

**NEW JERSEY TRANSPORTATION
TRUST FUND AUTHORITY**
(A Component Unit of the State of New Jersey)

Financial Statements and
Supplementary Information

June 30, 2011

NEW JERSEY TRANSPORTATION TRUST FUND AUTHORITY

(A Component Unit of the State of New Jersey)

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INDEPENDENT AUDITORS' REPORT

To the Honorable Chairperson and Members of
New Jersey Transportation Trust Fund Authority
A Component Unit of the State of New Jersey

We have audited the accompanying financial statements of the governmental activities, each fund, and the aggregate remaining fund information of New Jersey Transportation Trust Fund Authority (the "Authority"), a component unit of the State of New Jersey, as of and for the year ended June 30, 2011, which collectively comprise the Authority's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities, and each fund, of the Authority as of June 30, 2011, and the changes in the financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

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INDEPENDENT AUDITORS' REPORT (CONTINUED)

In accordance with *Government Auditing Standards*, we have also issued our report dated October 27, 2011, on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis on pages 5 to 8 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Authority's basic financial statements. The schedule of cash receipts and disbursements on page 23 is presented for purposes of additional analysis and is not a required part of the basic financial statements. The schedule of cash receipts and disbursements has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we express no opinion on it.

Mercaderes, P.C.
Certified Public Accountants
October 27, 2011

INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

To the Honorable Chairperson and Members of
New Jersey Transportation Trust Fund Authority
A Component Unit of the State of New Jersey

We have audited the accompanying financial statements of the New Jersey Transportation Trust Fund Authority (the "Authority"), a component unit of the State of New Jersey, as of and for the year ended June 30, 2011, and have issued our report thereon dated October 27, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Authority's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control over financial reporting.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected or corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

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INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL
REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT
OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT
AUDITING STANDARDS* (CONTINUED)

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Authority's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations and contracts, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of Authority members, the finance committee, management, others within the Authority, and the State of New Jersey and is not intended to be and should not be used by anyone other than those specified parties.

Mercaderes, PC
Certified Public Accountants

October 27, 2011

NEW JERSEY TRANSPORTATION TRUST FUND AUTHORITY
(A Component Unit of the State of New Jersey)

MANAGEMENT'S DISCUSSION AND ANALYSIS

Management's Discussion and Analysis

As financial management of the New Jersey Transportation Trust Fund Authority (the "Authority"), we offer readers of these financial statements this narrative overview and analysis of the financial activities of the Authority as of and for the year ended June 30, 2011. This discussion and analysis is designed to assist the reader in focusing on the significant financial issues and activities and to identify any significant changes in financial position. We encourage readers to consider the information presented here in conjunction with the financial statements as a whole.

Financial Highlights

The Authority disbursed \$1,531,052,425 to the Special Transportation Fund of the State of New Jersey to fund statewide transportation system improvements during the fiscal year. This was a decrease of 11% from the prior year. The term "net assets" refers to the difference between assets and liabilities. At the close of fiscal year 2011, the Authority had a net deficit of \$173,353,748, as compared to a net deficit of \$367,144,411 at June 30, 2010. This increase in net assets was caused by the increased bond funding of statewide transportation system improvements during the fiscal year.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the Authority's financial statements, which are comprised of the basic financial statements and the notes to the financial statements. The Authority is a single program government that combines government-wide and governmental fund financial statements. This report also contains required supplementary information concerning the Authority's cash flow for the fiscal year.

Basic Financial Statements

The basic financial statements are designed to provide readers with a broad overview of the Authority's finances in a manner similar to that which would be used by a private-sector business.

The statement of net assets and governmental funds balance sheet presents information on all of the Authority's assets and liabilities, with the difference between the two reported as net assets. Over time, increases and decreases in net assets may serve as useful indicators of whether the financial position of the Authority is improving or deteriorating. Net assets increase when revenues exceed expenses. Increases to assets without corresponding increases to liabilities result in increased net assets, which indicate an improved financial position.

The statement of activities and governmental funds revenues, expenditures and changes in fund balance presents information showing how a government's net deficit changed during the fiscal year. All changes in net deficit are reported as the underlying event occurs, regardless of timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods.

NEW JERSEY TRANSPORTATION TRUST FUND AUTHORITY
(A Component Unit of the State of New Jersey)

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the basic financial statements.

Other Information

In addition to the basic financial statements and accompanying notes, this report also presents certain supplementary information concerning the Authority's flow of cash for the fiscal year.

Financial Analysis

Net assets (deficit) may serve, over time, as a useful indicator of the Authority's financial position. In the case of the Authority, liabilities exceeded assets by \$173,353,748 at the close of the most recent fiscal year.

The largest portion of the Authority's net deficit reflects its investments in current assets (*e.g., accounts receivable, cash and cash equivalents and investments*) less any related bonds outstanding and accounts payable. The Authority's current assets are restricted in use for payment of state transportation costs and bond issues outstanding.

	Years Ended			Percentage Change
	June 30, 2011	June 30, 2010	June 30, 2009	2011-2010
Accounts receivable	\$ 12,924,816,045	\$ 11,514,907,881	\$ 10,611,133,295	12
Cash and equivalents	244,859,631	249,060,953	424,693,446	(2)
Investments	42,728	59,012	31,844	(28)
Deferred loss on refunding on bonds	8,756,115	9,759,287	9,089,679	(10)
Unamortized bond discount	20,443,307	21,737,978	16,323,963	(6)
Unamortized bond issuance cost	107,393,042	107,472,875	114,233,065	-
Total Assets	13,306,310,868	11,902,997,986	11,175,505,292	12
Accrued interest payable	23,819,811	20,613,249	19,515,453	16
Accounts payable - State of New Jersey	213,485,882	384,396,398	207,421,888	(44)
Accounts payable - other	109,193	181,574	19,466	(40)
Bonds payable:				
Due within one year	310,110,000	314,285,000	281,170,000	(1)
Due after one year	12,571,168,986	11,167,122,881	10,223,042,295	13
Unamortized bond premium	360,970,744	383,543,295	417,373,829	(6)
Total Liabilities	13,479,664,616	12,270,142,397	11,148,542,931	10
Net Assets (Deficit) Restricted for:				
Debt Services	274,729	290,549	262,581	(5)
Deferred Charge	(248,198,091)	(265,186,404)	(297,242,575)	6
Payment of state transportation system cost	74,569,614	(102,248,556)	323,942,355	173
Net Assets (Deficit)	\$ (173,353,748)	\$ (367,144,411)	\$ 26,962,361	53

NEW JERSEY TRANSPORTATION TRUST FUND AUTHORITY
(A Component Unit of the State of New Jersey)

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

	Years Ended			Percentage
	June 30, 2011	June 30, 2010	June 30, 2009	Change 2011-2010
Revenues				
State appropriations				
Motor fuel taxes	\$ 483,000,000	\$ 483,000,000	\$ 483,000,000	-
Commercial vehicle fees and taxes	400,000,000	400,000,000	400,000,000	-
Toll road authority	12,000,000	12,000,000	12,000,000	-
Interest income and investment return	1,055,820	1,916,436	5,374,555	(45)
Amortization of bond premium and discount	40,054,655	33,142,068	33,947,426	21
Total Revenues	936,110,475	930,058,504	934,321,981	1
Expenses				
Operating expenses and financial costs	4,825,663	48,264	71,007	9,898
State transportation costs	1,531,052,425	1,725,395,510	1,497,018,844	(11)
Debt Service				
Bond interest expense, including amortization of bond issuance costs	526,724,927	500,782,283	448,869,731	5
Bond interest expense, capital appreciation bonds	120,251,105	101,612,225	72,365,327	18
Total Operating Expenses	2,182,854,120	2,327,838,282	2,018,324,909	(6)
Deficiencies of revenues over expenses	(1,246,743,645)	(1,397,779,778)	(1,084,002,928)	11
Other financing sources				
Garvee bond debt service reimbursement	4,802,000	5,281,000	5,737,250	(9)
Build America Bond Credits	31,491,600	11,616,420	-	171
Total other financing sources	36,293,600	16,897,420	5,737,250	115
Change in Net Deficit	(1,210,450,045)	(1,380,882,358)	(1,078,265,678)	12
Net Assets (Deficit), Beginning of Year	(367,144,411)	26,962,361	(248,538,350)	(1,462)
Current year bond activity, net	1,404,240,708	986,775,586	1,353,766,389	42
Net Assets (Deficit), End of Year	\$ (173,353,748)	\$ (367,144,411)	\$ 26,962,361	53

NEW JERSEY TRANSPORTATION TRUST FUND AUTHORITY
(A Component Unit of the State of New Jersey)

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Significant and Subsequent Events

As of June 30, 2011, the Authority had \$12,881,278,986 in bonds outstanding, as compared to \$11,481,407,881 in the prior fiscal year, an increase of 12.19%. There was new debt incurred by the Authority, net of refunding, in the amount of \$1,583,464,603 during fiscal year 2011. A total of \$309,530,000 in bond principal was retired by the annual debt service payments during the fiscal year.

The Authority has issued no bonds nor entered into any credit agreements subsequent to the close of fiscal year June 30, 2011.

The following information summarizes the changes in debt between the fiscal year 2011, 2010 and 2009:

	Years Ended			Percentage
	June 30, 2011	June 30, 2010	June 30, 2009	Change
Bonds Payable	<u>\$12,881,278,986</u>	<u>\$ 11,481,407,881</u>	<u>\$10,504,212,295</u>	<u>2011-2010</u> <u>12</u>

More detailed information about the Authority's bonds payable is presented in Note D of the financial statements.

The current re-authorization of the Authority is set to expire on June 30, 2011, and is in need of legislative approval beyond June 30, 2011. For fiscal year 2012, the Authority is utilizing its remaining authorizations from the previous act. A new statute is being developed for fiscal year 2013 and beyond.

Contacting the Authority's Financial Management

This financial report is designed to provide the New Jersey citizens, investors and creditors with a general overview of the Authority's finances and to demonstrate the Authority's accountability to the State of New Jersey and bondholders. If you have questions about this report or need additional financial information, you can contact the New Jersey Transportation Trust Fund Authority at 1035 Parkway Avenue, P.O. Box 600, Trenton, NJ 08625-0600 or visit its website at www.state.nj.us/ttfa.

NEW JERSEY TRANSPORTATION TRUST FUND AUTHORITY
(A Component Unit of the State of New Jersey)

STATEMENT OF NET ASSETS AND GOVERNMENTAL FUNDS BALANCE SHEET
June 30, 2011

	Special Revenue Fund	Other Funds (DSF)	Total Governmental Funds	Adjustments (Note H)	Statement of Net Assets
ASSETS					
Accounts receivable - State of New Jersey	\$ 43,537,059	\$ -	\$ 43,537,059	\$ 12,881,278,986	\$ 12,924,816,045
Cash and equivalents	244,627,630	232,001	244,859,631	-	244,859,631
Investments	-	42,728	42,728	-	42,728
Deferred loss on refunding of bonds	-	-	-	8,756,115	8,756,115
Unamortized bond discount	-	-	-	20,443,307	20,443,307
Unamortized bond issuance costs	-	-	-	107,393,042	107,393,042
Total Assets	<u>\$ 288,164,689</u>	<u>\$ 274,729</u>	<u>\$ 288,439,418</u>	<u>\$ 13,017,871,450</u>	<u>\$ 13,306,310,868</u>
LIABILITIES					
Accrued interest payable	\$ -	\$ -	\$ -	\$ 23,819,811	\$ 23,819,811
Accounts payable - State of New Jersey	213,485,882	-	213,485,882	-	213,485,882
Accounts payable - other	109,193	-	109,193	-	109,193
Transportation system bonds payable	-	-	-	310,110,000	310,110,000
Due within one year	-	-	-	12,571,168,986	12,571,168,986
Due after one year	-	-	-	360,970,744	360,970,744
Unamortized bond premium	-	-	-	13,266,069,541	13,266,069,541
Total Liabilities	<u>213,595,075</u>	<u>-</u>	<u>213,595,075</u>	<u>-</u>	<u>13,479,664,616</u>
FUND BALANCES/NET ASSETS (DEFICIT)					
Restricted for					
Debt Service	-	274,729	274,729	-	274,729
Deferred Charges	-	-	-	(248,198,091)	(248,198,091)
Payment of state transportation systems cost	74,569,614	-	74,569,614	-	74,569,614
Total Fund Balances/Net Assets (Deficit)	<u>74,569,614</u>	<u>274,729</u>	<u>74,844,343</u>	<u>(248,198,091)</u>	<u>(173,353,748)</u>
Total Liabilities and Fund Balances/Net Assets (Deficit)	<u>\$ 288,164,689</u>	<u>\$ 274,729</u>	<u>\$ 288,439,418</u>	<u>\$ 13,017,871,450</u>	<u>\$ 13,306,310,868</u>

See notes to financial statements.

NEW JERSEY TRANSPORTATION TRUST FUND AUTHORITY
(A Component Unit of the State of New Jersey)

**STATEMENT OF ACTIVITIES AND GOVERNMENTAL FUNDS
REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE**

June 30, 2011

	Special Revenue Fund	Other Funds (DSF)	Total Governmental Funds	Adjustments (Note H)	Statement of Activities
REVENUES					
State appropriations equivalent to:					
Motor fuel taxes	\$ 483,000,000	\$ -	\$ 483,000,000	\$ -	\$ 483,000,000
Commercial vehicle fees and taxes	400,000,000	-	400,000,000	-	400,000,000
Toll Road Authority	12,000,000	-	12,000,000	-	12,000,000
Interest income and investment return	461,573	594,247	1,055,820	-	1,055,820
Amortization of bond premium and discount	-	-	-	40,054,655	40,054,655
Total revenues	<u>895,461,573</u>	<u>594,247</u>	<u>896,055,820</u>	<u>40,054,655</u>	<u>936,110,475</u>
EXPENDITURES					
Operating expenses and financial costs	64,723	4,760,940	4,825,663	-	4,825,663
State transportation costs	1,531,052,425	-	1,531,052,425	-	1,531,052,425
Debt Service					
Principal	-	309,530,000	309,530,000	(309,530,000)	-
Bond interest expense, including amortization of bond issuance costs	-	499,880,976	499,880,976	26,843,951	526,724,927
Bond interest expense, capital appreciation bonds	-	-	-	120,251,105	120,251,105
Total expenditures	<u>1,531,117,148</u>	<u>814,171,916</u>	<u>2,345,289,064</u>	<u>(162,434,944)</u>	<u>2,182,854,120</u>
Deficiency of revenues over expenses	<u>(635,655,575)</u>	<u>(813,577,669)</u>	<u>(1,449,233,244)</u>	<u>202,489,599</u>	<u>(1,246,743,645)</u>
OTHER FINANCING SOURCES (USES):					
Bonds issued, net of refunding	1,583,464,603	-	1,583,464,603	(1,583,464,603)	-
Bond premium, net	7,701,932	-	7,701,932	(7,701,932)	-
Grantee bond debt service reimbursement	-	14,857,000	14,857,000	(10,055,000)	4,802,000
Transfers - internal activities	(767,213,249)	767,213,249	-	-	-
Build America Bonds Credit	-	31,491,600	31,491,600	-	31,491,600
Cost of issuance	(11,479,541)	-	(11,479,541)	11,479,541	-
Total other financing sources (uses)	<u>812,473,745</u>	<u>813,561,849</u>	<u>1,626,035,594</u>	<u>(1,589,741,994)</u>	<u>36,293,600</u>
Change in fund balance/net assets	176,818,170	(15,820)	176,802,350	(1,387,252,395)	(1,210,450,045)
Fund balance/net deficit					
Beginning of year	(102,248,556)	290,549	(101,958,007)	(265,186,404)	(367,144,411)
Current year bond activity, net	-	-	-	1,404,240,708	1,404,240,708
End of year	<u>\$ 74,569,614</u>	<u>\$ 274,729</u>	<u>\$ 74,844,343</u>	<u>\$ (248,198,091)</u>	<u>\$ (173,353,748)</u>

See notes to financial statements.

NEW JERSEY TRANSPORTATION TRUST FUND AUTHORITY
(A Component Unit of the State of New Jersey)

NOTES TO FINANCIAL STATEMENTS

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Authority

New Jersey Transportation Trust Fund Authority (the "Authority"), located in Ewing, New Jersey, was created by the State of New Jersey (the "State") in 1984 pursuant to the New Jersey Transportation Trust Fund Authority Act in order to provide a stable, predictable funding mechanism for transportation system improvements undertaken by the New Jersey Department of Transportation. The Authority also finances State aid to counties and municipalities for transportation system improvements.

Basis of Accounting

The Authority is a component unit of the State and is included in the general purpose financial statements of the State.

The accompanying financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board.

In its accounting and financial reporting, the Authority follows the pronouncements of the Governmental Accounting Standards Board ("GASB") and other entities that promulgate accounting principles according to a hierarchy of sources of accounting principles. Per GASB Statement 55, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*, priority is established as to which source of accounting principles to utilize in determining proper accounting treatment. The hierarchy is as follows: GASB Statements and Interpretations; GASB Technical Bulletins; American Institute of Certified Public Accountants ("AICPA") Industry Audit and Accounting Guides and AICPA Statements of Position, if applicable, and cleared by GASB; AICPA Practice Bulletins, if applicable, and cleared by GASB; Implementation Guides published by the GASB; AICPA pronouncements that are not specifically applicable to state and governmental entities; Financial Accounting Standards Board ("FASB") Statements and Interpretations; and Accounting Principles Board Opinions and Accounting Research Bulletins of the Committee on Accounting Procedure (issued on or before November 30, 1989). The Authority follows the hierarchy in determining accounting treatment.

The basic financial statements consist of government-wide and governmental fund financial statements.

The Authority, as a single program government, combines government-wide and governmental fund financial statements, which are linked together by the reconciliation.

The government-wide financial statements are prepared under the economic resources measurement focus and the accrual basis of accounting. Revenues are recognized when earned, and expenditures are recognized when incurred. The primary sources of revenues are appropriations received from the State from motor fuel taxes, good drivers' surcharges and commercial vehicle fees and taxes.

NEW JERSEY TRANSPORTATION TRUST FUND AUTHORITY
(A Component Unit of the State of New Jersey)

NOTES TO FINANCIAL STATEMENTS

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Basis of Accounting (Continued)

The governmental fund financial statements are prepared under current financial resources measurement focus and on the modified accrual basis of accounting. Revenues are recorded when measurable and available. Expenditures are recognized when the related liability is incurred. The exception to this rule is that principal and interest on long-term debt are recognized when due.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America for governmental units requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Fund Accounts

In accordance with the 1995 Bond Resolution, the Authority has established the following fund accounts maintained by the Authority:

<u>Fund Accounts</u>	<u>Amount</u>	<u>Use for Which Restricted</u>
Special Revenue Fund Transportation Improvement	Deposit of all revenues received by the Authority. Also used to account for the accumulation of resources for payment of state transportation costs.	Expenditures for specific purposes.
Debt Service Fund (DSF)	Amounts needed to pay matured principal and interest on bonds.	Interest and principal on bonds.

The Authority reserve, which accounts for the Authority's operating expenses, is included in the special revenue fund.

Income Taxes

As a public body, under existing statute, the Authority is exempt from both federal and state taxes.

Bond Issuance Costs

In the government-wide financial statements, bond issuance costs are reported as deferred charges (assets) and are amortized over the term of the related debt.

In the governmental fund financial statements, bond issuance costs are expensed when incurred.

Bond Premium

In the government-wide financial statements, bond premiums are reported as deferred revenues (liabilities) and are amortized over the term of the related debt.

In the governmental fund financial statements, bond premiums are recognized as revenue when received.

NEW JERSEY TRANSPORTATION TRUST FUND AUTHORITY
(A Component Unit of the State of New Jersey)

NOTES TO FINANCIAL STATEMENTS

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Bond Discount

In the government-wide financial statements, bond discounts are recognized as deferred charges (assets) and are amortized over the term of the related debt.

In the governmental fund financial statements, bond discounts are recognized as expense when received.

Restricted Net Assets

In accordance with the terms of the various bond resolutions, cash and equivalents and investments of all funds required under such bond resolutions are classified as restricted assets. The amounts by which the restricted assets exceed the corresponding liabilities they will liquidate are not available for the payment of current operating expenses.

Accounts Receivable

The following is a summary of receivables due from the State primarily to fund future bonds payable.

Due within one year	\$ 353,647,059
Due after one year	<u>12,571,168.986</u>
	<u><u>\$12,924,816.045</u></u>

B. CASH AND EQUIVALENTS

Cash and equivalents consist primarily of State of New Jersey cash management fund deposits. New Jersey statutes permit the deposit of public funds in the State of New Jersey Cash Management Fund ("NJCMF") or in institutions located in New Jersey which are insured by the Federal Deposit Insurance Corporation or by any other agencies of the United States that insure deposits.

New Jersey statutes require public depositories to maintain collateral for deposits of public funds that exceed insurance limits as follows:

- (a) The market value of the collateral must equal 5% of the average daily balance of public funds;
or
- (b) If the public funds deposited exceed 75% of the capital funds of the depository, the depository must provide collateral having a market value equal to 100% of the amount exceeding 75%.

All collateral must be deposited with the Federal Reserve Bank, the Federal Home Loan Bank Board or a banking institution that is a member of the Federal Reserve System and has capital funds of not less than \$25,000,000.

NEW JERSEY TRANSPORTATION TRUST FUND AUTHORITY

(A Component Unit of the State of New Jersey)

NOTES TO FINANCIAL STATEMENTS

B. CASH AND EQUIVALENTS (CONTINUED)

Custodial Credit Risk

Custodial credit risk is the risk that, in the event of failure of the counterparty, the Authority will not be able to recover the value of its cash and investments that are in the possession of an outside party. Cash and equivalents and investments are substantially restricted under the terms of the Authority's bond resolutions for the payment of bond principal and interest expense and the extension of project loans. The bond resolutions limit investments to obligations of the U.S. government or its agencies, investments in certain certificates of deposit of commercial banks that are members of the Federal Reserve System, investments in cash management pools that restrict investments to U.S. government securities, money market funds that invest in high-grade AAA-rated securities, and direct and general obligations of any state that meets the minimum requirements of the resolution.

Cash and equivalents at June 30, 2011, were as follows:

NJCMF	<u>\$ 244,859,631</u>
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As of June 30, 2011, the Authority had the following investments and maturities:

	Fair Value	Investment Maturity (In Years)			
		Less than 1	1-5	6-10	More than 10
US Treasury Notes	<u>\$ 42,728</u>	<u>\$ 42,728</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

Since the Authority's cash and equivalents and investments are all government securities, or an external investment pool, they are not subject to custodial credit risk.

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Because the Authority maintains investments in US Treasury Notes, it is subject to interest rate risk if interest rates fluctuate.

C. ACCOUNTS PAYABLE - STATE OF NEW JERSEY

The balance due of \$213,485,882 consists of amounts due the State of New Jersey Special Transportation Fund for reimbursement of New Jersey Transit transportation costs.

NEW JERSEY TRANSPORTATION TRUST FUND AUTHORITY
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NOTES TO FINANCIAL STATEMENTS

D. TRANSPORTATION SYSTEM BONDS PAYABLE

Bond resolutions have been adopted by the Authority for the purpose of making improvements to the transportation system in the State of New Jersey. The following is a summary of revenue bonds outstanding:

Series	Interest Rate Range	Bonds Outstanding (in Thousands) June 30, 2010	Additions (in Thousands)	Reductions (in Thousands)	Bonds Outstanding (in Thousands) June 30, 2011	Amounts Due within One Year (in Thousands)
1995 Series B	4.50%-7.00%	\$ 64,590	\$ -	\$ 31,280	\$ 33,310	\$ 33,310
1998 Series A	4.25%-5.25%	102,830	-	102,830	-	-
1999 Series A	4.50%-5.75%	228,225	-	33,425	194,800	16,865
2001 Series A	4.00%-5.50%	1,570	-	-	1,570	490
2001 Series C	2.50%-6.00%	612,680	-	173,470	439,210	99,665
2003 Series A	4.00%-5.50%	303,310	-	4,755	298,555	4,995
2003 Series B	3.50%-5.25%	345,000	-	-	345,000	-
2003 Series C	2.25%-5.50%	15,710	-	-	15,710	-
2004 Series A	3.25%-5.75%	107,495	-	-	107,495	-
2004 Series B	2.50%-5.50%	733,830	-	17,200	716,630	101,400
2005 Series A	5.00%-5.25%	342,150	-	40,640	301,510	42,825
2005 Series B	3.70%-5.50%	1,186,440	-	8,415	1,178,025	-
2005 Series C	3.25%-5.25%	48,480	-	-	48,480	-
2005 Series D	4.00%-5.00%	465,910	-	3,255	462,655	-
2006 Series A	4.25%-5.50%	1,580,540	-	3,755	1,576,785	-
2006 Series C	4.93%-5.05%	3,708,585	-	-	3,708,585	-
2006 A Garvee	5.00%	96,040	-	10,055	85,985	10,560
2007 Series A	3.60%-5.00%	1,140,485	-	269,310	871,175	-
2008 Series A	5.25%-6.00%	2,295,700	-	121,965	2,173,735	-
2009 Series A	6.23%-6.40%	869,075	-	-	869,075	-
2009 Series B	6.875%	273,500	-	-	273,500	-
2009 Series C	Variable	150,000	-	-	150,000	-
2009 Series D	Variable	147,500	-	-	147,500	-
2010 Series A	5.85%-6.25%	1,273,180	-	-	1,273,180	-
2010 Series B	6.561%	500,000	-	-	500,000	-
2010 Series C	6.561%	-	1,000,000	-	1,000,000	-
2010 Series D	6.561%	-	485,875	-	485,875	-
2010 Series E	6.561%	-	14,100	-	14,100	-
2011 Series A	6.561%	-	600,000	-	600,000	-
		16,592,825	2,099,975	820,355	17,872,445	310,110
Less unamortized bond accretion		(5,111,417)	120,252	-	(4,991,166)	-
Total		<u>\$ 11,481,408</u>	<u>\$ 2,220,227</u>	<u>\$ 820,355</u>	<u>\$ 12,881,279</u>	<u>\$ 310,110</u>

NEW JERSEY TRANSPORTATION TRUST FUND AUTHORITY
(A Component Unit of the State of New Jersey)

NOTES TO FINANCIAL STATEMENTS

D. TRANSPORTATION SYSTEM BONDS PAYABLE (CONTINUED)

Total maturities of transportation system bonds are as follows:

Year Ending June 30,	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2012	\$ 310,110,000	\$ 559,438,575	\$ 869,548,575
2013	340,255,000	461,939,460	802,194,460
2014	360,275,000	518,748,865	879,023,865
2015	397,285,000	498,791,384	896,076,384
2016	418,115,000	477,853,830	895,968,830
2017-2021	2,578,370,000	2,032,920,650	4,611,290,650
2022-2026	3,482,490,000	1,243,703,220	4,726,193,220
2027-2031	3,434,560,000	747,391,009	4,181,951,009
2032-2036	3,086,750,000	518,670,011	3,605,420,011
2037-2041	<u>3,464,235,000</u>	<u>264,202,400</u>	<u>3,728,437,400</u>
Total	17,872,445,000	<u>\$ 7,323,659,404</u>	<u>\$25,196,104,404</u>
Less unamortized bond accretion	<u>4,991,166,014</u>		
Total Bonds Payable	<u>\$12,881,278,986</u>		

The bonds are secured primarily by revenues received by the Authority from the State. The payment of all such revenues to the Authority is subject to and dependent upon appropriations being made from time to time by the State Legislature. The State Legislature has no legal obligation to make such appropriations.

2003 Series B

The Authority remarketed the 2003 Series B (Periodic Auction Reset Securities) bonds in September 2008. The Remarketed Bonds were converted pursuant to the terms of the Resolution to bear interest in the Fixed Rate mode. Principal repayments begin December 15, 2016, and end December 15, 2019. Interest payments began December 15, 2008.

INTEREST RATE SWAP AGREEMENTS

In connection with the initial issuance of the Remarketed Bonds, the Authority entered into five swap agreements (the "Existing Swap Agreements") with Goldman Sachs Mitsui Marine Derivative Products L.P. (the "Existing Counterparty") for the purpose of converting the Authority's variable rate exposure on the Remarketed Bonds to a fixed rate. The outstanding aggregate principal amount of the Remarketed Bonds is equal to the aggregate notional amount of these related Existing Swap Agreements. Under the terms of the Existing Swap Agreements, the Authority pays a fixed rate to the Existing Counterparty between 3.537% and 3.675% and receives a variable rate equal to 67% of either one-month or one-

NEW JERSEY TRANSPORTATION TRUST FUND AUTHORITY
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NOTES TO FINANCIAL STATEMENTS

D. TRANSPORTATION SYSTEM BONDS PAYABLE (CONTINUED)

2003 Series B (Continued)

week LIBOR, in each case depending on the Existing Swap Agreement. These Existing Swap Agreements terminate upon the final maturity of the Remarketed Bonds; provided that the Authority may terminate and cancel any or all of the Existing Swap Agreements with no payment due from the Authority at any time on or after December 15, 2011. It is expected that the Existing Swap Agreements will not be terminated as a result of the conversion of the Remarketed Bonds to the Fixed Rate Mode. In connection with the conversion and remarketing of the Remarketed Bonds, the Existing Swap Agreements may be amended in a manner which could result in the Authority paying fixed rates in excess of the rates stated above.

In the event that an Existing Swap Agreement terminates prior to its stated termination date (other than a termination and cancellation by the Authority on or after December 15, 2011), either the Authority or the Existing Counterparty will be required to make a termination payment to the other party. The party required to make such payment and the amount thereof will be determined by market conditions at the time of such early termination.

The Authority's obligations to make regularly scheduled payments under each Existing Swap Agreement are payable from moneys in the Debt Service Fund established under the Resolution on a parity with the Remarketed Bonds and all other Bonds issued or to be issued under the Resolution. In the event that an Existing Swap Agreement terminates prior to its stated termination date (other than a termination and cancellation by the Authority on or after December 15, 2011), any termination payments required to be made by the Authority pursuant to such Existing Swap Agreement shall be payable from the Subordinated Debt Fund established under the Resolution, subject and subordinate to the payment of Bond Payment Obligations, including payment of the Remarketed Bonds, pursuant to the Resolution.

The 2003 Series B Bonds were re-marked as fixed rate bonds on various dates between September 2, 2008 and September 8, 2008. The Existing Swap Agreements may be amended, terminated or offset with additional interest rate swaps when market conditions permit. The Authority applied a portion of the Existing Swap Agreements as hedges related to the 2009 Series C Bonds and the 2009 Series D Bonds.

2006 A Garvee Bond

The debt service and interest expense payments on the 2006 A Garvee bond are reimbursed by the Federal Highway Administration, through the New Jersey Department of Transportation. These amounts are included in the principal and bond interest expense. The principal payment and interest payments reimbursed as of June 30, 2011, were \$10,055,000 and \$4,802,000, respectively.

NEW JERSEY TRANSPORTATION TRUST FUND AUTHORITY

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NOTES TO FINANCIAL STATEMENTS

D. TRANSPORTATION SYSTEM BONDS PAYABLE (CONTINUED)

2009 Series C and D Bonds – Letter of Credit Facilities

In connection with the issuance of and to provide additional security to the 2009 Series C and Series D bondholders, the Authority entered into irrevocable, direct-pay letter of credit facilities (the "Credit Facility" or "Credit Facilities") with two separate financial institutions (the "Credit Facility Providers"). The Credit Facilities for the 2009 Series C Bonds and 2009 Series D Bonds in the original stated amount of \$152,367,124 and \$149,827,672, respectively, representing the sum of a) the aggregate principal amount of the 2009 Series C and D Bonds and b) 48 days' interest on the 2009 Series C and D Bonds (computed at a rate of 12% per annum) are scheduled to expire on December 15, 2011, unless extended in accordance with its terms. Each Credit Facility will terminate upon conversion of the 2009 Series C or Series D Bonds from a variable rate to a fixed rate interest mode. The bond trustee for each of the 2009 Series C and Series D Bonds is directed to draw on the Credit Facilities to pay when due the principal of and interest on the bonds. The Authority pays a letter of credit fee to the Credit Facility Providers and has entered into agreements to reimburse the Credit Facility Providers for any amounts drawn upon the Credit Facilities by the bond trustee. For the year ended June 30, 2011, the Authority paid \$4,729,300 in fees related to the Credit Facilities.

E. ADVANCE REFUNDINGS

When conditions warrant, the Authority sells various issues of bonds to provide for the refunding of previously issued obligations in order to achieve interest cost savings. As a result of the advance refundings, the Authority recorded a net loss on defeasance totaling \$30,488,941. The net loss on defeasance is being deferred and amortized over the life of the new debt. For financial statement purposes, the Authority follows GASB Statement No. 23, "Accounting and Financial Reporting for Refunding of Debt Reported by Proprietary Activities." The unamortized deferred loss on refundings of bonds amounted to \$8,756,115 at June 30, 2011. Amortization of \$741,986 is included in amortization of cost of issuance and deferred loss on refunding at June 30, 2011. The present value of the debt service savings resulted in an economic gain from the advanced refundings executed during fiscal year 2011 in the amount of \$15,791,014.

The proceeds received from the sales of the bond issues were used to currently refund the outstanding bond issues or to deposit in an irrevocable escrow fund held by an escrow agent an amount that, when combined with interest earnings thereon, will be at least equal to the sum of the first optional redemption date thereof and the premium required to redeem the bonds outstanding on such date. Accordingly, the Authority's assets and the liabilities for defeased bonds are not included in the Authority's financial statements. These transactions defeased the outstanding bond issues with a resultant reduction in annual debt service during the term of the issues.

NEW JERSEY TRANSPORTATION TRUST FUND AUTHORITY
(A Component Unit of the State of New Jersey)

NOTES TO FINANCIAL STATEMENTS

E. ADVANCE REFUNDINGS (CONTINUED)

Refunded bonds outstanding at June 30, 2011, are comprised of the following:

<u>Issue</u>	<u>Principal Amount Outstanding June 30, 2011</u>
2001 Series C	\$ 45,345,259
2003 Series A&B	461,435,396
2004 Series B	23,740,160
2005 Series B	1,151,520,080
2006 Series A	1,118,352,077
2006 Series B	104,756,732
2010 Series D&E	186,169,662
	<u>\$ 3,091,319,366</u>

F. FINANCIAL INSTRUMENTS

In connection with the interest rate swaps disclosed in Note D, no amounts are recorded in the financial statements other than the net interest expense resulting from the agreements. As of June 30, 2011, the swaps had a total net present value of (\$6,011,323). A negative net present value approximates the amount that Authority would owe the swap provider if the swap were terminated.

Pursuant to GASB Statement No. 53, the Authority is required to measure derivative instruments at fair value in its financial statements. No amounts have been recorded because any asset or liability related to the swap would result in a corresponding receivable or payable from the State of New Jersey and not result in any change to the statement of activities and governmental funds revenues, expenditures and changes in fund balance. Since the swap agreement is backed by the State of New Jersey, the ultimate responsibility falls on the State of New Jersey to record these amounts.

The 2003 Series B Bonds were re-marked as fixed rate bonds on various dates between September 2, 2008 and September 8, 2008. The Existing Swap Agreements may be amended, terminated or offset with additional interest rate swaps when market conditions permit. The Authority applied a portion of the Existing Swap Agreements as hedges related to the 2009 Series C Bonds and the 2009 Series D Bonds as further disclosed in Note D.

G. CONCENTRATION OF RISK AND UNCERTAINTIES

Cash and Equivalents

The Authority maintains cash and short-term investment balances which may exceed federally insured limits. It historically has not experienced any credit-related losses.

Financial Instruments

As disclosed in Notes D and F, the Authority's 2003 Series B bond issue utilized financial instruments. These agreements are structured to enable variable rate bond proceeds to meet specific needs by reducing the risk associated with changes in interest rates.

NEW JERSEY TRANSPORTATION TRUST FUND AUTHORITY

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NOTES TO FINANCIAL STATEMENTS

H. ADJUSTMENTS - RECONCILIATION OF DIFFERENCES BETWEEN THE GOVERNMENTAL FUNDS AND GOVERNMENT-WIDE FINANCIAL STATEMENTS

- (1) Unamortized bond issuance cost is recorded as deferred charges (other assets) in the statement of net assets and is amortized over the life of the debt. Amortization expense is recorded in the statement of activities. In governmental funds financial statements, bond issuance costs are expensed when incurred. Balances as of June 30, 2011, were:

Bond issuance costs	\$ 145,308,683
Accumulated amortization	<u>(37,915,641)</u>
Total unamortized bond issuance cost	\$ <u>107,393,042</u>
Amortization expense	<u>\$ 7,001,932</u>

- (2) Long-term liabilities (bonds payable and accrued interest payable) applicable to the Authority's governmental activities are not due and payable in the current period and accordingly are not reported as fund liabilities. All liabilities, both current and long-term, are reported in the statement of net assets. Balances as of June 30, 2011, were:

Bonds payable	\$11,481,407,881
Add issuance of bonds	2,099,975,000
Less principal payments and refunded debt	(820,355,000)
Add accretion	<u>120,251,105</u>
Total	<u>\$12,881,278,986</u>

Accrued interest payable	<u>\$ 23,819,811</u>
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- (3) Bond proceeds contribute to the change in fund balance in governmental funds. In the government-wide statements, issuing debt increases long-term liabilities in the statement of net assets and does not affect the statements of activities.

Proceeds were received from:

2010 series C Bond	\$ 970,194,018
2010 Series D & E Bond	2,714,705
2011 Series A Bond	<u>610,555,880</u>
Total Proceeds	<u>\$ 1,583,464,603</u>

- (4) Repayment of bond principal is reported as an expenditure in governmental funds and thus reduces the fund balance. For the Authority as a whole, the principal payments reduce the liabilities in the statement of net assets and do not result in an expense in the statement of activities. Principal payments, including amounts required for refunding bond issues, were made as follows:

Scheduled principal payments	<u>\$ 309,530,000</u>
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NEW JERSEY TRANSPORTATION TRUST FUND AUTHORITY
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NOTES TO FINANCIAL STATEMENTS

H. ADJUSTMENTS - RECONCILIATION OF DIFFERENCES BETWEEN THE GOVERNMENTAL FUNDS AND GOVERNMENT-WIDE FINANCIAL STATEMENTS (CONTINUED)

- (5) Unamortized bond premium is recorded as deferred revenue (other liabilities) in the statement of net assets and is amortized over the life of the debt. Amortization revenue is recorded in the statement of activities. In governmental funds financial statements, bond premiums are recognized as revenue when received. Balances as of June 30, 2011, were:

Bond premium	\$ 614,429,585
Accumulated amortization	<u>(253,458,841)</u>
Total unamortized bond premium	<u>\$ 360,970,744</u>
Amortization revenue	<u>\$ 40,777,982</u>

- (6) Unamortized bond discount is recorded as deferred charge (other assets) in the statement of net assets and is amortized over the life of the debt. Amortization expense is recorded in the statement of activities. In governmental funds financial statements, bond discounts are recognized as expense when received. Balances as of June 30, 2011, were:

Bond discount	\$ 22,099,436
Accumulated amortization	<u>(1,656,129)</u>
Total unamortized bond discount	<u>\$ 20,443,307</u>
Amortization expense	<u>\$ 723,327</u>

- (7) The adjustment related to current year bond activity, net, is comprised of the following:

Bond principal payment	\$ (309,530,000)
Garvee bond principal reimbursement	10,055,000
Bond premium	(7,701,932)
Bond issuance costs	11,479,541
Net bond proceeds	1,579,686,994
Capital appreciation bonds interest expense	<u>120,251,105</u>
Current year bond activity, net	<u>\$ 1,404,240,708</u>

I. SUBSEQUENT EVENTS

Management has evaluated subsequent events that occurred after the balance sheet date but before October 27, 2011, the date the financial statements were available to be issued. The following item was determined by management to require disclosure:

The current re-authorization of the Authority is set to expire on June 30, 2011, and is in need of legislative approval beyond June 30, 2011. For fiscal year 2012, the Authority is utilizing its remaining authorizations of the previous act. A new statute is being developed for fiscal year 2013 and beyond.

SUPPLEMENTARY INFORMATION

NEW JERSEY TRANSPORTATION TRUST FUND AUTHORITY
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SCHEDULE OF CASH RECEIPTS AND DISBURSEMENTS

June 30, 2011

	Authority Reserve	Transportation Improvement	Total	Debt Service	Total
	\$	\$	\$	\$	\$
CASH BALANCES, JUNE 30, 2010					
RECEIPTS:					
Motor fuel taxes	-	483,000,000	483,000,000	-	483,000,000
Commercial vehicle fees and taxes	-	400,000,000	400,000,000	-	400,000,000
Toll road authorities	-	12,000,000	12,000,000	-	12,000,000
Build America Bond Credits	-	-	-	31,491,600	31,491,600
Interest income	5	461,569	461,574	594,246	1,055,820
Bond proceeds	-	1,579,646,252	1,579,646,252	-	1,579,646,252
Sale of cash management fund investment and other investments (net)	4,308	4,197,477	4,201,785	-	4,201,785
Garvee bond debt service reimbursement	-	-	-	14,857,000	14,857,000
Operating transfers in	42,000	-	42,000	767,213,249	767,255,249
Total Receipts	46,313	2,479,305,298	2,479,351,611	814,156,095	3,293,507,706
DISBURSEMENTS:					
Operating expenses and financial costs	46,313	50,049	96,362	4,729,301	4,825,663
Bond interest expense	-	-	-	499,880,976	499,880,976
State transportation costs	-	1,712,000,000	1,712,000,000	-	1,712,000,000
Principal retirement of bonds payable	-	-	-	309,530,000	309,530,000
Purchase of cash management fund investments	-	-	-	15,818	15,818
Operating transfers out	-	767,255,249	767,255,249	-	767,255,249
Total Disbursements	46,313	2,479,305,298	2,479,351,611	814,156,095	3,293,507,706
CASH BALANCES, JUNE 30, 2011	\$	\$	\$	\$	\$

Note: Cash balances consist of checking account activity only.