NEW JERSEY CLEAN WATER AND DRINKING WATER STATE REVOLVING FUND PROGRAM

Comprehensive Annual Financial Report

June 30, 2012 and 2011

NEW JERSEY CLEAN WATER AND DRINKING WATER STATE REVOLVING FUND PROGRAM

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INDEPENDENT AUDITORS' REPORT

To the Program Management
New Jersey Clean Water and Drinking Water State Revolving Fund Program

We have audited the accompanying balance sheets of the New Jersey Clean Water and Drinking Water State Revolving Fund Program (the "Program"), as of June 30, 2012 and 2011, and the related statements of revenues, expenses and changes in net assets and cash flows for the years then ended. These basic financial statements are the responsibility of the Program's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits 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 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 Program'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 audits provide a reasonable basis for our opinion.

As discussed in Note A to the financial statements, the basic financial statements referred to above are intended to present the financial position and the changes in financial position and cash flows of the Program. They do not purport to, and do not, present fairly the financial position of the State of New Jersey Department of Environmental Protection ("NJDEP") or The New Jersey Environmental Infrastructure Trust ("NJEIT") as of June 30, 2012 and 2011, and the changes in their financial position and their cash flows, where applicable, for the years then ended in conformity with accounting principles generally accepted in the United States of America.

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In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of the Program as of June 30, 2012 and 2011, and the changes in its financial position and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our reports dated April 8, 2013 and June 7, 2012, respectively, on our consideration of the Program's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements 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 through 10 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 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 basic financial statements of the Program taken as a whole. The supplementary information on pages 37 to 44 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information 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 of the Program. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the Untied States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Mercadien, P.C.
Certified Public Accountants

April 8, 2013

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 New Jersey Clean Water and Drinking Water State Revolving Fund Program's Management and the U.S. Environmental Protection Agency

We have audited the financial statements of New Jersey Clean Water and Drinking Water State Revolving Fund Program (the "Program") as of and for the year ended June 30, 2012 and 2011, and have issued our report thereon dated April 8, 2013. 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 Program'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 Program's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Program'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 Program's financial statements will not be prevented, or detected and corrected on a timely basis.

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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)

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 as defined above. 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.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Program's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations and grant agreements, 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 the New Jersey Clean Water and Drinking Water State Revolving Fund Program's Management and the U.S. Environmental Protection Agency and is not intended to be and should not be used by anyone other than these specified parties.

Mercadien, P.C.
Certified Public Accountants

April 8, 2013

NEW JERSEY CLEAN WATER AND DRINKING WATER
STATE REVOLVING FUND PROGRAM

MANAGEMENT'S DISCUSSION AND ANALYSIS

Years Ended June 30, 2012 and 2011

This section of the comprehensive annual financial report of the New Jersey Clean Water and Drinking Water State Revolving Fund Program (the "Program") presents management's discussion and analysis of the Program's financial performance during the fiscal years ended June 30, 2012 and 2011. Please read this section in conjunction with the Program's financial statements and accompanying notes.

2012 FINANCIAL HIGHLIGHTS

Clean Water State Revolving Fund

- The total net assets are $1,519,573,801
- Cash and Investments are $693,784,208
- Loans Receivable are $1,988,847,937
- Bonds Payable are $1,174,259,572

Drinking Water State Revolving Fund

- The total net assets are $407,321,694
- Cash and Investments are $236,730,458
- Loans Receivable are $463,647,346
- Bonds Payable are $295,281,748

2011 FINANCIAL HIGHLIGHTS

Clean Water State Revolving Fund

- The total net assets are $1,490,000,116
- Cash and Investments are $735,214,309
- Loans Receivable are $1,932,957,690
- Bonds Payable are $1,186,812,886

Drinking Water State Revolving Fund

- The total net assets are $359,696,455
- Cash and Investments are $207,679,425
- Loans Receivable are $426,260,025
- Bonds Payable are $275,884,242

OVERVIEW OF THE FINANCIAL STATEMENTS

This comprehensive annual financial report consists of three parts, the Management's Discussion and Analysis, the combined financial statements of the New Jersey Department of Environmental Protection ("NJDEP") and New Jersey Environmental Infrastructure Trust ("NJEIT") for the entire State Revolving Fund Program including notes, and also, the combined financial statements for the Clean Water State Revolving Fund ("CWSRF") and Drinking Water State Revolving Fund ("DWSRF"). The NJDEP is a state governmental agency. The accounting policies of the NJDEP conform with generally accepted accounting principles as applicable to special revenue funds. The NJEIT is an independent state financing authority. The accounting policies of the NJEIT conform with generally accepted accounting principles as applicable to enterprise funds.

These statements offer short and long term financial information about the Program's activities. The balance sheet includes all of the CWSRF and DWSRF assets and liabilities and provides information about the nature and amounts of investments in resources (assets) and the obligations to bond holders (liabilities). All of the current year's revenues and expenses are accounted for in the Statement of Revenues, Expenses and Changes in Net Assets. The final required financial statement is the statement of Cash Flows. The primary purpose of this statement is to provide information about the CWSRF and DWSRF Programs' cash receipts and cash payments during the reporting period. The statement reports cash receipts, cash payments, and net changes in cash resulting from operations, investing, and financing activities and provides answers to such questions as where did cash come from, what was cash used for, and what was the change in cash balance during the reporting period. The notes to financial statements provide additional information that is essential to a full understanding of the data provided in the basic financial statements.

FINANCIAL ANALYSIS OF THE PROGRAM

The purpose of the Program is to improve the environment by making loans to government entities and water purveyors throughout the state. There are two sources for the financing of these projects. The NJDEP receives Federal Clean Water and Drinking Water Capitalization Grants from the U.S. Environmental Protection Agency. The NJEIT sells revenue bonds. The current assets consist of committed funds, which have not been requested by the borrowers and uncommitted state match, and repayments from prior obligations. The loans receivable is the amount of loans net of funds not yet requisitioned. The utilization of the capitalization grants and bond proceeds is reflected in loans receivable. As a result, analyzing the assets as a whole would not be a good measurement of the Program's success. In addition, the Program does not hold any capital assets. All capital assets are held by the borrowers.

Net Assets - the following tables summarize the Program's net assets for the CWSRF and DWSRF as of June 30, 2012, 2011 and 2010.

In the tables, assets include available cash, investments, accrued interest and loans receivable. Liabilities consist of deferred revenue, accrued interest payable and bonds payable. Restricted funds are funds held for debt service reserve, for the CWSRF Interim Financing Program and by enabling legislation.

FINANCIAL ANALYSIS OF THE PROGRAM (CONTINUED)

Condensed Balance Sheets

CLEAN WATER STATE REVOLVING FUND

	June 30,		
	2012	2011	2010
Current assets	$ 814,275,425	$ 839,013,255	$ 817,634,740
Non-current assets	1,897,937,498	1,856,708,747	1,767,895,322
Total assets	2,712,212,923	2,695,722,002	2,585,530,062
Current liabilities	92,627,030	93,918,607	82,343,416
Non-current liabilities	1,100,012,092	1,111,803,279	1,118,967,415
Total liabilities	1,192,639,122	1,205,721,886	1,201,310,831
Restricted net assets	$ 1,519,573,801	$ 1,490,000,116	$ 1,384,219,231

DRINKING WATER STATE REVOLVING FUND

	June 30,		
	2012	2011	2010
Current assets	$ 256,633,174	$ 227,975,261	$ 172,909,960
Non-current assets	450,485,536	412,486,272	396,431,166
Total assets	707,118,710	640,461,533	569,341,126
Current liabilities	18,911,415	17,822,916	16,520,764
Non-current liabilities	280,885,601	262,942,162	234,330,865
Total liabilities	299,797,016	280,765,078	250,851,629
Restricted net assets	$ 407,321,694	$ 359,696,455	$ 318,489,497

The table above illustrates that the total net assets of the CWSRF Program have increased from $1,490,000,116 in 2011 to $1,519,573,801 in 2012 and the total net assets of the DWSRF Program have increased from $359,696,455 in 2011 to $407,321,694 in 2012. The increase is a result of the 2012 Financing Program. Through the issuance of the Trust Bonds, deposits totaling $59,661,755 and $31,955,216 were made respectively into the CWSRF and DWSRF. Assets were increased by repayments of fund loans amounting to $87,733,415 for CWSRF and $19,722,701 for DWSRF.

FINANCIAL ANALYSIS OF THE PROGRAM (CONTINUED)

Changes in Net Assets - the following tables summarize the Program's changes in net assets for CWSRF and DWSRF for the years ended June 30, 2012, 2011 and 2010.

Condensed Statements of Revenues, Expenses and Changes in Net Assets

CLEAN WATER STATE REVOLVING FUND

	Years Ended June 30,		
	2012	2011	2010
Operating revenues	$ 43,518,899	$ 47,846,898	$ 61,847,970
Non-operating revenues/transfers	36,170,973	163,138,630	100,348,124
Total revenues	79,689,872	210,985,528	162,196,094
Operating Expenses	50,116,187	105,204,643	107,291,418
Total	50,116,187	105,204,643	107,291,418
Change in net assets	$ 29,573,685	$ 105,780,885	$ 54,904,676

DRINKING WATER STATE REVOLVING FUND

	Years Ended June 30,		
	2012	2011	2010
Operating revenues	$ 11,031,755	$ 11,557,886	$ 8,847,001
Non-operating revenues/transfers	50,717,219	54,688,164	36,706,080
Total revenues	61,748,974	66,246,050	45,553,081
Operating Expenses	14,123,735	25,039,092	24,054,308
Total	14,123,735	25,039,092	24,054,308
Change in net assets	$ 47,625,239	$ 41,206,958	$ 21,498,773

FINANCIAL ANALYSIS OF THE PROGRAM (CONTINUED)

While the Balance Sheets show the change in financial position of net assets, the Statements of Revenues, Expenses and Changes in Net Assets illustrate the investment income on funds and interest payments from the borrowers as compared to the interest expense payments made on the outstanding bonds. The difference is investment income earned on the Project Fund investments and in the Debt Service Fund. In the case of the NJEIT, these funds are credited to the borrowers; the Program does not benefit from this income. NJDEP may utilize the investment income for loans and other approved State Revolving Fund ("SRF") purposes. Non-operating revenues include federal grants and transfers from either non-SRF funds or between the CWSRF and DWSRF. Also included in the federal grants is American Recovery and Reinvestment Act ("ARRA") grants received during fiscal year 2012 (see Note K). Transfers to other funds represent monies transferred between the CWSRF and DWSRF or due to a State bond act or the general fund for administrative and set-aside expenses. The State charges a fee of 2% of the total loan amount to cover additional costs of the Program which goes directly to the State's general fund. Half of this fee is collected at closing and the remainder is collected over the first four years of the loan.

OTHER FINANCIAL INFORMATION

On May 3, 2012, the Trust sold, by competitive bid, Series 2012A, B and C bonds to capitalize the 2012 NJ Environmental Infrastructure Financing Program. Under the Trust Direct Loan Program, 19 loans were issued this fiscal year.

The Trust’s Bond Series 2012A was sold to Barclays Capital Inc., which was the low bidder with a true interest cost of 2.73%. The bond series is tax exempt and uninsured and was rated AAA, Aaa, and AAA by Fitch Investors Services, Inc., Moody’s Investors Service and Standard & Poor’s Corp., respectively.

The Trust’s Bond Series 2012B was sold to Wells Fargo Bank, NA, which was the low bidder with a true interest cost of 3.22%. The bond series is Alternative Minimum Taxable (“AMT”) and uninsured and was rated AAA, Aaa, and AAA by Fitch Investors Services, Inc., Moody’s Investors Service and Standard & Poor’s Corp., respectively.

The Trust Bond Series 2012C was sold to Janney Montgomery Scott LLC, which was low bidder with a true interest cost of 3.54%. The bond series is federally taxable and uninsured and was rated AAA, Aaa, AAA by Fitch Investors Services, Inc., Moody’s Investors Service and Standard and Poor’s Corp., respectively. As a result of this issue, one project received funding.

Loans to borrowers in the 2012 program combine proceeds of the bond sale, lent at market rate, with interest-free loans from the State of New Jersey, Department of Environmental Protection Clean Water State Revolving Fund and Drinking Water State Revolving Fund. Thus, most public borrowers will pay a composite interest rate on their loans of under 2%.

OTHER FINANCIAL INFORMATION (CONTINUED)

On August 14, 2012, the Trust issued and sold three (3) new Series of Refunding Bonds to take advantage of the current low interest rate environment for Trust Program borrowers. The proceeds of these three Series of Refunding Bonds, Series 2012A-R Bonds, Series 2012B-R Bonds and Series 2012C-R Bonds refunded $228.2 million of outstanding Trust Bonds which resulted in the Trust passing on a reduction of interest payments owed by participating borrowers that totaled more than $25 million dollars.

The Series 2012A-R Refunding Bonds were sold on a tax-exempt basis in the aggregate principal amount of $200.9 million and refunded all of the outstanding Series 1998F and Series 1998G Bonds, and a portion of Series 2004A, Series 2005A and Series 2006A Bonds. The winning bid for the Series 2012A-R Refunding Bonds was submitted by Bank of America Merrill Lynch with a True Interest Cost ("TIC") of 1.806%.

The Series 2012B-R Refunding Bonds were sold on a taxable basis in the aggregate principal amount of $1.26 million and refunded all the outstanding Series 1995B Bonds and a portion of Series 2001C Bonds. The Series 2012C-R Refunding Bonds were sold on a taxable basis in the aggregate principal amount of $9.0 million and refunded all of the outstanding Series 2003A Bonds. Given the small size of the Series 2012B-R Refunding Bonds, competitive bidding for this Series was combined with the sale of the Series 2012C-R Refunding Bond Series on an "all-or-none" basis. Janney Montgomery Scott submitted the winning bids with a TIC of 1.931% for the Series 2012B-R Refunding Bonds and a TIC of 2.375% for the Series 2012C-R Refunding Bonds.

On December 1, 2005, the Trust and the State of New Jersey, acting by and through NJDEP, each extended a loan to the Bergen County Improvement Authority for EnCap Golf Holdings, LLC (EnCap) and the Meadowlands remediation project undertaken by EnCap. These Loan Agreements have experienced certain Events of Default due to the failure of Encap to comply with various covenants and obligations. On May 8, 2008, EnCap filed a voluntary petition for relief pursuant to Chapter 11 of the United States Bankruptcy Code. The bankruptcy was dismissed on February 24, 2009. Due to the uncertainty of the completion of the Meadowlands remediation project and the subsequent commercial and residential development of the remediated site, the total amount of the State Loan, which is $51,367,421, net of amounts payable from an available debt service reserve fund which total $808,000, is considered to be impaired. Accordingly, the Financing Program has recorded an allowance for loan losses for the years ended June 30, 2011 and 2012, in connection with the State Loan (See Note J to the Financial Statements). The Trust Loan was secured by a Direct Pay Letter of Credit from Wachovia Bank (LOC Provider) which fully secured the debt service repayments of principal and interest owed on the NJEIT-BCIA Revenue Bonds. On September 28, 2007, the LOC Provider directed a mandatory tender of the NJEIT-BCIA Bonds. This action resulted in all holders of the publicly issued NJEIT-BCIA Bonds being paid in full, all outstanding principal plus accrued amounts totaling $88,413,346. (See Note K to the Financial Statements.) American Home acquired all of the NJEIT BCIA Bonds from the LOC provider and, as of the date of this report, continues to hold these bonds which continue to be in default but do not encumber any assets of either the NJEIT or the State of New Jersey.

CONTACTING THE PROGRAM'S FINANCIAL MANAGEMENT

This financial report is intended solely for the information and use of the Program and the U.S. Environmental Protection Agency and is not intended to be and should not be used by anyone other than these specified parties. If you have any questions about this report or need additional financial information from NJDEP, contact the Manager, Federal Funds Administration, P.O. Box 420, Trenton, New Jersey 08625-0420. For the New Jersey Environmental Infrastructure Trust, contact the Executive Director, 3131 Princeton Pike, Building 6, Suite 201, Lawrenceville, New Jersey 08648.

NEW JERSEY CLEAN WATER AND DRINKING WATER STATE REVOLVING FUND PROGRAM

BALANCE SHEETS

June 30, 2012

	Clean Water Fund	Drinking Water Fund	Total
ASSETS			
Current Assets			
Restricted assets			
Cash and cash equivalents	$ 161,895,587	$ 61,279,047	$ 223,174,634
Investments	480,765,489	157,684,170	638,449,659
Interest receivable	17,585,122	4,502,566	22,087,688
Loans receivable, net	149,118,513	32,629,465	181,747,978
Other assets	4,910,714	537,926	5,448,640
Total Current Assets	814,275,425	256,633,174	1,070,908,599
Non-Current Assets			
Restricted assets			
Investments	51,123,132	17,767,241	68,890,373
Loans receivable, net	1,839,729,424	431,017,881	2,270,747,305
Deferred issuance costs	7,084,942	1,700,414	8,785,356
Total Non-Current Assets	1,897,937,498	450,485,536	2,348,423,034
Total Assets	$ 2,712,212,923	$ 707,118,710	$ 3,419,331,633
LIABILITIES AND NET ASSETS			
Current Liabilities			
Accounts payable	$ -	$ 704,821	$ 704,821
Accrued interest payable	14,797,861	3,810,447	18,608,308
Deferred revenue	3,581,689	-	3,581,689
Current portion of bonds payable	74,247,480	14,396,147	88,643,627
Total Current Liabilities	92,627,030	18,911,415	111,538,445
Non-Current Liabilities			
Bonds Payable	1,100,012,092	280,885,601	1,380,897,693
Total Liabilities	1,192,639,122	299,797,016	1,492,436,138
Net Assets			
Restricted for debt service	165,534,879	59,758,098	225,292,977
Restricted for Interim Financing Trust Loan Program	11,808,408	-	11,808,408
Restricted by enabling legislation	1,342,230,514	347,563,596	1,689,794,110
Total Net Assets	1,519,573,801	407,321,694	1,926,895,495
Total Liabilities and Net Assets	$ 2,712,212,923	$ 707,118,710	$ 3,419,331,633

See notes to financial statements.

NEW JERSEY CLEAN WATER AND DRINKING WATER STATE REVOLVING FUND PROGRAM

BALANCE SHEETS

June 30, 2011

	Clean Water Fund	Drinking Water Fund	Total
ASSETS			
Current Assets			
Restricted assets			
Cash and Cash equivalents	$ 214,390,601	$ 54,798,016	$ 269,188,617
Investments	451,784,757	137,216,863	589,001,620
Interest receivable	17,896,090	4,689,433	22,585,523
Loans receivable, net	152,580,817	30,921,655	183,502,472
Other assets	2,360,990	349,294	2,710,284
Total Current Assets	839,013,255	227,975,261	1,066,988,516
Non-Current Assets			
Restricted assets			
Investments	69,038,951	15,664,546	84,703,497
Loans receivable, net	1,780,376,873	395,338,370	2,175,715,243
Deferred issuance costs	7,292,923	1,483,356	8,776,279
Total Non-Current Assets	1,856,708,747	412,486,272	2,269,195,019
Total Assets	$ 2,695,722,002	$ 640,461,533	$ 3,336,183,535
LIABILITIES AND NET ASSETS			
Current Liabilities			
Accounts payable	$ -	$ 201,828	$ 201,828
Accrued interest payable	16,370,387	4,329,714	20,700,101
Deferred revenue	2,538,613	349,294	2,887,907
Current portion of bonds payable	75,009,607	12,942,080	87,951,687
Total Current Liabilities	93,918,607	17,822,916	111,741,523
Non-Current Liabilities			
Bonds payable	1,111,803,279	262,942,162	1,374,745,441
Total Liabilities	1,205,721,886	280,765,078	1,486,486,964
Net Assets			
Restricted for debt service	163,742,011	58,859,736	222,601,747
Restricted for Interim Financing Trust Loan Program	11,794,514	-	11,794,514
Restricted by enabling legislation	1,314,463,591	300,836,719	1,615,300,310
Total Net Assets	1,490,000,116	359,696,455	1,849,696,571
Total Liabilities and Net Assets	$ 2,695,722,002	$ 640,461,533	$ 3,336,183,535

See notes to financial statements.

NEW JERSEY CLEAN WATER AND DRINKING WATER STATE REVOLVING FUND PROGRAM

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

Year Ended June 30, 2012

	Clean Water Fund	Drinking Water Fund	Total
Operating revenues			
Investment income	$ 1,025,737	$ 146,924	$ 1,172,661
Interest income from loans	42,493,162	10,884,831	53,377,993
Total operating revenues	43,518,899	11,031,755	54,550,654
Operating expenses			
Interest expense	41,172,012	10,012,771	51,184,783
ARRA Principal forgiveness of loans receivable	8,944,175	4,110,964	13,055,139
Total operating expenses	50,116,187	14,123,735	64,239,922
Operating loss	(6,597,288)	(3,091,980)	(9,689,268)
Non-operating revenues/transfers			
Federal grants	53,012,181	21,598,229	74,610,410
Transfers (to) from other funds	(16,841,208)	29,118,990	12,277,782
Total non-operating revenues/transfers	36,170,973	50,717,219	86,888,192
Change in net assets	29,573,685	47,625,239	77,198,924
Net assets, beginning of year	1,490,000,116	359,696,455	1,849,696,571
Net assets, end of year	$ 1,519,573,801	$ 407,321,694	$ 1,926,895,495

See notes to financial statements.

NEW JERSEY CLEAN WATER AND DRINKING WATER STATE REVOLVING FUND PROGRAM

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

Year Ended June 30, 2011

	Clean Water Fund	Drinking Water Fund	Total
Operating revenues			
Investment income	$ 2,629,696	$ 700,958	$ 3,330,654
Interest income from loans	45,217,202	10,856,928	56,074,130
Total operating revenues	47,846,898	11,557,886	59,404,784
Operating expenses			
Interest expense	40,838,263	9,217,778	50,056,041
ARRA principal forgiveness of loans receivable	64,366,380	15,821,314	80,187,694
Total operating expenses	105,204,643	25,039,092	130,243,735
Operating loss	(57,357,745)	(13,481,206)	(70,838,951)
Non-operating revenues/transfers			
Federal grants	146,789,461	51,921,804	198,711,265
Transfers from other funds	16,349,169	2,766,360	19,115,529
Total non-operating revenues/transfers	163,138,630	54,688,164	217,826,794
Change in net assets	105,780,885	41,206,958	146,987,843
Net assets, beginning of year	1,384,219,231	318,489,497	1,702,708,728
Net assets, end of year	$ 1,490,000,116	$ 359,696,455	$ 1,849,696,571

See notes to financial statements.

NEW JERSEY CLEAN WATER AND DRINKING WATER STATE REVOLVING FUND PROGRAM

STATEMENT OF CASH FLOWS

Year Ended June 30, 2012

	Clean Water Fund	Drinking Water Fund	Total
Cash Flows from Operating Activities			
Investment income	$ 540,125	$ 120,622	$ 660,747
Disbursement of loan funds to borrowers	(214,135,315)	(70,759,898)	(284,895,213)
Principal received from loans to borrowers	157,199,410	32,961,018	190,160,428
Interest received from loans to borrowers	43,509,285	11,294,276	54,803,561
Interest paid on bond maturities	(47,086,788)	(11,859,877)	(58,946,665)
Interest on investments	1,351,881	186,834	1,538,715
Net cash used in operating activities	(58,621,402)	(38,057,025)	(96,678,427)
Cash Flows from Non-Capital Financing Activities			
Proceeds from sale of bonds	62,315,527	33,636,273	95,951,800
Principal paid on bond maturities	(70,020,384)	(12,922,737)	(82,943,121)
Issuance and servicing costs paid	(298,227)	(205,249)	(503,476)
Federal support received, net of ARRA principal forgiveness	43,890,384	17,487,265	61,377,649
Transfers from other funds	10,697,795	32,129,770	42,827,565
Transfers to other funds	(28,868,029)	(3,010,780)	(31,878,809)
Net cash provided by non-capital financing activities	17,717,066	67,114,542	84,831,608
Cash flows from Investing Activities			
Purchase of investments	(141,913,281)	(80,732,280)	(222,645,561)
Proceeds from sale and maturity of investments	130,322,603	58,155,794	188,478,397
Net cash used in investing activities	(11,590,678)	(22,576,486)	(34,167,164)
Net (decrease) increase in cash and cash equivalents	(52,495,014)	6,481,031	(46,013,983)
Cash and cash equivalents, beginning of year	214,390,601	54,798,016	269,188,617
Cash and cash equivalents, end of year	$ 161,895,587	$ 61,279,047	$ 223,174,634
Reconciliation of Operating Loss to Net Cash			
Used in Operating Activities Operating loss	$ (6,597,288)	$ (3,091,980)	$ (9,689,268)
Adjustments to reconcile operating loss to net cash used in operating activities			
Net unrealized gain on investments	525,765	6,484	532,249
Amortization of bond discounts and premiums	(3,050,247)	(591,146)	(3,641,393)
Amortization of deferral on bond refunding	(1,798,211)	(724,884)	(2,523,095)
Amortization of deferred issuance costs	506,208	(11,809)	494,399
Principal forgiveness on ARRA loans	8,944,175	4,110,964	13,055,139
Change in assets and liabilities			
Decrease in interest receivable	310,968	186,867	497,835
Increase in other receivable	(1,220,698)	(188,632)	(1,409,330)
Increase in loans receivable	(55,890,247)	(37,422,254)	(93,312,501)
Decrease in deferred issuance costs	1,220,698	188,632	1,409,330
Decrease in accrued interest payable	(1,572,525)	(519,267)	(2,091,792)
Net cash used in operating activities	$ (58,621,402)	$ (38,057,025)	$ (96,678,427)

See notes to financial statements.

NEW JERSEY CLEAN WATER AND DRINKING WATER STATE REVOLVING FUND PROGRAM

STATEMENT OF CASH FLOWS

Year Ended June 30, 2011

	Clean Water Fund	Drinking Water Fund	Total
Cash Flows from Operating Activities			
Investment Income	$ 1,087,035	$ 212,724	$ 1,299,759
Disbursement of loan funds to borrowers	(307,285,908)	(77,254,002)	(384,539,910)
Principal received from loans to borrowers	143,834,335	28,288,206	172,122,541
Interest received from loans to borrowers	43,606,753	10,383,389	53,990,142
Interest paid on bond maturities	(45,585,593)	(9,712,474)	(55,298,067)
Interest on investments	2,591,100	830,914	3,422,014
Net cash used in operating activities	(161,752,278)	(47,251,243)	(209,003,521)
Cash Flows from Non-Capital Financing Activities			
Proceeds from sale of bonds	66,426,470	42,588,137	109,014,607
Principal paid on bond maturities	(58,834,078)	(11,365,000)	(70,199,078)
Issuance and servicing costs paid	(195,921)	(173,724)	(369,645)
Federal support received, net of ARRA principal forgiveness	82,423,081	36,100,490	118,523,571
Transfers from other funds	16,349,169	2,766,360	19,115,529
Net cash provided by non-capital financing activities	106,168,721	69,916,263	176,084,984
Cash Flows from Investing Activities			
Purchase of investments	(61,460,313)	(51,229,282)	(112,689,595)
Proceeds from sale and maturity of investments	121,762,266	35,950,218	157,712,484
Net cash provided by (used in) investing activities	60,301,953	(15,279,064)	45,022,889
Net increase in cash and cash equivalents	4,718,396	7,385,956	12,104,352
Cash and cash equivalents, beginning of year	209,672,205	47,412,060	257,084,265
Cash and cash equivalents, end of year	$ 214,390,601	$ 54,798,016	$ 269,188,617
Reconciliation of Operating Loss to Net Cash Used In Operating Activities			
Operating loss	$ (57,357,744)	$ (13,481,206)	$ (70,838,950)
Adjustments to reconcile operating loss to net cash used in operating activities			
Net unrealized gain on investments	713,344	241,001	954,345
Amortization of bond discounts and premiums	(2,248,961)	(330,138)	(2,579,099)
Amortization of deferral on bond refunding	(1,747,872)	(704,622)	(2,452,494)
Amortization of deferred issuance costs	358,345	21,097	379,442
Principal forgiveness on ARRA loans	64,366,380	15,821,314	80,187,694
Changes in assets and liabilities			
Increase in interest receivable	(1,611,416)	(582,156)	(2,193,572)
(Increase) decrease in other receivable	(1,746,715)	793,895	(952,820)
Increase in loans receivable	(163,293,135)	(48,755,500)	(212,048,635)
Decrease (increase) in deferred revenue	1,924,338	(793,895)	1,130,443
(Decrease) increase in accrued interest payable	(1,108,842)	518,967	(589,875)
Net cash used in operating activities	$ (161,752,278)	$ (47,251,243)	$ (209,003,521)

See notes to financial statements.

A. ORGANIZATION OF THE PROGRAM

The New Jersey Clean Water and Drinking Water Funds were created by the Legislature of the State of New Jersey (the “State”) in November 1985 and 1998, respectively. The New Jersey Clean Water and Drinking Water State Revolving Fund Program (the "Program") leverages federal and state dollars to finance environmental infrastructure projects of local governments and private water companies pursuant to the Federal Clean Water Act (the "CWA") and Safe Drinking Water Act (the "SDWA").

The Program’s financial statements are comprised of the Clean Water and Drinking Water financial statements of the New Jersey Environmental Infrastructure Trust ("NJEIT"), which is an independent State financing authority, and the New Jersey Department of Environmental Protection (the "NJDEP"). In the comprehensive annual financial statements of the State of New Jersey, the NJEIT Clean Water and Drinking Water financial statements are reported as non-major component units, and the NJDEP Clean Water and Drinking Water financial statements are reported as non-major special revenue funds. Accordingly, the financial statements of the Program are included in the financial statements of the State of New Jersey.

The NJEIT issues revenue bonds to fund the project loans. In addition to the NJEIT loan, the borrowers receive a zero-percent loan administered by NJDEP. The sources for the NJDEP loans are state general-obligation bond issues that were approved to capitalize the various loan funds and Federal Capitalization Grants under the CWA and the SDWA. Under the structure of the Financing Program, the assets of NJDEP are not needed to satisfy the obligations of the revenue bonds, however, they provide additional security to the bond holders.

NJDEP may finance up to 75% of the allowable project costs. NJEIT may finance up to 50% of the allowable project costs. NJEIT lends its share of allowable costs to borrowers for various terms to a maximum of 20 years at a rate equal to or less than the interest rate on its revenue bonds. Such loan repayments will be used to pay debt service on the NJEIT revenue bonds. NJEIT maintains two designated State Revolving Funds (“SRF”), the Clean Water SRF and the Drinking Water SRF, which consist of Clean Water and Drinking Water projects, to separately account for the portion of these Program loan financings that have been matched by federal sources through NJDEP.

NJEIT is administered by an executive director and staff, under the guidance of the Board of Directors, who appoint trustees (currently U.S. Bank and the Bank of New York) and loan servicers (currently U.S. Bank, the Bank of New York and TD North). NJDEP is administered by a Commissioner, appointed by the Governor and confirmed by the State Senate. NJDEP follows the State’s fiscal policies established by the Office of Management and Budget. The initial proceeds from a bond issuance are invested and held by the trustee. The Program authorizes the trustee to disburse funds to the borrowers based on a review and approval process to verify that the disbursed funds are within the drawdown limits outlined in the loan agreements. The loan servicer receives all repayments of principal and interest from the borrowers and forwards such funds to the trustee and the Master Program Trustee (U.S. Bank) or NJDEP, as appropriate.

A. ORGANIZATION OF THE PROGRAM (CONTINUED)

The trustee invests the monies received in the applicable fund (see Note C). For the 2004 bond issues and all subsequent issues, NJEIT's accounting staff acts as loan servicer. Repayments from these issues are received by the trustee.

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

B. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Program conform to accounting principles generally accepted in the United States of America as applicable to enterprise funds. The following is a summary of the more significant accounting policies:

Basis of Accounting

The accrual basis of accounting is followed by the Program. In its accounting and financial reporting, the Program follows the pronouncements of the Governmental Accounting Standards Board ("GASB") and other entities that promulgate accounting principles. Per GASB Statement No. 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 specially 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 of Accounting Procedure issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements. The Program has elected to follow GASB pronouncements issued after November 30, 1989.

Cash and Cash Equivalents and Investments

Investments are purchased with the intent to hold to maturity. Investments, which consist primarily of U.S. government obligations, are stated at fair value. Cash and cash equivalents, for purposes of the statement of cash flows, include restricted and unrestricted cash on deposit, certificates of deposit and investments with an original maturity of ninety days or less. Cash equivalents include funds invested in the State of New Jersey Cash Management Fund ("NJCMF"), First American Treasury, the Trust U.S. Treasury Obligation Money Market Fund, Citigroup Master Repurchase Agreements and commercial paper.

Allowance for Loan Losses

The allowance for loan losses is established through a provision for loan losses charged to expense. Amounts are charged against the allowance for loan losses when management believes that collectibility of some or all of the loan principal is uncertain. Subsequent recoveries, if any, are credited to the allowance.

B. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Allowance for Loan Losses (Continued)

The allowance is an amount that management believes will be adequate to absorb estimated losses relating to specifically identified loans, as well as probable credit losses inherent in the balance of the loan portfolio, based on an evaluation of the collectibility of existing loans and prior loss experience. This evaluation also takes into consideration such factors as changes in the nature and volume of the loan portfolio, overall portfolio quality, review of specific problem loans, and current economic conditions that may affect the borrower's ability to pay.

This evaluation does not include the effects of expected losses on specific loans or groups of loans that are related to future events or expected changes in economic conditions. While management uses the best information available to make its evaluation, future adjustments to the allowance may be necessary if there are significant changes in economic conditions.

The allowance consists of specific components. The specific component relates to loans that are classified as either doubtful, substandard or special mention. For such loans that are also classified as impaired, an allowance is established when the discounted cash flows (or collateral value or observable market price) of the impaired loan is lower than the carrying value of that loan.

A loan is impaired when it is probable, based on current information and events, that the Program will be unable to collect all contractual principal and interest payments due in accordance with the terms of the loan agreement. Impaired loans are measured on an individual basis based on the present value of expected future cash flows discounted at the loan's effective interest rate or, as a practical expedient, at the loan's observable market price or the fair value of the collateral if the loan is collateral dependent. The amount of impairment, if any and any subsequent changes are included in the allowance for loan losses.

Deferred Issuance Costs

Bond issuance costs, primarily underwriting discounts, are amortized over the lives of the related bond issue using the effective interest method.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Revenue Recognition

Revenue consists primarily of investment income, interest income from loans, administrative fees and federal grants. Revenue is recognized in the period in which it is earned. Expenses are recognized in the period in which they are incurred.

C. CASH AND CASH EQUIVALENTS AND INVESTMENTS

New Jersey statutes permit the deposit of public funds into the NJCMF or into institutions located in New Jersey that are insured by the Federal Deposit Insurance Corporation or by any other agencies of the United States that insure deposits.

Custodial Credit Risk

The Program does not have a policy to limit custodial credit risk. However, the NJCMF is a pooled investment. Pooled investments are excluded from custodial credit risk disclosure.

Cash and cash equivalents and investments are substantially restricted under the terms of NJEIT'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.

The amounts deposited in these accounts at June 30, 2012 and 2011, are as follows:

	2012	2011
Operating Checking (Wells Fargo)	$ 8,822,062	$ 4,073,417
GS SQ Treasury Obligation (TD Bank MM)	353,629	-
First American Treasury (US Bank Money Market)	194,303,498	231,302,838
Trust US Treasury (BONY Money Market)	19,695,445	33,812,362
Total	223,174,634	269,188,617
Collateralized deposits	223,174,634	269,188,617
Deposits exposed to custodial credit risk	$ -	$ -

Pursuant to the bond resolutions, the Program is required to maintain certain invested reserves with the trustees to fund potential deficiencies in principal and interest required to be paid in succeeding fiscal years. The funds in the debt service reserve accounts aggregated $225,292,977 and $222,601,747 at June 30, 2012 and 2011, respectively, and are included in net assets restricted for debt service.

As of June 30, 2012 and 2011, the Program had the following investments and maturities:

	June 30, 2012		
		Investment Maturity (in Years)	
Investment Type	Fair Value	Less than 1	1-5
US Treasury Bills	$ 34,540,166	$ 34,540,166	$ -
US Treasury Notes	87,371,636	83,215,173	4,156,463
US Treasury SLUGs	46,091,543	41,298,843	4,792,700
US Government Other	107,650,923	47,709,713	59,941,210
Uninvested Cash	431,685,764	431,685,764	-
	$ 707,340,032	$ 638,449,659	$ 68,890,373

C. CASH AND CASH EQUIVALENTS AND INVESTMENTS (CONTINUED)

	June 30, 2011		
		Investment Maturity (in Years)	
Investment Type	Fair Value	Less than 1	1-5
US Treasury Bills	$ 1,996,933	$ 1,996,933	$ -
US Treasury Notes	109,263,639	34,461,672	74,801,967
US Treasury SLUGs	58,893,872	56,260,229	2,633,643
US Government Other	79,380,312	72,112,425	7,267,887
Uninvested Cash	424,170,361	424,170,361	-
	$ 673,705,117	$ 589,001,620	$ 84,703,497

Credit Risk

The Program's restricted investment policies are disclosed above under the custodial credit risk section. Investments of the Program are guaranteed by the U.S. government.

Interest Rate Risk

The Program does not have a policy to limit interest rate risk. However, the Program's investments are limited to U.S. obligations with fixed interest rates.

D. BONDS PAYABLE

Changes in bonds payable for the years ended June 30, 2012 and 2011, were as follows:

	Balance at June 30, 2011	Issued	Retired	Balance at June 30, 2012	Amount Due Within One Year
1995 Series					
Series B Bonds, insured, maturing serially from 2009, at interest rates from 6.2% to 6.70%; $1,015,000 term bond maturing in 2015 with mandatory redemptions commencing in 2010 in annual amounts ranging from $140,000 to $200,000 at 7.00%	$ 875,000	$ -	$ 150,000	$ 725,000	$ 165,000
1997 Refunding Series					
Series D Bonds, insured, maturing serially through 2012, at interest rates from 5.00% to 7.00%	1,320,000	-	1,320,000	-	-
1998 Refunding Series					
Series C Bonds, uninsured, maturing serially through 2012, at interest rates from 4.10% to 5.00%	4,420,000	-	4,420,000	-	-
Series D Bonds, uninsured, maturing serially through 2012, at interest rates from 4.10% to 5.0%	775,000	-	775,000	-	-
Series E Bonds, uninsured, maturing serially through 2012, at interest rates from 4.10% to 5.0%	1,780,000	-	1,780,000	-	-
Series F Bonds, insured, maturing serially through 2014, at interest rates from 4.3% to 5.0%	3,840,000	-	1,220,000	2,620,000	1,275,000
Series G Bonds, insured, maturing serially through 2014, at an interest rate of 5.0%	6,030,000	-	1,915,000	4,115,000	1,995,000

D. BONDS PAYABLE (CONTINUED)

	Balance at June 30, 2011	Issued	Retired	Balance at June 30, 2012	Amount Due Within One Year
1998 Series					
Series B Bonds, uninsured (AMT), maturing serially through 2016, at interest rates from 4.25% to 4.50%; $1,250,000 term bond. These bonds were refunded in full during 2012.	$ 4,405,000	$ -	$ 4,405,000	$ -	$ -
2000 Series					
Series A Bonds, uninsured, maturing serially through 2020, at interest rates from 5.00% to 5.25%	285,000	-	140,000	145,000	145,000
2001 Series					
Series A Bonds, uninsured, maturing serially through 2021, at interest rates from 4.00% to 4.75%	16,005,000	-	5,055,000	10,950,000	5,330,000
Series B Bonds (AMT), uninsured, maturing serially through 2021, at interest rates from 4.00% to 5.00%	18,730,000	-	15,685,000	3,045,000	1,485,000
Series C Bonds (Federally Taxable) uninsured, maturing serially through 2021, at interest rates from 5.5% to 6.6%	930,000	-	60,000	870,000	65,000
2002 Series					
Series A Bonds, uninsured, maturing serially through 2022, at interest rates from 3.00% to 5.25%	9,957,765	-	3,880,000	6,077,765	4,075,000
Series B Bonds, uninsured, maturing serially through 2022, at interest rates from 4.00% to 5.00%. These bonds were refunded in full during 2012.	14,090,000	-	14,090,000	-	-
2003 Refunding Series					
Series A Bonds, insured, maturing serially through 2013, at interest rates from 2.00% to 5.00%	9,010,000	-	4,690,000	4,320,000	4,320,000
2003 Series					
Series A Bonds, uninsured (AMT), maturing serially through 2023, at interest rates from 3.00% to 5.00%	16,060,000	-	3,290,000	12,770,000	3,450,000
2004 Refunding Series					
Series A Bonds, uninsured, maturing serially through 2015, at interest rates from 5.00% to 5.25%	7,609,121	-	1,383,583	6,225,538	1,442,758
2004 Series					
Series A Bonds, uninsured, maturing serially through 2024, at interest rates from 3.00% to 4.375%	50,650,000	-	5,160,000	45,490,000	5,400,000
Series B Bonds (AMT), uninsured, maturing serially through 2024, at interest rates from 3.00% to 5.50%	13,905,000	-	1,710,000	12,195,000	830,000

D. BONDS PAYABLE (CONTINUED)

	Balance at June 30, 2011	Issued	Retired	Balance at June 30, 2012	Amount Due Within One Year
2005 Series					
Series A Bonds, uninsured, maturing serially through 2025, at interest rates from 4.00% to 5.00%	$ 98,695,000	$ -	$ 4,860,000	$ 93,835,000	$ 5,090,000
Series B Bonds (AMT), uninsured, maturing serially through 2025, at interest rates from 4.00% to 4.70%	2,685,000	-	130,000	2,555,000	135,000
2005 BCIA/ENCAP Golf Holdings					
Variable rate bond series maturing through 2025, with weekly interest rate calculations	88,413,346	-	-	88,413,346	6,315,239
2006 Refunding Series					
Series A Bonds, uninsured, maturing serially through 2020, at interest rate of 5.00%	39,210,000	-	-	39,210,000	-
Series B Bonds, uninsured, maturing serially through 2019, at interest rates from 4.00% to 5.00%	26,488,691	-	2,429,397	24,059,294	2,548,235
Series C Bonds, uninsured, maturing serially through 2017, at interest rates from 4.0% to 5.0%	12,263,348	-	1,545,143	10,718,205	1,607,395
Series D Bonds, uninsured, maturing serially through 2016, at interest rates from 4.0% to 5.0%	15,665,000	-	2,365,000	13,300,000	2,455,000
2006 Series					
Series A Bonds, uninsured, maturing serially through 2026, at interest rates of 4.00% to 5.00%	123,620,000	-	5,875,000	117,745,000	6,165,000
Series B Bonds (AMT), uninsured, maturing serially through 2026, at interest rates from 4.00% to 5.00%	19,670,000	-	880,000	18,790,000	915,000
2007 Refunding Series					
Series A Bonds, uninsured, maturing serially through 2021, at interest rates from 5.00% to 5.25%	36,276,270	-	-	36,276,270	-
Series B Bonds (AMT), uninsured, maturing serially through 2022, at interest rates from 4.00% to 5.25%	33,743,063	-	-	33,743,063	-
Series C Bonds, uninsured, maturing serially through 2022, at interest rate of 5.0%	38,383,105	-	-	38,383,105	-
Series D Bonds, uninsured, maturing serially through 2016, at interest rate of 5.0%	2,035,000	-	305,000	1,730,000	325,000
2007 Series					
Series A Bonds, uninsured, maturing serially through 2027, at interest rates from 3.40% to 5.00%	167,570,000	-	8,455,000	159,115,000	8,865,000
2008 Refunding Series					
Series A Bonds, uninsured, maturing serially through 2018, at interest rates from 3.25% to 4.50%	18,387,636	-	2,015,000	16,372,636	2,115,000

D. BONDS PAYABLE (CONTINUED)

	Balance at June 30, 2011	Issued	Retired	Balance at June 30, 2012	Amount Due Within One Year
2008 Series					
Series A Bonds, uninsured, maturing serially through 2028, at interest rates from 5% to 5.50%	$ 95,360,000	$ -	$ 3,610,000	$ 91,750,000	$ 3,775,000
2009 Series					
Series A Bonds, uninsured, maturing serially through 2029, at interest rates from 2% to 5%	61,945,000	-	2,165,000	59,780,000	2,245,000
Series C Bonds, uninsured, maturing serially through 2029, at interest rates from 2.375% to 5.5%	5,695,000	-	-	5,695,000	220,000
2010 Series					
Series A Bonds, uninsured, maturing serially through 2029, at interest rates from 3% to 5%	127,595,000	-	3,025,000	124,570,000	6,495,000
2010 Refunding Series					
Series A Bonds, uninsured, maturing serially through 2024, at interest rates from 3.00% to 5.00%	65,879,418	-	4,865,000	61,014,419	4,965,000
Series B Bonds, uninsured, maturing serially through 2020, at interest rates from 2.00% to 4.00%	5,275,000	-	475,000	4,800,000	485,000
2010B & C Series					
Series B Bonds, uninsured, maturing serially through 2030, at interest rate of 5.00%	94,320,000	-	-	94,320,000	2,440,000
Series C Bonds, uninsured, maturing serially through 2030, at interest rates from 3.00% to 4.375%	8,050,000	-	-	8,050,000	305,000
2011 Refunding Series					
Series A Bonds, uninsured, maturing serially through 2018, at interest rate of 3.00%	-	3,095,000	-	3,095,000	400,000
Series B Bonds, uninsured, maturing serially through 2021, at interest rates from 4.00% to 5.00%	-	11,060,000	-	11,060,000	-
Series C Bonds, uninsured, maturing serially through 2022, at interest rates from 3.00% to 5.00%	-	10,310,000	-	10,310,000	800,000
2012 Series					
Series A Bonds, uninsured, maturing serially through 2031, at interest rates from 2.00% to 5.00%	-	59,570,000	-	59,570,000	-
Series B Bonds, uninsured, maturing serially through 2031, at interest rates from 2.00% to 5.00%	-	20,490,000	-	20,490,000	-
Series C Bonds, uninsured, maturing serially through 2030, at interest rates from 2.00% to 4.00%	-	4,775,000	-	4,775,000	-
Total	1,367,901,763	$ 109,300,000	$ 114,128,123	1,363,073,641	88,643,627
Plus					
Unamortized net premiums	47,274,338			78,260,457	-
Unamortized deferral on refunding	29,047,144			28,207,222	-
Bonds payable - net	$ 1,444,223,245			$ 1,469,541,320	$ 88,643,627

NEW JERSEY CLEAN WATER AND DRINKING WATER STATE REVOLVING FUND PROGRAM

NOTES TO FINANCIAL STATEMENTS

	Balance at June 30, 2010	Issued	Retired	Balance at June 30, 2011	Amount Due Within One Year
1995 Series					
Series A Bonds, insured, maturing serially through 2013, at interest rates from 4.60% to 5.25%	$ 560,000	$ -	$ 560,000	$ -	$ -
Series B Bonds, insured, maturing serially from 2009, at interest rates from 6.2% to 6.70%; $1,015,000 term bond maturing in 2015 with mandatory redemptions commencing in 2010 in annual amounts ranging from $140,000 to $200,000 at 7.00%	1,015,000	-	140,000	875,000	150,000
1997 Refunding Series					
Series D Bonds, insured, maturing serially through 2011, at interest rates from 5.00% to 7.00%	2,560,000	-	1,240,000	1,320,000	1,320,000
1998 Refunding Series					
Series C Bonds, uninsured, maturing serially through 2011, at interest rates from 4.10% to 5.00%	8,610,000	-	4,190,000	4,420,000	4,420,000
Series D Bonds, uninsured, maturing serially through 2012, at interest rates from 4.10% to 5.0%	1,505,000	-	730,000	775,000	775,000
Series E Bonds, uninsured, maturing serially through 2012, at interest rates from 4.10% to 5.0%	3,470,000	-	1,690,000	1,780,000	1,780,000
Series F Bonds, insured, maturing serially through 2014, at interest rates from 4.3% to 5.0%	4,995,000	-	1,155,000	3,840,000	1,220,000
Series G Bonds, insured, maturing serially through 2014, at an interest rate of 5.0%	7,850,000	-	1,820,000	6,030,000	1,915,000
1998 Series					
Series A Bonds, uninsured, maturing serially through 2016, at interest rates from 4.00% to 4.5%; $7,025,000 term bond maturing in 2018 with mandatory redemptions commencing in 2017 of $3,734,400 and 2018 of $3,595,000	3,865,000	-	3,865,000	-	-
Series B Bonds, uninsured (AMT), maturing serially through 2016, at interest rates from 4.25% to 4.50%; $1,250,000 term bond maturing in 2018 with mandatory redemptions commencing in 2017 of $610,000 and 2018 of $640,000	4,855,000	-	450,000	4,405,000	470,000
1999 Series					
Series B Bonds, uninsured (AMT), maturing serially through 2019, at interest rates from 5.25% to 5.75%	1,560,000	-	1,560,000	-	-
2000 Series					
Series A Bonds, uninsured, maturing serially through 2020, at interest rates from 5.00% to 5.25%	13,920,000	-	13,635,000	285,000	140,000
Series B Bonds, uninsured, maturing serially through 2020, at interest rates from 5.00% to 5.50%	4,765,000	-	4,765,000	-	-

D. BONDS PAYABLE (CONTINUED)

	Balance at June 30, 2010	Issued	Retired	Balance at June 30, 2011	Amount Due Within One Year
2001 Series					
Series A Bonds, uninsured, maturing serially through 2021, at interest rates from 4.00% to 4.75%	$ 28,405,000	$ -	$ 12,400,000	$ 16,005,000	$ 5,055,000
Series B Bonds (AMT), uninsured, maturing serially maturing serially through 2021, at interest rates from 4.00% to 5.00%	20,075,000	-	1,345,000	18,730,000	1,415,000
Series C Bonds (Federally Taxable) uninsured, maturing serially through 2021, at interest rates from 5.5% to 6.6%	990,000	-	60,000	930,000	60,000
2002 Series					
Series A Bonds, uninsured, maturing serially through 2022, at interest rates from 3.00% to 5.25%	20,905,000	-	10,947,235	9,957,765	3,880,000
Series B Bonds, uninsured, maturing serially through 2022, at interest rates from 4.00% to 5.00%	15,160,000	-	1,070,000	14,090,000	1,110,000
2003 Refunding Series					
Series A Bonds, insured, maturing serially through 2013, at interest rates from 2.00 % to 5.00%	13,475,000	-	4,465,000	9,010,000	4,690,000
2003 Series					
Series A Bonds, uninsured AMT, maturing serially through 2023, at interest rates from 3.00% to 5.00%	52,575,000	-	36,515,000	16,060,000	3,290,000
2004 Refunding Series					
Series A Bonds, uninsured, maturing serially through 2015, at interest rates from 5.00% to 5.25%	8,923,213	-	1,314,092	7,609,121	1,383,585
2004 Series					
Series A Bonds, uninsured, maturing serially through 2024, at interest rates from 3.00% to 4.375%	58,075,000	-	7,425,000	50,650,000	5,160,000
Series B Bonds (AMT), uninsured, maturing serially through 2024, at interest rates from 3.00% to 5.50%	14,685,000	-	780,000	13,905,000	805,000
2005 Series					
Series A Bonds, uninsured, maturing serially through 2025, at interest rates from 4.00% to 5.00%	103,310,000	-	4,615,000	98,695,000	4,860,000
Series B Bonds (AMT), uninsured, maturing serially through 2025, at interest rates from 4.00% to 4.70%	2,810,000	-	125,000	2,685,000	130,000
2005 BCIA/ENCAP Golf Holdings					
Variable rate bond series maturing through 2025, with Weekly Interest Rate calculations	88,413,346	-	-	88,413,346	5,894,223

D. BONDS PAYABLE (CONTINUED)

	Balance at June 30, 2010	Issued	Retired	Balance at June 30, 2011	Amount Due Within One Year
2006 Refunding Series					
Series A Bonds, uninsured, maturing serially through 2020, at interest rate of 5.00%	$ 39,210,000	$ -	$ -	$ 39,210,000	$ -
Series B Bonds, uninsured, maturing serially through 2019, at interest rates from 4.00% to 5.00%	28,843,691	-	2,355,000	26,488,691	2,448,738
Series C Bonds, uninsured, maturing serially through 2017, at interest rates from 4.0% to 5.0%	13,753,334	-	1,489,986	12,263,348	1,545,141
Series D Bonds, uninsured, maturing serially through 2016, at interest rates from 4.0% to 5.0%	17,935,000	-	2,270,000	15,665,000	2,365,000
2006 Series					
Series A Bonds, uninsured, maturing serially through 2026, at interest rates of 4.00% to 5.00%	137,960,000	-	14,340,000	123,620,000	5,875,000
Series B Bonds (AMT), uninsured, maturing serially through 2026, at interest rates from 4.00% to 5.00%	20,515,000	-	845,000	19,670,000	880,000
2007 Refunding Series					
Series A Bonds, uninsured, maturing serially through 2021, at interest rates from 5.00% to 5.25%	36,276,270	-	-	36,276,270	-
Series B Bonds, uninsured, maturing serially through 2022, at interest rates from 4.00% to 5.25%	33,743,063	-	-	33,743,063	-
Series C Bonds, uninsured, maturing serially through 2022, at interest rate of 5.00%	38,383,105	-	-	38,383,105	-
Series D Bonds, uninsured, maturing serially through 2016, at interest rate of 5.00%	2,325,000	-	290,000	2,035,000	305,000
2007 Series					
Series A Bonds, uninsured, maturing serially through 2027, at interest rates from 3.40% to 5.00%	175,140,000	-	7,570,000	167,570,000	8,455,000
2008 Refunding Series					
Series A Bonds, uninsured, maturing serially through 2018, at interest rates from 3.25% to 4.50%	20,317,636	-	1,930,000	18,387,636	2,015,000
2008 Series					
Series A Bonds, uninsured, maturing serially through 2028, at interest rates from 5% to 5.50%	97,495,000	-	2,135,000	95,360,000	3,610,000
2009 Series					
Series A Bonds, uninsured, maturing serially through 2029, at interest rates from 2% to 5%	61,945,000	-	-	61,945,000	2,165,000
Series C Bonds, uninsured, maturing serially through 2029, at interest rates from 2.375% to 5.5%	5,695,000	-	-	5,695,000	-

D. BONDS PAYABLE (CONTINUED)

	Balance at June 30, 2010	Issued	Retired	Balance at June 30, 2011	Amount Due Within One Year
2010 Series					
Series A Bonds, uninsured, maturing serially through 2029, at interest rates from 3% to 5%	$ 127,595,000	$ -	$ -	$ 127,595,000	$ 3,025,000
2010 Refunding Series					
Series A Bonds, uninsured, maturing serially through 2024, at interest rates from 3% to 5%	-	65,879,418	-	65,879,418	4,865,000
Series B Bonds, uninsured, maturing serially through 2020, at interest rates from 2.00% to 4.00%	-	5,275,000	-	5,275,000	475,000
2010B & C Series					
Series B Bonds, uninsured, maturing serially through 2030, at interest rates from 5.00%	-	94,320,000	-	94,320,000	-
Series C Bonds, uninsured, maturing serially through 2030, at interest rates from 3.00% to 4.375%	-	8,050,000	-	8,050,000	-
Total	1,344,463,658	$ 173,524,418	$ 150,086,313	1,367,901,763	87,951,687
Plus					
Unamortized net premiums	57,616,745			69,026,159	-
Unamortized deferral on refunding	26,832,789			25,769,206	-
Bonds payable - net	$ 1,428,913,192			$1,462,697,128	$ 87,951,687

Each local government or private water company that borrows from the Program posts a bond equal to the loan amount in favor of the Program that is held by the Program's trustee. These bonds are not callable or interest-bearing unless the borrower defaults upon its loan. The Program has not guaranteed the debt of any borrower.

The 2005 BCIA/ENCAP Golf Holdings issue is a variable interest rate bond that bears interest at a weekly interest rate determined by Bank of America Securities, LLC. The rate is determined on each Wednesday for the period beginning on the Thursday immediately following and ending on the next Wednesday.

Annual debt service requirements to maturity for bonds outstanding are as follows:

Fiscal year ending June 30,	Principal	Interest	Total
2013	$ 88,643,627	$ 57,726,081	$ 146,369,708
2014	87,527,274	57,405,064	144,932,338
2015	85,774,490	52,502,698	138,277,188
2016	90,242,581	48,127,537	138,370,118
2017	91,578,845	43,967,035	135,545,880
2018 through 2022	447,169,928	156,652,861	603,822,789
2023 through 2027	348,916,896	63,692,905	412,609,801
2028 through 2032	123,220,000	9,824,485	133,044,485
	1,363,073,641	$ 489,898,666	$1,852,972,307
Unamortized net premiums	78,260,457		
Unamortized deferral on refunding	28,207,222		
Bonds payable - net	$ 1,469,541,320		

D. BONDS PAYABLE (CONTINUED)

The Program has no taxing power, and the State of New Jersey is not liable for the bonds of the Program. The revenue bonds are not secured by the Program, only by revenues and repayment of loans and investments. Certain bonds are insured by the Municipal Bond Investors Assurance Corporation, the Financial Guaranty Insurance Company or the AMBAC Indemnity Corporation.

E. ADVANCE REFUNDING

When conditions have warranted, the Program has sold various issues of bonds to provide for the refunding of previously issued obligations.

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 the escrow agent, an amount that, when combined with interest earnings thereon, will be at least equal to the sum of the outstanding principal amount of the bonds, the interest to accrue thereon and including the first optional redemption date thereof, and the premium required to redeem the bonds outstanding on such date. Accordingly, the Program account assets and the liability for defeased bonds are not included in the Program's financial statements.

These transactions defeased the outstanding bond issues with a resultant reduction in annual debt service during the term of the issues. The savings, together with any accounting gain or loss to be reported in the year of the refunding, accrue to the respective participants.

Refunded bonds outstanding at June 30, 2012, are comprised of the following:

Issue	Principal Amount Outstanding June 30, 2012
2010A Refunding	
2003 Series A	$ 33,320,000
2004 Series A	2,530,000
2006 Series A	10,334,400
	$ 46,184,400
2007 Refunding	
2004 Series A	$ 42,139,350
	$ 42,139,350
Individual Borrower Defeasances	
1996 Series	$ 275,000
1999 Series A	275,000
2000 Series A	370,000
2001 Series A	147,530
2003 Series A	795,000
2004 Series A	910,000
2004 Series B	1,902,807
2005 Series A	1,165,000
2006 Series A	550,000
2006 Series B	20,000
2007 Series A	2,035,000
	$ 8,445,337

F. LOANS RECEIVABLE

The Program provides loans to local governmental units and water purveyors to finance allowable costs of clean water and safe drinking water projects. The various Program loans are grouped into a pool or pools and funded with the proceeds of NJEIT bonds and NJDEP Federal Capitalization Grants under the Clean Water and Safe Drinking Water Acts. Loan repayments are required at such times and in such amounts as will pay the debt service on the bonds as it becomes due. These loans, which are backed by the full faith and credit of each borrower, are repayable over 20 years, and the NJEIT portion bears interest at rates from 3% to 7% per annum.

The Program's loans receivable balances of $2,452,495,283 and $2,359,217,715 as of June 30, 2012 and 2011, respectively, consists of outstanding loans issued of $3,013,681,998 and $2,884,780,975 net of undisbursed loan funds of $561,186,715 and $525,563,260, respectively as of June 30, 2012 and 2011, respectively. The NJDEP portion of the annual loan maturities for years 2012 through 2031 were estimated based upon percentage allocations of the NJEIT loan maturities for those respective years.

Annual maturities for loans receivable are as follows:

Fiscal year ending June 30,	Principal
2013	$ 181,747,978
2014	155,818,419
2015	155,794,486
2016	163,331,583
2017	165,992,086
2018 through 2022	812,422,137
2023 through 2027	603,979,735
2028 through 2031	213,408,859
	$ 2,452,495,283

G. MASTER PROGRAM TRUSTEE

The New Jersey Wastewater Treatment Financing Program instituted the Master Program Trustee. Repayments on all loans made to borrowers by NJDEP from 1991 are now paid to U.S. Bank (the "Master Program Trustee"). These funds provide additional security for the 1995 Trust Bonds and for any new Trust Bonds issued thereafter. These funds are held by the Master Program Trustee for up to a period of one year, after which time the funds are transferred to the State of New Jersey. The balances in the Master Program Trustee Account as of June 30, 2012 and 2011, are $34,816,953 and $32,030,155, respectively.

H. NET ASSETS

The Fund's net assets are categorized as follows:

- Restricted for debt service
- Restricted for Interim Financing Fund Loan Program
- Restricted by enabling legislation

H. NET ASSETS (CONTINUED)

Assets restricted for debt service include net assets that have been restricted for use in accordance with the terms of an award or agreement or by State law. Assets restricted for interim financing are restricted for short-term financing of allowable costs of environmental infrastructure projects.

All other net assets are restricted by enabling legislation enacted by New Jersey State Government.

I. INTERFUND TRANSFERS

All NJDEP administrative and other Drinking Water set-aside costs of the Program are initially paid by the State's general fund. EPA grants reimburse those accounts, through interfund transfers, with 4% of the total grant award, which is the allowable administrative cost portion. The remaining balance is assumed by the State's general fund. The other Drinking Water set-aside costs are also reimbursed to the State's general fund through interfund transfers.

As of June 30, 2012 and 2011, the New Jersey 2003 Water Resources and Wastewater Treatment Bond Fund provided approximately $12.1 million and $16.75 million for the required $12.1 million and $16.65 million State match, respectively, for Clean Water grant agreements.

As of June 30, 2012 and 2011, the New Jersey 1981 Water Supply Board Fund provided approximately $4 million and $7.1 million for the required $5.8 million State match for the FY2011 Drinking Water grant agreements.

During FY2012, there was a transfer between the NJDEP Clean Water State Revolving Fund and the NJDEP Drinking Water State Revolving Fund in the amount of $28.1 million.

J. LOSS CONTINGENCY RELATED TO FUND LOAN PROGRAM

Several Events of Default have occurred and currently are continuing under the terms of the Loan Agreement, dated December 1, 2005 (the "Loan Agreement"), pursuant to which the State of New Jersey, acting by and through the NJDEP, extended a loan (the "Loan") to The Bergen County Improvement Authority (the "BCIA") for EnCap Golf Holdings, LLC ("EnCap") and the Meadowlands remediation project undertaken by EnCap. The referenced Events of Default were triggered by the failure of EnCap to comply with various covenants and obligations as set forth in the Loan Agreement. Loan disbursements as of June 30, 2012, were $64,367,421. In response to the occurrence of the Events of Default pursuant to the Loan Agreement, the NJDEP has ceased the disbursement to EnCap of the remaining proceeds of the Loan and has terminated such portion of the Loan.

J. LOSS CONTINGENCY RELATED TO FUND LOAN PROGRAM (CONTINUED)

As part of the security for the repayment of the Loan, EnCap was required, pursuant to the Loan Agreement, to establish at closing a reserve fund in the amount of $13 million. Approximately $12.19 million was drawn from this reserve fund in order to satisfy the repayment obligations due from EnCap through November 1, 2011, leaving $808,000 in the reserve fund for repayments. Such draws on the reserve fund were anticipated at the time the Loan was extended, given projected cash flows, and did not constitute an Event of Default pursuant to the Loan Agreement. As of November 1, 2011, funds remained on deposit in such reserve fund in an amount sufficient to satisfy a portion of the Loan repayment obligation due on such date. The NJDEP and EnCap have implemented efforts to amend, effective July 27, 2010, the amortization schedule with respect to the Loan. The funds remaining on deposit in the reserve fund is sufficient to satisfy the payment of debt service with respect to the Loan, as such debt service schedule will have been revised, through November 1, 2013.

The successful repayment of the remaining loan principal balance of $52,175,555 as of January 1, 2013, will be dependent upon the primary cash flow (Brownfield reimbursement payments) pledged as security for the Loan, the generation of which cash flow is dependent upon successful completion of EnCap's remediation project and the subsequent commercial and residential development of the remediated site. On May 8, 2008, EnCap filed a voluntary petition relief pursuant to Chapter 11 of the United States Bankruptcy Code. The bankruptcy was dismissed on February 24, 2009.

Due to the uncertainty of the completion of the Meadowlands remediation project and the subsequent commercial and residential development of the remediated site that would generate Brownfield reimbursement payments, management has determined the total non-terminated amount of the Loan, net of amounts payable from the reserve fund, to be impaired. As of June 30, 2012, $51,367,421 has been set up as an allowance for the Loan Receivable. On July 27, 2010, an amendment was executed that revised the term of the fund Loan Agreement repayment schedule whereby the $2.02 million loan reserve fund would repay the NJDEP approximately $404,000 per year until November 1, 2014, at which time $4.28 million per year would be required. The NJDEP is actively pursuing a source for this repayment requirement.

The Events of Default with respect to the Loan, including any default with respect to the timely repayment of the Loan, will have no impact upon the repayment of principal and interest with respect to any other financing programs of the NJDEP or any other loans made thereby.

K. OTHER MATTER RELATED TO TRUST BOND PROGRAM

An Event of Default ("EOD") currently exists under the terms of the Trust's Series 2005 Indenture (the "Indenture") pursuant to which the Trust issued its Environmental Infrastructure Revenue Bonds (Bergen County Improvement Authority EnCap Golf Holdings, LLC Project), Series 2005, specially with regards to the Bergen County Improvement Authority ("BCIA") – EnCap Golf Holdings, LLC ("EnCap") project (hereinafter referred to as the "NJEIT-BCIA Bonds"). Such EOD created a corresponding EOD under the Loan Agreement among BCI, the Trust and EnCap ("NJEIT-BCIA Loan Agreement") pursuant to which the Trust loaned the proceeds of the NJEIT-BCIA Bonds to BCIA and thereupon BCIA loaned such proceeds to EnCap for EnCap's Meadowlands remediation project.

K. OTHER MATTER RELATED TO TRUST BOND PROGRAM (CONTINUED)

As a precondition of BCIA's loan application to the Trust for funding for the Encap project and to protect bondholders from any repayment default risk by EnCap, the Trust required that EnCap procure a bank Letter of Credit ("LOC Provider") in order to fully secure the debt service repayments of principal and interest owed on the NJEIT-BCIA Bonds.

Subsequent to the issuance of the NJEIT-BCIA Bonds, EnCap failed to satisfy various reimbursement obligations to the LOC Provider, which in turn triggered the above referenced EODs under the terms of the Indenture and the corresponding NJEIT-BCIA Loan Agreement. In response to the occurrence of the EOD under the Indenture, the LOC Provider exercised remedies to which it was entitled. On September 28, 2007, the LOC Provider directed a mandatory tender of the NJEIT-BCIA Bonds, which mandatory tender was funded by a draw on the LOC. As a result of the tender, all holders of the publicly issued NJEIT-BCIA Bonds (then outstanding in the principal amount of $88,413,346) were paid in full; the LOC is no longer outstanding; and the LOC Provider became the 100% holder of the NJEIT-BCIA Bonds, which are without recourse to the Trust.

In the aftermath of the above referenced EOD's, Encap filed bankruptcy pursuant to Chapter 11 under the United States Bankruptcy Code on March 8, 2008. On February 3, 2009, an order dismissing the bankruptcy case was entered by the Bankruptcy Court and a Final Decree indicating that the case had been fully administered was entered on March 30, 2010.

On August 13, 2010, in accordance with the Agreement of Removal, Appointment and Acceptance, by and among The Bank of New York-Mellon (the "Prior Trustee"), the LOC Provider and American Home Assurance Company ("American Home"), the American Home replaced the Prior Trustee as trustee with respect to the NJEIT BCIA Bonds pursuant to the Indenture. In addition, in accordance, with the Assigned Assets Sale and Assignment Agreement, by and among the LOC Provider and American Home, American Home acquired all of the NJEIT BCIA Bonds from the LOC Provider. As of the date of this report, American Home continues to hold the NJEIT-BCIA Bonds.

The collateral securing the NJEIT BCIA Bonds held by American Home does not secure any of the annual financing programs of the Trust. Therefore, the events described above with respect to the NJEIT BCIA Bonds and EnCap have no impact on any of the annual financing programs of the Trust including the principal and interest payments of any of the Trust's outstanding publicly issued bonds relating to such annual financing programs.

L. AMERICAN RECOVERY AND REINVESTMENT ACT

In fiscal year ended June 30, 2010, the NJDEP was awarded American Recovery and Reinvestment Act ("ARRA") grants for the CWSRF and the DWSRF in the amount of $160,146,900 and $43,154,000, respectively.

The ARRA grants included a requirement for Loan Subsidization and specified that not less than 50% of the capitalization grants each state receives must be used to provide additional subsidization in the form of principal forgiveness, negative interest loans, grants, or any combination of these. The NJDEP chose to utilize principal forgiveness to fulfill this grant requirement, whereby the principal of the loan is not required to be repaid. Subsequent SRF traditional grants may also include a requirement for loan subsidization.

L. AMERICAN RECOVERY AND REINVESTMENT ACT (CONTINUED)

Qualifying Projects for the ARRA Program received the following Financing Package:

- ARRA Loan (Principal Forgiveness) - 50% of the allowable project costs
  ARRA Loan* (0% interest) - 25% of the allowable project costs
  Trust Loan (Market Rate) - 25% of the allowable project costs

  * In order to fully finance projects and maximize ARRA funding, NJDEP substituted an interest-free traditional SRF loan for the interest-free ARRA loan portion in some cases.

- No project sponsor was allowed to receive more than $7.5M in ARRA monies (a $10M cap on allowable ARRA project costs). As a result, those projects funded with ARRA money and impacted by the cap received a blend of ARRA and financing through the traditional Financing Program.

- By providing funding through the aforementioned formula, the State demonstrated that at least 50% of the available funding for projects was provided via principal forgiveness loans and ensured that the State complied with the additional subsidization provisions of the ARRA Program.

The details relative to each program are identified below:

Clean Water State Revolving Fund (the "CWSRF")

The CWSRF ARRA grant award was $160,146,900. The CWSRF Program awarded $113,873,725 as ARRA principal forgiveness loans and $46,273,175 as ARRA interest-free loans. As of June 30, 2012, $160,146,900 was expended from CWSRF ARRA funds. Of the expended amount, $113,873,725 was disbursed as principal forgiveness.

Drinking Water State Revolving Fund (the "DWSRF")

The DWSRF ARRA grant award was $43,154,000. The DWSRF Program awarded $29,763,178 as ARRA principal forgiveness loans and $13,390,822 as ARRA interest-free loans. As of June 30, 2012, $42,996,723 was expended from DWSRF ARRA funds. Of the expended amount, $29,763,178 was disbursed as principal forgiveness.

M. SUBSEQUENT EVENTS

Management has evaluated subsequent events that occurred after the balance sheet date but before April 8, 2013, the date the financial statements were available to be issued. The following items were determined by management to require disclosure in addition to matters discussed in Notes J and K above:

On August 15, 2012, the Trust sold NJEIT Refunding Bonds, $200,900,000 of Series 2012 A-R, which refunded all of the 1998F and 1998G bonds, and part of the 2004A, 2005A and 2006A bonds, $1,255,000 of Series 2012B-R, which refunded all of the 1995B and part of 2001C bonds, and $9,010,000 of Series 2012 C-R, which refunded all of the 2002A bonds. Closing took place on August 23, 2012.

M. SUBSEQUENT EVENTS (CONTINUED)

The refunding issues were sold by competitive bid. The lowest bidder for the 2012A-R series was Bank of America Merrill Lynch, with a true interest cost of 1.81%. The lowest bidder for the 2012B-R and 2012C-R series combined was Janney Montgomery Scott LLC, with a true interest cost of 2.33%.

On September 18, 2012, New Jersey Department of Environmental Protection was awarded a $57,755,000 grant under the CWSRF Program and $20,174,000 under the DWSRF Program by the United States Environmental Protection Agency.

NEW JERSEY CLEAN WATER AND DRINKING WATER STATE REVOLVING FUND PROGRAM

SCHEDULE OF PRIOR YEAR FINDINGS AND RECOMMENDATIONS

Year Ended June 30, 2012

All prior year findings have been resolved.

SUPPLEMENTARY INFORMATION

NEW JERSEY CLEAN WATER AND DRINKING WATER STATE REVOLVING FUND PROGRAM

COMBINING BALANCE SHEET - STATE REVOLVING FUND - CLEAN WATER

June 30, 2012

	NJDEP	NJEIT	Total
ASSETS			
Current assets			
Restricted assets			
Cash and cash equivalents	$ 7,613,439	$ 154,282,148	$ 161,895,587
Investments	323,396,929	157,368,560	480,765,489
Interest receivable	-	17,585,122	17,585,122
Loans receivable, net	74,840,376	74,278,137	149,118,513
Other assets	4,910,714	-	4,910,714
Total current assets	410,761,458	403,513,967	814,275,425
Non-current assets			
Restricted assets			
Investments	-	51,123,132	51,123,132
Loans receivable, net	935,050,745	904,678,679	1,839,729,424
Deferred issuance costs	-	7,084,942	7,084,942
Total non-current assets	935,050,745	962,886,753	1,897,937,498
Total assets	$ 1,345,812,203	$ 1,366,400,720	$ 2,712,212,923
LIABILITIES AND NET ASSETS			
Current liabilities			
Deferred revenue	$ 3,581,689	$ -	$ 3,581,689
Accrued interest payable	-	14,797,861	14,797,861
Current portion of bonds payable	-	74,247,480	74,247,480
Total current liabilities	3,581,689	89,045,341	92,627,030
Bonds payable	-	1,100,012,092	1,100,012,092
Total non-current liabilities	-	1,100,012,092	1,100,012,092
Total liabilities	3,581,689	1,189,057,433	1,192,639,122
Net assets			
Restricted for debt service	-	165,534,879	165,534,879
Restricted for Interim Financing Trust Loan Program	-	11,808,408	11,808,408
Restricted by enabling legislation	1,342,230,514	-	1,342,230,514
Total net assets	1,342,230,514	177,343,287	1,519,573,801
Total liabilities and net assets	$ 1,345,812,203	$ 1,366,400,720	$ 2,712,212,923

NEW JERSEY CLEAN WATER AND DRINKING WATER STATE REVOLVING FUND PROGRAM

COMBINING BALANCE SHEET - STATE REVOLVING FUND - CLEAN WATER

June 30, 2011

	NJDEP	NJEIT	Total
ASSETS			
Current assets			
Restricted assets			
Cash and cash equivalents	$ 3,721,364	$ 210,669,237	$ 214,390,601
Investments	343,824,602	107,960,155	451,784,757
Interest receivable	-	17,896,090	17,896,090
Loans receivable, net	75,221,701	77,359,116	152,580,817
Other assets	2,360,990	-	2,360,990
Total current assets	425,128,657	413,884,598	839,013,255
Non-current assets			
Restricted assets			
Investments	-	69,038,951	69,038,951
Loans receivable, net	891,873,547	888,503,326	1,780,376,873
Deferred issuance costs	-	7,292,923	7,292,923
Total non-current assets	891,873,547	964,835,200	1,856,708,747
Total assets	$ 1,317,002,204	$ 1,378,719,798	$ 2,695,722,002
LIABILITIES AND NET ASSETS			
Current liabilities			
Deferred revenue	$ 2,538,613	$ -	$ 2,538,613
Accrued interest payable	-	16,370,387	16,370,387
Current portion of bonds payable	-	75,009,607	75,009,607
Total current liabilities	2,538,613	91,379,994	93,918,607
Bonds payable	-	1,111,803,279	1,111,803,279
Total non-current liabilities	-	1,111,803,279	1,111,803,279
Total liabilities	2,538,613	1,203,183,273	1,205,721,886
Net assets			
Restricted for debt service	-	163,742,011	163,742,011
Restricted for Interim Financing Trust Loan Program	-	11,794,514	11,794,514
Restricted by enabling legislation	1,314,463,591	-	1,314,463,591
Total net assets	1,314,463,591	175,536,525	1,490,000,116
Total liabilities and net assets	$ 1,317,002,204	$ 1,378,719,798	$ 2,695,722,002

NEW JERSEY CLEAN WATER AND DRINKING WATER STATE REVOLVING FUND PROGRAM

COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGE IN NET ASSETS - STATE REVOLVING FUND - CLEAN WATER

Year Ended June 30, 2012

	NJDEP	NJEIT	Total
Operating revenues			
Investment income	$ 540,125	$ 485,612	$ 1,025,737
Interest income from loans	-	42,493,162	42,493,162
Total operating revenues	540,125	42,978,774	43,518,899
Operating expenses			
Interest expense	-	41,172,012	41,172,012
ARRA principal forgiveness of loans receivable	8,944,175	-	8,944,175
Total operating expenses	8,944,175	41,172,012	50,116,187
Operating (loss) income	(8,404,050)	1,806,762	(6,597,288)
Non-operating revenues/transfers			
Federal grants	53,012,181	-	53,012,181
Transfers to other funds	(16,841,208)	-	(16,841,208)
Total non-operating revenues/transfers	36,170,973	-	36,170,973
Change in net assets	27,766,923	1,806,762	29,573,685
Net assets, beginning of year	1,314,463,591	175,536,525	1,490,000,116
Net assets, end of year	$ 1,342,230,514	$ 177,343,287	$ 1,519,573,801

NEW JERSEY CLEAN WATER AND DRINKING WATER STATE REVOLVING FUND PROGRAM

COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGE IN NET ASSETS - STATE REVOLVING FUND - CLEAN WATER

Year Ended June 30, 2011

	NJDEP	NJEIT	Total
Operating revenues			
Investment income	$ 1,087,036	$ 1,542,660	$ 2,629,696
Interest income from loans	-	45,217,202	45,217,202
Total operating revenues	1,087,036	46,759,862	47,846,898
Operating expenses			
Interest expense	-	40,838,262	40,838,262
ARRA principal forgiveness of loans receivable	64,366,380	-	64,366,380
Total operating expenses	64,366,380	40,838,262	105,204,642
Operating (loss) income	(63,279,344)	5,921,600	(57,357,744)
Non-operating revenues/transfers			
Federal grants	146,789,461	-	146,789,461
Transfers from other funds	16,349,169	-	16,349,169
Total non-operating revenues/transfers	163,138,630	-	163,138,630
Change in net assets	99,859,286	5,921,600	105,780,886
Net assets, beginning of year	1,214,604,305	169,614,925	1,384,219,230
Net assets, end of year	$ 1,314,463,591	$ 175,536,525	$ 1,490,000,116

NEW JERSEY CLEAN WATER AND DRINKING WATER STATE REVOLVING FUND PROGRAM

COMBINING BALANCE SHEET - STATE REVOLVING FUND - DRINKING WATER

June 30, 2012

	NJDEP	NJEIT	Total
ASSETS			
Current assets			
Restricted assets			
Cash and cash equivalents	$ 1,208,623	$ 60,070,424	$ 61,279,047
Investments	107,893,125	49,791,045	157,684,170
Interest receivable	-	4,502,566	4,502,566
Loans receivable, net	17,684,149	14,945,316	32,629,465
Other assets	537,926	-	537,926
Total current assets	127,323,823	129,309,351	256,633,174
Non-current assets			
Restricted assets			
Investments	-	17,767,241	17,767,241
Loans receivable, net	220,944,594	210,073,287	431,017,881
Deferred issuance costs	-	1,700,414	1,700,414
Total non-current assets	220,944,594	229,540,942	450,485,536
Total assets	$ 348,268,417	$ 358,850,293	$ 707,118,710
LIABILITIES AND NET ASSETS			
Current liabilities			
Accrued interest payable	$ -	$ 3,810,447	$ 3,810,447
Accounts payable	704,821	-	704,821
Current portion of bonds payable	-	14,396,147	14,396,147
Total current liabilities	704,821	18,206,594	18,911,415
Non-current liabilities			
Bonds payable	-	280,885,601	280,885,601
Total liabilities	704,821	299,092,195	299,797,016
Net assets			
Restricted for debt service	-	59,758,098	59,758,098
Restricted by enabling legislation	347,563,596	-	347,563,596
Total net assets	347,563,596	59,758,098	407,321,694
Total liabilities and net assets	$ 348,268,417	$ 358,850,293	$ 707,118,710

NEW JERSEY CLEAN WATER AND DRINKING WATER STATE REVOLVING FUND PROGRAM

COMBINING BALANCE SHEET - STATE REVOLVING FUND - DRINKING WATER

June 30, 2011

	NJDEP	NJEIT	Total
ASSETS			
Current assets			
Restricted assets			
Cash and cash equivalents	$ 352,053	$ 54,445,963	$ 54,798,016
Investments	79,976,929	57,239,934	137,216,863
Interest receivable	-	4,689,433	4,689,433
Loans receivable, net	17,167,026	13,754,629	30,921,655
Other assets	349,294	-	349,294
Total current assets	97,845,302	130,129,959	227,975,261
Non-current assets			
Restricted assets			
Investments	-	15,664,546	15,664,546
Loans receivable, net	203,542,539	191,795,831	395,338,370
Deferred issuance costs	-	1,483,356	1,483,356
Total non-current assets	203,542,539	208,943,733	412,486,272
Total assets	$ 301,387,841	$ 339,073,692	$ 640,461,533
LIABILITIES AND NET ASSETS			
Current liabilities			
Accrued interest payable	$ -	$ 4,329,714	$ 4,329,714
Accounts payable	201,828	-	201,828
Deferred revenue	349,294	-	349,294
Current portion of bonds payable	-	12,942,080	12,942,080
Total current liabilities	551,122	17,271,794	17,822,916
Non-current liabilities			
Bonds payable	-	262,942,162	262,942,162
Total liabilities	551,122	280,213,956	280,765,078
Net assets			
Restricted for debt service	-	58,859,736	58,859,736
Restricted by enabling legislation	300,836,719	-	300,836,719
Total net assets	300,836,719	58,859,736	359,696,455
Total liabilities and net assets	$ 301,387,841	$ 339,073,692	$ 640,461,533

NEW JERSEY CLEAN WATER AND DRINKING WATER STATE REVOLVING FUND PROGRAM

COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGE IN NET ASSETS - STATE REVOLVING FUND - DRINKING WATER

Year Ended June 30, 2012

	NJDEP	NJEIT	Total
Operating revenues			
Investment income	$ 120,622	$ 26,302	$ 146,924
Interest income from loans	-	10,884,831	10,884,831
Total operating revenues	120,622	10,911,133	11,031,755
Operating expenses			
Interest expense	-	10,012,771	10,012,771
Principal forgiveness of loans receivable	4,110,964	-	4,110,964
Total operating expenses	4,110,964	10,012,771	14,123,735
Operating (loss) income	(3,990,342)	898,362	(3,091,980)
Non-operating revenues/transfers			
Federal grants	21,598,229	-	21,598,229
Transfers from other funds	29,118,990	-	29,118,990
Total non-operating revenues/transfers	50,717,219	-	50,717,219
Change in net assets	46,726,877	898,362	47,625,239
Net assets, beginning of year	300,836,719	58,859,736	359,696,455
Net assets, end of year	$ 347,563,596	$ 59,758,098	$ 407,321,694

NEW JERSEY CLEAN WATER AND DRINKING WATER STATE REVOLVING FUND PROGRAM

COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGE IN NET ASSETS - STATE REVOLVING FUND - DRINKING WATER

Year Ended June 30, 2011

	NJDEP	NJEIT	Total
Operating revenues			
Investment income	$ 212,724	$ 488,234	$ 700,958
Interest income from loans	-	10,856,928	10,856,928
Total operating revenues	212,724	11,345,162	11,557,886
Operating expenses			
Interest expense	-	9,217,778	9,217,778
ARRA principal forgiveness of loans receivable	15,821,314	-	15,821,314
Total operating expenses	15,821,314	9,217,778	25,039,092
Operating (loss) income	(15,608,590)	2,127,384	(13,481,206)
Non-operating revenues/transfers			
Federal grants	51,921,804	-	51,921,804
Transfers from other funds	2,766,360	-	2,766,360
Total non-operating revenues/transfers	54,688,164	-	54,688,164
Change in net assets	39,079,574	2,127,384	41,206,958
Net assets, beginning of year	261,757,145	56,732,352	318,489,497
Net assets, end of year	$ 300,836,719	$ 58,859,736	$ 359,696,455