

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

Financial Statements and
Supplementary Information

June 30, 2018

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

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INDEPENDENT AUDITORS' REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and each fund 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, 2018, and the related notes to financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express opinions 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 audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

INDEPENDENT AUDITORS' REPORT (CONTINUED)

Auditors' Responsibility

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each fund of the Authority as of June 30, 2018, and the respective changes in the financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note H to the financial statements, the financial statements have been reissued and restated to correct an error. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages four through nine be presented to supplement the basic financial statements. Such information, although not part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to inquiries, the basic financial statements and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Authority's basic financial statements. The schedule of cash receipts and disbursements on page twenty-five 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 is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. We have applied certain limited procedures to the accompanying supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

INDEPENDENT AUDITORS' REPORT (CONTINUED)

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 8, 2018, except for Note C, the 2019 portion of Note I and Note H, as to which the date is February 28, 2019 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 grant agreements, and other matters. The purpose of that report is solely 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 effectiveness of the Authority's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control over financial reporting and compliance.

Mercadieu, P.C.

Certified Public Accountants

November 8, 2018, except for Note C, the 2019 portion of Note I and Note H, as to which the date is February 28, 2019

MANAGEMENT'S DISCUSSION AND ANALYSIS

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

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

Management's Discussion and Analysis

The New Jersey Transportation Trust Fund Authority (the "Authority"), provides a discussion and analysis of these financial statements and financial activities of the Authority as of and for the year ended June 30, 2018 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

On a cash basis, the Authority reimbursed the State's Special Transportation Fund \$1,488,500,000 in fiscal year 2018 for statewide transportation system improvements. After adjusting for accrued expenses, the Authority's total obligations to the State of New Jersey Special Transportation Fund amounted to \$1,570,270,114 to fund statewide transportation system improvements during the fiscal year. This compares to reimbursements totaling \$982,000,000 and total obligations of \$942,934,903 in the prior fiscal year. The Authority also received and subsequently reimbursed \$71,000,000 in State Emergency Services Funds during the prior year's state shutdown of road projects.

The term "net position" refers to the difference between assets and liabilities. At the close of fiscal year 2018, the Authority had a net position of \$546,286,824, as compared to a restated net position of \$1,782,800,608 at June 30, 2017. The net position decreased primarily due to the fact that the Authority did not issue new bonds in fiscal year 2018. The \$3,241,425,000 of Federal Highway Reimbursement Revenue Notes issued in fiscal year 2017 provided the necessary funding to cover capital projects for both fiscal year 2017 and 2018. In addition, spending levels for statewide transportation system improvements in fiscal year 2018 were significantly higher than fiscal year 2017, the year the state experienced a four month shutdown of road projects.

In fiscal year 2018, the Authority received a new revenue source of *Pay As You Go* capital funding from the Transportation Trust Fund Sub-Account for Capital Reserves in the amount of \$329,930,313. As provided for in the 2016 Transportation Trust Fund Re-Authorization Act, the Sub-Account is funded with the excess of constitutionally-dedicated Petroleum Products Gross Receipts Tax revenue not needed to satisfy current year debt service costs.

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.

NEW JERSEY TRANSPORTATION TRUST FUND AUTHORITY

(A Component Unit of the State of New Jersey)

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) (CONTINUED)

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 Position 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 position. Over time, increases and decreases in net position may serve as useful indicators of whether the financial position of the Authority is improving or deteriorating. Net position decreases when expenses exceed revenues and/or liabilities increase without a corresponding increase (or decrease) to assets, which may indicate a worsened financial position. The Authority's net position decreased by \$1,236,513,784 in the year ended June 30, 2018 as there was no new bond activity and the levels of capital construction spending increased.

The Statement of Activities and Governmental Funds Revenues, Expenditures and Changes in Fund Balances/Net Position presents information showing how the Authority's net position changed during the fiscal year. All changes in net position 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.

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.

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 position (deficit) may serve, over time, as a useful indicator of the Authority's financial position. In the case of the Authority, assets exceeded liabilities and deferred inflows of resources by \$546,286,824 at the close of Fiscal Year 2018.

NEW JERSEY TRANSPORTATION TRUST FUND AUTHORITY

(A Component Unit of the State of New Jersey)

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) (CONTINUED)

Financial Analysis (Continued)

The largest portion of the Authority's net position reflects its cash and cash equivalents 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.

	<u>June 30, 2018</u>	<u>June 30, 2017</u>	<u>Percentage Change 2018-2017</u>
Accounts receivable	\$ 19,191,218,760	\$ 19,582,882,385	(2)
Cash and equivalents	1,417,455,138	2,626,786,528	(46)
Unamortized bond discount	<u>8,299,262</u>	<u>8,718,387</u>	(5)
Total assets	<u>20,616,973,160</u>	<u>22,218,387,300</u>	(7)
Accrued interest payable	33,304,299	34,306,488	(3)
Accounts payable - State of New Jersey	192,147,439	54,458,264	253
Accounts payable - other	29,168	61,334	(52)
Bonds payable:			
Due within one year	781,460,000	568,390,000	37
Due after one year	18,409,758,760	19,014,492,385	(3)
Unamortized bond premium	<u>639,172,683</u>	<u>694,788,552</u>	(8)
Total liabilities	<u>20,055,872,349</u>	<u>20,366,497,023</u>	(2)
Deferred inflows of resources	<u>14,813,987</u>	<u>13,170,607</u>	12
Net Position restricted for:			
Debt service	2,043,530	1,348,101	52
Deferred charges	(678,991,707)	(733,547,260)	(7)
Payment of state transportation system costs	<u>1,223,235,001</u>	<u>2,570,918,829</u>	(52)
Net position	<u>\$ 546,286,824</u>	<u>\$ 1,838,719,670</u>	(70)
Prior period adjustment	<u>-</u>	<u>(55,919,062)</u>	-
Net position - as restated	<u>\$ -</u>	<u>\$ 1,782,800,608</u>	-

NEW JERSEY TRANSPORTATION TRUST FUND AUTHORITY

(A Component Unit of the State of New Jersey)

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) (CONTINUED)

Financial Analysis (Continued)

	<u>June 30, 2018</u>	<u>June 30, 2017</u>	<u>Percentage Change 2018-2017</u>
Revenues			
State appropriations			
Motor fuel taxes	\$ 536,408,176	\$ 515,000,000	4
Petroleum Products Gross Receipts & Sales			
Tax	726,333,000	749,396,000	(3)
Toll road authority	12,000,000	12,000,000	-
Funding, Sub-Account Capital Reserve	329,930,313	-	100
Interest income and investment return	16,645,852	11,651,773	43
Arbitrage rebate	-	224,000	(100)
Amortization of bond premium and discount	<u>55,196,744</u>	<u>50,327,014</u>	10
Total revenues	<u>1,676,514,085</u>	<u>1,338,598,787</u>	25
Expenses			
Operating expenses and financial costs	427,134	318,163	34
State transportation costs	1,570,270,114	942,934,903	67
Debt Service			
Bond interest expense, including amortization of deferred gain on advanced refunding	824,963,674	783,777,125	5
Bond interest expense, capital appreciation bonds	<u>176,726,376</u>	<u>167,243,631</u>	6
Total operating expenses	<u>2,572,387,298</u>	<u>1,894,273,822</u>	36
Deficiencies of revenues over expenses	(895,873,213)	(555,675,035)	61
Other financing sources (uses)			
Direct Garvee bond debt service reimbursement	706,267	1,381,500	(49)
Build America bond credits	36,166,786	36,050,618	-
Bond issue costs	<u>-</u>	<u>(13,843,390)</u>	(100)
Total other financing sources	<u>36,873,053</u>	<u>23,588,728</u>	56
Change in net position	(859,000,160)	(532,086,307)	61
Net position			
Beginning of year	1,838,719,670	(492,312,441)	(473)
Prior period adjustment	<u>(55,919,062)</u>	<u>-</u>	-
Beginning of year - as restated	1,782,800,608	-	-
Current year bond activity, net	<u>(377,513,624)</u>	<u>2,863,118,418</u>	(113)
Net position, end of year	<u>\$ 546,286,824</u>	<u>\$ 1,838,719,670</u>	(70)

NEW JERSEY TRANSPORTATION TRUST FUND AUTHORITY

(A Component Unit of the State of New Jersey)

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) (CONTINUED)

Other Information

As of June 30, 2018, the Authority had \$19,191,218,760 in bonds and notes outstanding, net of unamortized bond accretions, as compared to \$19,582,882,385 in the prior fiscal year, a decrease of 2.0%. During Fiscal Year 2018 the Authority incurred no new debt compared to the prior year when Federal Highway Reimbursement Revenue Notes (GARVEEs) in the amount of \$2,741,425,000 and \$500,000,000 in Series B term loan notes were issued. Those issuances did not count against the Authority's eight year, \$12 billion bonding cap related to the 2016 Capital Program Re-Authorization.

A total of \$568,390,000 in bond principal was retired through the annual debt service payments during the fiscal year, including \$14,150,000 of GARVEE Bond principal paid. This bond, which funded the Route 52 project, fully matured in fiscal year 2018.

The Authority neither issued new money Transportation Program bonds nor entered into any credit agreements subsequent to the close of fiscal year June 30, 2018. The Authority did not enter into any new Swap Agreements during the fiscal year.

The following information summarizes the changes in debt between the fiscal year 2018 and 2017:

	<u>June 30, 2018</u>	<u>June 30, 2017</u>	<u>Percentage Change 2018-2017</u>
Bonds Payable	<u>\$19,191,218,760</u>	<u>\$19,582,882,385</u>	<u>(2.0)</u>

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

Per Government Accounting Standards Board Pronouncement 65 regarding the treatment of bond issuance costs, the Authority no longer amortizes these costs over the term of the bond issue but expenses them in the year they are incurred.

NEW JERSEY TRANSPORTATION TRUST FUND AUTHORITY

(A Component Unit of the State of New Jersey)

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) (CONTINUED)

Significant Events

The 2016 TTF Re-Authorization Act included a \$0.23 per gallon increase in the fuel tax to support an eight year, \$16 billion capital projects program. The legislation also established the Transportation Trust Fund Sub-Account for Capital Reserves. It is funded from the excess of constitutionally-dedicated Petroleum Products Gross Receipts tax revenue not needed to satisfy current year debt service obligations. As noted above, the Authority received \$329.9 million in additional Pay As You Go capital funding from the Transportation Trust Fund Sub-Account for Capital Reserves in fiscal year 2018. It is anticipated that the Sub-Account for Capital Reserves will provide an estimated \$507 million in Pay as You Go funding in fiscal year 2019 and an additional \$1.3 billion through fiscal year 2024 in support of statewide transportation capital projects.

A correction to the Authority's previously released 2018 financial statements was required due to the fact that NJ Transit did not report \$137 million of its transportation costs to the Authority on a timely basis. As a result, 2018 state transportation costs and the related accounts payable were understated, which required the State Transportation Costs expense and the Accounts payable – State of New Jersey liability to be restated. In addition, a correction for a retroactive payroll expense of \$5.7 million related to the CWA Union contract ratification was booked to be incurred and accrued for as of June 30, 2018.

Subsequent Events

In July 2018 the Authority refunded \$1.3 billion in 2016 Series A Federal Highway Reimbursement Revenue Notes (GARVEE). The refunding generated approximately \$124 million in Net Present Value savings to the Authority.

On September 27, 2018, the Authority entered into an Amended and Restated Term Loan Agreement which amended and restated the Term Loan Agreement dated as of October 26, 2016 between the Authority and Bank of America, N. A. which the Authority entered into in connection with its \$500,000,000 Federal Highway Reimbursement Revenue Notes, 2016 Series B. Specifically, the Term Loan Agreement was amended to (a) revise the terms relating to the transfer of the Term Loan Agreement, (b) explicitly permit ratings to be obtained on the 2016 Series B Notes and (c) reduce the interest rates by 11 basis points on the 2016 Series B Notes. The effective date of the agreement is January 2, 2019.

In October 2018 the Authority refunded \$1.6 billion in 2007 Series A and 2008 Series A Transportation System bonds. The refunding generated approximately \$169 million in Net Present Value savings to the Authority.

On January 16, 2019 the Authority issued \$750 million in new money 2019 Series AA Transportation Program Bonds to take advantage of currently favorable interest rates in order to meet future anticipated capital funding needs.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) (CONTINUED)

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.

BASIC FINANCIAL STATEMENTS

NEW JERSEY TRANSPORTATION TRUST FUND AUTHORITY

(A Component Unit of the State of New Jersey)

STATEMENT OF NET POSITION AND GOVERNMENTAL FUNDS BALANCE SHEET

June 30, 2018

	Special Revenue Fund	Other Funds (DSF)	Total Governmental Funds	Adjustments (Note G)	Statement of Net Position
ASSETS					
Cash and equivalents	\$ 1,415,411,608	\$ 2,043,530	\$ 1,417,455,138	\$ -	\$ 1,417,455,138
Accounts receivable - State of New Jersey	-	-	-	19,191,218,760	19,191,218,760
Unamortized bond discount	-	-	-	8,299,262	8,299,262
Total assets	<u>\$ 1,415,411,608</u>	<u>\$ 2,043,530</u>	<u>\$ 1,417,455,138</u>	<u>\$19,199,518,022</u>	<u>\$20,616,973,160</u>
LIABILITIES					
Accrued interest payable	\$ -	\$ -	\$ -	\$ 33,304,299	\$ 33,304,299
Accounts payable - State of New Jersey	192,147,439	-	192,147,439	-	192,147,439
Accounts payable - other	29,168	-	29,168	-	29,168
Bonds and notes payable					
Due within one year	-	-	-	781,460,000	781,460,000
Due after one year	-	-	-	18,409,758,760	18,409,758,760
Unamortized bond premium	-	-	-	639,172,683	639,172,683
Total Liabilities	<u>192,176,607</u>	<u>-</u>	<u>192,176,607</u>	<u>19,863,695,742</u>	<u>20,055,872,349</u>
DEFERRED INFLOWS OF RESOURCES					
Deferred gains on advanced refundings	-	-	-	14,813,987	14,813,987
FUND BALANCES/NET POSITION					
Restricted for					
Debt service	-	2,043,530	2,043,530	-	2,043,530
Deferred charges	-	-	-	(678,991,707)	(678,991,707)
Payment of state transportation system costs	1,223,235,001	-	1,223,235,001	-	1,223,235,001
Total fund balances/net position	<u>1,223,235,001</u>	<u>2,043,530</u>	<u>1,225,278,531</u>	<u>(678,991,707)</u>	<u>546,286,824</u>
Total liabilities, deferred inflows of resources, and fund balances/net position	<u>\$ 1,415,411,608</u>	<u>\$ 2,043,530</u>	<u>\$ 1,417,455,138</u>	<u>\$19,199,518,022</u>	<u>\$20,616,973,160</u>

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 NET POSITION/FUND BALANCES

Year Ended June 30, 2018

	Special Revenue Fund	Other Funds (DSF)	Total Governmental Funds	Adjustments (Note G)	Statement of Activities
REVENUES					
State appropriations equivalent to:					
Motor fuel taxes	\$ 536,408,176	\$ -	\$ 536,408,176	\$ -	\$ 536,408,176
Petroleum Products Gross Receipts and Sales Tax	726,333,000	-	726,333,000	-	726,333,000
Toll Road Authority	12,000,000	-	12,000,000	-	12,000,000
Funding Sub-Account Capital Reserve	329,930,313	-	329,930,313	-	329,930,313
Interest income and investment return	16,645,852	-	16,645,852	-	16,645,852
Amortization of bond premium and discount	-	-	-	55,196,744	55,196,744
Total revenues	<u>1,621,317,341</u>	<u>-</u>	<u>1,621,317,341</u>	<u>55,196,744</u>	<u>1,676,514,085</u>
EXPENDITURES					
Operating expenses and financial costs	401,427	25,707	427,134	-	427,134
State transportation costs	1,570,270,114	-	1,570,270,114	-	1,570,270,114
Debt Service					
Principal	-	568,390,000	568,390,000	(568,390,000)	-
Bond interest expense, including amortization of deferred gain on advanced refunding	-	824,322,483	824,322,483	641,191	824,963,674
Bond interest expense, capital appreciation bonds	-	-	-	176,726,376	176,726,376
Total expenditures	<u>1,570,671,541</u>	<u>1,392,738,190</u>	<u>2,963,409,731</u>	<u>(391,022,433)</u>	<u>2,572,387,298</u>
Excess/deficiency of revenues over expenses	<u>50,645,800</u>	<u>(1,392,738,190)</u>	<u>(1,342,092,390)</u>	<u>446,219,177</u>	<u>(895,873,213)</u>
OTHER FINANCING SOURCES (USES)					
Direct Garvee bond debt service reimbursement	-	14,856,267	14,856,267	(14,150,000)	706,267
Transfers - internal activities	(1,342,410,566)	1,342,410,566	-	-	-
Build America Bond Credits	-	36,166,786	36,166,786	-	36,166,786
Total other financing sources (uses)	<u>(1,342,410,566)</u>	<u>1,393,433,619</u>	<u>51,023,053</u>	<u>(14,150,000)</u>	<u>36,873,053</u>
Changes in fund balances/net position	<u>(1,291,764,766)</u>	<u>695,429</u>	<u>(1,291,069,337)</u>	<u>432,069,177</u>	<u>(859,000,160)</u>
Fund balances/net position, beginning of year	2,570,918,829	1,348,101	2,572,266,930	(733,547,260)	1,838,719,670
Prior period adjustment	(55,919,062)	-	(55,919,062)	-	(55,919,062)
Beginning of year, restated	<u>2,514,999,767</u>	<u>1,348,101</u>	<u>2,516,347,868</u>	<u>(733,547,260)</u>	<u>1,782,800,608</u>
Current year bond activity, net	-	-	-	(377,513,624)	(377,513,624)
Fund balances/net position, end of year	<u>\$ 1,223,235,001</u>	<u>\$ 2,043,530</u>	<u>\$ 1,225,278,531</u>	<u>\$ (678,991,707)</u>	<u>\$ 546,286,824</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 provides 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. GASB Statement 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*, establishes the order of priority of pronouncements and other sources of accounting and financial reporting guidance that a governmental entity should apply. Per the Statement, the sources of authoritative generally accepted accounting principles ("GAAP") are categorized in descending order of authority as follows: GASB Statements and Interpretations, GASB Technical Bulletins, GASB Implementation Guides, and literature of the American Institute of Certified Public Accountants ("AICPA") cleared by the GASB. Authoritative GAAP is incorporated periodically into the *Codification of Governmental Accounting and Financial Reporting Standards* (Codification), and when presented in the Codification, it retains its authoritative status. If the accounting treatment for a transaction or other event is not specified within a source of authoritative GAAP described above, a governmental entity should first consider accounting principles for similar transactions or other events within a source of authoritative GAAP described above and then may consider non-authoritative accounting literature from other sources. These include GASB Concepts Statements; pronouncements and other literature of the Financial Accounting Standards Board ("FASB"), Federal Accounting Standards Advisory Board, International Public Sector Accounting Standards Board, and International Accounting Standards Board, and AICPA literature not cleared by the GASB; practices that are widely recognized and prevalent in state and local government; literature of other professional associations or regulatory agencies; and accounting textbooks, handbooks and articles.

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

The Authority, as a single program government, combines governmental fund (modified accrual basis) and government-wide (accrual basis) financial statements, which are linked together by the reconciliation of differences between the Governmental Funds and Government-Wide Financial Statements (see Note G).

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 government-wide financial statements are prepared under the current 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, petroleum products gross receipts and sales taxes, and toll road authorities. In fiscal year 2018, the Authority received a new revenue source of Pay As You Go capital funding from the Transportation Trust Fund Subaccount for Capital Reserves. As provided for in the 2016 Transportation Trust Fund Re-Authorization Act, the Sub-account is funded with the excess of constitutionally-dedicated Petroleum Products Gross Receipts Tax revenue not needed to satisfy current year debt service costs.

The governmental fund financial statements are prepared under the 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 (General 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.

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 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.

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.

Deferred Inflows of Resources

Gain on advanced refunding of bonds is recorded as a deferred inflow of resources in the statement of net position and is amortized over the life of old debt or the life of new debt, whichever is shorter.

Restricted Net Position

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	\$ 781,460,000
Due after one year	<u>18,409,758,760</u>
	<u>\$19,191,218,760</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. NJCMF is considered to be an investment trust fund as defined in GASB Statement No. 31.

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

NOTES TO FINANCIAL STATEMENTS

B. CASH AND EQUIVALENTS (CONTINUED)

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.

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. The Authority's NJCMF funds are not subject to custodial credit risk due to the fact that the funds are held by and in the name of the NJCMF in a segregated trust account with a third-party custodian rather than in the possession of a third-party custodian. Additionally, cash and equivalents and investments of the Authority 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 vehicles with limited or no custodial credit risk such as 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.

Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Credit risk is measured by nationally recognized statistical rating agencies such as Moody's Investors Service, Inc. (Moody's), Standard & Poor's Corporation (S&P), and Fitch Ratings (Fitch). Concentration of credit risk is the risk of loss attributed to the magnitude of an investment in a single issuer. Though the underlying assets and investments of the NJCMF pool are subject to credit risk, the risk is limited by mix of the credit quality ratings of the assets in the portfolio maintained by NJCMF.

Cash and equivalents at June 30, 2018, were as follows:

NJCMF	\$1,415,213,757
US Bank	2,241,381
Total	<u>\$1,417,455,138</u>

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 government securities, or an external investment pool, it is not subject to interest rate risk if interest rates fluctuate.

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

NOTES TO FINANCIAL STATEMENTS

C. ACCOUNTS PAYABLE - STATE OF NEW JERSEY

The balance due of \$192,147,439 consists of amounts due the State of New Jersey Special Transportation Fund for reimbursement of State, local and New Jersey Transit transportation costs.

D. BONDS AND NOTES PAYABLE

Bonds and notes payable consist of Transportation System Bonds Payable, Transportation Program Bonds Payable, and Federal Highway Revenue Reimbursement Notes (Indirect Garvees) Payable. Bond resolutions have been adopted by the Authority for the purpose of making improvements to the transportation systems and programs in the State of New Jersey.

Transportation System Bonds refer to bonds issued pursuant to authorizations previously provided in P.L. 1995, c. 108 and P.L. 2006, c.3, as well as any bonds issued to refund those prior bonds. Transportation Program Bonds refer to bonds issued pursuant to the most recent authorization enacted in June 2012, (P.L. 2012, c. 13) and any bonds subsequently issued to refund those particular bonds.

In fiscal year 2018, the Authority did not issue any new money Transportation Program Bonds, authorized under the October 2016 Act. The proceeds of any new Transportation Program Bond issuance are used to support transportation projects within the State of New Jersey.

The Transportation Program Bonds will be issued as “state contract” debt backed by a new contract between the State Treasurer and the Authority. This contract pledges that constitutionally-dedicated revenues appropriated by the Legislature will be made available to the Authority for debt service payments on its Transportation Program Bonds.

The Transportation System Bonds continue to be secured by the existing contract between the State Treasurer and the Authority which pledges that any dedicated New Jersey Transportation Trust Fund Authority revenues appropriated by the Legislature to the payment of such bonds will be made available to the Authority for debt service payments.

For Federal Indirect Garvee bonds, the state agency issuer submits eligible project expenses to the Federal Highway Administration for reimbursement, and a portion of such reimbursements is used to pay the resulting debt service on the Indirect Garvees. Indirect GARVEE bonds are typically used to finance a series of future projects, the exact details of which have yet to be determined. Future federal appropriations are pledged to pay debt service on Indirect GARVEE bonds and the State can decide whether additional revenues beyond federal appropriations will be pledged to provide security to the bond holders.

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

NOTES TO FINANCIAL STATEMENTS

D. BONDS AND NOTES PAYABLE (CONTINUED)

The following is a summary of transportation system bonds, transportation program bonds, and Federal Highway Revenue Reimbursement notes outstanding:

Series	Interest Rate Range	Bonds Outstanding (in Thousands)			Bonds Outstanding (in Thousands)		Amounts Due within One Year (in Thousands)
		June 30, 2017	Additions (in Thousands)	Reductions (in Thousands)	June 30, 2018		
1999 Series A	5.75%	\$ 101,070	\$ -	\$ 31,825	\$ 69,245	\$ 33,655	
2001 Series C	5.50%	74,385	-	36,170	38,215	38,215	
2003 Series B	5.00%-5.25%	269,475	-	86,375	183,100	89,750	
2004 Series A	5.75%	107,495	-	-	107,495	-	
2004 Series B	5.50%	54,775	-	54,775	-	-	
2005 Series B	5.25%-5.50%	683,540	-	-	683,540	-	
2006 Series A	4.25%-5.50%	1,576,785	-	-	1,576,785	-	
2006 Series C	4.93%-5.05%	3,708,585	-	-	3,708,585	-	
2006 A Garvee	5.00%	14,150	-	14,150	-	-	
2007 Series A	4.75%-5.00%	871,055	-	-	871,055	-	
2008 Series A	5.25%-6.75%	2,173,735	-	-	2,173,735	-	
2009 Series A	6.23%-6.40%	869,075	-	-	869,075	-	
2009 Series B	6.88%	273,500	-	-	273,500	-	
2009 Series C Note	5.250%	150,000	-	-	150,000	-	
2009 Series D Note	5.000%	147,500	-	-	147,500	-	
2010 Series A	5.85%-6.25%	1,273,180	-	-	1,273,180	-	
2010 Series B	6.56%	500,000	-	-	500,000	-	
2010 Series C	5.75%-6.10%	1,000,000	-	-	1,000,000	-	
2010 Series D	3.00%-5.25%	483,900	-	38,990	444,910	63,600	
2010 Series E	3.60%	14,100	-	14,100	-	-	
2011 Series A	3.25%-6.00%	547,185	-	12,010	535,175	12,590	
2011 Series B	2.50%-5.50%	1,206,905	-	24,795	1,182,110	26,035	
2012 Series A	5.00%	326,255	-	-	326,255	-	
2012 Series AA	2.50%-5.00%	830,710	-	25,115	805,595	26,080	
2013 Series A	3.00%-5.00%	476,700	-	184,610	292,090	7,575	
2013 Series B	1.76%	250,000	-	-	250,000	250,000	
2013 Series AA	3.00%-5.50%	808,225	-	14,815	793,410	15,410	
2014 Series AA	4.25%-5.00%	744,420	-	20,595	723,825	21,565	
2014 Series BB	Variable	297,500	-	-	297,500	-	
2015 Series AA	3.00%-5.25%	617,025	-	10,065	606,960	10,470	
2016 A Garvee	4.10%-5.00%	2,741,425	-	-	2,741,425	186,515	
2016 B Garvee	3.12%-3.34%	500,000	-	-	500,000	-	
		23,692,655	-	568,390	23,124,265	781,460	
Less bond accretion		(4,109,772)	-	176,726	(3,933,046)	-	
Total		<u>\$ 19,582,883</u>	<u>\$ -</u>	<u>\$ 391,664</u>	<u>\$ 19,191,219</u>	<u>\$ 781,460</u>	

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

NOTES TO FINANCIAL STATEMENTS

D. BONDS AND NOTES PAYABLE (CONTINUED)

Total maturities of transportation system bonds, transportation program bonds, and Federal Highway Revenue Reimbursement notes are as follows:

Year Ending June 30,	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2019	\$ 781,460,000	\$ 646,253,893	\$ 1,427,713,893
2020	874,485,000	621,624,692	1,496,109,692
2021	924,630,000	581,271,717	1,505,901,717
2022	973,730,000	542,433,763	1,516,163,763
2023	1,024,835,000	502,124,481	1,526,959,481
2024-2028	5,653,930,000	2,002,779,509	7,656,709,509
2029-2033	4,906,605,000	1,444,080,590	6,350,685,590
2034-2038	4,313,625,000	954,508,606	5,268,133,606
2039-2043	3,442,710,000	354,924,906	3,797,634,906
2044-2046	<u>228,255,000</u>	<u>16,818,650</u>	<u>245,073,650</u>
Total	23,124,265,000	<u>\$ 7,666,820,807</u>	<u>\$30,791,085,807</u>
Less unamortized bond accretion	<u>3,933,046,240</u>		
Total Bonds Payable	<u>\$19,191,218,760</u>		

Interest payments vary by series. The majority of Authority debts are fixed rate interest payments, payable semi-annually on June 15 and December 15. Excluded from these debts are capital appreciation and Securities Industry and Financial Markets Association ("SIFMA") Multimodal notes. Capital appreciation bonds do not pay interest annually, but add the interest value to the face value of the bond to be paid at maturity. SIFMA Multimodal notes are variable rate debts in which interest rates are reset weekly and interest is payable monthly.

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.

2006 A Direct Garvee Bond

The debt service payments on the 2006 A Federal Highway Revenue Reimbursement Note (Garvee bond) are reimbursed by the Federal Highway Administration, to the State of New Jersey. These amounts are included in the principal and bond interest expense lines, since these payments are made directly by the State of New Jersey. The principal and interest payments reimbursed during year ended June 30, 2018, were \$14,150,000 and \$706,267, respectively, and represented full and final satisfaction of this obligation.

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

NOTES TO FINANCIAL STATEMENTS

D. BONDS AND NOTES PAYABLE (CONTINUED)

2006 Series C and 2008, 2009, and 2010 Series A - Capital Appreciation Bonds

The Series 2006C, 2008A, 2009A, and 2010A bonds were issued as Capital Appreciation bonds. The bonds were originally issued at principal values of \$1,115,496,792, \$1,122,744,638, \$416,230,924, and \$859,253,361, respectively. Portions of the total issuances that were capital appreciation bonds were \$1,115,496,792, \$249,999,638, \$142,730,924, and \$359,253,361, respectively. Interest on each series is not payable on a current basis. Interest is calculated on the basis of a 360-day year and is part of the accreted value from the date of issuance through the date of maturity or prior redemption, compounded as of each semi-annually each June and December 15th. The accreted values of the bonds reflect the initial principal of the bonds as noted above plus the interest accrued from the date of issuance. The bonds are reported at their accreted values of \$1,678,063,781, \$957,301,336, \$617,743,162, and \$679,937,962, respectively, as of June 30, 2018. The bonds are payable upon the respective maturity dates at the accreted values or prior to maturity at the greater of the accreted values and the present value of the accreted value discounted at the applicable tax-exempt municipal bond rate plus 30 basis points. Total accreted values at maturity are expected to be \$3,708,585,000, \$1,422,955,000, \$869,075,000 and \$1,273,180,000, respectively.

2009 Series B, 2010 Series B, and 2010 Series C - Build America Bonds

The Series 2009B, 2010B, and 2010C bonds were issued as Build America bonds. These Federally Taxable bonds were issued in connection with the American Recovery and Reinvestment Act of 2009, constituting Section 54AA of the Internal Revenue Code of 1986, as amended, for which the Authority, through the State of New Jersey, is entitled to receive a cash subsidy from the United States Treasury equal to 35% of the interest payable on each bond series on each interest payment date. The Budget Control Act of 2011 reduced the amount of the subsidy paid by the United States Treasury. In the fiscal year ended June 30, 2018, the Authority received payments totaling \$36,166,786 that represented 32.7% of the total interest due on June and December 15th for these series collectively. This represents a 6.6% decrease on the original subsidy. There can be no certainty the United States Treasury will not make further cuts to the program. The bonds are subject to redemption prior to their maturity at the option of the Authority upon a material reduction or elimination of the subsidy payments. In this case the redemption price is equal to the greater of 100% of the principal amount of the bonds to be redeemed plus accrued and unpaid interest or the sum of the present value of the remaining scheduled payments of principal and interest, discounted by the adjusted treasury rate plus 40 or 30 basis points. This present value calculation assumes a 360-day year.

2014 Series BB-1 and Series BB-2 Notes – SIFMA Index Bonds

The Series 2014 BB Notes are publicly offered SIFMA Index Multimodal Bonds. Each series bear interest at the SIFMA Index Rate plus an interest rate spread. The interest rate spread for the 2014 Series BB-1 and Series BB-2 Notes are 1.00% and 1.20%, respectively. During the SIFMA Index Rate period, interest on the notes is payable on the first business day of each month. The Series BB-1 and Series BB-2 Notes are subject to redemption prior to maturity at the option of the Authority at any time after June 15, 2019 and June 15, 2021, respectively, at a value equal to 100% of the principal amount of the notes being redeemed plus accrued interest. The Series BB-1 and Series BB-2 Notes are subject to mandatory tender on December 15, 2019 and December 15, 2021. For the year ended June 30, 2018, a total of \$6,509,082 in interest was paid on the notes.

NEW JERSEY TRANSPORTATION TRUST FUND AUTHORITY

(A Component Unit of the State of New Jersey)

NOTES TO FINANCIAL STATEMENTS

D. BONDS AND NOTES PAYABLE (CONTINUED)

2016 Series A and B Federal Highway Revenue Reimbursement Notes (Indirect Garvees)

On November 2, 2016, the Authority issued \$3,241,425,000 of Federal Highway Reimbursement Revenue Notes (Indirect Garvees) which consisted of \$2,741,425,000 of publicly offered 2016 Series A Indirect Garvees and \$500,000,000 of 2016 Series B Indirect Garvees, which are bank loan notes, purchased by Bank of America, N.A. Both series of notes are secured solely by reimbursements received by or on behalf of the New Jersey Department of Transportation pursuant to Title 23 of the United States Code from the Federal Highway Administration. The proceeds were used to fund Transportation Capital Program expenditures for fiscal years 2017 and 2018.

For the year ended June 30, 2018 a total of \$152,337,255 in debt service was paid on these obligations from the Authority's 2016 Series A and 2016 Series B Capitalized Interest Funds, which were established at the time of bond issuance.

E. 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.

The proceeds received from the sales of the bond issues are 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.

There was no refunding of prior debt in the fiscal year ended June 30, 2018.

As of June 30, 2018, the Authority has approximately \$3,475,030,000 bonds outstanding which have been previously defeased and are secured by investments held in escrow by the bond trustee. The escrow accounts are not controlled by the Authority. The bonds are considered extinguished and accordingly, the assets and related debt obligations are not reflected on the financial statements of the Authority.

F. 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.

NEW JERSEY TRANSPORTATION TRUST FUND AUTHORITY

(A Component Unit of the State of New Jersey)

NOTES TO FINANCIAL STATEMENTS

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

- (1) Unamortized bond discount is recorded as an asset (deferred change) in the statement of net position 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 expensed when incurred. Balances as of June 30, 2018, were:

Bond discount	\$ 11,730,085
Accumulated amortization	<u>(3,430,823)</u>
Total unamortized bond discount	<u>\$ 8,299,262</u>
Amortization expense	<u>\$ 419,125</u>

- (2) Long-term liabilities (bonds payable, notes 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 position. Balances as of June 30, 2018, were:

Bonds payable (June 30, 2017)	\$ 19,582,882,385
Add issuance of bonds and notes	-
Less principal payments and reduction of Garvee Bonds	(568,390,000)
Add accretion of capital appreciation bonds	<u>176,726,376</u>
Total	<u>\$ 19,191,218,761</u>
Accrued interest payable	<u>\$ 33,304,299</u>

- (3) Repayment of bond principal is reported as an expenditure in governmental funds and thus reduces the net position/fund balances. For the Authority as a whole, the principal payments reduce the liabilities in the statement of net position 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	\$ 554,240,000
Scheduled principal payments of Garvee Bonds	<u>14,150,000</u>
	<u>\$ 568,390,000</u>

- (4) Unamortized bond premium is recorded as deferred revenue (other liabilities) in the statement of net position 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, 2018, were:

Bond premium	\$ 1,032,923,932
Accumulated amortization	<u>(393,751,249)</u>
Total unamortized bond premium	<u>\$ 639,172,683</u>
Amortization revenue	<u>\$ 55,615,869</u>

NEW JERSEY TRANSPORTATION TRUST FUND AUTHORITY

(A Component Unit of the State of New Jersey)

NOTES TO FINANCIAL STATEMENTS

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

(5) Deferred gain on advanced refundings is recorded as deferred inflows of resources in the statement of net position and is amortized over the remaining life of the old debt or the life of new debt, whichever is shorter. Amortization revenue is recorded in the statement of activities. In governmental funds financial statements, deferred gain on advanced refunding is not applicable. Balances as of June 30, 2018, were:

Gain on advanced refunding	\$ 53,991,438
Accumulated amortization	<u>(39,177,451)</u>
Deferred gain on advanced refundings	<u>\$ 14,813,987</u>
Amortization revenue as component of interest expense	<u>\$ (1,643,380)</u>

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

Bond principal payments	\$ (568,390,000)
Direct Garvee bond principal reimbursement	14,150,000
Capital appreciation bonds	<u>176,726,376</u>
Current year bond activity, net	<u>\$ (377,513,624)</u>

H. PRIOR YEAR RESTATEMENT - CORRECTION OF AN ERROR

NJ Transit did not report \$55.9 million of its fiscal year 2017 and \$81.5 million of its fiscal year 2018 transportation costs to the Authority on a timely basis. As a result, 2017 and 2018 state transportation costs and the related accounts payable were understated, which required the State Transportation Costs expense and the Accounts Payable - State of New Jersey liability to be restated. In addition, a correction for retroactive payroll expense of \$5.7 million related to the CWA Union contract ratification was accrued for as of June 30, 2018.

I. SUBSEQUENT EVENTS

On July 25, 2018, the Authority issued \$1,195,730,000 in 2018 Series A Federal Highway Revenue Reimbursement notes to refund \$1,310,422,696 in 2016 Series A Federal Highway Revenue Reimbursement Notes. The refunding generated approximately \$124 million in net present value debt service savings for the Authority.

On September 27, 2018, the Authority's Board approved a resolution to the Amended and Restated Term Loan Agreement dated October 26, 2016, by and between the Authority and Bank of America, N. A., entered into in connection with the Authority's \$500,000,000 Federal Highway Reimbursement Revenue Notes, 2016 Series B. Specifically, the Term Loan Agreement was amended to (a) revise the terms relating to the transfer of the Term Loan Agreement, (b) explicitly permit ratings to be obtained on the 2016 Series B Notes and (c) reduce the interest rate on the 2016 Series B Notes, which resulted in a rate reduction of 11 basis points effective January 2, 2019.

NEW JERSEY TRANSPORTATION TRUST FUND AUTHORITY

(A Component Unit of the State of New Jersey)

NOTES TO FINANCIAL STATEMENTS

I. SUBSEQUENT EVENTS (CONTINUED)

On October 3, 2018, the Authority also issued \$1,567,435,000 in 2018 Series A refunding bonds to refund \$1,657,421,828 in 2007 Series A and 2008 Series A Transportation System Bonds. The refunding generated approximately \$169 million in net present value debt service savings for the Authority.

On January 16, 2019 the Authority issued \$750 million in new money 2019 Series AA Transportation Program Bonds to take advantage of currently favorable interest rates in order to meet future anticipated capital funding needs.

SUPPLEMENTARY INFORMATION

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

SCHEDULE OF CASH RECEIPTS AND DISBURSEMENTS

Year Ended June 30, 2018

	<u>Transportation Improvement</u>	<u>Debt Service</u>	<u>Total</u>
Cash Balances, June 30, 2017	\$ 236,987	\$ 1,348,101	\$ 1,585,088
RECEIPTS			
Motor fuel taxes	-	536,408,176	536,408,176
Commercial vehicle fees and taxes	-	526,333,000	526,333,000
Sales taxes	-	163,473,214	163,473,214
Build America Bond Credits	36,166,786	-	36,166,786
Operating transfers in	<u>300,000</u>	<u>-</u>	<u>300,000</u>
Total Receipts	<u>36,466,786</u>	<u>1,226,214,390</u>	<u>1,262,681,176</u>
DISBURSEMENTS			
Operating expenses and financial costs	459,301	-	459,301
Bond interest expense	-	670,608,961	670,608,961
Principal retirement of bonds payable	-	554,910,000	554,910,000
Operating transfers out	<u>36,166,786</u>	<u>-</u>	<u>36,166,786</u>
Total Disbursements	<u>36,626,087</u>	<u>1,225,518,961</u>	<u>1,262,145,048</u>
Cash Balances, June 30, 2018	<u>\$ 77,686</u>	<u>\$ 2,043,530</u>	<u>\$ 2,121,216</u>

Note: Cash balances consist of checking account activity only.

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, in accordance with the 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, the accompanying financial statements of the governmental activities and each fund 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, 2018, and the related notes to financial statements, which collectively comprise the Authority's basic financial statements, and have issued our report thereon dated November 8, 2018, except for Note C, the 2019 portion of Note I and Note H, as to which the date is February 28, 2019.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Authority's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purposes of expressing our opinions on the financial statements but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control.

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 Authority's financial statements will not be prevented, or detected or corrected, on a timely basis. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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 that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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 from 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*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Authority's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Mercedien, P.C.

Certified Public Accountants

November 8, 2018, except for Note C, the 2019 portion of Note I and Note H, as to which the date is February 28, 2019