

NEW JERSEY



COMPREHENSIVE ANNUAL FINANCIAL REPORT FISCAL YEAR ENDED JUNE 30, 2008

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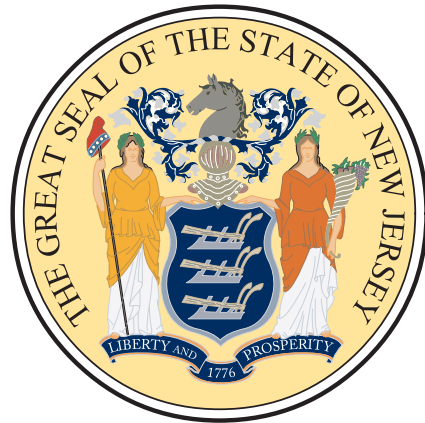
**STATE OF NEW JERSEY
 COMPREHENSIVE ANNUAL FINANCIAL REPORT
 FISCAL YEAR ENDED JUNE 30, 2008
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New Jersey CAFR

Introduction



2008



State of New Jersey
DEPARTMENT OF THE TREASURY
OFFICE OF MANAGEMENT AND BUDGET
PO Box 221
TRENTON NJ 08625-0221

JON S. CORZINE
Governor

R. DAVID ROUSSEAU
State Treasurer

April 30, 2009

Governor Jon S. Corzine
Members of the State Legislature
New Jersey Citizens

In accordance with the provisions of N.J.S.A. 52:27B-46, we are pleased to transmit to you the New Jersey Comprehensive Annual Financial Report for the fiscal year ended June 30, 2008. The Department of the Treasury's Office of Management and Budget prepared this report and is responsible for data accuracy as well as the completeness and fairness of the presentation, including all disclosures.

This Comprehensive Annual Financial Report presents the financial position and operating results of the State under generally accepted accounting principles (GAAP) applicable to State and Local governments as established by the Governmental Accounting Standards Board (GASB). The State also participates in the Government Finance Officers Association of the United States and Canada's (GFOA) review program for the Certificate of Achievement for Excellence in Financial Reporting.

The State operates in accordance with the standards provided in GASB Statements No. 34 and No. 35. The objectives of this reporting model, as reflected in these statements, are to provide a clear picture of the government as a single unified entity as well as providing traditional fund based financial statements. All revenues, costs, assets, and liabilities of the State are shown to clearly portray the State's fiscal health. Management's discussion and analysis is included in order to provide users with an objective and easily readable analysis of New Jersey's financial performance for the fiscal year ended June 30, 2008. We are confident that the data is accurate in all material respects, that it is presented in a manner designed to set forth fairly the financial position and results of the State's operations as measured by the financial activity of its various funds, and that all disclosures necessary to enable the reader to gain a reasonable understanding of the State's financial affairs have been included.

HIGHLIGHTS AND INITIATIVES

Actions undertaken during Fiscal Year 2008 and 2009 are directly linked to addressing New Jersey's recession that is currently over one year old. The measures are designed to protect the State's resources, its most vulnerable citizens, as well as provide opportunities to combat this intensifying national, economic malaise. Consequently, a broad spectrum of reform ranging from State budgeting and bonding, to home ownership has been impacted. They are as follows:

- On June 30, 2008 Governor Corzine issued Executive Order 103 directing the Executive Branch to present an annual budget message that shall not request or recommend State appropriations in an amount in excess of the certified amount of recurring revenues for the fiscal year for which the budget recommendation is made, with some limited exceptions. Further, for fiscal years beginning on and after July 1, 2009, the Executive Branch is required not to request or recommend appropriations in excess of the certified amount of recurring revenue, and any excess revenue shall be credited or appropriated to the Long-Term Obligation and Capital Expenditure Fund. Due to the State's economic situation, Executive Order No. 103 has been suspended for Fiscal Year 2010 by Executive Order No. 135 issued by the Governor on March 10, 2009.
- As part of the Governor's plan to restructure the State's fiscal condition, the Fiscal Year 2009 Appropriations Act is \$600 million less than the prior fiscal year. The Fiscal Year 2009 Appropriations Act represents the largest year-to-year spending reduction in State history. The single largest cut in State spending, approximately \$300 million, impacted the Executive Branch. Every department was cut, functions were merged and the payroll was reduced through a retirement incentive and attrition. The Fiscal Year 2009 Appropriations Act preserved core priorities such as education, health care, and protecting the most vulnerable in today's society. All of these austere measures have made it possible for the State to provide

nearly \$600 million more in funding for public education through a fairer school funding formula that is based on students, not zip codes.

- On October 16, 2008 Governor Corzine delivered a \$245 million Economic Stimulus Plan to a joint session of the State Legislature. Four broad areas were addressed, providing immediate assistance to those in greatest need, supporting short-term employment and economic activity, enhancing New Jersey's business climate and long-term economic prospects, and finally remaining fiscally responsible even during times of declining revenues and rising demands. Immediate assistance means improving access to fresh food in urban neighborhood food banks, promoting mortgage foreclosure assistance, providing energy relief in the form of increasing aid and easier access to Low Income Heating and Energy Assistance Benefits and NJSHARES Program, expanding Senior Freeze eligibility over the next three years for seniors with incomes up to \$80,000, and providing \$23 billion in public infrastructure investments that include Turnpike and Parkway widenings, bridge repairs, mass transit tunnel, and suburban and urban school construction. State investment for short-term solutions involves expediting public infrastructure projects, initiating a job creation incentive program that will provide a \$3,000 grant to New Jersey businesses that create a job and retain that employee for one year, and infuse banks with State deposits and Economic Development Authority-backed funds to guarantee small business investment. Up to \$550 million in these funds will be invested in New Jersey banks in guaranteed, interest-bearing instruments at competitive rates. These investments will allow those banks to make more loans available to New Jersey businesses. Long-term solutions involve allowing businesses up to 20 years to retain benefits of tax losses, removing certain business tax provisions and changing to a single sales factor when determining New Jersey's Corporation Business Tax. The final area addressed in the Economic Stimulus Plan involves the "Green Economy in New Jersey." This allows for the encouragement of private sector investment in energy efficiency, promotion of a \$60 million Clean Energy Manufacturing Fund, building off-shore wind generation, and expanding Green Collar apprenticeship and training programs.
- Senate Concurrent Resolution No. 39, approved by the voters on November 4, 2008, amends the State Constitution's Debt Limitation Clause. The State Legislature is now prohibited from enacting any law that creates or authorizes the creation of a debt or liability of an autonomous State corporate entity, which debt or liability has a pledge of an annual appropriation as the means to pay the principal of and interest on such debt or liability, unless a law authorizing the creation of that debt or liability for some single object or work distinctly specified therein shall have been submitted to the people and approved by a majority of the voters of the State. Voter approval is not required for any such law providing the means to pay the principal of and interest on such debt or liability subject to appropriations of an independent non-State source of revenue paid by third persons for the use of the single object or work thereof, or from a source of State revenue otherwise required to be appropriated pursuant to another provision of the State Constitution. Furthermore, voter approval is not needed for any law providing for the refinancing of all or a portion of any outstanding debts or liabilities of the State or of an autonomous State corporate entity provided that such law requires that the refinancing produces debt service savings.
- At the time of the delivery of the Governor's Budget Message on March 10, 2009, the revenue shortfall for Fiscal Year 2009 was estimated at approximately \$2.9 billion, additional spending at \$225.0 million and an estimated payment into the Unemployment Compensation Fund of \$150.0 million resulting in a shortfall of about \$3.3 billion for Fiscal Year 2009. The solutions for Fiscal Year 2009 as presented in the Governor's Fiscal Year 2010 Budget Message include budget cuts of approximately \$1.8 billion, transfer from the Long-Term Obligation and Capital Expenditure Fund to the Property Tax Relief Fund of \$365.0 million, use of the estimated increase in the undesignated ending fund balance for fiscal Year 2008 of \$207.6 million, additional federal Medicaid monies of \$533.0 million, federal stimulus funds under the American Recovery and Reinvestment Act of \$250.0 million, use of balances from certain dedicated funds of \$156.9 million and \$100.0 million from a tax amnesty program. Independent revenue estimates presented in April 2009 by the Office of Legislative Services were \$383.1 million lower for Fiscal Year 2009 than the Governor's Budget Message. During the course of the fiscal year, the Governor may take steps to reduce expenditures if it appears that revenues have fallen below estimates. Subsequent to the Governor's Budget Message changes have occurred in revenue and expenditure expectations (or projections) for Fiscal Year 2009 and may continue to occur during the remainder of the fiscal year.

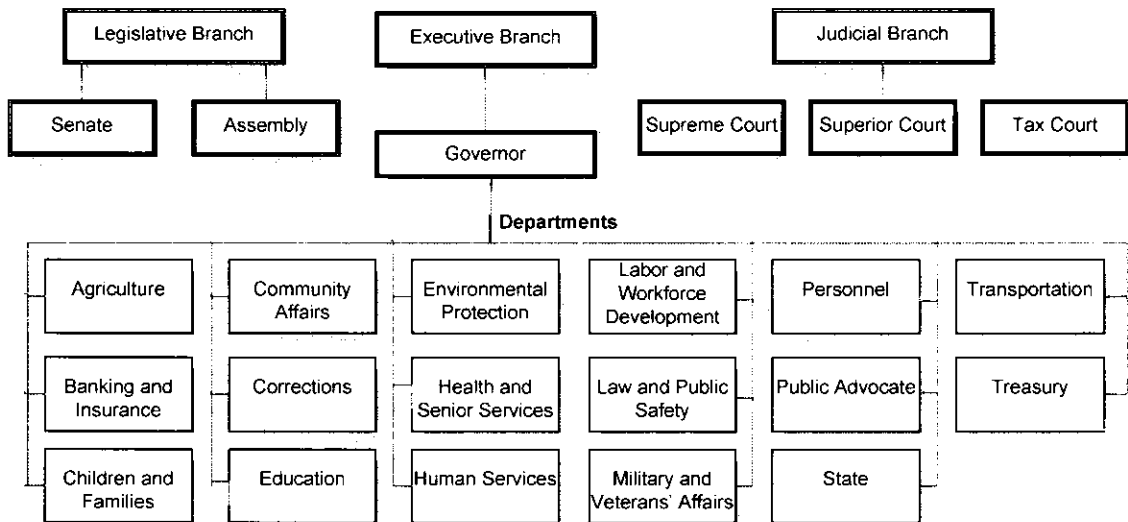
NEW JERSEY GOVERNMENT

The Executive Branch is headed by the Office of the Chief Executive, which includes the Governor and staff that assist in the execution of the Governor's constitutional powers and duties. The Governor is the State's chief operating officer, and assists in directing and coordinating the activities of the various State departments. These duties include the implementation of new laws and activities, as well as ongoing responsibilities associated with existing laws, and

other essential aspects of governing. The Office of the Chief Executive is active in the review and formulation of proposals of law that are ultimately submitted to the State Legislature. Staff assists in the development of public policy affecting the citizens of the State, and in the implementation of the State's fiscal plan once it is adopted.

The Executive Branch consists of 17 departments comprising approximately 68,500 employees on the payroll as of January 2008. The maximum number of departments permitted by the State Constitution is 20. Each department is headed by a single executive; four also have boards with policy-making and oversight responsibilities. Department heads and board members are appointed by the Governor with the advice and consent of the Senate, except for the Secretary of Agriculture, who is chosen by the Board of Agriculture with the approval of the Governor. Department heads continue in office until successors are named and confirmed by the Senate, with the exception of the Attorney General and the Secretary of State, who are appointed to serve during the Governor's term. The Executive Branch oversees the performance of 566 municipalities and 617 school districts, and the incarceration and rehabilitation of approximately 27,900 prisoners. The Executive Branch also provides social services for one out of eight New Jersey citizens, reliable transportation, and protection for the State's citizenry and environment.

ORGANIZATION OF NEW JERSEY STATE GOVERNMENT



The State Senate and the General Assembly comprise New Jersey's Legislative Branch. There are 40 legislative districts with elections being held in odd-numbered years. There are 40 members of the State Senate. State Senators are elected to terms of four years, except for the election following a decennial census, in which case the term is for two years. There are 80 members of the General Assembly; each is elected to a two-year term. The Office of Legislative Services is a nonpartisan agency that provides legislators with legal, fiscal, research, information, and administrative services. It is organized with an executive director, a legislative counsel, the state auditor, a legislative budget and finance officer, a director of central staff, a director of data management, and a director of administration.

The Judicial Branch consists of the Supreme Court, the Appellate Division of the Superior Court, and the Tax Court. Judges are nominated by the Governor and must be confirmed by the Senate. Terms are for seven years. For purposes of judicial administration, the State is divided into 15 vicinages, each consisting of a single county or a combination of counties. The Administrative Office of the Courts provides support services. Approximately seven million new cases are filed in New Jersey's courts every year, including six million in Municipal Court and one million in Superior Court. These cases address matters concerning civil, criminal, and family law.

COMPONENT UNITS

This Comprehensive Annual Financial Report for the fiscal year ended June 30, 2008 includes the accounts of 22 public authorities, and 12 State colleges and universities in accordance with the requirements of GASB Statement No. 14, *The Financial Reporting Entity*. Public authorities are legal, separate entities that are not operating departments of the State. Governing boards are vested with the power to independently manage. Each component unit is established for a specific purpose for the benefit of the State's citizenry. GASB Statement No. 14 provides that the State's

financial statements should emphasize the primary government and permit financial statement users to distinguish between the primary government and its component units. As a result, the transmittal letter, management's discussion and analysis, and the financial statements focus on the primary government of the State and its activities, although information pertaining to the component units is presented. For additional information, please see Note 18 – Component Units.

NEW JERSEY'S ECONOMIC CONDITION

New Jersey's economy weakened significantly in calendar year 2008. Between the bottom of the employment cycle in March 2003 and the peak in June 2007, the State added approximately 118,400 jobs, but lost approximately 63,600 jobs between the peak and December 2008. Payroll employment decreased at an average annual rate of negative 0.3 percent in calendar year 2008 after growing at rates of 0.1 percent in 2007, and 0.8 percent in 2006. However, the level of payroll employment in December 2008, 4.02 million, represents the 54th consecutive month payroll has remained above the four million mark.

The generally declining labor market conditions have kept the State's jobless rate above five percent since May 2008 for the eighth straight month and climbed to 7.1 percent in December. New Jersey's unemployment rate remains below the national level.

According to the United States Bureau of Economic Analysis (release dated December 18, 2008), the preliminary growth rate for New Jersey's personal income of 3.2 percent for the third quarter of 2008 came in below the revised growth rate of 3.6 percent for the second quarter of 2008. However, given the general economic recession in the United States economy, the average annual growth in personal income for New Jersey is expected to slow down significantly in 2009.

The housing sector is expected to contract further in the months ahead with housing permits in 2008 to stay below 20,000 units, significantly below the 26,000 plus units for 2007. Vehicle registrations through January 2009 remains 22.3 percent below the year ago level, following a 15.3 percent decline in registrations in 2008.

New Jersey's and the nation's economy is expected to continue to experience further deterioration in near term economic growth in 2009. According to the latest Federal Open Market Committee's minutes released on February 18, 2009, the Federal Reserve Board pointed toward further weakening of the economy. The latest New Jersey economic forecasts from Global Insight, Moody's Economy.com, and Rutgers University project economic recessionary conditions to continue through 2009, with credit still tight and financial market under turmoil.

New Jersey's economy is expected to follow the national trend for 2009. Employment is projected to decrease by approximately three percent average annual rate in 2009 and to decline an additional 0.3 percent in 2010. Personal income is expected to contract at a negative 0.4 percent in 2009 and improve to an estimated three percent growth rate in 2010. Corrections are expected to continue in the housing market with housing activity to weaken further before stabilizing. New motor vehicle registrations are projected to remain below the 500,000 level in 2009 and 2010.

Inflation is expected to remain low during the downturn, but policymakers are concerned about the potential for deflation. The future economic outlook hinges on the success of the federal and state economic stimulus packages and supportive fiscal and monetary policies. Availability of credit, stability in the financial markets, and improvements in consumer and business confidence are critical factors necessary for an economic turnaround in the nation and in New Jersey.

The Statistical Section contains various State demographic and economic information.

BUDGET AND ACCOUNTING

Legal Level of Control

The State's Annual Appropriations Act includes the General Fund and certain Special Revenue Funds (Casino Control, Casino Revenue, Gubernatorial Elections, and Property Tax Relief Funds). Legal control is maintained within the departments at the appropriation line item level. Budgetary control is exercised at the department level by individual appropriations and allocations within appropriations to various programs and major expenditure objects. Program classifications represent a lower level operating program function, consisting of closely related activities with identifiable objectives or goals. During the budget year, revisions to the annual Appropriations Act reflecting program changes or interdepartmental transfers of an administrative nature may be effected with certain Executive and Legislative Branch approvals. Under the "General Provisions" section of the State's annual Appropriations Act,

management may amend the budget within a department with the Director of the Office of Management and Budget's approval. Under specific conditions, additional approval by the Office of Legislative Services is required. Only the State Legislature, however, may transfer appropriations between departments.

Accounting Systems

For the various State departments, accounting records are maintained by a central accounting system. System operations are directed and supervised by the Office of Management and Budget. The State's annual budget is composed of individual appropriations to departments for specific programs and purposes. Component units maintain separate accounting systems.

Encumbrance accounting is employed to ensure that expenditures do not exceed appropriations and allocations. Purchase orders, contracts, and other commitments involving monetary expenditures are encumbrances. Any unencumbered and unexpended non-continuing appropriations lapse at fiscal year's end.

Consideration as to the adequacy of internal controls is paramount in developing and maintaining the State's accounting system. Internal accounting controls are designed to provide reasonable assurance regarding the safeguarding of assets against loss from unauthorized use or disposition, and that financial records are reliable for preparing financial statements and maintaining accountability for assets. The concept of reasonable assurance recognizes that the cost of a control should not exceed the benefits likely to be derived from its use, and that the evaluation of costs and benefits require managerial estimates and judgments. All internal control evaluations occur within this framework.

RELEVANT FINANCIAL POLICIES

The State Constitution mandates a balanced budget. It provides, in part, that no money shall be drawn from the State Treasury but for appropriations made by law and that no law appropriating money for any State purpose shall be enacted if the appropriations contained therein, together with all prior appropriations made for the same fiscal period, shall exceed the total amount of the revenue on hand and anticipated to be available to meet such appropriations during such fiscal period, as certified by the Governor. During the fiscal year, the State may have to make several revenue and expenditure adjustments to ensure a positive fund balance. The State has had a balanced budget in every fiscal year since the adoption of the State Constitution in 1947.

The Surplus Revenue Fund is part of the General Fund's resources and fund balance. The Surplus Revenue Fund was created as a rainy day fund. It accounts for excess revenues from prior fiscal years that are legislatively reserved and may be used to support 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. The Surplus Revenue Fund was designed to build fund balance during economic upswings, and to be expended during economic downturns and emergency situations.

The State's budgetary basis of accounting differs from that utilized to present fund financial statements in conformance with GAAP. The main differences between the budgetary basis and the GAAP basis used to present fund financial statements are that under the budgetary basis encumbrances are recognized as expenditures, the federal revenue related to such encumbrances is also recognized, and the budgetary basis reflects transactions only for the current fiscal year. In addition, under the GAAP basis in the fund financial statements, certain grants and other financial assistance are required to be recorded as revenues and expenditures.

FINANCIAL TRENDS

Department of the Treasury

The Department of the Treasury's mission is to formulate and manage the State's budget, generate and collect revenues, disburse the appropriations used to operate State government, manage the State's physical and financial assets, and provide statewide support services to State and local government agencies as well as the citizens of New Jersey. The department's overriding goal is to ensure the most beneficial use of fiscal resources and revenues to meet critical needs, all within a policy framework set by the Governor. Consistent with the Division of Taxation's effort to maximize collection of all taxes, compliance collections continue to represent the fourth largest single revenue source in the State Budget. In Fiscal Year 2007, compliance collections exceeded \$1.57 billion, which represents approximately 6.1 percent of all tax collections. In Fiscal Year 2008, the Division of Taxation estimates its efforts will bring in more than \$1.69 billion. The Fiscal Year 2009 Budget eliminates the New Jersey Commerce Commission while consolidating its duties and functions with other State agencies. In addition, the Department of Personnel was abolished. Its functions were either transferred to the newly created Civil Service Commission or consolidated with

other agencies. The State's Fiscal Year 2009 Business Employment Incentive Program, which provides grants to businesses that create jobs, is expected to grow by \$27 million to \$179 million.

Additional information regarding the State's financial status including prior year budgets, appropriations acts, and financial reports are available on the State's web site at <http://www.state.nj.us/treasury/omb/>.

Department of Banking and Insurance

The department's mission is to regulate the banking, insurance, and real estate industries in a professional and timely manner that protects and educates consumers and promotes the growth, financial stability, and efficiency of those industries. Some of the department's major goals are to ensure the solvency of financial institutions through regular financial examinations and analysis, and to protect the public from unlawful or unfair practices by insurers, financial institutions, and real estate licensees by promptly investigating complaints filed by consumers and aggressively prosecuting violators. In response to the residential sub-prime mortgage market crisis, the Department of Banking and Insurance, in cooperation with the Department of Community Affairs, established NJHOPE, commonly known as the New Jersey Home Ownership Preservation Effort. NJHOPE is a voluntary public-private alliance designed to educate and assist New Jersey homeowners on issues related to homeownership and mortgages. The goals of the alliance are to enhance homeownership preservation by providing consumer awareness of mortgage products, increased access to credit and loan counseling, and temporary assistance to those in danger of foreclosure.

AUDIT INFORMATION

The principal auditor of the State's reporting entity is the Office of the State Auditor, which resides in the Legislative Branch of State government. The State Auditor's examination was conducted in accordance with generally accepted auditing standards and its opinion precedes the Basic Financial Statements. Private sector public accounting firms have been used for the audits of separately issued component units and college and university financial statements. In addition, the Office of the State Auditor conducts periodic financial and expanded scope audits of various State agencies.

CERTIFICATE OF ACHIEVEMENT FOR EXCELLENCE IN FINANCIAL REPORTING

The GFOA awarded the Certificate of Achievement for Excellence in Financial Reporting to the State of New Jersey for its Comprehensive Annual Financial Report for the fiscal year ended June 30, 2007. In order to qualify, a governmental entity must publish an easily readable and efficiently organized comprehensive annual financial report, the contents of which conform to program standards. Such reports must satisfy both generally accepted accounting principles and applicable legal requirements. The State of New Jersey has received this award every year since 1993.

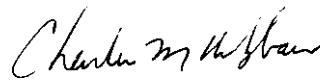
ACKNOWLEDGEMENTS

Finally, we would like to express our appreciation to the many dedicated professionals in the Office of Management and Budget and the Office of the State Auditor whose efforts made possible the preparation of this report. We believe that their combined efforts have produced a report that will provide a means for government, the financial community, decision makers, and concerned citizens to better understand and evaluate the State's financial condition.

Sincerely,



R. David Rousseau
State Treasurer



Charlene M. Holzbaur
Director, Office of Management and Budget

Certificate of Achievement for Excellence in Financial Reporting

Presented to

State of New Jersey

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 2007

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



President

Executive Director