

New Jersey Environmental Infrastructure Trust

(A Component Unit of the State of New Jersey)

Financial Report
June 30, 2017

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RSM US LLP

Independent Auditor's Report

Board of Directors
New Jersey Environmental Infrastructure Trust

Report on the Financial Statements

We have audited the accompanying financial statements of the New Jersey Environmental Infrastructure Trust (the Trust), a component unit of the State of New Jersey, as of and for the years ended June 30, 2017 and 2016, and the related notes to the financial statements, which collectively comprise the Trust's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Trust, as of June 30, 2017 and 2016, and the changes in its financial position and its cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 3-6 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audits were conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Trust's basic financial statements. The master program trust agreement schedule is presented for purpose of additional analysis and is not a required part of the basic financial statements. The master program trust agreement schedule has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

RSM US LLP

New York, New York
October 12, 2017

**New Jersey Environmental Infrastructure Trust
(A Component Unit of the State of New Jersey)**

**Management's Discussion and Analysis (Unaudited)
Years Ended June 30, 2017 and 2016**

This section of the annual financial report of New Jersey Environmental Infrastructure Trust (the Trust) presents management's discussion and analysis of the Trust's financial performance during the fiscal years ended June 30, 2017 and 2016 relative to each other. Please read this section in conjunction with the Trust's financial statements and accompanying notes.

Overview of the financial statements: This report of audit consists of two parts, the Management's Discussion and Analysis (this section) and the basic financial statements, including notes. The Trust is an independent State financing entity. The accounting policies of the Trust conform to accounting principles generally accepted in the United States of America as applicable to enterprise funds.

The Trust's financial statements report information about the Trust using accounting methods similar to those used by private sector companies. These statements offer short and long-term financial information about the Trust's activities. The statement of net position includes all of the Trust's assets and liabilities and provides information about the nature and amounts of investments in resources (assets) and the accounts payable (liabilities). The statement of revenues, expenses and changes in net position includes all of the current year's revenues and expenses. The statement of cash flows is the final required financial statement. The primary purpose of this statement is to provide information about the Trust's cash receipts, cash payments and the net changes in cash positions resulting from operations, investing and non-capital financing activities and answers such questions as sources of cash and uses of cash during the reporting period.

Financial highlights for the year ended June 30, 2017:

- Assets increased by \$52,769,743, or 15.85%
 - Cash and investments (excluding undisbursed project funds) decreased by \$40,696,351, or (14.41%)
 - Total loans increased by \$93,397,126, or 196.36%
- Liabilities decreased by \$266,262, or (17.69%)
- Net Position increased by \$53,036,005, or 16.00%
- Operating revenues decreased by \$2,425,528, or (25.26%)
- Operating expenses increased by \$286,195, or 5.23%
- Non-operating revenues (expenses) decreased by \$12,721,509, or (19.77%)

Financial highlights for the year ended June 30, 2016:

- Assets increased by \$67,939,317, or 25.64%
 - Cash and investments (excluding undisbursed project funds) increased by \$42,295,956, or 17.62%
 - Total loans increased by \$25,483,132, or 115.41%

**New Jersey Environmental Infrastructure Trust
(A Component Unit of the State of New Jersey)**

**Management's Discussion and Analysis (Unaudited)
Years Ended June 30, 2017 and 2016**

- Liabilities decreased by \$529,920, or (26.04%)
- Net Position increased by \$68,469,237, or 26.04%
- Operating revenues increased by \$1,724,099, or 21.88%
- Operating expenses increased by \$34,709, or 0.64%
- Non-operating revenues (expenses) increased by \$124,074,835, or 207.69%

The Trust issues short-term loans to fund various types of environmental infrastructure projects. The Short Term Loan Program offers loans for Construction, Planning and Design, Equipment and Emergencies. The State-wide Assistance Infrastructure Loan (SAIL) Program provides timely and cost effective interim funding for borrowers to repair disaster-damaged infrastructure and improve the resiliency of Clean Water and Drinking Water systems.

For SFY2017 the short-term Construction Loan Program provided funding to borrowers for the construction of a project prior to securing long term financing. For loans issued in SFY2017, the Trust provided Construction Loans to borrowers at a 0% interest rate with the support of the New Jersey Department of Environmental Protection (NJ DEP).

The short term SAIL Program provides advance funding to water systems working through FEMA, CDBG or other federal grant programs, pending receipt of federal reimbursements to mitigate the financial stress on disaster impacted communities during the rebuild process. For loans issued in SFY2017, the Trust provided SAIL Loans to borrowers at a 0% interest rate with the support of the NJ DEP.

The Trust also issues Long Term Loans by acting as a conduit lender issuing bonds in the public market to provide a portion of the funding for most projects. In some instances, the Trust acts as a direct long term lender.

Financial analysis: The mission of the Trust is to provide and administer low interest rate loans to qualified municipalities, counties, regional authorities, and water purveyors for the purpose of financing infrastructure projects with a water quality benefit. Therefore, when reviewing the Trust's financial statements, its performance should be measured based upon the Trust's ability to fund both Short Term and Long Term Loans.

During SFY2017, the Trust closed on 75 Short Term Loans. The cash and investment balance, which includes available construction funds, decreased primarily due to the payment of requisitions. This amount more than offset the State Appropriation to the Short Term Loan Programs. This increase can be seen in loans receivable.

**New Jersey Environmental Infrastructure Trust
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**Management's Discussion and Analysis (Unaudited)
Years Ended June 30, 2017 and 2016**

The following table summarizes the net position changes between June 30, 2017, 2016, and 2015:

	2017	2016	Percent Increase (Decrease)	2015	Percent Increase (Decrease)
Current loans receivable	\$ 87,292,753	\$ 22,793,394	282.97 %	\$ 3,938,213	478.78 %
Noncurrent loans receivable	53,401,569	23,489,547	127.34 %	9,100,825	158.10 %
Cash for borrowers - undisbursed project funds	266,856	1,281,111	(79.17)%	9,041,882	(85.83)%
Total loans	<u>140,961,178</u>	<u>47,564,052</u>	196.36 %	<u>22,080,920</u>	115.41 %
Current cash and cash equivalents, as reduced by undisbursed loan project funds	128,249,882	166,012,406	(22.75)%	119,228,011	39.24 %
Current investments	26,845,036	27,942,891	(3.93)%	33,642,929	(16.94)%
Noncurrent investments	86,538,466	88,374,438	(2.08)%	87,162,838	1.39 %
Administrative fee receivable	2,400,658	2,431,049	(1.25)%	2,329,935	4.34 %
Other assets	718,565	619,205	16.05 %	560,091	10.55 %
Total assets	<u>\$ 385,713,785</u>	<u>\$ 332,944,041</u>	15.85 %	<u>\$ 265,004,724</u>	25.64 %
Account payable	\$ 1,238,889	\$ 1,505,150	(17.69)%	\$ 2,035,070	(26.04)%
Total liabilities	<u>\$ 1,238,889</u>	<u>\$ 1,505,150</u>	(17.69)%	<u>\$ 2,035,070</u>	(26.04)%
Restricted	\$ 360,895,021	\$ 301,040,422	19.88 %	\$ 224,354,858	34.18 %
Unrestricted	23,579,875	30,398,469	(22.43)%	38,614,796	(21.28)%
Total net position	<u>\$ 384,474,896</u>	<u>\$ 331,438,891</u>	16.00 %	<u>\$ 262,969,654</u>	26.04 %

The Trust's administrative fees decreased by (4.37%) due to fewer refunding cost of issuance reimbursements from borrowers and a net decrease in Long Term loan issuance. This was offset by the recognition of excess funds to be received by the Trust related to defeasances. The Trust non-operating revenues decreased substantially due to a decrease of \$12.5 million in funds from the State through the NJ DEP. The investment income decreased primarily due to the decrease in fair market value of the investments as a result of rising interest rates. The Trust's expenses increased due primarily to increases in salary and fringe as well as information technologies.

**New Jersey Environmental Infrastructure Trust
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**Management's Discussion and Analysis (Unaudited)
Years Ended June 30, 2017 and 2016**

The following table summarizes the changes in net position between fiscal years June 30, 2017, 2016 and 2015:

	2017	2016	Percent Increase (Decrease)	2015	Percent Increase (Decrease)
Net position, beginning of year	\$ 331,438,891	\$ 262,969,654		\$ 320,264,642	
Investment income	330,011	2,442,971	(86.49)%	1,451,606	68.29 %
Loan interest income	200,466	208,945	(4.06)%	179,709	16.27 %
Administrative fees	6,646,968	6,951,057	(4.37)%	6,247,559	11.26 %
Receipt (return) of prior year funding	612,673	834,182	(26.55)%	(14,403,114)	(105.79)%
State appropriation	51,000,000	63,500,000	(19.69)%	-	100.00 %
Return of state appropriation	-	-	0.00 %	(45,337,539)	(100.00)%
Total revenues	<u>58,790,118</u>	<u>73,937,155</u>	20.49 %	<u>(51,861,779)</u>	242.57 %
Administrative expenses	<u>5,754,113</u>	<u>5,467,918</u>	5.23 %	<u>5,433,209</u>	0.64 %
Total expenses	<u>5,754,113</u>	<u>5,467,918</u>	5.23 %	<u>5,433,209</u>	0.64 %
Change in net position	<u>53,036,005</u>	<u>68,469,237</u>	(22.54)%	<u>(57,294,988)</u>	219.50 %
Net position, end of year	<u>\$ 384,474,896</u>	<u>\$ 331,438,891</u>	16.00 %	<u>\$ 262,969,654</u>	26.04 %

Other financial information:

Contacting the Trust's financial management: This financial report is designed to provide citizens, borrowers, investors and creditors with a general overview of the Trust's finances and to demonstrate the Trust's accountability for the State appropriations and bond proceeds it receives. If you have any questions about this report or need additional financial information, contact the Trust's Chief Financial Officer at 3131 Princeton Pike, Building 4, Lawrenceville, New Jersey 08648.

New Jersey Environmental Infrastructure Trust
(A Component Unit of the State of New Jersey)

Statements of Net Position
June 30, 2017 and 2016

	2017	2016
Assets		
Current assets:		
Unrestricted assets:		
Cash and cash equivalents	\$ 9,544,880	\$ 10,405,728
Investments	3,709,139	3,204,078
Administrative fee receivable	2,400,658	2,431,049
Other assets	90,217	52,390
Restricted assets:		
Cash and cash equivalents	118,971,858	156,887,789
Investments	23,135,897	24,738,813
Interest receivable	532,883	432,239
Loans receivable	87,292,753	22,793,394
Total current assets	245,678,285	220,945,480
Noncurrent assets:		
Unrestricted assets:		
Capital assets	95,464	134,574
Investments	-	3,726,400
Restricted assets:		
Investments	86,538,466	84,648,038
Loans receivable	53,401,569	23,489,547
Total noncurrent assets	140,035,499	111,998,559
Total assets	\$ 385,713,784	\$ 332,944,039
Liabilities and Net Position		
Current liabilities:		
Unrestricted liabilities:		
Accounts payable	\$ 1,238,889	\$ 1,505,150
Total current liabilities	1,238,889	1,505,150
Total liabilities	1,238,889	1,505,150
Net position:		
Net investment in capital assets	95,464	134,574
Restricted for debt service	115,031,752	114,362,495
Restricted for Interim Financing Loan Program	245,863,269	186,677,927
Unrestricted	23,484,411	30,263,895
Total net position	384,474,896	331,438,891
Total liabilities and net position	\$ 385,713,785	\$ 332,944,041

See notes to financial statements.

**New Jersey Environmental Infrastructure Trust
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**Statements of Revenues, Expenses and Changes in Net Position
Years Ended June 30, 2017 and 2016**

	2017	2016
Operating revenue:		
Investment income:		
Interest income	\$ 1,758,902	\$ 1,342,936
Net (decrease) increase in the fair value of investments	(1,428,891)	1,100,035
Interest income from loans	200,466	208,945
Administrative fees	6,646,968	6,951,057
Total operating revenues	7,177,445	9,602,973
Operating expenses:		
Administrative expenses	5,754,113	5,467,918
Total operating expenses	5,754,113	5,467,918
Operating income	1,423,332	4,135,055
Nonoperating revenues (expenses):		
Receipt of prior funding	612,673	834,182
State appropriations	51,000,000	63,500,000
Total nonoperating revenue (expenses)	51,612,673	64,334,182
Change in net position	53,036,005	68,469,237
Net position, beginning of year	331,438,891	262,969,654
Net position, end of year	\$ 384,474,896	\$ 331,438,891

See notes to financial statements.

**New Jersey Environmental Infrastructure Trust
(A Component Unit of the State of New Jersey)**

**Statements of Cash Flows
Years Ended June 30, 2017 and 2016**

	2017	2016
Cash flow from operating activities:		
Cash received for administrative fees	\$ 6,677,360	\$ 6,869,954
Cash payments for goods and services	(3,337,985)	(3,662,289)
Cash payments for salaries	(2,672,644)	(2,344,168)
Disbursement of loan funds to borrowers	(196,526,701)	(76,346,680)
Principal received from loans to borrowers	102,106,857	43,102,778
Interest received from loans to borrowers	149,416	189,549
Net cash used in operating activities	(93,603,697)	(32,190,856)
Cash flows from non-capital financing activities:		
Receipt of prior funding	612,673	834,182
State appropriations received	51,000,000	63,500,000
Net cash provided by non-capital financing activities	51,612,673	64,334,182
Cash flows from capital and related financing activities:		
Acquisition of capital assets	-	(1,299)
Net cash used in capital and related financing activities	-	(1,299)
Cash flows from investing activities:		
Interest on investments	2,407,326	1,457,916
Purchase of investments	(66,191,887)	(58,790,487)
Proceeds from sale and maturity of investments	66,998,805	64,214,168
Net cash provided by investing activities	3,214,244	6,881,597
Net (decrease) increase in cash and cash equivalents	(38,776,780)	39,023,624
Cash and cash equivalents:		
Beginning of year	167,293,517	128,269,893
End of year	\$ 128,516,737	\$ 167,293,517
Displayed as:		
Cash and cash equivalents - unrestricted	\$ 9,544,880	\$ 10,405,728
Cash and cash equivalents - restricted	118,971,858	156,887,789
Cash and cash equivalents	\$ 128,516,738	\$ 167,293,517

(Continued)

**New Jersey Environmental Infrastructure Trust
(A Component Unit of the State of New Jersey)**

**Statements of Cash Flows (Continued)
Years Ended June 30, 2017 and 2016**

	2017	2016
Reconciliation of operating income to net cash used in operating activities:		
Operating income	\$ 1,423,332	\$ 4,135,055
Adjustments to reconcile operating income to net cash used in operating activities:		
Depreciation	39,110	43,772
Bad debt expense	8,460	-
Investment income included in operations	(2,407,326)	(1,457,916)
Net unrealized and realized gain on investments	1,428,891	(1,100,035)
Loss on disposal of assets	-	20,011
Amortized interest	698,017	164,791
Change in assets and liabilities:		
Decrease (increase) in administrative fee receivable	30,392	(101,114)
Increase in other assets	(31,250)	(32,278)
Increase in interest receivable	(107,220)	(89,319)
Increase in loans receivable	(94,419,842)	(33,243,902)
Decrease in accounts payable	(266,261)	(529,921)
Net cash used in operating activities	\$ (93,603,697)	\$ (32,190,856)

See notes to financial statements.

**New Jersey Environmental Infrastructure Trust
(A Component Unit of the State of New Jersey)**

Notes to Financial Statements

Note 1. Organization and Function of the Trust

The New Jersey Wastewater Treatment Trust was created by the Legislature of the State of New Jersey (the State) in November 1985 as an independent State financing authority. On June 23, 1997, the State Legislature passed amendments authorizing the Trust to issue loans for Drinking Water projects and to rename the entity the New Jersey Environmental Infrastructure Trust (the Trust). The Trust makes loans to local government units and private water companies for the construction and rehabilitation of eligible environmental infrastructure projects. The Trust is a component unit of the State.

The Board of Directors consists of seven members. Three are members' ex-officio: the New Jersey State Treasurer, the Commissioner of the New Jersey Department of Community Affairs, and the Commissioner of the New Jersey Department of Environmental Protection. The four remaining directors are appointed. One director is appointed by the Governor of the State of New Jersey (the Governor), upon the recommendation of the President of the State Senate. One director is appointed by the Governor upon the recommendation of the Speaker of the State General Assembly. Two directors are appointed by the Governor with the advice and consent of the State Senate. Each appointed director serves until a successor is appointed and qualified, and is eligible for reappointment.

The Trust is administered by an executive director and staff, under the guidance of the board of directors that appoint Trustees (currently both U.S. Bank and Bank of New York Mellon) and loan servicers (currently U.S. Bank, TD Bank and the Trust). The initial proceeds from a bond issuance are held by the Trustee. The Trust authorizes the Trustee to disburse funds to the borrowers for requisitions based on a review and approval process in conjunction with the Department. Undisbursed funds are invested and held by the Trustee for disbursement according to the loan agreements. In the case of external loan servicing, the loan servicer receives all payments of principal and interest from the borrowers and forwards such funds to the Trustee and the Master Program Trustee (U.S. Bank) or the Department or the Trust, as appropriate. As noted above, for the 2004 and later loans, the Trust's accounting staff also acts as loan servicer, with repayments being received directly by the Trustee. As a public body under existing statute, the Trust is exempt from both federal and state taxes.

Construction Loans are rapidly becoming a major component of the annual financing program, and in SFY2017, the large majority of projects utilized Construction Loans as the primary source of funding prior to securing long-term financing. The Trust disburses funds to borrowers upon approval of requisitions by the New Jersey Department of Environmental Protection (NJ DEP or the Department). These Short Term Loans are refinanced by Long Term Loans once construction has reached a certain level.

Under the Long Term Program, either the Trust or the Department assists in obtaining financing of up to 75% of the allowable project costs. The Trust issues debt on behalf of the borrowers; this debt is classified as conduit debt and as such is not included in the statement of net position of the Trust. The Trust lends its share of allowable costs to borrowers for various terms up to a maximum of 30 years at a rate equal to the interest rate on its conduit debt obligations. Such loan payments are used to pay debt service on the Trust's conduit debt obligations.

**New Jersey Environmental Infrastructure Trust
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Notes to Financial Statements

Note 1. Organization and Function of the Trust (Continued)

In addition to an interest-bearing loan from the Trust, borrowers receive an interest-free loan from the Department. The sources for the Department loans are State general obligation bond issuances approved to capitalize the various loan funds and the Federal Capitalization Grants received under the Clean Water Act and the Safe Drinking Water Act, respectively (the Department Funds). The Department maintains internally designated Clean Water (the CW) and Drinking Water (the DW) State Revolving Funds to separately account for loans by the Department. In some instances, the borrowers receive a principal forgiveness loan in which the State will forgive the repayment of a portion of the principal of each loan. The accompanying financial statements do not include any assets, liabilities or fund balances of the NJ DEP Funds. Under the terms of the Enabling Act, the assets of the Trust cannot be used to satisfy the obligations of the NJ DEP.

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

Note 2. Summary of Significant Accounting Policies

Basis of presentation: The Trust's financial statements are prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) applicable to a special purpose government engaged in only business-type activities. The focus of business-type activities is the measurement of economic resources, that is, the determination of operating income, changes in net position (or cost recovery), financial position and cash flows. The Government Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The more significant accounting policies established in GAAP and used by the Trust are discussed below.

Basis of accounting: Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. The accrual basis of accounting is followed by the Trust.

Revenues - exchange and non-exchange transactions: Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recognized when the exchange is settled.

Non-exchange transactions, in which the Trust receives value without directly giving equal value in return, include grants, contributed capital, and donations. Revenue from grants, contributed capital, and donations is recognized in the year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the year when use is first permitted, matching requirements, in which the Trust must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the Trust on a reimbursement basis.

Expenses/expenditures: Expenses are recognized at the time they are incurred.

**New Jersey Environmental Infrastructure Trust
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Notes to Financial Statements

Note 2. Summary of Significant Accounting Policies (Continued)

Cash, cash equivalents and investments: Cash and cash equivalents include funds invested in the PFM Funds - Prime Institutional Class and the Goldman Sachs Treasury Obligation Money Market Fund, and investments with original maturities of three months or less from the date of purchase. Such is the definition of cash and cash equivalents used in the statement of cash flows.

Investments are purchased with the intent to hold to maturity. Investments, which consist primarily of U.S. Government Obligations, are stated at fair value and mature in periods up to five years. The Trust accounts for its investments at fair value in accordance with GASB Statement No. 31 – *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*. Changes in unrealized gain (loss) on the carrying value of investments are reported as a component of investment income in the statement of revenues, expenses and changes in net position.

Fair value: The Trust uses fair value measurements to record fair value adjustments to certain assets and to determine fair value disclosures. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value is best determined based upon quoted market prices. However, in certain instances, there are no quoted market prices for certain assets or liabilities. In cases where quoted market prices are not available, fair values are based on estimates using present value or other valuation techniques. Those techniques are significantly affected by the assumptions used, including the discount rate and estimates of future cash flows. Accordingly, the fair value estimates may not be realized in an immediate settlement of the asset or liability.

The Trust's fair value measurements are classified into a fair value hierarchy based on the markets in which the assets and liabilities are traded and the reliability of the assumptions used to determine fair value.

The three categories within the hierarchy are as follows:

Level 1: Quoted prices in active markets for identical assets and liabilities.

Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly, including quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, interest rates and yield curves observable at commonly quoted intervals, implied volatilities, credit spreads, and market-corroborated inputs.

Level 3: Unobservable inputs shall be used to measure fair value to the extent that relevant observable inputs are not available, thereby allowing for situations in which there is little, if any, market activity for the asset or liability at the measurement date. Level 3 assets and liabilities include financial instruments whose value is determined using pricing models, discounted cash flows methodologies, or similar techniques, as well as instruments for which the determination of fair value requires significant management judgment.

See Note 3 for additional information regarding fair value measurements.

**New Jersey Environmental Infrastructure Trust
(A Component Unit of the State of New Jersey)**

Notes to Financial Statements

Note 2. Summary of Significant Accounting Policies (Continued)

Operating and nonoperating revenues and expenses: Operating revenues include all revenues derived from administration fees, interest income on Direct, Short-Term Loans, SAIL loans and investment income. Non-operating revenues principally consist of appropriations from the State of New Jersey for additional loan programs.

Operating expenses include expenses associated with the general administration of the Trust. Non-operating expenses principally consist of transfer of interest earned on and unspent funding back to the State of New Jersey.

Conduit debt obligations: Due to the fact that the bonds issued by the Trust are non-recourse debt obligations to the Trust, the Trust, in effect, has none of the risks or rewards of the related financing. Conduit debt obligations are certain limited- obligation revenue bonds, certificates of participation, or similar debt instruments issued by a state or local governmental entity for the express purpose of providing capital financing for a specific third party that is not a part of the issuer's financial reporting entity. Although conduit debt obligations bear the name of the governmental issuer, the issuer has no obligation for such debt beyond the resources provided by a lease or loan with the third party on whose behalf they are issued (GASB interpretation 2), (see Note 8).

Capital assets: Capital assets consist of leasehold improvements, office furniture, computers and office equipment and vehicles. Expenditures, which enhance the asset or significantly extend the useful life of the asset are considered improvements and are added to the capital asset's currently capitalized cost. The cost of normal repairs and maintenance are not capitalized.

Beginning in SFY2017, expenditures are capitalized when they meet the following requirements: (1) cost of \$5,000 or more, (2) useful life of more than one year, and (3) asset is not affected by consumption. In SFY2016, expenditures that were above \$1,000 or more and met items (2) and (3) above were capitalized.

Depreciation: Depreciation is provided using the straight-line method over the following estimated useful life of the assets:

	Years
Leasehold improvements	Lesser of the lease term or useful life
Office furniture	7
Computers and office equipment	5
Vehicles	5

Net position: In accordance with the provisions of GASB Statement No. 63 (GASB 63), *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, the Trust has classified its Net Position into three components – Net Investment in Capital Assets; Restricted; and Unrestricted. These classifications are defined as follows:

Net investment in capital assets: This component of Net Position consists of capital assets, net of accumulated depreciation.

**New Jersey Environmental Infrastructure Trust
(A Component Unit of the State of New Jersey)**

Notes to Financial Statements

Note 2. Summary of Significant Accounting Policies (Continued)

Restricted: This component of Net Position consists of external constraints imposed by creditors (such as debt covenants), grantors, contributors, laws or regulations of other governments or constraints imposed by law through constitutional provision or enabling legislation, that restricts the use of Net Position.

The Trust further separates restricted Net Position into “Restricted for Debt Service” and “Restricted for Interim Financing Trust Loan Program”. Net Position Restricted for Debt Service includes amounts that have been restricted in accordance with the terms of an award or agreement or by State law and can be used as a guarantee for bond offerings. Net Position Restricted for Interim Financing Loan Program is restricted for short-term financing of allowable costs of environmental infrastructure projects.

Unrestricted: This component of Net Position consists of Net Position that does not meet the definition of “restricted” or “net investment in capital assets.” This component includes Net Position that may be allocated for specific purposes by the Board.

Reclassifications: Certain amounts in the 2016 financial statements have been reclassified to conform to the 2017 financial statement presentation. These reclassifications had no effect on the previously reported change in net assets or net assets

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 amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

Recently issued accounting pronouncements: The Trust evaluated GASB statements 83 through 87; Management has determined there will be no effect to the Trust’s financial statements for all but those statements noted below:

In March 2017, GASB issued Statement No. 85, *Omnibus 2017* (GASB 85). This Statement addresses practice issues that have been identified during implementation and application of certain GASB standards. This Statement addresses a variety of topics including issues related to blending component units, good will, fair value measurement and application, and postemployment benefits. This Statement is effective for fiscal years beginning after June 15, 2017. The Trust has not yet determined the effect of the adoption of this Statement.

In June 2017, GASB issued Statement No. 87, *Leases* (GASB 87). This Statement requires recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflow of resources or outflows of resources based on the payment provisions of the contract. This Statement is effective for fiscal years beginning after December 15, 2019. The Trust has not yet determined the effect of the adoption of this Statement.

**New Jersey Environmental Infrastructure Trust
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Notes to Financial Statements

Note 3. Cash, Cash Equivalents and Investments

The amounts of cash and cash equivalents in the accounts as of June 30, 2017 and 2016 are as follows:

	<u>2017</u>	<u>2016</u>
Operating checking (TD Bank)	\$ 6,242	\$ 190,791
GS SQ Treasury obligation (TD Bank MM)	88,316,213	140,818,600
Prime, institutional class (PFM Funds)	40,194,288	26,284,126
	<u>\$ 128,516,743</u>	<u>\$ 167,293,517</u>

Custodial credit risk: Custodial credit risk is the risk that, in the event of failure of the counterparty, the Trust will not be able to recover the value of its cash and investments that are in the possession of an outside party. Cash, cash equivalents and investments are restricted under the terms of the Trust's investment policy. Statutory limits also apply to the investments of the Trust. Investment securities are exposed to custodial credit risk if the securities are uninsured, are not registered in the name of the Trust, and are held by either the counterparty or the counterparty's trust department or agent, but not in the Trust's name. All of the Trust's investments, \$113,383,502 and \$116,317,329 as of June 30, 2017 and 2016, respectively, are held in an account outside the counterparty, not in the name of the Trust.

Credit risk: Credit risk is the risk that an issuer or counterparty to an investment will not fulfill its obligations. All assets are invested pursuant to the Trust's separate investment policy. This policy limits the type and ratings of securities allowable as well as providing diversification requirements.

Interest rate risk: Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The Trust seeks to minimize interest rate risk by structuring the investment portfolio so that securities mature to meet a projected liability schedule, thereby avoiding the need to sell securities prior to maturity and the possibility of a realized loss.

**New Jersey Environmental Infrastructure Trust
(A Component Unit of the State of New Jersey)**

Notes to Financial Statements

Note 3. Cash, Cash Equivalents and Investments (Continued)

As of June 30, 2017 and 2016, the Trust had the following investments and maturities:

Investment Type	Fair Value	June 30, 2017			
		Investment Maturity (In Years)			
		Less Than 1	1-5	6-10	More Than 10
U.S. Treasury Notes	51,111,237	7,433,358	43,677,879	-	-
U.S. Gov't Other	32,151,127	6,927,563	25,223,564	-	-
Municipal Bonds	988,388		988,388		
Corporate Bonds/Notes/CP	29,132,750	12,484,115	16,648,635	-	-
	<u>\$ 113,383,502</u>	<u>\$ 26,845,036</u>	<u>\$ 86,538,466</u>	<u>\$ -</u>	<u>\$ -</u>

Investment Type	Fair Value	June 30, 2016			
		Investment Maturity (In Years)			
		Less Than 1	1-5	6-10	More Than 10
U.S. Treasury Notes	64,781,805	18,942,745	45,839,060	-	-
U.S. Gov't Other	25,491,384	7,058,151	18,433,233	-	-
Corporate Bonds/Notes/CP	26,044,140	1,941,995	24,102,145	-	-
	<u>\$ 116,317,329</u>	<u>\$ 27,942,891</u>	<u>\$ 88,374,438</u>	<u>\$ -</u>	<u>\$ -</u>

**New Jersey Environmental Infrastructure Trust
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Notes to Financial Statements

Note 3. Cash, Cash Equivalents and Investments (Continued)

As of June 30, 2017, the Trust had the following investments and maturities:

Investment	Maturities	S&P Credit Rating	Moody's Credit Rating	June 30, 2017 Fair Value
US Treasury Bill	7/6/2017	A-1+	P-1	\$ 1,999,874
BNP Paribas NY Branch	07/18/17	A-1	P-1	799,523
Credit Agricole CIB NY	08/02/17	A-1	P-1	799,119
Bank Tokyo-Mit UFJ NY	10/13/17	A-1	P-1	797,002
Toyota Motor Credit Corp	01/12/18	AA-	Aa3	100,059
John Deere Capital Corp	01/16/18	A	A2	1,873,459
IBM Corp	02/06/18	A+	Aa3	2,346,475
Exxon Mobil Corporation	03/06/18	AA+	Aaa	1,898,849
American Honda Finance	03/13/18	A+	A1	1,415,971
Bank of NY Mellon Corp	05/22/18	A	A1	825,433
Cisco Systems Inc	06/15/18	AA-	A1	1,628,226
Toyota Motor Credit Corp	07/13/18	AA-	Aa3	100,174
HSBC USA Inc	08/07/18	A	A2	1,905,358
JPMorgan Chase & Co	01/28/19	A-	A3	1,889,278
American Express Credit	03/18/19	A-	A2	1,883,991
CT State Taxable GO Bonds	04/15/19	A+	Aa3	988,388
African Development Bank	09/20/19	AAA	Aaa	791,607
Burlington North Corp	10/01/19	A	A3	531,567
General Elec Cap Corp	01/08/20	AA-	A1	1,753,684
Wells Fargo & Company	01/30/20	A	A2	1,879,821
Microsoft Corp	02/06/20	AAA	Aaa	771,963
Toyota Motor Credit Corp	03/12/20	AA-	Aa3	543,086
Toyota Motor Credit Corp	04/17/20	AA-	Aa3	854,736
Home Depot Inc	06/05/20	A	A2	435,199
Walt Disney Co	06/05/20	A+	A2	997,845
Bank of NY Mellon Corp	05/03/21	A	A1	1,015,618
Branch Banking & Trust Corp	05/10/21	A-	A2	520,903
State Street Corp	05/19/21	A	A1	284,363
PepsiCo Inc	10/06/21	A+	A1	489,441
US Treasury Notes	Demand	AA+	Aaa	49,111,363
Other US Government Notes and Bonds	Demand	AA+	Aaa	32,151,127
				<u><u>\$ 113,383,502</u></u>

**New Jersey Environmental Infrastructure Trust
(A Component Unit of the State of New Jersey)**

Notes to Financial Statements

Note 3. Cash, Cash Equivalents and Investments (Continued)

As of June 30, 2016, the Trust had the following investments and maturities:

Investment	Maturities	S&P Credit Rating	Moody's Credit Rating	June 30, 2016 Fair Value
BNP Paribas NY Branch	10/05/16	A-1	P-1	\$ 648,895
Bank Tokyo-Mit UFJ NY	12/13/16	A-1	P-1	647,444
Bank of Montreal Chicago	03/03/17	A-1	P-1	645,656
Toyota Motor Credit Corp	01/12/18	AA-	Aa3	604,375
John Deere Capital Corp	01/16/18	A	A2	1,888,504
IBM Corp	02/06/18	AA-	Aa3	2,360,114
Exxon Mobil Corporation	03/06/18	AA+	Aaa	1,914,828
American Honda Finance	03/13/18	A+	A1	1,428,856
Bank of NY Mellon Corp	05/22/18	A	A1	833,209
Cisco Systems Inc	06/15/18	AA-	A1	1,646,128
Toyota Motor Credit Corp	07/13/18	AA-	Aa3	964,179
HSBC USA Inc	08/07/18	A	A2	1,923,844
JPMorgan Chase & Co	01/28/19	A-	A3	1,903,577
American Express Credit	03/18/19	A-	A2	1,914,109
Burlington North Corp	10/01/19	A	A3	552,865
General Elec Cap Corp	01/08/20	AA+	A1	1,840,262
Wells Fargo & Company	01/30/20	A	A2	1,906,808
Toyota Motor Credit Corp	03/12/20	AA-	Aa3	555,064
Bank of NY Mellon Corp	05/03/21	A	A1	1,041,114
Branch Banking & Trust Corp	05/10/21	A-	A2	532,691
State Street Corp	05/19/21	A	A1	291,620
US Treasury Notes and Bonds	Demand	AA+	Aaa	64,781,803
Other US Government Notes and Bonds	Demand	AA+	Aaa	25,491,384
				<u>\$ 116,317,329</u>

**New Jersey Environmental Infrastructure Trust
(A Component Unit of the State of New Jersey)**

Notes to Financial Statements

Note 3. Cash, Cash Equivalents and Investments (Continued)

As of June 30, 2017 and 2016, the Trust had the following investments at fair value measurement by level:

	Fair Value Measurements Using			
	Quoted Prices			
	in Active	Significant		
	Markets for	Other	Significant	
	Identical	Observable	Unobservable	
	Assets	Inputs	Inputs	
June 30, 2017	(Level 1)	(Level 2)	(Level 3)	
Investments by fair value level:				
Debt securities:				
U.S. Treasury Notes	\$ 51,111,237	\$ -	\$ 51,111,237	\$ -
Corporate bonds/Notes/CP	29,132,750	-	29,132,750	-
US Gov't Other	32,151,127	-	32,151,127	-
Municipal bonds	988,388	-	988,388	-
Total debt securities	113,383,502	-	113,383,502	-
Total investments by fair value level	\$ 113,383,502	\$ -	\$ 113,383,502	\$ -

	Quoted Prices			
	in Active			
	Markets for	Significant		
	Identical	Other	Significant	
	Assets	Observable	Unobservable	
	Inputs	Inputs	Inputs	
June 30, 2016	(Level 1)	(Level 2)	(Level 3)	
Investments by fair value level:				
Debt securities:				
U.S. Treasury Notes	\$ 64,781,805	\$ -	\$ 64,781,805	\$ -
Corporate bonds/Notes/CP	26,044,140	-	26,044,140	-
US Gov't Other	25,491,384	-	25,491,384	-
Total debt securities	116,317,329	-	116,317,329	-
Total investments by fair value level	\$ 116,317,329	\$ -	\$ 116,317,329	\$ -

Concentration of credit risk: Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. Both the State and Trust's investment policy provides diversification requirements and limits the amount the Trust may invest in any one issuer. All of the Trust's investments are either in US Treasury obligations, Prime or Government money market funds, agency bonds, municipal bonds, or corporate bonds and notes.

**New Jersey Environmental Infrastructure Trust
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Notes to Financial Statements

Note 4. Loans Receivable and Commitment

The Trust provides loans to Borrowers to finance allowable costs of clean water and safe drinking water projects. Most of the loans are secured by the full faith and credit of a local governmental unit.

The Direct Loan Program provides long term loans for small projects or for borrowers that are fiscally constrained or lack the administrative capability to participate in the Trust's bond financing transaction. The Trust funds these loans through cash on hand rather than through the issuance of bonds. The Trust portion of each total loan is structured at a rate equivalent to the Thomson Reuters TM3 AAA Index on the date of loan closing plus (or minus) the spread from the Trust's most recent issue. The direct loans are repayable in most cases over a period of 20 years, with some loans maturing over a shorter period, and with interest rates of 0.17% to 5.33% per annum. As June 30, 2017 and 2016, the direct loans balance was \$9,000,835 and \$12,078,075, respectively. Included in this balance are amounts owed from borrowers primarily for contributions made by the Trust on their behalf for defeasances of \$2,525,010 and \$5,164,265 as of June 30, 2017 and 2016, respectively.

Loans issued under the Short-Term Loan Program and SAIL Loan Program are issued, with a few exceptions, for a maximum of three fiscal years. These loans have interest rates ranging from 0% to 2.43% per year. These loans will be converted into Long Term loans through either the Bond Program or Direct Loan Program. As of June 30, 2017 and 2016, the balance for the loans described was \$131,960,343 and \$35,485,976, respectively. As of June 30, 2017 and 2016, the balance for the loans outstanding with a 0% interest rate was \$115,787,835 and \$20,593,833, respectively.

The Trust's net loans receivable balance of \$140,694,322 and \$46,282,941 as of June 30, 2017 and 2016, consisted of outstanding loans issued of \$140,961,178 and \$47,564,051 net of undisbursed loan funds of \$266,856 and \$1,281,111 for 2017 and 2016, respectively. Undisbursed loan funds include loan funds that have been committed to a specific borrower and for its project in a separate account, but not yet requisitioned by the borrower.

The Trust is also committed to fund short-term loans to borrowers of approximately \$385 million that has not been requisitioned as of June 30, 2017.

**New Jersey Environmental Infrastructure Trust
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Notes to Financial Statements

Note 4. Loans Receivable and Commitment (Continued)

Annual maturities for loans receivable are as follows:

	Short-Term	Direct Loans	Total
Year ending June 30:			
2018	\$ 86,318,624	\$ 1,240,985	\$ 87,559,609
Less undisbursed loan funds	-	(266,856)	(266,856)
Current loans	<u>86,318,624</u>	<u>974,129</u>	<u>87,292,753</u>
2019	19,126,564	581,518	19,708,082
2020	25,004,303	620,583	25,624,886
2021	29,703	1,734,723	1,764,426
2022	79,208	426,383	505,591
2023 through 2027	1,401,942	2,320,883	3,722,825
2028 through 2032	-	1,777,298	1,777,298
2033 through 2037	-	261,797	261,797
2038 through 2042	-	16,658	16,658
2043 through 2047	-	20,006	20,006
Noncurrent loans	<u>45,641,720</u>	<u>7,759,849</u>	<u>53,401,569</u>
Loans receivable, net	<u>\$ 131,960,344</u>	<u>\$ 8,733,978</u>	<u>\$ 140,694,322</u>

Note 5. Capital Assets

The following is a summary of capital assets at cost, except as noted:

	Balance at June 30, 2016	Additions	Disposals	Balance at June 30, 2017
Capital assets being depreciated:				
Leasehold improvements	\$ 68,828	\$ -	\$ -	\$ 68,828
Office furniture	59,379	-	-	59,379
Computers and office equipment	121,110	-	-	121,110
Vehicles	43,766	-	-	43,766
	<u>293,083</u>	<u>-</u>	<u>-</u>	<u>293,083</u>
Less accumulated depreciation:				
Leasehold improvements	26,568	9,832	-	36,400
Office furniture	39,782	4,430	-	44,212
Computers and office equipment	73,273	16,095	-	89,368
Vehicles	18,886	8,753	-	27,639
	<u>158,509</u>	<u>39,110</u>	<u>-</u>	<u>197,619</u>
Capital assets (net)	<u>\$ 134,574</u>	<u>\$ (39,110)</u>	<u>\$ -</u>	<u>\$ 95,464</u>

**New Jersey Environmental Infrastructure Trust
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Notes to Financial Statements

Note 5. Capital Assets (Continued)

	Balance at June 30, 2015	Additions	Disposals	Balance at June 30, 2016
Capital assets being depreciated:				
Leasehold improvements	\$ 68,828	\$ -	\$ -	\$ 68,828
Office furniture	59,379	-	-	59,379
Computers and office equipment	176,060	1,299	56,249	121,110
Vehicles	43,766	-	-	43,766
	<u>348,033</u>	<u>1,299</u>	<u>56,249</u>	<u>293,083</u>
Less accumulated depreciation:				
Leasehold improvements	14,748	11,820	-	26,568
Office furniture	35,352	4,430	-	39,782
Computers and office equipment	92,327	17,184	36,238	73,273
Vehicles	8,548	10,338	-	18,886
	<u>150,975</u>	<u>43,772</u>	<u>36,238</u>	<u>158,509</u>
Capital assets (net)	<u>\$ 197,058</u>	<u>\$ (42,473)</u>	<u>\$ 20,011</u>	<u>\$ 134,574</u>

Note 6. Other Matter

An Event of Default (EOD) currently exists separate and apart from the Master Program Trust Account 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, specifically with regard 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 BCIA, 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.

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.

**New Jersey Environmental Infrastructure Trust
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Notes to Financial Statements

Note 6. Other Matter (Continued)

In the aftermath of the above referenced EOD's, EnCap filed bankruptcy pursuant to Chapter 11 under the United States Bankruptcy Code on May 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, 2009.

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), 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 that secures 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.

Note 7. Commitments and Contingencies

Leases: In November 2012, the Trust entered into an operating lease for the use of premises at 3131 Princeton Pike, Lawrenceville, New Jersey 09648. The lease was for a five year term from move in date December 1, 2013 through November 30, 2018, with annual rent of \$64,000 and additional amounts for utilities and maintenance. Rental expenditures reported for the year ended June 30, 2017 and 2016 were \$114,946 and \$110,039, respectively. The following is a summary of the future minimum rental commitments under this lease:

Years ending June 30,	
2018	\$ 121,146
2019	51,448
	<u>\$ 172,594</u>

Note 8. Conduit Debt

The Trust has issued Environmental Infrastructure Bonds to provide financing for allowable costs of acquiring, constructing, improving or installing wastewater treatment projects for wastewater treatment systems undertaken by local government units in the State of New Jersey and to provide financing for allowable costs of drinking water supply projects for drinking water supply systems undertaken by local government units, nonprofit entities and private entities in the State of New Jersey. The bonds have been classified as conduit debt.

**New Jersey Environmental Infrastructure Trust
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Notes to Financial Statements

Note 8. Conduit Debt (Continued)

Not included in the accompanying financial statements are these various conduit debt obligations issued under the name of the New Jersey Environmental Infrastructure Trust. Although the conduit debt obligations bear the name of the Trust pursuant to the Trust Act and the Bond Resolutions, the Bonds are special obligations of the Trust and shall not in any way be a debt or liability of the State or of any political subdivision thereof, and shall not create or constitute any indebtedness, liability or obligation of the State or of any political subdivision thereof. The Trust has no taxing power, and the State of New Jersey is not liable for the bonds issued through the Trust. The revenue bonds are not secured by the Trust, only by revenues, including repayment of loans from the underlying borrowers and investments of amounts on deposits with the bond trustee. The principal and redemption premium, if any, and the interest on the Bonds shall be payable from and secured by the pledge (i) of the Series Trust Estate and (ii) by the Master Program Trustee of the moneys and securities on deposit in the Master Program Trust Account to the extent set forth in the Master Program Trust Agreement. The Borrowers' principal and interest payment obligations match the principal and interest payment obligations of the Trust pursuant to its bonds. The loan repayments of the Borrowers' are made to a trustee, who is appointed by the Trust to service and administer the arrangement.

The bond resolutions generally 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.

Loans to borrowers in the 2017 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 less than 1.25%.

On December 22, 2016, the Trust closed on \$7,200,000 of Environmental Infrastructure Bonds, Series 2016A-2 (Green Bonds) to capitalize 18 projects in the 2017 New Jersey Environmental Infrastructure Financing Program.

On January 31, 2017, the Trust closed on \$33,525,000 of Environmental Infrastructure Refunding Bond Series 2017A-R1 (Green Bonds) to take advantage of the current low interest rate environment for Trust Program borrowers. The Trust Series 2017A-R1 Refunding Bonds were issued to refund a portion of the outstanding Series 2009A Bonds. The proceeds of this Series of Refunding Bonds refunded \$35,425,000 of outstanding Trust Bonds and resulted in the Trust passing on a reduction of interest and principal payments owed by the participating borrowers that totaled \$2,881,800.

On January 31, 2017, the Trust closed on \$72,830,000 of Environmental Infrastructure Refunding Bond Series 2017A-R2 (Green Bonds) to take advantage of the current low interest rate environment for Trust Program borrowers. The Trust Series 2017A-R2 Refunding Bonds were issued to refund the outstanding Series 2010A Bonds. The proceeds of this Series of Refunding Bonds refunded \$77,720,000 of outstanding Trust Bonds and resulted in the Trust passing on a reduction of interest and principal payments owed by the participating borrowers that totaled \$7,255,891.

On May 25, 2017, the Trust closed on \$31,610,000 of Environmental Infrastructure Bonds, Series 2017A-1 (Green Bonds) to capitalize 27 projects in the 2017 New Jersey Environmental Infrastructure Financing Program.

At June 30, 2017 and 2016, the aggregate principal amount of conduit debt obligations outstanding totaled \$1,138,297,784 and \$1,205,125,228, respectively, as detailed in the following schedules.

**New Jersey Environmental Infrastructure Trust
(A Component Unit of the State of New Jersey)**

Notes to Financial Statements

Note 8. Conduit Debt (Continued)

Changes in conduit debt obligations for the year ended June 30, 2017 were as follows:

	Balance at June 30, 2016	Issued	Retired	Balance at June 30, 2017	Amount Due Within One Year
2006 Refunding Series:					
Series A Bonds, uninsured, maturing serially through 2020, at interest rate of 5.00%	\$ 25,805,000	\$ -	\$ 4,680,000	\$ 21,125,000	\$ 4,905,000
Series B Bonds, uninsured, maturing serially through 2019, at interest rate of 5.00%	13,726,882	-	3,242,444	10,484,438	3,342,757
Series C Bonds, uninsured, maturing serially through 2017, at interest rates from 4.00% to 5.00%	4,365,000	-	2,125,000	2,240,000	2,240,000
Series D Bonds, uninsured	2,710,000	-	2,710,000	-	-
2007 Series:					
Series A Bonds, uninsured	11,515,000	-	11,515,000	-	-
2007 Refunding Series:					
Series A Bonds, uninsured, maturing serially through 2021, at interest rates of 5.00% to 5.25%	45,570,000	-	6,720,000	38,850,000	7,040,000
Series B Bonds, uninsured, maturing serially through 2022, at interest rates from 5.00% to 5.25%	32,525,000	-	5,305,000	27,220,000	3,980,000
Series C Bonds, uninsured, maturing serially through 2022, at interest rate of 5.00%	38,830,000	-	-	38,830,000	5,720,000
Series D Bonds, uninsured AMT	375,000	-	375,000	-	-
2008 Refunding Series:					
Series A Bonds, uninsured, maturing serially through 2018, at interest rates of 4.50%	8,415,000	-	2,680,000	5,735,000	2,800,000
2008 Series:					
Series A Bonds, uninsured, maturing serially through 2028, at interest rates from 5.00% to 5.50%	19,145,000	-	6,070,000	13,075,000	6,370,000
2009 Series:					
Series A Bonds, uninsured, maturing serially through 2029, at interest rates from 3.50% to 5.00%	45,590,000	-	38,370,000	7,220,000	3,085,000
Series C Bonds, uninsured, maturing serially through 2029, at interest rates from 4.25% to 5.50%	4,780,000	-	250,000	4,530,000	260,000
2010 A Series:					
Series A Bonds, uninsured, maturing serially through 2029, at interest rates from 3.00% to 5.00%	\$ 94,785,000	\$ -	\$ 84,545,000	\$ 10,240,000	\$ 4,260,000
2010 Refunding Series:					
Series A Bonds, uninsured, maturing serially through 2024, at interest rates from 3.00% to 5.00%	36,370,000	-	4,245,000	32,125,000	3,490,000
Series B Bonds, uninsured, maturing serially through 2020, at interest rates of 4.00%	985,000	-	185,000	800,000	230,000

(Continued)

**New Jersey Environmental Infrastructure Trust
(A Component Unit of the State of New Jersey)**

Notes to Financial Statements

Note 8. Conduit Debt (Continued)

	Balance at June 30, 2016	Issued	Retired	Balance at June 30, 2017	Amount Due Within One Year
2010 B & C Series:					
Series B Bonds, uninsured, maturing serially through 2030, at interest rate of 5.00%	20,350,000	-	4,720,000	15,630,000	4,965,000
Series C Bonds, uninsured, maturing serially through 2030, at interest rates from 4.00% to 4.375%	6,440,000	-	345,000	6,095,000	355,000
2011 Refunding Series:					
Series A Bonds, uninsured, maturing serially through 2018, at interest rates of 3.00%	1,405,000	-	460,000	945,000	470,000
Series B Bonds, uninsured, maturing serially through 2021, at interest rates from 4.00% to 5.00%	8,210,000	-	1,525,000	6,685,000	1,600,000
Series C Bonds, uninsured, maturing serially through 2022, at interest rates from of 5.00%	6,970,000	-	900,000	6,070,000	930,000
2012 Series:					
Series A Bonds, uninsured, maturing serially through 2031, at interest rates from 3.00% to 5.00%	61,920,000	-	2,960,000	58,960,000	2,805,000
Series B Bonds, uninsured, maturing serially through 2031, at interest rates from 4.00% to 5.00%	18,230,000	-	800,000	17,430,000	825,000
Series C Bonds, uninsured, maturing serially through 2031, at interest rates from 3.00% to 4.00%	4,350,000	-	215,000	4,135,000	220,000
2012 Refunding Series:					
Series A Bonds, uninsured, maturing serially through 2026, at interest rates from 3.125% to 4.00%	177,125,000	-	19,355,000	157,770,000	13,800,000
Series B Bonds, uninsured, maturing serially through 2021, at interest rate of 3.00%	555,000	-	85,000	470,000	80,000
Series C Bonds, uninsured, maturing serially through 2023, at interest rate of 3.00%	6,895,000	-	770,000	6,125,000	800,000
2013 Series:					
Series A Bonds, uninsured, maturing serially through 2032, at interest rates from 3.00% to 5.00%	27,665,000	-	1,185,000	26,480,000	1,220,000
Series B Bonds, uninsured, maturing serially through 2032, at interest rates from 3.00% to 3.25%	935,000	-	45,000	890,000	45,000
2014 Series:					
Series A Bonds, uninsured, maturing serially through 2033, at interest rates from 3.00% to 5.00%	55,045,000	-	1,845,000	53,200,000	2,170,000
Series B Bonds, uninsured, maturing serially through 2033, at interest rates from 3.00% to 5.00%	4,960,000	-	205,000	4,755,000	210,000
2015 A-1 Series:					
Series A Bonds, uninsured, maturing serially through 2034, at interest rates from 4.00% to 5.00%	\$ 46,580,000	\$ -	\$ 1,400,000	\$ 45,180,000	\$ 1,690,000
2015 B- Refunding Series (AMT):					
Series B Bonds, uninsured AMT, maturing serially through 2024, at interest rates from 4.00% to 5.00%	7,505,000	-	235,000	7,270,000	515,000
Series B Bonds, uninsured AMT, maturing serially through 2025, at interest rates from 4.00% to 5.00%	1,660,000	-	-	1,660,000	15,000

(Continued)

**New Jersey Environmental Infrastructure Trust
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Notes to Financial Statements

Note 8. Conduit Debt (Continued)

	Balance at June 30, 2016	Issued	Retired	Balance at June 30, 2017	Amount Due Within One Year
2015 A-2 Series					
Series A Bonds, uninsured, maturing serially through 2035, at interest rates from 3.00% to 5.00%	9,555,000	-	-	9,555,000	355,000
2015 A-R1 Refunding Series (AMT)					
Series A Bonds, uninsured AMT, maturing serially through 2027, at interest rate of 5.00%	108,120,000	-	1,175,000	106,945,000	10,460,000
2015B-R2 Refunding Series (AMT)					
Series B Bonds, uninsured AMT, maturing serially through 2026, at interest rates from 4.00% to 5.00%	13,050,000	-	750,000	12,300,000	995,000
2016 A-1 Series					
Series A Bonds, uninsured, maturing serially through 2045, at interest rates from 2.00% to 5.00%	23,925,000	-	-	23,925,000	795,000
2016 A-R1 Refunding Series					
Series A Bonds, uninsured, maturing serially through 2028, at interest rates from 4.50% to 5.00%	56,160,000	-	-	56,160,000	-
2016 A-R2 Refunding Series					
Series A Bonds, uninsured, maturing serially through 2030, at interest rates from 4.50% to 5.00%	63,610,000	-	-	63,610,000	-
2016 A-2 Series					
Series A Bonds, uninsured, maturing serially through 2046, at interest rates from 3.00% to 5.00%	-	7,200,000	-	7,200,000	-
2017 A-1 Series					
Series A Bonds, uninsured, maturing serially through 2046, at interest rates from 3.00% to 5.00%	-	31,610,000	-	31,610,000	-
2017 A-R1 Series					
Series A Bonds, uninsured, maturing serially through 2029, at interest rate of 4.00%	-	33,525,000	-	33,525,000	-
2017 A-R2 Series					
Series A Bonds, uninsured, maturing serially through 2029, at interest rate of 4.00%	-	72,830,000	-	72,830,000	-
Total of bonds payable covered by Master Program Trust Account	1,116,711,882	145,165,000	211,992,444	1,049,884,438	93,042,757
2005 BCIA/ENCAP Golf Holdings					
Variable rate bond series maturing through 2025, with weekly interest rate calculations	88,413,346	-	-	88,413,346	-
Total bonds payable	<u>\$ 1,205,125,228</u>	<u>\$145,165,000</u>	<u>\$211,992,444</u>	<u>\$ 1,138,297,784</u>	<u>\$ 93,042,757</u>

**New Jersey Environmental Infrastructure Trust
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Notes to Financial Statements

Note 8. Conduit Debt (Continued)

Annual debt service requirements to maturity for conduit debt obligations are as follows:

	Principal	Interest	Total
Year ending June 30:			
2018	\$ 93,042,757	\$ 43,860,264	\$ 136,903,021
2019	98,242,963	39,535,592	137,778,555
2020	97,488,717	34,883,261	132,371,978
2021	92,845,000	30,393,438	123,238,438
2022	89,440,000	26,145,327	115,585,327
2023 through 2027	451,053,347	77,537,789	528,591,136
2028 through 2032	168,200,000	20,727,590	188,927,590
2033 through 2037	38,255,000	3,993,551	42,248,551
2038 through 2042	4,525,000	1,336,469	5,861,469
2043 through 2047	5,205,000	463,975	5,668,975
	<u>\$ 1,138,297,784</u>	<u>\$ 278,877,256</u>	<u>\$ 1,417,175,040</u>

Advance refunding: When conditions have warranted, the Trust has sold various series of bonds to provide for the refunding of previously issued obligations. The proceeds received from the respective sales of the bonds were used to redeem the applicable outstanding bonds or to deposit, in an irrevocable escrow fund held by an escrow agent, an amount that, when combined with interest earnings thereon, will be at least equal to the sum of the 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.

**New Jersey Environmental Infrastructure Trust
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Notes to Financial Statements

Note 8. Conduit Debt (Continued)

These transactions defeased the outstanding bond issuances with a resulting reduction in annual debt service during the remaining term of the issuances. The principal and interest savings are passed along to each applicable borrower in the form of a credit against the original debt service of the borrower. Defeased bonds outstanding at June 30, 2017, are comprised of the following:

Issue	Principal Amount Outstanding June 30, 2017
2016A-R1 2008 Series A	\$ 62,690,000
2016A-R2 2010 Series B	71,975,000
2017A-R1 2009 Series A	35,425,000
2017A-R2 2010 Series A	77,720,000
	<u>\$ 247,810,000</u>
Individual borrower defeasances:	
1997 Series	\$ 60,000
1999 Series A	1,095,564
2000 Series A	265,000
2000 Series B	1,415,000
2002 Series A	2,130,000
2006 Series A	75,000
2007 Series A	1,175,000
2008 Series A	17,365,000
2009 Series A	3,815,000
2010 Series A	9,575,000
2010 Series B	9,185,000
2010 Series C	340,000
2012 Series A	265,000
2013 Series A	355,000
2014 Series B	335,000
	<u>\$ 47,450,564</u>

**New Jersey Environmental Infrastructure Trust
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Notes to Financial Statements

Note 8. Conduit Debt (Continued)

Reserve for arbitrage rebate: The Tax Reform Act of 1986 placed restrictions on the investments of the proceeds of certain tax-exempt bonds issued after December 31, 1986. Specifically, investment earnings which are above the arbitrage bond yield are required to be rebated to the United States Treasury Department within sixty days of the end of every fifth bond year. A bond year is defined, at the option of the issuing entity, as either the date of the first anniversary of bond settlement or the issuing entity's year end.

The Trust has various issues of bonds which are subject to rebate calculations, which are required to be made at least once every five years. The Trust prepares annual rebate calculations for purposes of determining any contingent liability for rebate. As of June 30, 2017, it was determined there was no rebate due as a result of these calculations. The amount of contingent liability for rebate may change as a result of future events.

Loans receivable from borrowers of conduit debt: The Trust provides loans to Borrowers to finance allowable costs of clean water and safe drinking water projects. The various Trust loans are grouped into pools and funded with the proceeds of Trust bonds or other obligations which are considered conduit debt. 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, most of which are secured by the full faith and credit of a local governmental unit, are repayable in most cases over a period of 20 years, with some loans maturing over a shorter or longer period, and with coupon rates of 2.0% to 5.5% per annum.

Each borrower issues to the Trust a bond, note or other obligation in a principal amount equal to the principal amount of the loan in favor of the Trust which secures the borrowers repayment obligation. The Trust then assigns these obligations to the trustee. These obligations bear interest at the same rates and are callable at the same times and prices, as the corresponding Trust bonds, net of refunding costs. All principal and interest savings from the refunding of Trust Bonds are passed along to each applicable borrower in the form of a credit against the original debt service of the borrower.

Stewardship, compliance and accountability:

Compliance with finance related legal and contractual provisions: The Trust is subject to the provisions and restrictions of the Bond Resolution or Supplemental Bond Resolution adopted for each conduit debt bond issue.

Management of the Trust is unaware of any material violations of finance related legal and contractual provisions and has no knowledge of any default in the fulfillment of any of the terms, covenants or provisions of the bond resolutions was obtained, unless otherwise described herein.

Debt service reserve requirement: Pursuant to the various bond resolutions and supplemental bond resolutions for bonds issued and accounted for as conduit debt, certain invested reserves are required to be maintained with the Trustee in a designated Debt Service Reserve Fund. This requirement is intended to fund potential deficiencies in principal and interest required to be paid in succeeding years. As of the September 1, 2016 calculation date, the cumulative debt service reserve requirement, as adjusted for refundings and defeasances was \$65,297,389. As of June 30, 2017, each Series Debt Service Reserve Account was in compliance with the debt service reserve requirements in accordance with the respective bond resolutions and supplemental bond resolutions. The balance as of June 30, 2017 and 2016 in all of the debt service reserve fund accounts was \$79,376,166 and \$84,032,271, respectively.

**New Jersey Environmental Infrastructure Trust
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Notes to Financial Statements

Note 8. Conduit Debt (Continued)

Statement of Funds and Accounts Held by the Trustee: Pursuant to the various bond resolutions and supplemental bond resolutions for bonds issued and accounted for as conduit debt, a Trustee is appointed to maintain all funds and accounts. These balances are not recorded on these financial statements. As of June 30, 2017 and 2016, the total cash and investments balance for conduit debt was \$135,846,909 and \$161,620,413, respectively.

Statement of revenue, administrative fees and state administrative fees: Pursuant to the various bond resolutions and supplemental bond resolutions for bonds issued and accounted for as conduit debt, the Trust is required to report the revenues, administrative fees and state administrative fees collected from all borrowers. The revenues include principal and interest payments made by borrowers. For the fiscal year ended June 30, 2017, the total revenues, administrative fees and state administrative fees collected for conduit debt was \$284,124,180 and \$278,845,981, respectively.

Note 9. Subsequent Event

Management has evaluated subsequent events and transactions that occurred after the balance sheet date, but before October 12, 2017, the date the financial statements were available to be issued. The following items were determined by management to require disclosure in the financial statements:

On July 4, 2017, the budget for the State of New Jersey was signed into law which appropriated \$22.6 million dedicated to the State Transportation Infrastructure Bank Fund for use by the trust in SFY2018 for financing transportation infrastructure projects via the Transportation Infrastructure Financing Program (TIFP) once the TIFP becomes operative.

On July 21, 2017, the Trust and DEP appropriation bills were signed into law. This authorized the expenditure of approximately \$539 million for the purpose of financing the cost of construction of environmental infrastructure projects of eligible project sponsors. Additionally, this allowed for appropriations of investment income from bonds funds for the short-term loans not to exceed \$600 million.

Subsequent to year end, the Trust has closed a total of 11 Short Term loans totaling \$62,794,367.

**New Jersey Environmental Infrastructure Trust
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Master Program Trust Agreement Schedule (Unaudited)

Master program trust agreement: The New Jersey Environmental Infrastructure Financing Program adopted the Master Program Trust Agreement in 1995. Under the agreement, repayments of Department loans are deposited with US Bank and held in the Master Program Trust Account to provide coverage for all outstanding Trust Loans. The funds are held for a period of two semi-annual bond payments plus one day, after which time the funds are transferred to the State. The balance in the Master Program Trust Account as of June 30, 2017 and 2016 was \$33,354,280 and \$32,607,296, respectively. This balance is not an asset of the Trust and therefore is not reflected in the Trust's financial statements; however, it is available to pay debt service on the Trust Bonds in the event of a default by any program Borrowers.

	Aggregate of Coverage Receiving Trust Loan Repayments: Principal ¹	Aggregate of Coverage Receiving Trust Loan Repayments: Interest ¹	Aggregate of Coverage Providing Fund Loan Repayments ^{2,3}	Total Funds Available to Secure and Provide Coverage for all Coverage Receiving Financing Program Debt Service ^{1,3}	Total Debt Service for all Coverage Receiving Financing Programs ¹
Years ending June 30:					
2018	93,042,758	43,860,271	145,016,127	281,919,156	135,038,338
2019	98,242,962	39,535,587	143,090,051	280,868,600	137,778,549
2020	97,488,716	34,883,259	138,677,078	271,049,054	132,371,975
2021	92,850,000	30,393,440	132,154,780	255,398,220	123,243,440
2022	89,434,999	26,145,330	126,965,394	242,545,724	115,580,329
2023	82,265,003	22,208,383	118,306,004	222,779,389	104,473,385
2024	77,320,000	18,620,310	111,485,852	207,426,162	95,940,310
2025	74,715,000	15,261,885	105,029,535	195,006,420	89,976,885
2026	67,525,000	12,130,482	95,105,566	174,761,048	79,655,482
2027	60,815,000	9,316,725	82,881,879	153,013,603	70,131,725
2028	49,595,000	6,978,940	69,453,682	126,027,622	56,573,940
2029	39,565,000	5,211,443	56,842,588	101,619,031	44,776,443
2030	34,605,000	3,819,146	45,980,943	84,405,090	38,424,146
2031	24,590,000	2,741,603	36,751,323	64,082,927	27,331,603
2032	19,845,000	1,976,457	30,379,404	52,200,861	21,821,457
2033	13,365,000	1,428,363	22,731,764	37,525,127	14,793,363
2034	11,300,000	1,011,063	18,297,709	30,608,772	12,311,063
2035	7,335,000	685,047	11,794,185	19,814,232	8,020,047
2036	4,105,000	487,006	6,922,260	11,514,267	4,592,006
2037	2,150,000	382,072	3,480,209	6,012,281	2,532,072
2038	845,000	329,172	1,722,890	2,897,062	1,174,172
2039	875,000	299,303	1,722,890	2,897,193	1,174,303
2040	900,000	268,459	1,722,890	2,891,349	1,168,459
2041	935,000	236,572	1,722,890	2,894,462	1,171,572
2042	970,000	202,963	1,722,890	2,895,852	1,172,963
2043	1,000,000	167,700	1,722,890	2,890,590	1,167,700
2044	1,035,000	131,275	1,722,890	2,889,165	1,166,275
2045	1,075,000	93,513	1,716,352	2,884,865	1,168,513
2046	1,115,000	54,313	1,612,746	2,782,059	1,169,313
2047	980,000	17,175	937,564	1,934,739	997,175
Total⁴	\$1,049,884,438	\$278,877,256	\$1,517,673,227	\$2,846,434,921	\$1,326,897,003

¹ Reflects the application to Trust Bond debt service of (a) (i) savings credits derived from the prior refunding of certain series of Trust Bonds and (ii) savings credits to be derived from the issuance of the Series 2016A-R1 and Series 2016A-R2 Refunding Bonds, and (b) reductions in the aggregate principal amount of Trust Bonds Outstanding as a result of the partial defeasance of certain Trust Bonds.

² Fund Loan repayment obligations do not bear interest.

³ The Fund Loan repayments with respect to Principal Forgiveness Fund Loans, as such repayments are set forth herein, assume and reflect the successful application of principal forgiveness, as described under the headings "INTRODUCTION" and "THE FINANCING PROGRAM - Fund Loans" in the body of this Official Statement.

⁴ Totals may not add due to rounding.