | All Other Component Units Authorities | Total Component Units Authorities |
|---|--|--|--|--|
| Revenues | | | | |
| Operating | \$ 654,001 | \$ 497,412 | \$ 204,382 | \$ 1,355,795 |
| Expenditures | | | | |
| Current | 283,103 | 266,113 | 82,688 | 631,904 |
| Debt service | 281,228 | 296,009 | 102,787 | 680,024 |
| Total Expenditures | <u>564,331</u> | <u>562,122</u> | <u>185,475</u> | <u>1,311,928</u> |
| Operating Income (Loss) | 89,670 | (64,710) | 18,907 | 43,867 |
| Other Financing Sources | <u>617,680</u> | <u>301,801</u> | <u>98,776</u> | <u>1,018,257</u> |
| Net Increase (Decrease) in Fund Balance for the Year | 707,350 | 237,091 | 117,683 | 1,062,124 |
| Fund Balance Beginning of Year | <u>2,223,962</u> | <u>3,660,741</u> | <u>1,230,119</u> | <u>7,114,822</u> |
| Fund Balance End of Year | <u><u>\$ 2,931,312</u></u> | <u><u>\$ 3,897,832</u></u> | <u><u>\$ 1,347,802</u></u> | <u><u>\$ 8,176,946</u></u> |

**CONDENSED STATEMENT OF REVENUES, EXPENSES
AND CHANGES IN RETAINED EARNINGS/FUND EQUITY
COMPONENT UNITS - AUTHORITIES
FOR FISCAL YEAR ENDED JUNE 30, 2001
(Expressed in Thousands)**

Proprietary Fund Types

| | New Jersey Highway Authority | New Jersey Housing and Mortgage Finance Agency | New Jersey Transit Corporation |
|--|---|---|---|
| Operating Revenues | \$ 223,468 | \$ 254,756 | \$ 535,630 |
| Operating Expenses | | | |
| Depreciation and amortization | 24,850 | 4,097 | 225,855 |
| Other | 108,894 | 197,957 | 1,045,104 |
| Operating Income (Loss) | 89,724 | 52,702 | (735,329) |
| Governmental subsidies and grants | (10,000) | - | 530,085 |
| Capital contribution | - | - | 683,345 |
| Other nonoperating revenues (expenses) | (21,922) | (4,525) | (31,276) |
| Net Income | 57,802 | 48,177 | 446,825 |
| Retained Earnings/Fund Equity Beginning of Year | 1,118,205 | 699,165 | 3,181,774 |
| Retained Earnings/Fund Equity End of Year | \$ 1,176,007 | \$ 747,342 | \$ 3,628,599 |

STATE OF NEW JERSEY
CONDENSED STATEMENT OF REVENUES, EXPENSES
AND CHANGES IN RETAINED EARNINGS/FUND EQUITY
COMPONENT UNITS - AUTHORITIES
FOR FISCAL YEAR ENDED JUNE 30, 2001
(Expressed in Thousands)

Proprietary Fund Types

| | New Jersey Turnpike Authority | All Other Component Units Authorities | Total Component Units Authorities |
|--|--|--|--|
| Operating Revenues | \$ 424,843 | \$ 453,284 | \$ 1,891,981 |
| Operating Expenses | | | |
| Depreciation and amortization | 32,202 | 62,137 | 349,141 |
| Other | 172,997 | 346,041 | 1,870,993 |
| Operating Income (Loss) | 219,644 | 45,106 | (328,153) |
| Governmental subsidies and grants | (12,000) | 123,816 | 631,901 |
| Capital contribution | - | 47,005 | 730,350 |
| Other nonoperating revenues (expenses) | (132,076) | (101,165) | (290,964) |
| Net Income | 75,568 | 114,762 | 743,134 |
| Retained Earnings/Fund Equity Beginning of Year | 1,147,125 | 875,849 | 7,022,118 |
| Retained Earnings/Fund Equity End of Year | \$ 1,222,693 | \$ 990,611 | \$ 7,765,252 |

A. Cash and Cash Equivalents

Governmental Accounting Standards Board Statement 3 requires the bank balances of deposits to be categorized to indicate the level of risk assumed by the entity. Category 1 consists of deposits that are insured or collateralized with securities held by the entity or by its agent in the entity's name. Category 2 consists of deposits collateralized with securities held by the pledging financial institution's trust department or agent in the entity's name. Category 3 consists of deposits which are uncollateralized.

The Component Units - Authorities generally classify as cash and cash equivalents, all highly liquid investments with an original maturity of three months or less.

Cash and cash equivalents are categorized below for all discretely presented Authorities (expressed in thousands):

| | <u>Category 1</u> | <u>Category 2</u> | <u>Category 3</u> | <u>Total Bank Balance</u> | <u>Total Carrying Balance</u> |
|--|-------------------|-------------------|-------------------|-----------------------------------|---------------------------------------|
| Cash | \$ 9,983 | \$ 103,314 | \$ 47,095 | \$ 160,392 | \$ 122,480 |
| Certificates of deposits and related items | - | 413,475 | 232,006 | 645,481 | 645,477 |
| Total | <u>\$ 9,983</u> | <u>\$ 516,789</u> | <u>\$ 279,101</u> | <u>\$ 805,873</u> | <u>\$ 767,957</u> |

Cash and cash equivalents for proprietary and governmental component units total \$265.9 million and \$502.1 million, respectively.

B. Investments

The Authorities primarily invest in U.S. Government Securities, other Government bonds and securities, and mortgage backed certificates. Governmental Accounting Standards Board Statement 3 requires investments to be categorized to indicate the level of risk assumed by the entity. Category 1 consists of investments that are insured or registered or for which the securities are held by the entity or its agent in the entity's name. Category 2 consists of uninsured and unregistered investments for which the securities are held by the counterparty's trust department or agent in the entity's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty's trust department or agent but not in the entity's name. Investments are categorized below for all discretely presented Authorities (expressed in thousands):

| | <u>Carrying Amount</u> | | | <u>Fair Value</u> | <u>Cost</u> |
|--|------------------------|-------------------|---------------------|-----------------------|---------------------|
| | <u>Category 1</u> | <u>Category 2</u> | <u>Category 3</u> | | |
| Government bonds and obligations | \$ 130,112 | \$ 604,834 | \$ 2,504,965 | \$ 3,239,911 | \$ 3,240,973 |
| Repurchase agreements | 423,844 | 91,446 | 1,384,799 | 1,900,089 | 1,900,090 |
| Other | 200 | 40,746 | 1,754,399 | 1,795,345 | 1,793,921 |
| Participation in State of New Jersey Cash Management Fund | 1,767,536 | - | - | 1,767,536 | 1,767,536 |
| Investments subject to risk categorization | <u>\$ 2,321,692</u> | <u>\$ 737,026</u> | <u>\$ 5,644,163</u> | 8,702,881 | 8,702,520 |
| Annuity contracts | | | | 188,187 | 188,187 |
| Total reported as investments | | | | <u>\$ 8,891,068</u> | <u>\$ 8,890,707</u> |

C. Receivables

Other receivables which primarily represent notes receivable due from various companies or individuals include the following: Casino Reinvestment Development Authority (\$153.8 million), the New Jersey Economic Development Authority (\$1.5 billion), the New Jersey Environmental Infrastructure Trust (\$553.9 million), and the New Jersey Transit Corporation (\$102.1 million).

D. Fixed Assets

A summary reflecting changes in the discretely presented Authorities fixed assets and the resulting June 30, 2001 balances follows (expressed in thousands):

| | Balance | | | Balance |
|----------------------------|----------------------|---------------------|-------------------|----------------------|
| | July 1, 2000* | Additions | Deductions | June 30, 2001 |
| Land | \$ 960,474 | \$ 2,767 | \$ 194 | \$ 963,047 |
| Land improvements | 4,176,488 | 189,290 | 60,823 | 4,304,955 |
| Buildings and improvements | 2,016,194 | 31,183 | 30,102 | 2,017,275 |
| Machinery and equipment | 1,732,736 | 1,268 | 15,285 | 1,718,719 |
| Construction in progress | 1,691,587 | 792,285 | 6,023 | 2,477,849 |
| Total | \$ 10,577,479 | \$ 1,016,793 | \$ 112,427 | \$ 11,481,845 |

*As restated.

Depreciation Method

Depreciation is calculated using the straight line method over the following useful life:

| | |
|-------------------------|---------------|
| Land improvements | 10 - 100 yrs. |
| Buildings | 15 - 60 yrs. |
| Machinery and equipment | 2 - 25 yrs. |

The following table reflects the accumulated depreciation for the major classes of fixed assets reported by the discretely presented Authorities which use proprietary fund accounting (expressed in thousands):

| | |
|----------------------------|---------------------|
| | Accumulated |
| | Depreciation |
| Land improvements | \$ 300,271 |
| Buildings and improvements | 1,076,022 |
| Machinery and equipment | 1,720,652 |
| Total | \$ 3,096,945 |

E. Long-Term Obligations

A summary of long-term obligations for the discretely presented Authorities at June 30, 2001 is shown below (expressed in thousands):

| | <u>Proprietary</u> |
|--|----------------------|
| Revenue bonds and notes | \$ 12,042,395 |
| Capital leases and installment obligations | 1,279,607 |
| | <hr/> |
| Total Long-Term Debt | \$ 13,322,002 |
| | <hr/> <hr/> |
| | Governmental |
| | <hr/> |
| Revenue bonds and notes | \$ 7,531,015 |
| | <hr/> |
| Total Long-Term Debt | \$ 7,531,015 |
| | <hr/> <hr/> |

Certain Authorities issue their own revenue bonds and bond anticipation notes. Bond anticipation notes are generally repaid from the proceeds of revenue bonds to be issued from renewal of the notes, Federal or State aid, or other sources relative to the purpose of the issuance. Revenue bonds, except as disclosed, are not obligations of the State of New Jersey. The State of New Jersey has entered into an agreement with the New Jersey Economic Development Authority whereby the State has agreed to annually pay to the Economic Recovery Fund, maintained by the Authority, an amount equivalent to the amount due to the State each year by the Port Authority of New York and New Jersey pursuant to the regional economic development agreement subject to and dependent upon appropriations being made for such purposes by the State Legislature.

1. Debt Service Payments

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

| <u>Fiscal Year</u> | <u>Proprietary</u> <u>Funds</u> | <u>Governmental</u> <u>Funds</u> |
|--|------------------------------------|-------------------------------------|
| | <hr/> | <hr/> |
| First | \$ 895,012 | \$ 591,192 |
| Second | 1,041,889 | 615,181 |
| Third | 1,182,419 | 622,929 |
| Fourth | 1,035,927 | 628,164 |
| Fifth | 999,651 | 633,344 |
| Thereafter | 14,624,310 | 10,330,541 |
| | <hr/> | <hr/> |
| Total minimum debt service payments | 19,779,208 | 13,421,351 |
| Less: Amount representing interest | (7,738,715) | (5,897,291) |
| | <hr/> | <hr/> |
| Present value of debt service payments | \$ 12,040,493 | \$ 7,524,060 |
| | <hr/> <hr/> | <hr/> <hr/> |

2. Changes in Long Term Debt

The following schedule represents the changes in the discretely presented Authorities long term debt (expressed in thousands):

| | <u>Proprietary Funds</u> | | | <u>Outstanding June 30, 2001</u> |
|--|--------------------------------------|---------------------|---------------------|--------------------------------------|
| | <u>Outstanding July 1, 2000*</u> | <u>Additions</u> | <u>Deductions</u> | |
| Revenue bonds and notes | \$ 10,012,383 | \$ 2,964,987 | \$ 934,975 | \$ 12,042,395 |
| Capital leases and installment obligations | 1,182,483 | 255,690 | 158,566 | 1,279,607 |
| Total | <u>\$ 11,194,866</u> | <u>\$ 3,220,677</u> | <u>\$ 1,093,541</u> | <u>\$ 13,322,002</u> |

| | <u>Governmental Funds</u> | | | <u>Outstanding June 30, 2001</u> |
|-------------------------|--------------------------------------|---------------------|-------------------|--------------------------------------|
| | <u>Outstanding July 1, 2000*</u> | <u>Additions</u> | <u>Deductions</u> | |
| Revenue bonds and notes | \$ 6,617,922 | \$ 1,213,287 | \$ 300,194 | \$ 7,531,015 |
| Total | <u>\$ 6,617,922</u> | <u>\$ 1,213,287</u> | <u>\$ 300,194</u> | <u>\$ 7,531,015</u> |

*As restated.

3. Capital Lease and Installment Obligations

The following is a schedule by fiscal year of future minimum lease payments under capital leases together with the present value of the net minimum lease payments as of June 30, 2001 (expressed in thousands):

| <u>Fiscal Year</u> | <u>Proprietary Funds</u> |
|---|------------------------------|
| First | \$ 151,152 |
| Second | 115,994 |
| Third | 116,832 |
| Fourth | 121,890 |
| Fifth | 134,007 |
| Thereafter | 1,842,575 |
| Total minimum lease payments | 2,482,450 |
| Less: Amount representing interest | (1,202,843) |
| Present value of lease principal payments | <u>\$ 1,279,607</u> |

F. Fund Balance/Retained Earnings-Reserved-Other

The following significant fund balances have been reserved:

Casino Reinvestment Development Authority

The reserve of \$141.7 million represents \$73.1 million reserved for temporarily restricted assets, \$60.6 million for project costs, and \$8.0 million for debt service.

New Jersey Educational Facilities Authority

The reserve of \$2.9 billion represents \$600 million reserved for debt service and construction projects and \$2.3 billion reserved for mortgage receivables.

New Jersey Environmental Infrastructure Trust

An amount of \$170.0 million is reserved for debt service payments.

New Jersey Health Care Facilities Financing Authority

An amount of \$3.2 billion is reserved for mortgage receivables.

New Jersey Housing and Mortgage Finance Agency

The reserve of \$470.0 million includes \$278.4 million reserved in accordance with the Agency's bond resolution and \$191.6 million reserved for their administrative fund.

G. Subsequent Events

Subsequent to June 30, 2001, the Casino Reinvestment Development Authority issued bonds in the amount of \$77.9 million, the New Jersey Educational Facilities Authority issued bonds in the amount of \$161.2 million, the New Jersey Housing and Mortgage Finance Agency issued bonds in the amount of \$109.3 million, the New Jersey Highway Authority issued bonds in the amount of \$243.1 million, and the New Jersey Transportation Trust Fund Authority issued bonds in the amount of \$325.0 million.

H. Description of Authorities

Casino Reinvestment Development Authority (N.J.S.A. 5:12-153)
1014 Atlantic Avenue
Atlantic City, New Jersey 08401
Fiscal Year Ending December 31, 2000

The Authority was created in 1984 to maintain public confidence in the casino gaming industry as a tool of urban redevelopment throughout New Jersey and to directly facilitate the redevelopment of blighted areas by providing eligible projects in which licensees (casinos) can invest. The Authority encourages investment in, or financing of, projects which are made as part of a comprehensive plan to improve blighted areas or are targeted to benefit low through middle income residents. The Authority is also responsible for promoting the tourist industry in New Jersey, especially in Atlantic County.

Hackensack Meadowlands Development Commission (N.J.S.A. 13:17-5)
1 De Korte Park Plaza
Lyndhurst, New Jersey 07071
Fiscal Year Ending December 31, 2000

The Hackensack Meadowlands Development Commission is a body corporate and politic established within the Department of Community Affairs under the provisions of the Hackensack Meadowlands Reclamation and Development Act of 1968. Pursuant to the Act, the Commission is authorized and empowered to be the planning and zoning agency for the reclaiming, planning, development, redevelopment, and enhancement, including open space acquisition of the 19,730 acre Meadowlands District.

The District consists of waterways, tidal flow lands, woodlands, marsh, and meadows contained within portions of fourteen municipalities and two counties; Bergen and Hudson. Through the issuance, if needed, of tax-exempt bonds and notes, the Commission is able to raise needed funds.

New Jersey Commerce and Economic Growth Commission (P.L. 1998, c.44)
20 West State Street
P.O. Box 820
Trenton, New Jersey 08625-0820
Fiscal Year Ending June 30, 2001

In accordance with P.L. 1998, c.44 the Department of Commerce and Economic Development, the principal economic development department in the Executive Branch of State Government, was abolished and the New Jersey Commerce and Economic Growth Commission ("Commission") was created. Its mission is to serve as the lead agency for promoting job growth, business growth, and economic development in New Jersey. The core competencies required to achieve its mission are to retain and create private sector jobs, increase small businesses, woman, and minority business participation in the State's economic mainstream, and facilitate economic development activities throughout the State.

New Jersey Development Authority for Small Businesses, Minorities' and Women's Enterprises (N.J.S.A. 34:1B-49)
36 West State Street
P.O. Box 990
Trenton, New Jersey 08625
Fiscal Year Ending December 31, 2000

The New Jersey Development Authority for Small Businesses, Minorities' and Women's Enterprise was established as a public body corporate and politic of the State, pursuant to Chapter 386 of P.L. 1985. The Authority was established to provide financial assistance to small businesses and businesses owned by minorities and women in order to encourage entrepreneurship within these groups.

New Jersey Economic Development Authority (N.J.S.A. 34:1B-4)
36 West State Street
P.O. Box 990
Trenton, New Jersey 08625
Fiscal Year Ending December 31, 2000

The New Jersey Economic Development Authority, created in 1974 as a public body corporate and politic, is authorized to arrange long-term, low-interest financing, and other forms of assistance to private firms and companies for the purpose of maintaining and expanding employment opportunities and enlarging the tax base of state and local governments in the State of New Jersey.

New Jersey Educational Facilities Authority (N.J.S.A. 18A:72A-4)
101 College Road East
Princeton, New Jersey 08540-6601
Fiscal Year Ending December 31, 2000

The New Jersey Educational Facilities Authority was established in 1966 to provide a means for New Jersey public and independent colleges and universities to construct additional facilities through the financial resources of a public authority empowered to sell its debt instruments (bonds, notes, and other obligations). The Authority may finance academic and auxiliary facilities for the public and independent institutions of higher education.

New Jersey Environmental Infrastructure Trust (N.J.S.A. 58:11B-4)
3131 Princeton Pike - Building 6
P. O. Box 440
Trenton, New Jersey 08625
Fiscal Year Ending June 30, 2001

The New Jersey Environmental Infrastructure Trust established in, but not of, the Department of Environmental Protection in 1985, is a body corporate and politic, with corporate succession. The purpose of the Trust is to make loans and guarantee debt incurred by local government units in financing the cost of wastewater treatment system projects.

The Trust may from time to time issue bonds, notes, or other obligations in any principal amounts that the Trust deems necessary, up to an aggregate principal amount of \$600 million, in order to provide sufficient funds to carry out its purpose.

New Jersey Health Care Facilities Financing Authority (N.J.S.A. 26:2I-4)
Station Plaza Bldg. #4
South Clinton and Yard Avenue
P.O. Box 366
Trenton, New Jersey 08625
Fiscal Year Ending December 31, 2000

The New Jersey Health Care Facilities Financing Authority, established in 1972 as a public body corporate and politic of the State, provides low-cost capital financing for the public and private not-for-profit health care institutions of the State.

New Jersey Higher Education Student Assistance Authority (N.J.S.A. 18A:71A-1 et. seq.)
P.O. Box 540
Trenton, New Jersey 08625-0540
Fiscal Year Ending June 30, 2001

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

New Jersey Highway Authority (N.J.S.A. 27:12B-4)
Executive Offices
Garden State Parkway
Woodbridge, New Jersey 07095
Fiscal Year Ending December 31, 2000

The New Jersey Highway Authority, created in 1952 as a body corporate and politic, is authorized to acquire, construct, operate, and maintain highway projects (specifically the toll portions of the Garden State Parkway) with the provision that the Governor shall have the right to veto any action, except collective bargaining; and that the approval of the Governor and State Treasurer or Comptroller shall be required prior to adoption of any bond resolution or revision of tolls. The Authority has also been responsible for construction and maintenance of the PNC Arts Center.

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
Fiscal Year Ending June 30, 2001

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

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

New Jersey Redevelopment Authority (N.J.S.A 55:19-1)
225 East State Street
P. O. Box 790
Trenton, New Jersey 08625
Fiscal Year Ending December 31, 2000

The New Jersey Redevelopment Authority was created pursuant to Chapter 62 of P.L. 1996, effective July 13, 1996, to provide assistance in the redevelopment and revitalization of New Jersey cities. The Authority is to provide financial, managerial, and technical assistance to persons, firms, or corporations that wish to undertake industrial, commercial, or civic projects within qualified municipalities.

New Jersey Sports and Exposition Authority (N.J.S.A. 5:10-4)
50 Route 120
East Rutherford, New Jersey 07073
Fiscal Year Ending December 31, 2000

The New Jersey Sports and Exposition Authority, established in 1971 as a public body corporate and politic with corporate succession, has been responsible for the financing, construction, and management of the Meadowlands Racetrack and Giants Stadium, both of which opened in 1976, and the Continental Airlines Arena which opened in July, 1981. The Authority is charged with the responsibility to own, operate, and build various facilities, located in the State of New Jersey, including the Atlantic City Convention Center Authority, for athletic and entertainment events, trade shows, and other expositions, and is authorized to issue bonds and notes and to provide the terms and security thereof.

New Jersey Transit Corporation (N.J.S.A. 27:25-1)
One Penn Plaza East
Newark, New Jersey 07105
Fiscal Year Ending June 30, 2001

New Jersey Transit Corporation (NJ TRANSIT) was created by the New Jersey Public Transportation Act of 1979 and is empowered to acquire, own, operate, and contract for the operation of public transportation services.

NJ TRANSIT receives operating subsidies principally from the State of New Jersey by legislative appropriation and the Federal Government by defined formula grants under the Urban Mass Transportation Administration (UMTA). These government grants are used to support the operation of public transportation services.

NJ TRANSIT provides these services through the operation of bus and commuter rail subsidiaries. NJ TRANSIT also contracts with several motor bus carriers for certain transportation services. Under these contracts, NJ TRANSIT has the right to set fares and coordinate service levels and schedules. In addition, NJ TRANSIT contracts with the National Railroad Passenger Corporation (Amtrak) for the maintenance of certain NJ TRANSIT rolling stock and the use of Amtrak's northeast corridor, including propulsion costs and the cost of maintaining right-of-way.

New Jersey Turnpike Authority (N.J.S.A. 27:23-3)
P. O. Box 1121
New Brunswick, New Jersey 08903
Fiscal Year Ending December 31, 2000

The New Jersey Turnpike Authority, created as a body corporate and politic by the New Jersey Turnpike Authority Act of 1948, is authorized to construct, maintain, repair, and operate turnpike projects at locations established by law. Furthermore, the Authority may issue turnpike revenue bonds or notes of the Authority, subject to prior approval by the Governor and by either or both the State Treasurer and Comptroller, payable solely from tolls and other revenues of the Authority.

New Jersey Water Supply Authority (N.J.S.A. 58:1B-4)
P. O. Box 5196
Clinton, New Jersey 08809
Fiscal Year Ending June 30, 2001

The New Jersey Water Supply Authority, created in 1981 as a public body corporate and politic, is authorized to acquire, finance, construct, and operate water supply systems. The Authority currently operates and maintains the Delaware and Raritan Canal and the Spruce Run/Round Valley Reservoir water supply system.

The Authority may, upon the request of a municipality, county, the State, or agencies thereof, enter into a contract to provide services for any water system project. All projects undertaken by the Authority shall conform to the recommendations of the New Jersey Statewide Water Supply Plan. Bonds of the Authority may be issued to finance these projects and the debt service on the bonds is payable from the revenues and other funds of the Authority.

**South Jersey Port Corporation (N.J.S.A. 12:11A-1)
Second and Beck Streets
Camden, New Jersey 08104
Fiscal Year Ending December 31, 2000**

The South Jersey Port Corporation, established as a public body corporate and politic of the State, was created in 1968 by the South Jersey Port Corporation Act. The Act conferred upon the Corporation the powers to establish, acquire, construct, rehabilitate, improve, operate, and maintain marine terminals in the South Jersey Port District, including Mercer, Burlington, Camden, Gloucester, Salem, Cumberland, and Cape May counties. To this end, the Corporation may issue tax-exempt revenue bonds subject to the provisions and restrictions of the Marine Terminal Revenue Bond Resolution adopted November 30, 1970, 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
Fiscal Year Ending December 31, 2000**

The South Jersey Transportation Authority created in 1992 is authorized and empowered to acquire, construct, maintain, operate, and support expressway and transportation projects including the Atlantic County International Airport. The Authority may issue revenue bonds or notes of the Authority subject to prior approval by the Governor and by either or both the State Treasurer and Comptroller, payable solely from tolls and other revenues of the Authority.

NOTE 19 - COMPONENT UNITS - COLLEGE AND UNIVERSITY FUNDS

Effective July 1, 1987, State colleges, whose revenues and expenditures were previously accounted for in the General Fund of the State of New Jersey, were given autonomous status as a result of Chapters 42 and 88 of Public Law of 1988.

The financial statements of the colleges and universities have been prepared in accordance with the American Institute of Certified Public Accountants' "Industry Audit Guide - Audits of Colleges and Universities" and Governmental Accounting Standards Board (GASB) Statement 14, "The Financial Reporting Entity." These component units are included in the State's reporting entity because of the significance of their operational or financial relationships with the State and fiscal dependency on the State. The colleges and universities are funded through State appropriations, tuition, federal grants, and private donations and grants. Because the colleges and universities are similar in nature and function, their statements have been discretely presented in a separate column in the combined balance sheet. Additionally, the statement of changes in fund balances and statement of current funds revenues, expenditures and other changes have been presented in separate statements. The financial statements do not include the financial activity related to foundations and similar organizations within the colleges and universities, except for New Jersey Institute of Technology and Rutgers, The State University of New Jersey. Because of their significant operational and fiscal relationship with the universities, these foundations are presented as component units of the universities.

Addresses and web-sites of the colleges and universities are provided at the conclusion of this note.

A. Fund Accounting

The financial activities of the colleges and universities are recorded in funds which classify various transactions by specified activities or objectives. Fund balances of such funds are primarily reported as reserved for higher education programs, cost of investment in facilities, and undesignated. The financial statements presented here are an aggregation of the various fund types. Data regarding these funds can be obtained in the audit reports of the individual colleges and universities for the year ended June 30, 2001.

B. Restatements

The beginning fund balances for the following funds have been restated as follows:

| | <u>Change</u> | <u>Amount</u> | <u>College / University</u> |
|--------------|-----------------|---------------|--|
| Unrestricted | Net decrease of | \$ 49,913 | Montclair State University |
| | Net increase of | 23,545,000 | University of Medicine and Dentistry of New Jersey |
| Restricted | Net increase of | 8,344,000 | Rutgers, The State University of New Jersey |
| | Net decrease of | 9,440,000 | University of Medicine and Dentistry of New Jersey |
| Plant | Net increase of | 9,163,875 | Montclair State University |
| | Net decrease of | 13,767,000 | University of Medicine and Dentistry of New Jersey |
| Proprietary | Net increase of | 56,799,000 | University of Medicine and Dentistry of New Jersey |

The change in fund balance for Montclair State University was due to an increase in Construction in Progress for amounts which had been recorded as expended for plant facilities in previous years.

The change in fund balance for Rutgers, The State University of New Jersey resulted from the adoption of GASB Statement No. 33, "Accounting and Financial Reporting for Nonexchange Transactions."

The change in fund balance for the University of Medicine and Dentistry of New Jersey was primarily due to the adoption of GASB Statement No. 36, "Recipient Reporting for Certain Shared Nonexchange Revenues" an amendment to GASB Statement No. 33.

C. Cash and Cash Equivalents

Governmental Accounting Standards Board Statement 3 requires the bank balances of deposits to be categorized to indicate the level of risk assumed by the entity. Category 1 consists of deposits that are insured or collateralized with securities held by the entity or by its agent in the entity's name. Category 2 consists of deposits collateralized with securities held by the pledging financial institution's trust department or agent in the entity's name. Category 3 consists of deposits which are uncollateralized.

Cash and cash equivalents are categorized below for all college and university funds (expressed in millions):

| | <u>Category 1</u> | <u>Category 2</u> | <u>Category 3</u> | <u>Total Bank Balance</u> | <u>Total Carrying Balance</u> |
|---|-------------------|-------------------|-------------------|-----------------------------------|---------------------------------------|
| Cash | \$ 49.8 | \$ - | \$ 9.9 | \$ 59.7 | \$ 95.9 |
| Cash with fiscal agents | 34.4 | 22.1 | 0.5 | 57.0 | 57.5 |
| Certificates of deposit and related items | 1.5 | 7.2 | 238.8 | 247.5 | 247.4 |
| Total | <u>\$ 85.7</u> | <u>\$ 29.3</u> | <u>\$ 249.2</u> | <u>\$ 364.2</u> | <u>\$ 400.8</u> |

The following state colleges and universities had negative cash balances at June 30, 2001. These amounts have been reclassified and are presented as accounts payable by fund as follows:

| <u>Fund</u> | <u>College / University</u> | <u>Amount</u> |
|--------------|--|---------------|
| Unrestricted | The College of New Jersey | \$ 290,000 |
| | The William Paterson University of New Jersey | 928,314 |
| | Rowan University | 733,725 |
| | The Richard Stockton College of New Jersey | 26,780,437 |
| | University of Medicine and Dentistry of New Jersey | 2,726,000 |
| Restricted | University of Medicine and Dentistry of New Jersey | 32,837,000 |
| Plant | Kean University | 1,356,000 |
| | The William Paterson University of New Jersey | 67,151 |
| | University of Medicine and Dentistry of New Jersey | 19,756,000 |
| Student Loan | The William Paterson University of New Jersey | 5,932 |
| | University of Medicine and Dentistry of New Jersey | 122,000 |
| Endowment | The William Paterson University of New Jersey | 162,462 |
| | University of Medicine and Dentistry of New Jersey | 77,000 |

D. Investments

All 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.

Donated securities are carried at fair value at the date of gift. Governmental Accounting Standards Board Statement 3 requires investments to be categorized to indicate the level of risk assumed by the entity. Category 1 consists of investments that are insured or registered or for which the securities are held by the entity or its agent in the entity's name. Category 2 consists of uninsured and unregistered investments for which the securities are held by the counterparty's trust department or agent in the entity's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty or by its trust department or agent but not in the entity's

name. Investments of the colleges and universities are in accordance with the statutes of the State of New Jersey (see Note 4), regulations of governing boards, or applicable limitations set forth in gift instruments. Investments for all colleges and universities are detailed as follows (expressed in millions):

| | <u>Category 1</u> | <u>Category 2</u> | <u>Category 3</u> | <u>Fair Value</u> | <u>Cost</u> |
|---|-------------------|-------------------|-------------------|-------------------|-------------|
| Government and other | \$ 534.5 | \$ 185.0 | \$ - | \$ 719.5 | \$ 715.3 |
| Repurchase agreements | 76.3 | - | - | 76.3 | 76.3 |
| Industrial bonds and commercial paper | 43.1 | 1.0 | - | 44.1 | 42.6 |
| Telephone bonds | - | 0.2 | - | 0.2 | 0.2 |
| Financial companies - senior debt | 58.5 | 10.5 | - | 69.0 | 68.4 |
| Common stock | 229.3 | 19.3 | 0.1 | 248.7 | 237.1 |
| Other | 5.3 | 10.4 | - | 15.7 | 15.6 |
| | <hr/> | <hr/> | <hr/> | | |
| Investments subject to risk categorization | \$ 947.0 | \$ 226.4 | \$ 0.1 | 1,173.5 | 1,155.5 |
| | <hr/> | <hr/> | <hr/> | | |
| Participation in State of New Jersey Cash Management Fund | | | | 274.8 | 274.8 |
| | | | | <hr/> | <hr/> |
| Total reported as investments | | | | \$ 1,448.3 | \$ 1,430.3 |
| | | | | <hr/> | <hr/> |

E. Patient Service Revenue

Patient service revenue, which was \$476.6 million during Fiscal Year 2001, is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors.

F. Departmental Receivables

An allowance for doubtful receivables is provided for estimated losses expected to be incurred in collection. The estimated losses are based on historical collection experience and a review of the status of existing receivables.

G. Fixed Assets

Fixed assets are stated principally at cost at date of acquisition or fair value at date of donation in the case of gifts. Rutgers, The State University of New Jersey and the University of Medicine and Dentistry of New Jersey have elected to record depreciation in accordance with FASB Statement No. 93, "Recognition of Depreciation by Not-for-Profit Organizations" (expressed in millions):

| | <u>Amount</u> |
|--------------------------------|-------------------|
| Land | \$ 98.2 |
| Land improvements | 132.1 |
| Building and improvements | 3,366.1 |
| Machinery and equipment | 1,226.3 |
| Construction in progress | 301.1 |
| | <hr/> |
| Total Fixed Assets | 5,123.8 |
| Less: Accumulated depreciation | 1,361.0 |
| | <hr/> |
| Total Net Fixed Assets | \$ 3,762.8 |
| | <hr/> |

H. Pension and Retirement Benefits

Retirement benefits for the majority of eligible full-time employees are provided under various pension agreements, namely the Public Employees' Retirement System (Note 16), the Teachers' Pension and Annuity Fund, and the Teachers' Insurance and Annuity Association - College and Retirement Equities Fund. Under these arrangements, the plan participants make annual contributions and the State provides the employer portion of the contribution directly. Contributions made by the State in Fiscal Year 2001 amounted to \$64.8 million. In addition to the above major plans, some employees of most of the colleges and universities are covered under the Police and Fireman's Retirement System and some employees of the University of Medicine and Dentistry of New Jersey are covered under retirement systems of the City of Newark. A summary of the State contribution is as follows (expressed in millions):

| <u>College / University</u> | <u>State Contribution</u> |
|--|---------------------------|
| The College of New Jersey | \$ 2.9 |
| Kean University | 1.6 |
| Montclair State University | 3.2 |
| New Jersey City University | 2.3 |
| New Jersey Institute of Technology | 3.8 |
| The William Paterson University of New Jersey | 2.8 |
| Ramapo College of New Jersey | 1.9 |
| Rowan University | 1.9 |
| Rutgers, The State University of New Jersey | 21.7 |
| The Richard Stockton College of New Jersey | 2.4 |
| University of Medicine and Dentistry of New Jersey | 20.3 |
| Total | <u>\$ 64.8</u> |

I. Notes Payable

A summary of notes payable as of June 30, 2001 is as follows (expressed in millions):

| <u>College / University</u> | <u>Amount</u> |
|---|---------------|
| Montclair State University | \$ 1.9 |
| New Jersey Institute of Technology | 1.9 |
| Ramapo College of New Jersey | 0.4 |
| Rutgers, The State University of New Jersey | 1.7 |
| Total | <u>\$ 5.9</u> |

J. Bonds Payable and Other Debt

A summary of bonds issued and outstanding for all colleges and universities as of June 30, 2001 is as follows (expressed in millions):

| <u>College / University</u> | <u>Outstanding June 30, 2001</u> |
|--|--------------------------------------|
| The College of New Jersey | \$ 212.0 |
| New Jersey Institute of Technology | 82.2 |
| Rowan University | 149.7 |
| Rutgers, The State University of New Jersey | 404.3 |
| The Richard Stockton College of New Jersey | 54.5 |
| University of Medicine and Dentistry of New Jersey | 267.2 |
| Total | <u>\$ 1,169.9</u> |

Repayments of principal amounts of long-term debt for the next five years and thereafter are as follows (expressed in millions):

| <u>Fiscal Year</u> | <u>Amount</u> |
|--------------------|-------------------|
| 2002 | \$ 33.2 |
| 2003 | 36.4 |
| 2004 | 39.3 |
| 2005 | 41.6 |
| 2006 | 42.2 |
| Thereafter | 977.2 |
| Total | <u>\$ 1,169.9</u> |

K. Capitalized Lease Obligations

A summary of the capitalized lease obligations for all colleges and universities as of June 30, 2001 is as follows (expressed in millions):

| <u>College / University</u> | <u>Outstanding June 30, 2001</u> |
|--|--------------------------------------|
| The College of New Jersey | \$ 1.3 |
| Thomas Edison State College | 0.9 |
| Kean University | 47.0 |
| Montclair State University | 57.3 |
| New Jersey City University | 38.3 |
| New Jersey Institute of Technology | 0.3 |
| The William Paterson University of New Jersey | 65.7 |
| Ramapo College of New Jersey | 65.2 |
| Rowan University | 5.0 |
| Rutgers, The State University of New Jersey | 65.7 |
| University of Medicine and Dentistry of New Jersey | 27.3 |
| Total | <u>\$ 374.0</u> |

At June 30, 2001, the above colleges and universities had future lease payments as shown in the following (expressed in millions):

| <u>Fiscal Year</u> | <u>Amount</u> |
|------------------------------------|-----------------|
| 2002 | \$ 32.9 |
| 2003 | 33.6 |
| 2004 | 36.4 |
| 2005 | 33.0 |
| 2006 | 32.4 |
| Thereafter | <u>413.6</u> |
| Total Lease Payments | 581.9 |
| Less: Amount Representing Interest | <u>207.9</u> |
| Present Value of Lease Payments | <u>\$ 374.0</u> |

L. Self Insurance Reserve Fund

The University of Medicine and Dentistry of New Jersey-Self Insurance Reserve Fund is accounted for within a trust fund maintained by the State of New Jersey.

M. Commitments and Contingencies

The colleges and universities are a party to various legal actions arising in the ordinary course of their operations. While it is not feasible to predict the ultimate outcome of these actions, it is the opinion of management that the resolution of these matters will not have a material adverse effect on the financial statements.

N. New Jersey State Colleges and Universities

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

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

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

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

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

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

The William Paterson University of New Jersey (N.J.S.A. 18A:62-1)
300 Pompton Road
Wayne, New Jersey 07470
ww2.wpunj.edu/

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

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

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

The Richard Stockton College of New Jersey (N.J.S.A. 18A:62-1)
Administration and Finance Building
Pomona, New Jersey 08240
www2.stockton.edu/

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

NOTE 20 - 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 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, 2001, the exact amount involved in these legal proceedings is not fully determinable.

Special Revenue Funds

New Jersey Lawyers Fund for Client Protection

Claims of approximately \$15.4 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 is \$11.1 million. The ultimate disposition of these claims is not determinable at this time.

New Jersey Spill Compensation Fund

As of June 30, 2001, various claims have been filed against the Fund by third parties for damages caused by spills. These claims have not reached the stage in the judicial process where reasonable amounts have been established, and therefore, are not classified as liabilities under generally accepted accounting principles.

Sanitary Landfill Facility Contingency Fund

Various claims totaling approximately \$32.0 million have been filed against this Fund by individuals, local municipalities, and school districts. In addition, there are a number of similar claims for unspecified dollar amounts which are pending. The ultimate disposition of these claims is not determinable at this time.

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 \$14.5 million and the Public Purpose Buildings Construction Fund in the amount of \$1.4 million. Fund management is presently evaluating the claims. There has been no determination as to the ultimate amount for which these Funds will be liable.

Trust Funds

Police and Firemen's Retirement System (PFRS)

In this suit, plaintiff seeks to represent a class of persons who applied for and received accidental disability retirement benefits under PFRS prior to April 1, 1991. The class would challenge their omission from recent legislation that provided enhanced retirement benefits only to those people who retired after April 1, 1991. The State is unable at this time to estimate its exposure for this claim.

Real Estate Guaranty Fund

Claim payments, as certified by court orders, are made to persons aggrieved by the unlawful practices of real estate brokers or salesmen. As of June 30, 2001, there were various cases pending with a maximum possible exposure to the Fund of approximately \$0.6 million. The ultimate disposition of these claims is not determinable at this time.

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

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

Federal Programs

Under the terms of various grant awards, expenditures from Federal funds are subject to audit. As of June 30, 2001, audits of expenditures for Fiscal Year 2001 and prior years may not be completed. Disallowances which may result from these audits are not determinable at this time. As of June 30, 2001, it is management's opinion that disallowances, if any, would not be material.

NOTE 21 – SUBSEQUENT EVENTS

Short-Term Debt

Subsequent to June 30, 2001, the State issued commercial paper notes totaling \$1.3 billion, the aggregate principal to be used for various governmental purposes. The final maturity of these notes will be May 24, 2002 (\$830 million) and June 14, 2002 (\$470 million).

Long-Term Debt

On October 18, 2001, the State issued \$588 million in Series H, tax-exempt general obligation bonds to be used to refund various general obligation bonds of the State. Interest is payable semiannually on January 1 and July 1 commencing on January 1, 2002, with the bonds maturing at various dates between July 1, 2008 and 2019.

On October 18, 2001, the State issued \$20 million in Series I, federally taxable general obligation bonds to be used to refund various general obligation bonds of the State. Interest on these bonds is payable at maturity on May 1, 2002.