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*New Jersey State Legislature*

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Governor of New Jersey

The Honorable John O. Bennett  
President of the Senate

The Honorable Richard J. Codey  
President of the Senate

The Honorable Albio Sires  
Speaker of the General Assembly

Mr. Albert Porroni  
Executive Director  
Office of Legislative Services

INDEPENDENT AUDITOR'S REPORT

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the State of New Jersey as of and for the year ended June 30, 2002, which collectively comprise the State's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the State of New Jersey's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the discretely presented component units. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion, insofar as it relates to the amounts included for the component units, is based on the reports of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the reports of other auditors provide a reasonable basis for our opinions.

In our opinion, based on our audit and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the State of New Jersey as of June 30, 2002, and the respective changes in financial position and cash flows, where applicable, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 1 to the financial statements, the State of New Jersey adopted the provisions of the Governmental Accounting Standards Board Statements No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, and No. 35, *Basic Financial Statements - and Management's Discussion and Analysis - for Public Colleges and Universities* as of July 1, 2001. In addition, as described in Note 1 to the financial statements, the State of New Jersey has implemented Governmental Accounting Standards Board Statements No. 37, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments: Omnibus*, and No. 38, *Certain Financial Statement Note Disclosures* as of July 1, 2001.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 27, 2002 on our consideration of the State of New Jersey's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The Management's Discussion and Analysis, the budgetary comparison schedules, and the funding progress schedule for all pension trust funds are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consist principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the State of New Jersey's basic financial statements. The Combining Fund Statements and Schedules - Non-Major Funds, Other Supplementary Information, Schedules of Anticipated and Appropriated Revenue and the Schedule of Appropriations and Expenditures are

presented for the purposes of additional analysis and are not a required part of the basic financial statements. These statements and schedules have been subjected to the auditing procedures applied by us and the other auditors in the audit of the basic financial statements and, in our opinion, based on our audit and the reports of other auditors, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

The introductory section and the statistical section listed in the table of contents have not been audited by us, and accordingly, we express no opinion thereon.



Richard L. Fair  
State Auditor  
November 27, 2002

RLF:ehk

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

The following narrative provides an overview and analysis concerning New Jersey State Government's financial performance of its activities for the fiscal year ended June 30, 2002. Readers should consider this information in conjunction with the transmittal letter, which precedes Management's Discussion and Analysis, and the State's financial statements, which follow.

For the fiscal year ended June 30, 2002, the State of New Jersey implemented new accounting standards as outlined in the Governmental Accounting Standards Board (GASB) Statement No. 34, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments. This Comprehensive Annual Financial Report provides new reporting standards that have significant changes in content and structure. Therefore, a majority of the information provided is not easily comparable to prior reporting periods. Year-to-year comparisons will be provided in future years' Comprehensive Annual Financial Reports. It is the intent of GASB Statement No. 34 to provide meaningful comparisons that will further explain the State's financial position and results of operations.

### **FINANCIAL HIGHLIGHTS**

#### **Government-wide**

- The primary government's assets total \$25.6 billion. Major increases were the result of the inclusion of capital assets, net of depreciation associated with the implementation of GASB Statement No. 34. As of June 30, 2002, assets exceeded liabilities by \$2.9 billion. This calculation, commonly known as net assets, represents 1.1 percent of total assets. The State's unrestricted net assets, which represent net assets that have no statutory commitments and are available for discretionary use, totaled a negative \$8.3 billion. The negative balance is primarily a result of financing unfunded actuarial liabilities in the State's pension fund systems, financing unfunded actuarial liabilities in uninsured motorist funds, and financing local elementary and high school construction.
- June 30, 2002 Component Unit assets exceeded Component Unit liabilities by \$10.5 billion. Total Component Unit assets grew to \$27.4 billion.

#### **Fund Level**

- The State's governmental funds reported June 30, 2002 combined ending fund balances of \$5.6 billion, a decrease of \$2.0 billion from the prior fiscal year. Of this amount, \$874.8 million represents unreserved fund balances with the remainder reserved for specific, legislated purposes, management reserves, and constitutional dedications. The General Fund's total ending fund balance is \$1.9 billion, with \$292.3 million unrestricted.
- Proprietary Funds reported June 30, 2002 net assets of \$2.9 billion. During the fiscal year, this amount decreased by \$617.9 million.

#### **Long-term Debt**

- The State's long-term debt obligations increased 5.8 percent, to \$17.2 billion, which includes a net increase in bonded debt of \$555.9 million.
- During the fiscal year, the State issued \$3.6 billion in bonds. New money issuances represented \$1.2 billion for transportation and education system improvements, while \$2.4 billion represented four refunding transactions that provided the State with \$81.2 million in net present value savings. During the fiscal year ended June 30, 2002, the State paid \$1.5 billion in debt service on its general obligation bonds, revenue bonds, installment obligations, capital leases, and certificates of participation.

- Non-bonded portions of the State's long-term debt total \$2.8 billion. This amount represents a \$392.1 million increase from the prior fiscal year and is mainly attributable to capital leases for State office facilities.

## OVERVIEW OF THE FINANCIAL STATEMENTS

Management's Discussion and Analysis serves as an introduction to the State of New Jersey's basic financial statements. This report, for the first time, includes GASB Statement No. 34 requirements for government-wide financial statements.

### Basic Financial Statements

The basic financial statements include Government-wide financial statements and Fund financial statements. Both statements present different views of the State's financial information. The Comprehensive Annual Financial Report includes Notes to the Financial Statements; Required Supplementary Information (Budgetary Schedules) as well as Other Information.

- **Government-wide Financial Statements**  
Government-wide financial statements provide a broad view of the State's operations conforming to private sector accounting standards and provide both short-term and long-term information regarding the State's overall financial position through the fiscal year end. The statements are prepared using the flow of economic resources measurement focus and the accrual basis of accounting. The government-wide financial statements include the following two statements:
  - **The Statement of Net Assets** Shown on page 33, the Statement of Net Assets presents all of the State's assets and liabilities and calculates net assets. Increases or decreases in the State's net assets over time may serve as a useful indicator as to whether or not the State's overall financial position is improving or deteriorating.
  - **The Statement of Activities** Shown on pages 34 and 35, the Statement of Activities presents how the State's net assets changed during Fiscal Year 2002. All changes in net assets are reported when the underlying event occurs giving rise to the change, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will not result in cash flows until future fiscal periods. This statement also presents a comparison between direct expenses and program revenues for each State function.

Both the Statement of Net Assets and the Statement of Activities have separate sections that report three activities:

- **Governmental Activities** The majority of State operated functions fall into this category, which includes Executive, Legislative, and Judicial Branch operations. Governmental activity functions rely heavily on State taxes and federal grant receipts for funding their respective programs and functions.
- **Business-Type Activities** Certain State operations that are legislatively able to charge fees to external users to recover all or a portion of the cost of the services that are provided are classified as business-type activities. The State Lottery Fund and the Unemployment Compensation Fund are two such examples.
- **Component Units** Legally separate operations and organizations for which the State has financial accountability are considered component units. The State has 20 authorities, of which the New Jersey Building Authority and the New Jersey Transportation Trust Fund Authority are blended into governmental activities, and 12 colleges and universities that are reported as component units. These component units operate as business-type activities and are presented in two categories, major and non-major which is determined,

generally, by the relative size of the entity's assets, liabilities, revenues, and expenses when compared to the total of the related component units. A list of the State's component units is shown in Notes 1B – Significant Accounting Policies – Financial Reporting Entity and Note 16 – Component Units in the Notes to the Financial Statements. Audit reports of the individual component units can be obtained from their respective administrative offices.

The Comprehensive Annual Financial Report includes two schedules (shown on pages 37 and 39) that reconcile the amounts reported on the governmental fund financial statements (modified accrual basis of accounting) with government-wide financial statements (accrual basis of accounting). The following summarizes the financial reporting impact of transitioning from a modified accrual basis of accounting to a full accrual basis of accounting:

- Capital assets used in governmental activities are not reported on governmental fund financial statements.
- Certain tax revenues that are not earned, but are available, are reported as revenue on the governmental fund financial statements, but are classified as deferred revenue on the government-wide financial statements.
- Any liability relating to funding certain pension trust funds below the amount required (net pension obligation) is recorded only in the government-wide financial statements.
- Deferred issue costs are capitalized and amortized in the government-wide financial statement, but are reported as expenditures in the governmental fund financial statements.
- Except for the current portion of long-term debt which is reported in the fund financial statements, long-term liabilities, such as capital lease obligations, compensated absences, bonds and notes payable, and others appear as liabilities in the government-wide financial statements only.
- Capital outlay spending results in capital assets on the government-wide statements, but are reported as expenditures on the governmental fund statements.
- Bond and note proceeds result in liabilities on the government-wide financial statements, but are recorded as other financing sources on the governmental fund financial statements.
- Interest expense on long-term debt is recorded in the government-wide financial statements in the period when incurred. In the governmental fund financial statements, interest expense on long-term debt is recorded in the period it is paid.
- Certain other outflows represent either increases or decreases in liabilities on the government-wide financial statements, but are reported as expenditures on the governmental fund financial statements.

The Notes to the Financial Statements provide additional information that is essential to a full understanding of the data provided in the government-wide financial statements and fund financial statements. The notes can be found on pages 54 to 94 of this Comprehensive Annual Financial Report for the fiscal year ended June 30, 2002.

- **Fund Financial Statements**

Fund financial statements begin on page 36. A fund is a fiscal and accounting entity with a self-balancing set of accounts recording cash and other financial resources together with all related liabilities and residual equities or balances, and changes therein, which are segregated for the

purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions or limitations. The State's fund financial statements reflect financial reporting practices in accordance with this definition. The State entity is divided between funds and component units, with State's funds divided into three categories – governmental, proprietary, and fiduciary.

- **Governmental Funds Financial Statements** Most Direct State Services are financed through governmental funds, which are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. The governmental funds financial statements focus on current inflows and outflows of expendable resources and the unexpended balances at the end of a fiscal year that are available for future spending. Governmental fund information helps determine whether or not there was an addition or a reduction in financial resources that can be spent in the near future to finance State programs.

The State's governmental funds are the General Fund, Debt Service Fund, Special Revenue Funds, and Capital Projects Funds. These funds are reported using the modified accrual basis of accounting, which measures cash and all other financial assets that can readily be converted to cash. The basic governmental funds financial statements can be found immediately following the government-wide financial statements.

- **Proprietary Funds Financial Statements** Proprietary funds are used to account for State business-type activities. Since these funds charge fees to external users, they are known as enterprise funds. Proprietary funds provide the same information as government-wide financial statements and use the accrual basis of accounting.
- **Fiduciary Funds Financial Statements** Fiduciary funds, which include State pension fund systems, are used to account for resources held by the State for the benefit of parties outside of State government. Fiduciary funds are reported using the accrual basis of accounting, in separate Statements of Fiduciary Net Assets and Changes in Fiduciary Net Assets as shown on pages 44 to 47. Government-wide financial statements exclude fiduciary fund activity and balances since the assets are legislatively restricted in purpose and do not represent discretionary assets the State can use to fund its operations.
- **Component Units** The government-wide financial statements present information for the component units in a single column of the Statement of Net Assets. The Combining Statement of Net Assets and Changes in Net Assets and the Combining Statement of Cash Flows provides detail for each major component unit and the non-major component units in the aggregate.
- **Notes to the Financial Statements** Beginning on page 54, the Notes to the Financial Statements provide additional background information that assist the reader in understanding the data provided in the government-wide financial statements and fund financial statements.
- **Required Supplementary Information** The basic financial statements are followed by a section of required supplementary information. This section includes budgetary schedules that reconcile the statutory intent of the program with fund balances in accordance with generally accepted accounting principles at fiscal year's end as well as variances between the final budget and actual results on a budgetary basis. Also there is a Schedule of Funding Progress for all Pension Trust Funds.
- **Other Information** Combining financial statements for non-major governmental funds, proprietary funds, fiduciary funds, and non-major component units are shown in this section. They are not reported

individually, as with major funds, on the Governmental Fund Financial Statements. The Schedule of Appropriations and Expenditures, shown in this section details the comparison of expenditures at the legal level of control to the final budget. The Schedule of Anticipated Revenue and the Schedule of Appropriated Revenue provide detailed information on major and miscellaneous taxes, fees and other revenues. The Schedule of Anticipated Revenue provides further analysis by showing dollar and percentage variances of actual collections as compared to the original budget certification.

## GOVERNMENT-WIDE FINANCIAL ANALYSIS

### Net Assets

The State's fiscal year ended combined net assets totaled \$2.9 billion. Fiscal Year 2002 activities showed a \$2.4 billion decrease in combined net assets, with net assets of governmental activities decreasing by \$1.8 billion, and business-type activities decreasing by \$617.9 million.

**Net Assets**  
**June 30, 2002**  
**(Expressed In Millions)**

	<b>Primary Government</b>		<b>Total</b>
	<b>Governmental Activities</b>	<b>Business-Type Activities</b>	
Current and other noncurrent assets	\$ 8,693.9	\$ 4,632.5	\$ 13,326.4
Capital assets, net	12,259.8	-	12,259.8
<b>Total Assets</b>	<b>\$ 20,953.7</b>	<b>\$ 4,632.5</b>	<b>\$ 25,586.2</b>
Current liabilities	\$ 3,806.3	\$ 606.1	\$ 4,412.4
Noncurrent liabilities	17,184.4	1,111.5	18,295.9
<b>Total Liabilities</b>	<b>\$ 20,990.7</b>	<b>\$ 1,717.6</b>	<b>\$ 22,708.3</b>
Net Assets:			
Invested in capital assets, net of related debt	\$ 4,781.8	\$ -	\$ 4,781.8
Restricted	3,453.5	2,974.6	6,428.1
Unrestricted	(8,272.3)	(59.7)	(8,332.0)
<b>Total Net Assets</b>	<b>\$ (37.0)</b>	<b>\$ 2,914.9</b>	<b>\$ 2,877.9</b>

Invested in capital assets, net of related debt is the largest component of the State's net assets. Capital assets, net of depreciation are used by the State to provide services to citizens; consequently these assets are not available for future spending. Land, land improvements, buildings and improvements, machinery and equipment, infrastructure (roads, bridges and other immovable assets), and construction in progress are shown less any related debt used to acquire these assets that is still outstanding.

### Changes in Net Assets

The State's net assets for Fiscal Year 2002 decreased by \$2.4 billion. This amount is indicative of the State's current economic picture where revenue collections softened while expenditures remained constant. Approximately 49.0 percent of the State's total revenue came from general taxes, while 27.2 percent was derived from operating grants. Charges for services amounted to 19.1 percent of total revenues, while other items such as governmental subsidies and grants, capital grants, interest and investment earnings, and miscellaneous revenues accounted for the remainder. State expenditures cover a range of services. The largest expense, 25.5 percent was for educational, cultural, and intellectual development. Physical and mental health amounted to 22.7 percent of total expenditures, while government direction, management, and control amounted to 12.5 percent. Other major expenditures focused on economic planning,



development, and security, public safety and criminal justice, and community development and environmental management. During Fiscal Year 2002, governmental activity expenses exceeded program revenues, resulting in the use of \$22.2 billion of general revenues (mostly taxes). Net expenses from business-type activities in Fiscal Year 2002 exceeded revenues by \$139.4 million.

The deficit in unrestricted governmental net assets arose primarily as a result of deferring certain tax revenues that were received during Fiscal Year 2002 but not earned until a future time period, recording depreciation expense related to the capital assets, and recording certain liabilities that are required to be included in the government-wide financial statements.

The deficit in the unrestricted business-type activities net assets resulted from an excess of claims over available resources existing in the Health Benefits Local Government Employers Program Fund. Contribution rates have been increased to offset this deficit.

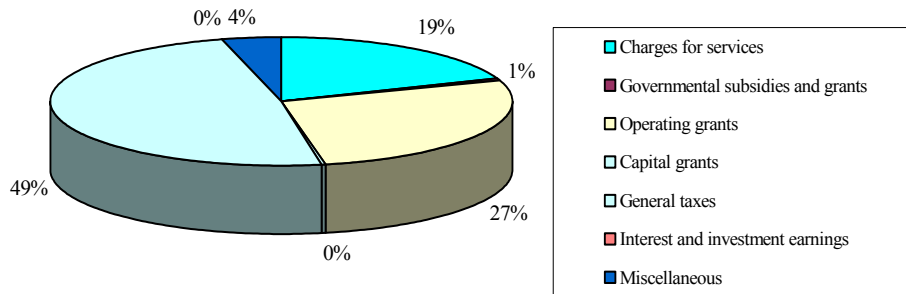
**Statement of Activities**  
**For the Fiscal Year Ended June 30, 2002**  
**(Expressed In Millions)**

	<b>Primary Government</b>		
	<b>Governmental Activities</b>	<b>Business-Type Activities</b>	<b>Total</b>
<b>Revenues</b>			
Program revenues			
Charges for services	\$ 3,052.3	\$ 4,032.0	\$ 7,084.3
Operating grants	9,233.0	847.9	10,080.9
Capital grants	23.8	-	23.8
General revenues			-
General taxes	18,049.8	-	18,049.8
Governmental subsidies and grants	-	246.8	246.8
Interest and investment earnings	42.8	-	42.8
Miscellaneous	1,565.2	-	1,565.2
<b>Total Revenues</b>	<b>\$ 31,966.9</b>	<b>\$ 5,126.7</b>	<b>\$ 37,093.6</b>
<b>Expenses</b>			
Public safety and criminal justice	\$ 2,485.0	\$ -	\$ 2,485.0
Physical and mental health	8,952.4	-	8,952.4
Educational, cultural, and intellectual development	10,117.8	-	10,117.8
Community development and environmental management	2,207.6	-	2,207.6
Economic planning, development, and security	3,577.1	-	3,577.1
Transportation programs	1,541.6	-	1,541.6
Government direction, management, and control	4,954.9	-	4,954.9
Special government services	227.2	-	227.2
Interest expense	427.1	-	427.1
State Lottery Fund	-	1,304.7	1,304.7
Unemployment Compensation Fund	-	2,497.1	2,497.1
Other	-	1,217.5	1,217.5
<b>Total Expenses</b>	<b>\$ 34,490.7</b>	<b>\$ 5,019.3</b>	<b>\$ 39,510.0</b>
Excess (Deficiency) Before Contributions and Transfers	\$ (2,523.8)	\$ 107.4	\$ (2,416.4)
Transfers	725.3	(725.3)	-
<b>Increase (Decrease) In Net Assets</b>	<b>\$ (1,798.5)</b>	<b>\$ (617.9)</b>	<b>\$ (2,416.4)</b>
<b>Net Assets - July 1, 2001 - Restated</b>	<b>1,761.5</b>	<b>3,532.8</b>	<b>5,294.3</b>
<b>Net Assets - June 30, 2002</b>	<b>\$ (37.0)</b>	<b>\$ 2,914.9</b>	<b>\$ 2,877.9</b>

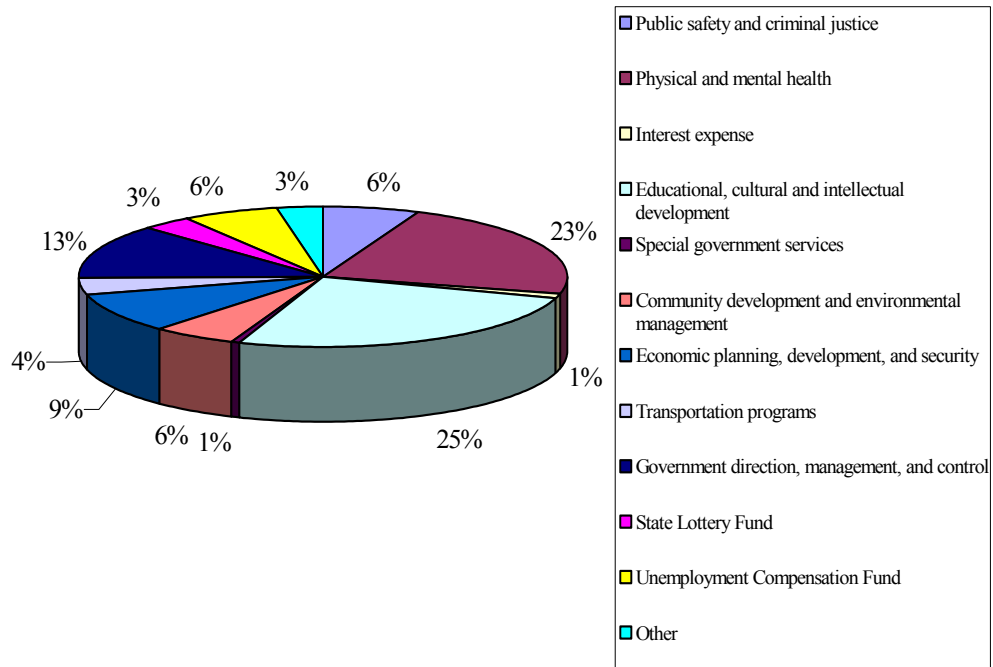
**Governmental Activities – Revenues and Expenditures**

The following pie charts depict governmental activities for revenues and expenditures for the fiscal year ended June 30, 2002:

**Revenues – Governmental Activities  
Fiscal Year Ended June 30, 2002**



**Expenditures – Governmental Activities  
Fiscal Year Ended June 30, 2002**



Effective January 1, 2002, the State's Corporation Business Tax has been restructured to wipe out a myriad of loopholes and tax shelters, restore simplicity, and provide a lower tax rate for small businesses. An alternative minimum assessment will be based on corporate sales or gross profits at the payor's option. The minimum assessment will also apply to out-of-state companies that have significant economic presence in New Jersey but currently pay no New Jersey corporate taxes. Loopholes in the Corporation Business Tax are now closed that allow larger corporations to shelter income and pay only the minimum \$200 to the State. Other significant, structural tax changes include 70 cents per pack increase in the Cigarette Tax. In addition, the State has securitized part of its share in the Tobacco Settlement by issuing \$1.8 billion in Tobacco Settlement Asset-Backed Bonds. The bond proceeds are to be used to fund State expenditures during Fiscal Years 2003 and 2004. There are no significant structural changes being made to the State's two other major taxes, the Gross Income Tax and the Sales and Use Tax.

### **Business-Type Activities**

For the fiscal year ended June 30, 2002, net assets of business-type activities totaled \$2.9 billion, a \$617.9 million decrease over the prior fiscal year. The major factor contributing to this decrease was an increase in claims and a decrease in revenues in the Unemployment Compensation Fund and excess claims in the Health Benefits Local Employers Program Fund.

## **FINANCIAL ANALYSIS OF THE STATE'S MAJOR FUNDS**

The focus of the State's major governmental funds reported in the fund financial statements is on near term inflows, outflows, and balance of expendable resources, which are essential elements in assessing the State's financing needs and serve as useful measures of the government's net resources available for future spending.

The State's governmental funds reported June 30, 2002 fund balances of \$5.6 billion. Of this amount, \$874.8 million, or 15.7 percent constituted unreserved fund balances.

### **General Fund**

The General Fund is the State's chief operating fund and is the fund into which all State revenues, not otherwise restricted by statute, are deposited. The General Fund's fiscal year ending fund balance totaled \$1.9 billion, of which, \$1.2 billion represented unreserved fund balances. During Fiscal Year 2002 total fund balance was reduced by \$1.6 billion primarily as a result of lower tax collections from a slowing New Jersey economy. By the end of Fiscal Year 2002, net General Fund revenues increased 6.7 percent from the prior fiscal year.

- **General Fund Highlights**

Lower State revenues reflected New Jersey's economic performance. During Fiscal Year 2002, the State's original budget was adjusted in order to reflect lower revenue collections. The following summarizes major variances between the final budget and the actual amounts (on a budgetary basis):

- General revenues of \$21.3 billion were \$1.8 billion lower than the final certifications. Positive variances of \$1.1 billion from taxes and other revenue were offset by reductions in federal and other grants of \$2.0 billion and service and assessments of \$0.9 billion.
- Total expenditures were \$3.6 billion lower than original appropriations set forth in the budget enacted during June 2001 plus supplemental appropriations during the fiscal year. This amount includes \$1.0 billion from physical and mental health, \$600.8 million from government direction, management, and control, \$589.6 million from economic planning, development, and security, and \$525.9 million from community development and environmental management. Lesser reductions of \$390.3 million came from public safety and criminal justice, and \$360.9 million from educational, cultural, and intellectual development.

- The Surplus Revenue Fund is an account within the State’s General Fund. It is used to account for excess revenues from prior fiscal years that is legislatively reserved for current year’s appropriations in the event that anticipated revenues in the General Fund are estimated to be less than those certified by the Governor upon approval of the annual Appropriations Act. During Fiscal Year 2002, the State released \$720.0 million to the General Fund in order to offset lower revenue collections.

**Property Tax Relief Fund**

The Property Tax Relief Fund accounts for revenues from the New Jersey Gross Income Tax. Appropriations from this fund must be used exclusively for the constitutional purpose of reducing or offsetting property taxes.

- **Property Tax Relief Fund Highlights**  
During Fiscal Year 2002, \$8.5 billion of property tax relief expenditures were made. The Property Tax Relief Fund’s Fiscal Year 2002 ending undesignated fund balance is zero.

The following table presents a comparison of the components of the ending undesignated fund balances for Fiscal Year 2002 and Fiscal Year 2001:

**Fund Balance Comparison  
2002 Versus 2001  
(Expressed In Millions)**

<u>Fund</u>	<u>Fiscal Year</u>		<u>Amount</u>
	<u>2002</u>	<u>2001</u>	
General Fund	\$ 292.3	\$ 388.7	\$ (96.4)
Surplus Revenue Fund	-	720.0	(720.0)
Debt Avoidance and Retirement Fund	-	20.8	(20.8)
Property Tax Relief Fund	-	160.0	(160.0)
Casino Revenue Fund	-	-	-
<b>Total</b>	<u>\$ 292.3</u>	<u>\$ 1,289.5</u>	<u>\$ (997.2)</u>

The State’s governmental funds reported June 30, 2002 fund balances of \$5.6 billion. Of this amount, \$2.6 billion, or 46.1 percent constituted unreserved fund balances.

**State Lottery Fund**

Monies derived from the sale of State lottery tickets are deposited into this fund. Disbursements are authorized for the payment of prizes to holders of winning lottery tickets and for the administrative expenses of the Division of State Lottery. The balance of funds is paid to the State’s General Fund in support of the amounts annually appropriated for State institutions and for education. The present value of obligations for future installment payments of lottery prizes funded by the purchase of deposit fund contracts is accounted for in this fund.

In Fiscal Year 2002, gross revenues totaled \$2.1 billion, of which 55.0 percent was returned in prizes, 36.3 percent went to State education and institutions, 7.6 percent was paid to sales agents and ticket vendors, and 1.1 percent covered Lottery operational and promotional expenses. As of June 30, 2002, the Lottery has generated over \$30.4 billion in gross revenues, \$15.4 billion in prizes, and contributed \$12.4 billion to the State.

**Unemployment Compensation Fund**

The Unemployment Compensation Fund accounts for monies deposited from contributions of employers and employees for unemployment compensation, amounts credited or advances made by the

Federal Government, and amounts received from any other source. After consideration is given to any claim for refund of overpayment of contributions, the remainder is transferred by the Division of Employment Security to the Treasurer of the United States for credit to the State of New Jersey Unemployment Compensation Fund.

**Component Units**

Combined operating revenues and expenses for the State’s component units for Fiscal Year 2002 amounted to \$8.1 billion and \$6.7 billion respectively. Total operations along with other financing sources and uses contributed to total combined net assets at fiscal year end of \$10.5 billion.

Appropriations of \$2.0 billion were made from the State to the component units during Fiscal Year 2002.

**CAPITAL ASSET AND DEBT ADMINISTRATION**

Administration of the State’s capital assets falls under the purview of the Department of the Treasury. Capital assets are recorded under the State’s General Fixed Asset System in the New Jersey Office of Management and Budget. The New Jersey Office of Public Finance is responsible for issuing the State’s short-term and long-term debt obligations as well as overseeing the State’s credit ratings.

Capital Assets are shown in the table below. The State’s investment in capital assets, net of accumulated depreciation, totaled \$12.3 billion as of June 30, 2002. Depreciation charges for Fiscal Year 2002 totaled \$395.8 million.

More detailed information about the State’s capital assets is presented in Note 6 – Capital Assets, in the Notes to the Financial Statements.

**Capital Assets (Net Of Depreciation)  
June 30, 2002  
(Expressed In Millions)**

	<b>Total Primary Government</b>
Land	\$ 530.1
Land Improvements	27.4
Buildings and Improvements	1,423.3
Equipment	93.1
Infrastructure	10,019.0
<b>Sub-Total</b>	<b>\$ 12,092.9</b>
Construction-In-Progress	166.9
<b>Total</b>	<b>\$ 12,259.8</b>

**Fiscal Year 2003 Capital Plan**

Exclusive of the State’s school construction program, the State’s Fiscal Year 2003 capital budget projects a spending authorization of \$1.8 billion. Of this amount, the New Jersey Transportation Trust Fund Authority’s authorization totals \$1.1 billion, with \$535.0 million reserved for Department of Transportation projects and \$573.0 million reserved for New Jersey Transit projects. Other major projects that are to be funded include the State Police multipurpose building for its Troop “C” headquarters, and the State Police emergency operations center.

### **Debt Administration**

As of June 30, 2002, New Jersey's long-term debt totaled \$17.2 billion. This amount represents a \$948.0 million increase over the prior fiscal year. The State's long-term debt is broken into several categories as follows:

- **General Obligation Bonds** The State is empowered by voters to authorize, issue, and incur debt subject to certain constitutional restrictions. General obligation bond acts are both legislatively and voter-approved and are backed by the State's full faith and credit.
- **Revenue Bonds** This debt classification represents bond issuances whose segment of debt service comes solely from legally restricted revenues. Revenue bonds include debt issued by the New Jersey Building Authority for the purpose of erecting office structures to support State operations and the New Jersey Transportation Trust Fund Authority for the purpose of constructing various transportation and transit-related projects.
- **Installment Obligations** This debt classification represents obligations whose debt service is subject to and dependent upon the State Legislature making future appropriations from time to time. Installment obligations include debt issued to help fund the State's school construction program, and fund colleges and universities for the installation of dormitory fire suppression equipment.
- **Certificates of Participation** Certificates of Participation are debt issuances used primarily to finance State equipment needs under the State's master lease program. Currently, the State uses a line of credit as its preferred financing method for equipment.
- **Capital Leases** Capital Leases represent long-term contractual obligations that the State has entered into for the purpose of utilizing office space for State operations and program usage.
- **Loans Payable** Loans Payable represent amounts received by the New Jersey Automobile Insurance Guaranty Fund, from the New Jersey Property-Liability Insurance Guaranty Association. The loans were made in an effort to depopulate the New Jersey Automobile Insurance Guaranty Fund and to help satisfy its unfunded liability.

More detailed information about the State's long-term obligations and its debt limitations is presented in Note 9 – Long-term Obligations in the Notes to the Financial Statements.

### **Short-term Debt**

The State's short-term note program provides effective cash flow management of imbalances that occur in the timing of collections and disbursements of State revenues and expenditures during the fiscal year. The State Treasurer is authorized to issue short-term debt instruments without it constituting a general obligation of the State, or a debt, or a liability within the meaning of the State Constitution. All short-term notes must be retired within twelve months of their issuance date. During Fiscal Year 2002, the State issued and retired \$1.3 billion in commercial paper and short-term notes.

More detailed information about the State's short-term debt program is presented in Note 8 – Short-term Debt, in the Notes to the Financial Statements.

### **Credit Ratings**

Standard & Poor's Corporation, Moody's Investors Service, and Fitch Investors Service rate the State's debt. As of June 30, 2002, the State's short-term and long-term credit rating are as follows:

<u>Rating Agency</u>	<u>Short-Term Rating</u>	<u>Long-Term Rating</u>
Standard & Poor's Corporation	SP-1+	AA
Moody's Investors Service	MIG 1	Aa2
Fitch Investors Service	F1+	AA

### **ECONOMIC CONDITION AND OUTLOOK**

Downturns in the United States economy as well as the effects of terrorist attacks on September 11, 2001 have had a negative effect on the State. During Fiscal Year 2002, the State's economic performance has left New Jersey government with declining revenues. The State has undertaken several budgetary initiatives geared to address the current economic climate. These initiatives include an early retirement program, and the planned utilization of the Surplus Revenue Fund.

In recognizing the current and future New Jersey economic climate, the State has initiated the restructuring of the Corporation Business Tax as well as the partial securitization of Tobacco Settlement receipts.

### **REQUEST FOR INFORMATION**

This Comprehensive Annual Financial Report for the fiscal year ended June 30, 2002 is designed to provide a general overview of the State of New Jersey's finances to our citizens, taxpayers, customers, investors, and creditors and to demonstrate the State's accountability for the money it receives and the stewardship over its resources. Requests concerning any of the data presented in this Comprehensive Annual Financial Report for the fiscal year ended June 30, 2002 or for additional information should be addressed to the State of New Jersey, Office of Management and Budget, P.O. Box 221, 33 West State Street, 6<sup>th</sup> Floor, Trenton, New Jersey, 08625. Copies of this Comprehensive Annual Financial Report for the fiscal year ended June 30, 2002, the State Budget, and the Appropriations Handbook are also available at the following website: [www.state.nj.us/treasury/omb/publications.htm](http://www.state.nj.us/treasury/omb/publications.htm).