NEW JERSEY

COMPREHENSIVE
ANNUAL FINANCIAL REPORT
FISCAL YEAR ENDED JUNE 30, 2001

DONALD T. DiFRANCESCO
Acting Governor

PETER R. LAWRANCE
Acting State Treasurer

CHARLENE M. HOLZBAUR
State Comptroller

Kathy A. Steepy
Assistant Director
Financial Management

Robert L. Peden
Deputy State Comptroller

James F. Kelly
Manager
Financial Reporting

This document is available via the internet http://www.state.nj.us/treasury/omb/publications.htm

STATE OF NEW JERSEY
COMPREHENSIVE ANNUAL FINANCIAL REPORT
FISCAL YEAR ENDED JUNE 30, 2001
TABLE OF CONTENTS

INTRODUCTION

The original State House was built in 1792 under the supervision of Jonathan Doane. The site was approximately 3.5 acres and cost $400.

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

DONALD T. DIFRANCESCO
Acting Governor

PETER R. LAWRANCE
Acting State Treasurer

November 26, 2001

Acting Governor Donald T. DiFrancesco
Members of the State Legislature
Citizens of New Jersey

In accordance with the provisions of N.J.S.A. 52:27B-46, we are pleased to transmit to you the Comprehensive Annual Financial Report of the State of New Jersey for the year ended June 30, 2001. This report is prepared by the Office of Management and Budget, Department of the Treasury, which is responsible for the accuracy of the data and the completeness and fairness of the presentation, including all disclosures.

This Financial Report, which has earned an unqualified audit opinion, presents the financial position and operating results of the State under generally accepted accounting principles as established by the Governmental Accounting Standards Board as well as the traditional budgetary basis presentations. 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.

As presented in this report, the State ended the year in a sound fiscal position, with an Undesignated Fund Balance (surplus) of $1.3 billion in the major budgeted funds (General Fund, Property Tax Relief Fund, Casino Revenue Fund, and Surplus Revenue Fund).

The Comprehensive Annual Financial Report is organized in three sections: introductory, financial, and statistical. The introductory section includes this transmittal letter with summary financial data and narrative commentary on matters of interest to the reader, the State organization chart, and the 2000 Government Finance Officers Association Certificate of Achievement for Excellence in Financial Reporting. The financial section includes the general purpose financial statements and notes to the financial statements, required supplementary information, the combining and individual fund and account group financial statements, and the State Auditor's report on the financial statements. The statistical section includes the budgetary basis schedules, as well as selected financial and demographic information.

This report includes all funds, account groups, and component units of the entity called the State, which provides support for a full range of services including education, health and social services, transportation, law and public safety, justice, recreation, community and environmental management, public improvements, and general administrative services. The criteria utilized to determine the entity for the State of New Jersey are those prescribed by the Governmental Accounting Standards Board (see Note 1 to the Financial Statements).

BUDGETARY CONTROLS, ACCOUNTING SYSTEMS, AND INTERNAL CONTROLS

The State's financial statements are prepared in accordance with generally accepted accounting principles (GAAP) applicable to state governments as prescribed by the Governmental Accounting Standards Board. The governmental funds, expendable trust funds, and agency funds are presented on the modified accrual basis of accounting whereby revenues are recognized when measurable and available, and expenditures are recognized when goods and services are received and the related liabilities are incurred. The proprietary, nonexpendable trust, investment trust, and pension trust funds are presented on the accrual basis of accounting whereby all revenues and expenses are recognized when the transactions occur, regardless of when the related cash is received or disbursed. The college and university funds are reported in conformance with GAAP as prescribed by the American Institute of Certified Public Accountants (AICPA) audit guide, "Audits of Colleges and Universities."

Encumbrance accounting is employed to ensure that expenditures do not exceed appropriations and allocations. Under encumbrance accounting, purchase orders, contracts, and other commitments involving the expenditure of monies are recorded in estimated amounts in order to reserve a portion of an appropriation until an actual liability is incurred. Total encumbrances and expenditures are monitored so as not to exceed amounts appropriated and/or allocated. Encumbrances outstanding at the end of a fiscal year are reported in the financial statements as reservations of fund balance. Any unencumbered and unexpended non-continuing appropriations lapse at the end of the fiscal year.

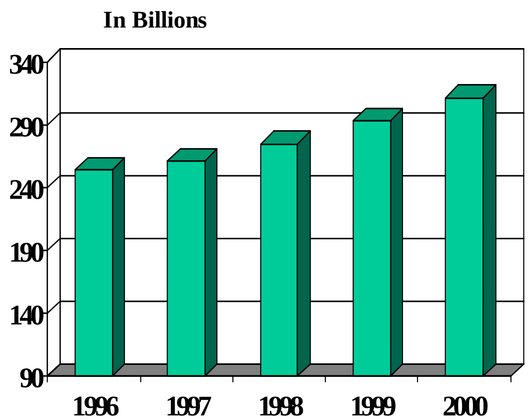
The accounting records of the various State departments are maintained on a central accounting system. The operations of this system are directed and supervised by the Office of Management and Budget. Separate accounting systems are maintained by those component units of government that are included in the State's reporting entity. The State's annual budget is comprised of individual appropriations to departments for specific programs and purposes. Budgetary control is exercised at the department level by individual appropriations and allocations within appropriations to various programs and major objects of expenditure.

In developing and maintaining the State's accounting system, consideration is given to the adequacy of internal controls. 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 requires estimates and judgments by management. All internal control evaluations occur within this framework.

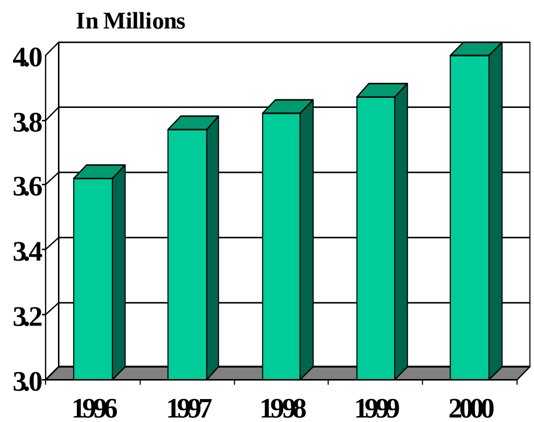
ECONOMIC CONDITION

The New Jersey economy enjoyed another outstanding performance in calendar year 2000. Personal income growth continued to accelerate in 2000. Wages and salaries grew from 5.1 percent in 1999 to 6.9 percent in 2000. For the year, retail sales grew by 8.9 percent and total employment expanded by 2.5 percent. The State employment reached a record level of 4.0 million, while personal income grew by 6.2 percent. This represents the sixth consecutive year of growth in excess of 4.9 percent

New Jersey Personal Income
1996 - 2000



New Jersey Employment
1996 - 2000



It is expected that the New Jersey economy in calendar years 2001 and 2002 will continue to grow at a moderate pace with little inflation. High levels of employment, income growth, and reasonable interest rates will continue to support consumer and business spending. New Jersey’s economy, by virtue of its educated, high technology labor resources, has benefited from newly emerging information-based fields. Employment is projected to grow by 0.7 percent in 2001 and 0.5 percent in 2002. Personal income growth is expected to be 5.2 percent in 2001, easing to 4.2 percent in 2002. Retail sales growth is expected to ease to 7.3 percent in 2001 and 9.4 percent in 2002. Real New Jersey Gross State Product, the most complete measure of economic activity, experienced a 7.8 percent increase in 2000 and is projected to decrease to 4.2 percent in 2001 and to 4.4 percent in 2002.

FISCAL YEAR 2001 REVENUE SUMMARY

The following revenue discussion encompasses the activity of the State's General Fund and four Special Revenue Funds-the Property Tax Relief Fund, the Casino Revenue Fund, the Casino Control Fund, and the Gubernatorial Elections Fund. The amounts included in this section are the actual anticipated revenues realized in support of the annual appropriations and do not include federal grants.

Fiscal Year 2001 revenue collections totaled $21.0 billion, $1.1 billion above Fiscal Year 2000 revenue. Revenue changes in the State's three major taxes over Fiscal Year 2000 levels were as follows: the Sales Tax increased by $250.6 million or 4.5 percent, the Gross Income Tax increased by $783.9 million or 10.9 percent, and the Corporation Business Tax decreased by $62.6 million or 4.3 percent. Overall, Fiscal Year 2001 revenue growth for the State’s three major taxes totaled $971.9 million. Increased revenue over Fiscal Year 2000 levels reflects the higher level of income and consumption levels within the State as evidenced by the large increase in Gross Income Tax and Sales Tax revenues.

Collections for the State's three major taxes, as a percentage of Fiscal Year 2001 total receipts, were as follows: the Gross Income Tax represented 38.1 percent; the Sales Tax equaled 27.5 percent; and the Corporation Business Tax represented 6.6 percent. The State's three major taxes represented 72.2 percent of Fiscal Year 2001 total receipts, as compared to 71.2 percent for Fiscal Year 2000. Even with major reductions in tax rates, the total revenues have grown over the past four years by $4.8 billion.

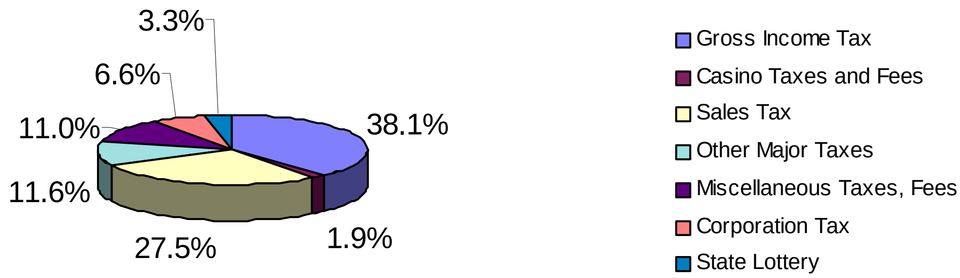
REVENUE SUMMARY BY MAJOR TAX
1997-2001
(Expressed in Millions)

	2001	2000	1999	1998	1997
Gross Income Tax	$ 7,989.2	$ 7,205.3	$ 6,323.9	$ 5,590.6	$ 4,825.4
Sales Tax	5,758.7	5,508.1	5,054.4	4,766.2	4,415.4
Other Major Taxes	2,429.9	2,307.8	2,282.5	2,305.0	2,297.2
Miscellaneous Taxes, Fees	2,296.9	2,307.7	2,107.9	2,226.4	2,320.9
Corporation Tax	1,389.5	1,452.1	1,402.9	1,231.6	1,286.4
State Lottery	697.4	719.9	652.3	642.8	650.0
Casino Taxes and Fees	399.3	396.3	382.5	369.8	359.6
Total	$ 20,960.9	$ 19,897.2	$ 18,206.4	$ 17,132.4	$ 16,154.9

REVENUE COMPARISONS
2001 VERSUS 2000
(Expressed in Millions)

	Fiscal Year 2001	Fiscal Year 2000	Increase/Decrease Amount	Increase/Decrease Percent
Gross Income Tax	$ 7,989.2	$ 7,205.3	$ 783.9	10.9 %
Sales Tax	5,758.7	5,508.1	250.6	4.5
Other Major Taxes	2,429.9	2,307.8	122.1	5.3
Miscellaneous Taxes, Fees	2,296.9	2,307.7	(10.8)	(0.5)
Corporation Tax	1,389.5	1,452.1	(62.6)	(4.3)
State Lottery	697.4	719.9	(22.5)	(3.1)
Casino Taxes and Fees	399.3	396.3	3.0	0.8
	$ 20,960.9	$ 19,897.2	$ 1,063.7	5.3 %

FISCAL YEAR 2001 MAJOR REVENUE CATEGORY COLLECTIONS AS A PERCENT OF TOTAL REVENUE COLLECTIONS



REVENUE SUMMARY
PERCENT DISTRIBUTION OF REVENUE COLLECTIONS
1997 - 2001

	2001	2000	1999	1998	1997
Gross Income Tax	38.1 %	36.3 %	34.7 %	32.6 %	29.9 %
Sales Tax	27.5	27.7	27.8	27.8	27.3
Other Major Taxes	11.6	11.6	12.5	13.5	14.2
Miscellaneous Taxes, Fees	11.0	11.5	11.6	13.0	14.4
Corporation Tax	6.6	7.3	7.7	7.2	8.0
State Lottery	3.3	3.6	3.6	3.8	4.0
Casino Taxes and Fees	1.9	2.0	2.1	2.1	2.2

FISCAL YEAR 2001 EXPENDITURE SUMMARY

Expenditure Category Descriptions

The following discussion of expenditures encompasses the activity of the State's General Fund and four Special Revenue Funds-the Property Tax Relief Fund, the Casino Revenue Fund, the Casino Control Fund, and the Gubernatorial Elections Fund. The amounts listed in this section are on a budgetary basis and do not include federal grants.

State expenditures based upon the annual Appropriations Act are divided into five major categories. They are Direct State Services, Grants-in-Aid, State Aid, Capital Construction, and Debt Service. Each expenditure category is described below.

Direct State Services represent those functions operated directly by State government. Funding is largely for the salary and benefits of State employees and supports the operation of the State's departments, the Executive Office, several commissions, the State Legislature, and the Judiciary. Public services offered by State government, such as testing laboratories, social services, environmental and community services, legal services, State Police services, and the operation of prisons, psychiatric hospitals, and developmental disability centers are included in this category.

Grants-in-Aid represent programs and services provided to the public on behalf of the State by a third party provider. Grants-in-Aid payments are made to individuals and public or private agencies for benefits to which a recipient is entitled by law, or for the provision of services on behalf of the State. These payments include the Homestead Rebate/NJ SAVER programs and the Medicaid program, which reimburses hospitals, nursing homes, and physicians for services rendered to the State's needy population. Community programs for the developmentally disabled, pharmaceutical assistance to the aged and disabled, support for the State colleges and universities, Lifeline utility credits to senior citizens, financial aid grants to college students, and bus and railroad subsidies to New Jersey Transit are programs that also are included under the Grants-in-Aid umbrella.

State Aid represents funds that are distributed to municipalities, counties, and school districts. Most of the Gross Income Tax revenue is apportioned to State Aid, as is certain other revenue that is collected in the State's General Fund. By far the largest portion of expenditures in this category is for elementary and secondary school aid. This category also provides funding for the various public assistance programs and county psychiatric hospitals, as well as municipal property tax relief programs.

Capital Construction represents pay-as you-go allocations for various construction projects. Included in this expenditure category is the appropriation to the Transportation Trust Fund Authority.

Debt Service represents payments of interest and principal on capital projects funded through the sale of State General Obligation Bonds. Projects that have been funded through State General Obligation Bonds include prisons, bridges, roads, human services facilities, and various environmental protection projects. Appropriations authorized by the Legislature for debt service related to State contract obligations and certificates of participation are included within the Direct State Services category.

EXPENDITURE COMPARISONS
2001 VERSUS 2000
(Expressed in Millions)

	Fiscal Year 2001	Fiscal Year 2000	Increase/Decrease Amount	Percent
Direct State Services	$ 5,012.6	$ 4,650.2	$ 362.4	7.8 %
Grants-in-Aid	6,210.0	6,211.7	(1.7)	--
State Aid	8,408.2	7,866.4	541.8	6.9
Capital Construction	1,171.0	737.4	433.6	58.8
Debt Service	525.0	494.2	30.8	6.2
	$ 21,326.8	$ 19,959.9	$ 1,366.9	6.8 %

Fiscal Year 2001 Expenditures

Fiscal Year 2001 expenditures of $21.3 billion are $1.4 billion more than the expenditures of the prior fiscal year.

Direct State Services accounted for 23.5 percent of total Fiscal Year 2001 expenditures. Direct State Services expenditures increased between Fiscal Year 2001 and Fiscal Year 2000 by $362.4 million.

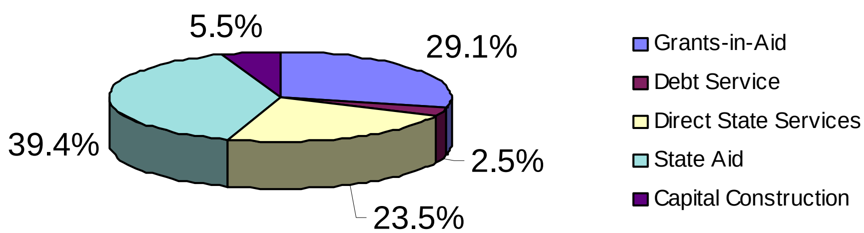
Grants-in-Aid accounted for 29.1 percent of total Fiscal Year 2001 expenditures. This is a $1.7 million decrease from the prior fiscal year.

State Aid represented 39.4 percent of total Fiscal Year 2001 expenditures. State Aid expenditures increased between Fiscal Year 2001 and Fiscal Year 2000 by $541.8 million. State Aid includes aid to public schools, teachers' pensions and social security costs, municipal aid for over 14 different programs, reimbursement to counties for welfare programs, and other miscellaneous programs.

Capital Construction represented 5.5 percent of total Fiscal Year 2001 expenditures. Construction for capital projects grew by $433.6 million as compared to the prior fiscal year. The primary areas of focus for these increases centered on transportation and environmental projects.

Debt Service represented 2.5 percent of total Fiscal Year 2001 expenditures. Debt Service expenditures increased by $30.8 million.

PERCENTAGE OF FISCAL YEAR 2001 EXPENDITURES BY MAJOR EXPENDITURE CATEGORY



EXPENDITURE SUMMARY
PERCENT DISTRIBUTION BY MAJOR EXPENDITURE CATEGORY
1997 - 2001

	2001	2000	1999	1998	1997
Direct State Services	23.5 %	23.3 %	25.9 %	31.0 %	31.4 %
Grants-in-Aid	29.1	31.1	27.8	23.5	24.8
State Aid	39.4	39.4	40.3	39.8	38.8
Capital Construction	5.5	3.7	3.3	2.9	2.3
Debt Service	2.5	2.5	2.7	2.8	2.7

The following table details expenditures by department for Fiscal Year 2001:

EXPENDITURES BY DEPARTMENT
STATE FUNDS
(Expressed in Millions)

Department	Direct State Services	Grants In-Aid	State Aid	Capital Construction	Debt Service	Total
Legislative	$ 68.4	$ --	$ --	$ 0.9	$ --	$ 69.3
Judicial	436.6	--	--	--	--	436.6
Chief Executive's Office	6.2	0.3	--	--	--	6.5
Agriculture	12.3	3.6	8.7	10.7	--	35.3
Banking and Insurance	66.1	--	--	--	--	66.1
Community Affairs	44.7	130.2	906.4	--	--	1,081.3
Corrections	788.3	115.3	--	19.0	--	922.6
Education	54.8	3.5	6,721.7	2.0	--	6,782.0
Environmental Protection	232.0	14.2	20.2	77.3	121.4	465.1
Health and Senior Services	115.3	780.4	32.5	4.5	--	932.7
Human Services	595.0	2,543.4	284.8	19.2	--	3,442.4
Labor	75.7	26.5	--	0.2	--	102.4
Law and Public Safety	544.6	26.1	5.5	32.1	--	608.3
Military and Veterans' Affairs	70.6	7.2	--	10.3	--	88.1
Personnel	33.7	--	--	0.2	--	33.9
State	24.8	1,086.1	19.8	13.4	--	1,144.1
Transportation	269.3	209.2	25.8	702.0	--	1,206.3
Treasury	423.5	776.1	382.8	13.5	403.6	1,999.5
Miscellaneous	1.3	--	--	--	--	1.3
Inter-Departmental	1,149.4	487.9	--	265.7	--	1,903.0
Total	**$ 5,012.6**	**$ 6,210.0**	**$ 8,408.2**	**$ 1,171.0**	**$ 525.0**	**$ 21,326.8**

FUND BALANCES

The State ended Fiscal Year 2001 with an undesignated fund balance of $1.3 billion for the major governmental funds. The Surplus Revenue Fund is used to account for revenues reserved for appropriation, a) 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, b) in the event that the State Legislature finds that an appropriation from this fund is preferable to raising revenue through a modification of the tax structure, or c) to meet an emergency which requires an immediate response in the protection of the life, safety, or well-being of the citizens of the State as determined by the Governor and approved by the Joint Budget Oversight Committee of the State Legislature. The Surplus Revenue Fund was established by P.L. 1990, c. 44. Beginning Fiscal Year 2001 the Surplus Revenue Fund is capped at $720.0 million. Any excess monies will be credited to the Debt Avoidance and Retirement Fund, which shall be used to defease or retire long term obligations and to avoid the issuance of new long term obligations by paying on a current basis for capital projects as determined by the Treasurer and approved by the Joint Budget Oversight Committee. 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 purpose of reducing or offsetting property taxes. The Casino Revenue Fund accounts for the tax on gross revenues generated by casinos. Appropriations from this fund must be used for reductions in property taxes, utility charges, and other specified expenses of eligible senior citizens.

The following table presents a comparison of the components of the undesignated fund balances at the end of Fiscal Year 2001 and Fiscal Year 2000:

FUND BALANCE COMPARISONS
2001 VERSUS 2000
(Expressed in Millions)

Fund	Fiscal Year 2001	Fiscal Year 2000	Increase/Decrease Amount	Percent
General Fund	$ 388.7	$ 187.8	$ 200.9	107.0 %
Surplus Revenue Fund	720.0	698.2	21.8	3.1
Debt Avoidance and Retirement Fund	20.8	--	20.8	--
Property Tax Relief Fund	160.0	397.7	(237.7)	(59.8)
Casino Revenue Fund	--	--	--	--
Total	$ 1,289.5	$ 1,283.7	$ 5.8	0.5 %

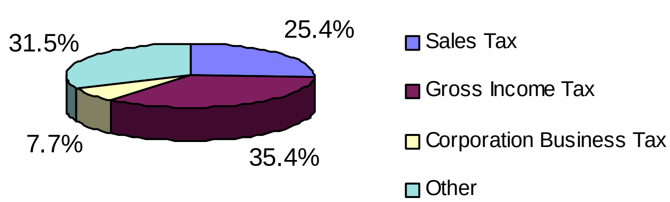
Fiscal Year 2002 Revenue Projections

The Fiscal Year 2002 revenue projections are based on estimates of moderating economic growth. At the time of the Appropriation Act underlying economic indicators were strong, although forecasters anticipated a slowing in the growth of the economy. Prior to the events of September 11, 2001, it had been anticipated that the slowdown experienced in 2001 would stabilize by the end of the year leading to relatively low but positive growth for most 2001 economic indicators. It was anticipated that moderate positive growth would resume early in 2002 and continue. However, given the many economic and civic uncertainties unleashed by the events of September 11 and the reactions to those events, it is difficult to provide a revised forecast at this time. It is possible that the State and the nation may experience further contraction of the economy and the expected 2002 recovery may be delayed as consumers, investors, and businesses cautiously assess the events of the next few months.

Fiscal Year 2002 revenues are projected to be $22.9 billion, $1.9 billion above Fiscal Year 2001 revenue. Projected revenue changes in Fiscal Year 2002 for the State's three major taxes over Fiscal Year 2001 are as follows: the Sales Tax is expected to increase by $378.3 million or 6.6 percent, the Gross Income Tax is expected to increase by $556.0 million or 7.0 percent, and the Corporation Business Tax is expected to increase by $464.6 million or 33.4 percent.

Fiscal Year 2002 resources, including the Fiscal Year 2002 opening balance, are projected at $24.2 billion. The State's three major taxes as a percent of total resources are as follows: Gross Income Tax represents 35.4 percent; Sales Tax represents 25.4 percent; and Corporation Business Tax represents 7.7 percent. The State's three major taxes are projected to represent 68.5 percent of total resources.

FISCAL YEAR 2002 REVENUE

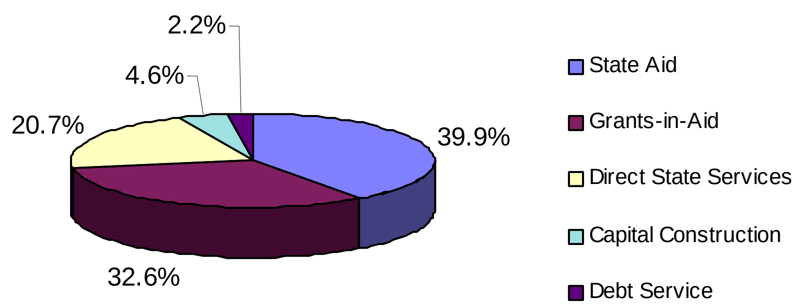


Fiscal Year 2002 anticipates revenue of $365.2 million from the Tobacco Settlement. This represents the payments from the Master Settlement Agreement (MSA) reached in November 1998 between 46 states and the major tobacco companies. New Jersey is expected to receive payments approximating $6.6 billion over the next 23 years. These payments are subject to inflation and changes in national smoking trends as well as other offsets and credits outlined in the MSA. In Fiscal Year 2002 a majority of the tobacco settlement revenue is appropriated for health related programs.

Fiscal Year 2002 Appropriations

The total Fiscal Year 2002 appropriation is $22.9 billion. Of the $22.9 billion appropriated in Fiscal Year 2002 from the General Fund, the Property Tax Relief Fund, the Casino Control Fund, the Casino Revenue Fund, and the Gubernatorial Elections Fund, $9.1 billion (39.9%) is appropriated for State Aid to Local Governments, $7.5 billion (32.6%) is appropriated for Grants-in-Aid, $4.7 billion (20.7%) for Direct State Services, $1.1 billion (4.6%) for Capital Construction, and $.5 billion (2.2%) for Debt Service on State General Obligation Bonds.

FISCAL YEAR 2002 APPROPRIATIONS



State Aid to local governments constitutes the most important aspect of Fiscal Year 2002 appropriations. These funds are essential in the funding of local government operating costs as well as property tax relief. In Fiscal Year 2002, $9,148.1 million will be distributed to municipalities, counties, and school districts. Major State Aid programs are: Aid to School Districts ($7,259.3 million), Unrestricted Aid to Municipalities and Counties through the Department of Community Affairs ($976.0 million), and Aid to County Colleges ($203.9 million).

Grants-in-Aid represent the second largest portion of the State's Fiscal Year 2002 appropriation. In Fiscal Year 2002, $7,463.7 million has been appropriated. These funds are distributed to individuals, public agencies, or private agencies as direct benefits or to provide services. The largest grants-in-aid programs are: Human Services programs ($2,970.8 million), Higher Education ($1,271.9 million), Health and Senior Services programs ($971.1 million), Property Tax Relief Programs ($1,255.4 million), and Public Transportation ($260.0 million).

The Direct State Services Fiscal Year 2002 appropriation is $4,750.6 million. These funds support the operating costs of the Executive Departments, the Judiciary, and the State Legislature. The largest appropriations are for the following departments: Corrections ($779.6 million), Human Services ($557.0 million), Law and Public Safety ($472.5 million), Transportation ($232.3 million), and Treasury ($406.7 million). In addition, the Legislature authorized appropriations of $380.9 million for debt service related to State contract obligations and certificates of participation.

Capital Construction appropriations for Fiscal Year 2002 total $1,064.3 million. Of this amount, $709.5 million is appropriated to the New Jersey Transportation Trust Fund Authority, $98.0 million is for open space preservation, $46.3 million is for hazardous substance and underground tank remediation, and $25.0 million is for shore protection.

Debt Service for General Obligation Bonds is $493.9 million. This amount reflects the cost of financing various infrastructure and environmental projects that have been approved through prior voter referenda. In addition, the legislature authorized appropriations of $380.9 million for debt service related to State contract obligations and certificates of participation.

SERVICE EFFORTS AND ACCOMPLISHMENTS

The following sections highlight various service efforts and accomplishments the State has achieved during Fiscal Year 2001 as well as some of the goals the State hopes to achieve for Fiscal Year 2002.

Fiscal Year 2001

Acting Governor Donald DiFrancesco signed into law the Senior Gold Prescription Plan in the spring of 2001. Senior Gold provides prescription drugs, insulin, insulin supplies, and diabetic testing material to eligible New Jersey residents for $15 per prescription plus one half of the cost of the prescription. To be eligible, a New Jersey resident must be at least 65 years of age or older, or receiving Social Security Title II disability benefits. An applicant must have an annual income between $19,238 - $29,238, if single and $23,589 - $33,589 of combined income, if married. Senior Gold participants with out-of-pocket prescription costs exceeding $2,000 a year if single and $3,000 a year for married couples will have 100% of their prescription costs paid after the $15 co-payment per prescription.

In Fiscal Year 2001, the State initiated a $165 million program, "New Jersey Jobs for the New Economy," designed to further increase the State's competitiveness in the creation of high technology jobs. The program added new dimensions of research, training, planning, and investment to the existing economic development menu.

Building on NJ KidCare, a $90 million State and federally funded health insurance program for over 83,000 children with family incomes below 350% of the federal poverty level, NJ FamilyCare was launched in October 2000. NJ FamilyCare was created to help meet the health care needs of parents/caretakers and single adults or married couples without dependent children who live in New Jersey and do not have health insurance coverage. NJ FamilyCare provides health insurance for over 100,000 parents/caretakers up to 200% of the federal poverty level and 40,000 adults without dependent children up to 100% of the federal poverty level. NJ FamilyCare provides a comprehensive package of health care services through one of the health maintenance organizations (HMO) available in each county. Services include: doctor visits, hospitalization, laboratory analysis and x-ray, prescription drugs, eye care and glasses, and more. The Fiscal Year 2001 cost for the program was approximately $170.0 million.

NJ SAVER, which was initiated in Fiscal Year 2000, has provided cumulative relief of approximately $337.0 million to the State's homeowners through the first two years of this five-year program. Once NJ SAVER is fully phased in, homeowners will receive checks equal to the school taxes paid on the first $45,000 of their assessed property value.

The State appropriated $389.0 million in Tobacco Settlement monies for the following programs; $128.0 existing charity care programs, $70.0 million for NJ FamilyCare, $38.0 million for existing Pharmaceutical Assistance to the Aged and Disabled, $30.0 million for tobacco control initiatives, $23.0 million for elder care initiatives, and $100.0 million for various other programs.

As a result of regulatory developments at the State and Federal level, legislation has been enacted to begin the transition of utilities into a competitive, free market environment. The manner in which energy producers' conduct business in New Jersey and the way consumers buy and consume energy products in the State has been altered dramatically. The legislation addressed the need to restructure energy taxation rates so that the continual erosion of tax revenue for annual distribution to municipalities and the State's General Fund is prevented. In its place, electric, gas, and telecommunications utilities are subject to the State's Corporation Business Tax. The State's existing Sales and Use Tax, with certain exceptions, is applied to retail sales of electricity and natural gas, and a transitional energy facility assessment is applied for a limited time on electric and gas utilities. The five-year assessment, which is phased out by January 1, 2003, will have the effect of reducing gas and electric rates for New Jersey's citizens. Under companion legislation, municipalities were guaranteed an annual State Aid distribution of at least $750.0 million from these replacement revenues. The distribution for Fiscal Year 2001 was $755.0 million.

State School Aid to local districts in Fiscal Year 2001 totaled $6,837.1 million, this included $6,044.6 million in direct aid, and an additional $792.5 million in aid to local districts for the employers' share of teachers' post-retirement medical benefits and social security payments. The key item of funding was Core Curriculum Standards Aid, which is geared to support the core curriculum standards adopted in 1996. This includes seven areas of measurable, grade-appropriate levels of accomplishment: Language Arts/Literacy, Mathematics, Science, Social Studies, Visual and Performing Arts, Health and Physical Education, and World Languages. The total ($2,942.9 million) was distributed based on a measure of local districts' property wealth and per capita income. Core Curriculum Standards Aid represented approximately fifty-three percent of the formula aid amount distributed in Fiscal Year 2001.

The State School Aid appropriations for Fiscal Year 2001 include significant funding for specific initiatives including $313.2 million for Early Childhood Education, $192.9 million for Demonstrably Effective Programs, $129.9 million for the School Construction and Renovation Program, and $56.8 million for the development of a statewide Distance Learning Network. On May 14, 1997, the State Supreme Court ruled that the new school funding law did not provide sufficient funding for the plaintiffs in the Abbott v. Burke case. As a result, the Fiscal Year 2001 appropriations for state aid contained $332.8 million to provide additional parity aid to these districts. On May 21, 1998, the State Supreme Court accepted the State's plan to use a nationally acclaimed reading-based program called "Success for All" and other "whole-school reforms" to assure the "thorough and efficient" education required by the State constitution. During Fiscal Year 2001 the State appropriated $203.1 million in supplemental funding for Abbott districts, in addition to the $2,620.0 million of formula aid, to ensure that those districts had the resources to implement needed programs and services.

The "Educational Facilities and Financing Act" (P.L.2000 c.72), was approved July 18, 2000. The State program provides for a total of $11.5 billion in construction and renovation projects, $6.0 billion to Abbott districts and $5.5 billion to non-Abbott districts. The program, which began in Fiscal Year 2001, anticipates that the projects will be completed over a ten-year period and that $3.1 billion of the costs will be financed through local bonding. The remainder of the program will largely be financed by State bonding. The law includes an $8.6 billion cap on State debt for the program. This fund is supported through the dedication of a portion of the $.40 increase per pack in the cigarette tax, the dedication of a portion of the Tobacco Settlement, and the dedication of a portion of revenues from the Lottery.

In 1996, a voter referendum amended the New Jersey Constitution to provide that an amount equivalent to 4.0 percent of the revenue annually derived from the Corporation Business Tax be deposited in a special account for appropriation for the following purposes and in the following manner: 1) a minimum of 1/2 for funding State costs relating to hazardous discharge remediation; 2) a minimum of 1/3, dedicated until December 31, 2008, for funding loans and grants for underground storage tank upgrades and replacements; and 3) a minimum of 1/6 or $5.0 million, whichever is less, for funding costs related to water quality monitoring, watershed planning, and nonpoint source water pollution prevention. The total dedicated for Fiscal Years 1997 through 2001 from the Corporation Business Tax revenues was $271.5 million.

The State amended its constitution in June 1999 to dedicate $98.0 million annually from the sales and use tax for open space, farmland, and historic preservation. The Garden State Preservation Trust has oversight responsibility in ensuring the State achieves its goal of preserving an additional one million acres over the next decade. Approximately 200,000 acres have been preserved toward this goal through Fiscal Year 2001.

The State successfully completed the refinancing of its pension obligations at the end of Fiscal Year 1997. This was accomplished through the issuance of pension obligation bonds that were used to finance the formerly unfunded accrued liability. The Pension Security Plan of 1997 resulted in significant cost avoidance for Direct State Services, State Aid, and local employers participating in the Public Employees Retirement System and Police and Firemen's Retirement System. The following chart reflects combined actual and projected savings of normal and unfunded accrued liability contributions for these three groups from Fiscal Year 1997 through 2002. The total cost avoidance for this period is in excess of $3.0 billion. `

Pension Security Plan Cost Avoidance for
Direct State Services, State Aid and Local Employers
(Expressed in Millions)

	Actual	**Estimated**	
	Fiscal 97-01	**Fiscal 2002**	**Fiscal 97-02**
Direct State Services and State Aid			
Normal Contributions	$ 1,915	$ 659	$2,574
Unfunded Accrued Liability Contributions	60	--	60
Direct State Services and State Aid Cost Avoidance	1,975	659	2,634
Local Pension Contribution Savings Cost Avoidance	338	34	372
Total Pension Security Plan Cost Avoidance	$ 2,313	$ 693	$3,006

Fiscal Year 2002

State School Aid to local districts in Fiscal Year 2002 totals $7,441.1 million, an increase of $604.0 million. The total for formula aid programs for Education is $6,124.9 million, including $3,080.3 million for core curriculum standards aid, $429.1 million for Abbott v. Burke Parity Remedy, $896.4 million for special education, $330.6 million for early childhood aid, and $303.2 million for pupil transportation aid. Other aid to Education includes $248.7 million in Abbott supplemental funding.

There is an appropriation of $905.7 million for the employer's share of teachers' post-retirement medical benefits and social security payments. A $182.0 million appropriation for the school construction and renovation fund is also included.

The State of New Jersey continues to improve the methods by which it provides services and information within government and to its citizens. Effective use of technology allows the State to better operate its programs and thereby benefit the public. The Office of Information Technology's (OIT) core mission is to use technology to make government services more efficient, cost effective, accessible, and responsive. The Fiscal Year 2002 OIT operating budget is $104.0 million, a $5.1 million increase over the prior fiscal year spending level of $98.9 million. In addition to funding for the centralized OIT, there is available in Fiscal Year 2002, $13.6 million for New Jersey technology investments. Of the $13.6 million, $10.2 million is pay-as-you-go-spending and $3.4 million is Line of Credit spending which represents a purchasing power of $24.6 million. These funds will be used for the design and implementation of the components needed to transform New Jersey into the online state.

The New Jersey Transportation Trust Fund Authority (TTFA), with the consent of the Legislature, was reauthorized for an additional four-year period beginning in Fiscal Year 2001, with a total State spending authority of $3.75 billion. In Fiscal Year 2002, the TTFA's annual spending authority totals $1,1075 million, which is $157.5 million more than originally authorized. The added funding will be used primarily to further advance the Hudson Bergen Light Rail System. For Fiscal Year 2002, when factoring in federal highway and mass transit funds, the total spending authorization will exceed $2.4 billion, making this the largest annual construction program in the Department of Transportation's history.

The Fiscal Year 2002 Appropriations Act includes an appropriation of $607.4 million, which includes the acceleration by one year of the implementation of a five-year plan to provide direct school property tax relief. The NJ SAVER program will offset the school taxes that homeowners pay on the first $45,000 of assessed value on their homes. When fully implemented, New Jersey families will receive, on average, checks in the amount of $600 each year.

There is a $10.6 million appropriation to provide a property tax reimbursement ("Property Tax Freeze") to senior and disabled homeowners, whose property taxes are effectively frozen under recently enacted legislation. Claimants must be age 65 or older, or disabled residents, with incomes below $17,918, if single, or $21,970, if married. The eligible homeowners under the property tax freeze receive a check from the State, which reimburses them for the difference between their current year property taxes paid and the base year. The base year is the year the taxpayer becomes eligible and files for participation in the program.

The Fiscal Year 2002 Appropriations Act includes an appropriation of $482.0 million for the Homestead Rebate program. This includes an increase of $147.5 million for an increase in maximum entitlement from $500 to $750 per eligible claimant, the first increase to the program in over 10 years.

New Jersey is committed to improving the quality of life through the advancement of the arts. To reflect this commitment, the Fiscal Year 2002 Appropriations Act appropriates $10.0 million to the Department of State for the New Jersey Cultural Trust and $3.2 million as State Aid to the Newark Museum. Funding for grants administered by the State Council on the Arts is continued at $20.0 million in Fiscal Year 2002.

There is a $110.8 million appropriation for NJ KidCare, a federal and state funded program that provides health insurance for children whose parents cannot afford to purchase it privately. This expansion coverage is 35% state funded and 65% federally funded. The NJ KidCare program provides a comprehensive array of health services to qualified children who have been without medical coverage for six months and are not eligible for Medicaid. In addition, health insurance coverage for over 140,000 parents with family incomes below 200% of poverty and adults without children with income below 100% of poverty is provided through NJ FamilyCare. NJ FamilyCare is funded with $181.3 million in State appropriations and over $200 million in federal funds.

The New Jersey Earned Income Tax Credit (EITC) program is expected to assist approximately 237,000 working families with children in an effort to combat poverty. When fully implemented in Fiscal Year 2004, the EITC program will provide an annual refundable tax credit of over $800 for a family of one adult and two children earning up to $10,000 per year, over $700 for a similar family with an annual income of $15,000, and $480 for a similar family with an annual income of $20,000. The estimated program cost for Fiscal Year 2002 is $59.6 million.

COMPONENT UNITS

The component units include the accounts of the various public authorities, colleges, and universities. These authorities are legally separate entities that are not operating departments of the State. Governing boards are vested with the power to independently manage the component units. Each component unit is established for a specific purpose for the benefit of the State's citizenry, such as economic development, public transportation, subsidized housing, environmental protection, and capital development for health and education purposes.

Authorities

Casino Reinvestment Development Authority
Hackensack Meadowlands Development Commission
Higher Education Student Assistance Authority
New Jersey Building Authority
New Jersey Commerce and Economic Growth Commission
New Jersey Development Authority For Small Business, Minorities' And Women's Enterprises
New Jersey Economic Development Authority
New Jersey Educational Facilities Authority
New Jersey Environmental Infrastructure Trust
New Jersey Health Care Facilities Financing Authority
New Jersey Highway Authority
New Jersey Housing And Mortgage Finance Agency
New Jersey Redevelopment Authority
New Jersey Sports and Exposition Authority
New Jersey Transit Corporation
New Jersey Transportation Trust Fund Authority
New Jersey Turnpike Authority
New Jersey Water Supply Authority
South Jersey Port Corporation
South Jersey Transportation Authority

Colleges And Universities

The College of New Jersey
Thomas Edison State College
Kean University
Montclair State University
New Jersey City University
New Jersey Institute of Technology
The William Paterson University of New Jersey
Ramapo College of New Jersey
Rowan University
Rutgers, The State University of New Jersey
The Richard Stockton College of New Jersey
University of Medicine And Dentistry of New Jersey

Combined operating revenues and expenses for the State's authorities amounted to $3.2 billion and $3.5 billion, respectively, for Fiscal Year 2001. Total operations along with other financing sources and uses contributed to a total combined fund balance at fiscal year end of $15.9 billion.

For Fiscal Year 2001, combined revenues for the state colleges and universities were $3.4 billion. Combined expenditures totaled $4.1 billion. Total operations along with other financing sources and uses contributed to a total combined fund balance at fiscal year end of $4.0 billion.

GENERAL FIXED ASSETS

The general fixed assets of the State are used in the performance of general governmental functions and exclude the fixed assets of the component units. As of June 30, 2001, the general fixed assets of the State amounted to $3.0 billion. This amount represents the actual or estimated cost of the assets. Depreciation of general fixed assets is not recognized in the State's accounting system. Infrastructure assets, consisting primarily of highways, roads, and bridges, are not recorded in the general fixed assets.

DEBT ADMINISTRATION

As of June 30, 2001, outstanding General Obligation Debt totaled $3.5 billion. General Obligation Debt must be approved by voter referendum and is used primarily to finance various environmental projects, transportation infrastructure, and correctional and institutional construction.

The State's Master Lease Program is used primarily to finance various departmental equipment needs. Prior to Fiscal Year 1996, the State issued Certificates of Participation at tax-exempt rates to fund these needs. Beginning in Fiscal Year 1996 the State modified the Master Lease Program and began using a line of credit as the preferred method of financing various departmental equipment needs. As of June 30, 2001, outstanding Certificates of Participation totaled $138.6 million, which includes the State's outstanding balance on its line of credit of $98.8 million.

The State first began issuing Tax and Revenue Anticipation Notes during Fiscal Year 1992, in order to provide effective cash flow management of imbalances which occur in the timing of collections and disbursements of State revenues and expenditures. The State Treasurer is authorized to issue these types of instruments without constituting a general obligation of the State, or a debt, or a liability within the meaning of the State Constitution. All short-term notes that are issued must be retired within twelve months of their issuance date. The State has issued and retired short-term notes in prior fiscal years that have ranged from a high of $1.8 billion in Fiscal Year 1992 to a low of $450 million in Fiscal Year 1996. Beginning in Fiscal Year 1996, the State began issuing commercial paper as the sole instrument for meeting its cash flow needs. During Fiscal Year 2001, the State issued $700.0 million in commercial paper. The entire amount was retired on June 15, 2001.

The State funds certain capital projects by authorizing the issuance of long-term bonds. The following table sets forth the trend of the State’s tax-supported long-term indebtedness for the last five years:

GENERAL OBLIGATION BONDS
LONG TERM DEBT
(Expressed in Billions)

Fiscal Year	Authorized-Unissued	Principal Amount of Outstanding Long-Term Debt
2001	$ 1.2	$ 3.5
2000	1.2	3.8
1999	1.1	3.6
1998	1.5	3.6
1997	1.9	3.4

As of June 30, 2001, Standard and Poor’s Corporation, Moody’s Investors Service and Fitch Investors Service rate the State’s long-term general obligation debt AA+, Aa1, and AA+, respectively. The State’s Certificates of Participation are rated AA by Standard and Poor’s and Aa3 by Moody’s. As of June 30, 2001, Standard and Poor’s Corporation, Moody’s Investors Service, and Fitch Investors Service rate the State’s short term debt A1+, P1, and F1+, respectively.

CASH MANAGEMENT

The State's Division of Investment was created by law in 1950 in order to centralize all functions relating to the purchases, sales, or exchanges of securities for the State's diverse funds under experienced and professional management. The statute provides investment authority to the State Investment Council and to the Director of the Division. The State Treasurer appoints the Director from a list of candidates proposed by the State Investment Council. The role of the State Investment Council is to formulate investment policies and procedures to be followed by the Director. State legislation provides that the State Investment Council may issue regulations, which specifically approve and authorize any form of investment. The State Investment Council has taken the position that the Division of Investment is bound by law to make prudent investments for the sole and direct financial benefit of the beneficiaries of the various funds under its supervision, and that the Division of Investment may not make any concession as to the rate, risk, or terms which would benefit any other party at the expense of the beneficiaries of the funds.

Unused cash is invested primarily in the New Jersey Cash Management Fund. The fund provides the State, its authorities and agencies, local municipalities, and school districts with a vehicle for short-term investment. For the fiscal year ended June 30, 2001, the New Jersey Cash Management Fund's average daily annualized rate of return for participating state accounts was 5.94 percent. For "Other-than-State" participants the average daily annualized rate of return, which includes charges for administrative and operating expenses, was 5.78 percent for the fiscal year ended June 30, 2001.

RISK MANAGEMENT

New Jersey's risk management function is performed within the Department of the Treasury and operates to reduce the adverse impact of catastrophic loss on State operations and budgets through a combination of risk management and loss prevention techniques. The Office of Risk Management administers claims against the State and its employees under the Tort Claims Act, Workers Compensation statute, and various Federal laws, as well as claims on behalf of the State against others responsible for damage to the State, its employees, and its property.

AUDIT INFORMATION

The principal auditor of the State's reporting entity is the legislative Office of the State Auditor. Their examination was conducted in accordance with generally accepted auditing standards and their opinion precedes the General Purpose Financial Statements. Outside public accounting firms have been used for the audits of separately issued component units and college and university fund financial statements. In addition, the Office of the State Auditor conducts periodic financial and expanded scope audits of the various State agencies. This audit received an unqualified opinion on the General Purpose Financial Statements contained in this Comprehensive Annual Financial Report.

CERTIFICATE OF ACHIEVEMENT FOR EXCELLENCE IN FINANCIAL REPORTING

The Government Finance Officers Association of the United States and Canada has awarded a Certificate of Achievement for Excellence in Financial Reporting to the State of New Jersey for its Comprehensive Annual Financial Report for the year ended June 30, 2000.

In order to qualify for the Certificate of Achievement, a governmental unit 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.

We believe our current report continues to conform to the Certificate of Achievement Program requirements.

ACKNOWLEDGMENTS

Finally, we would like to express our appreciation to the many people in the Office of Management and Budget and the Office of the State Auditor whose dedicated 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,

Peter R. Lawrance
Acting State Treasurer

Charlene M. Holzbaur
State Comptroller

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, 2000

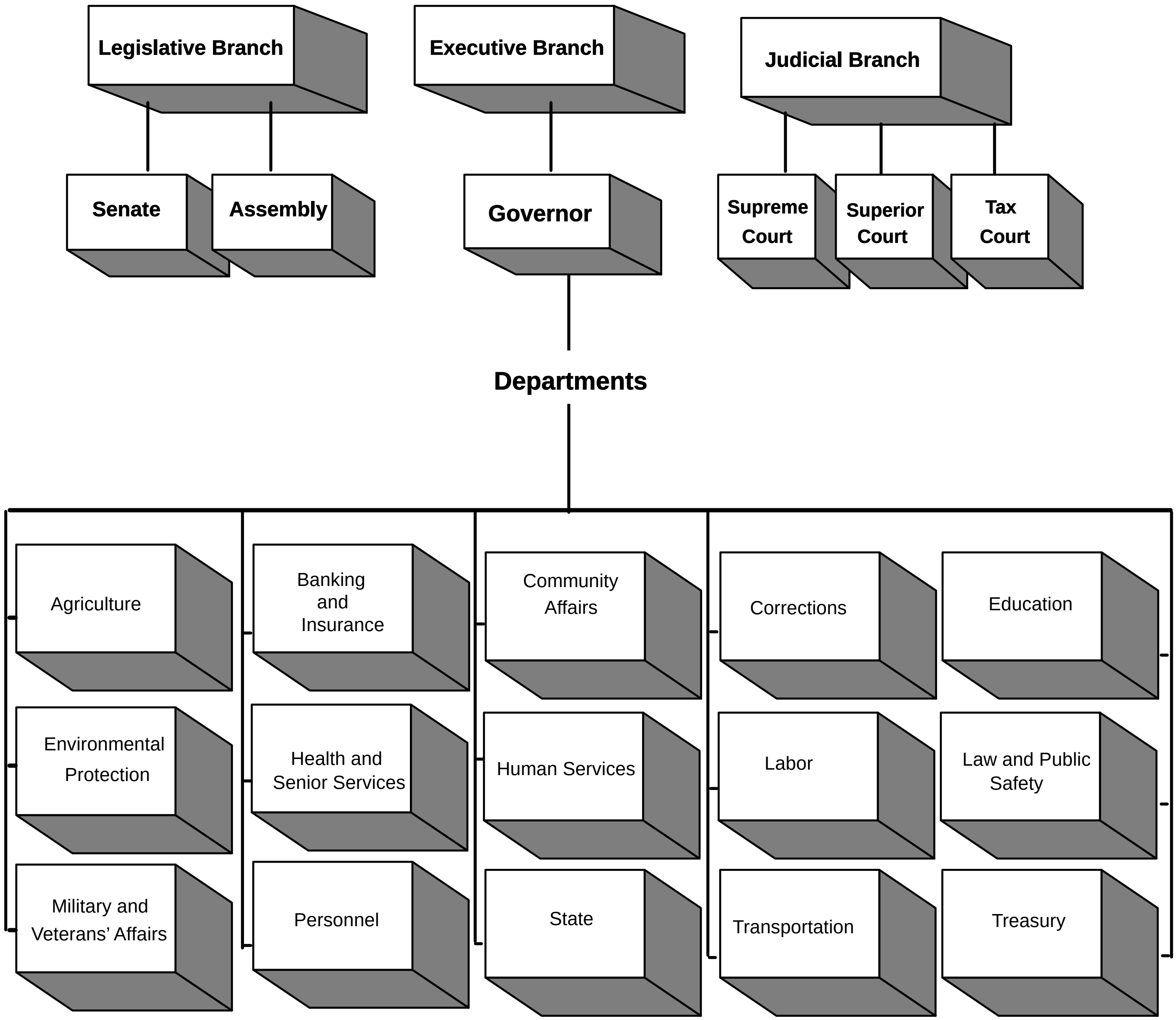
A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards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

GOVERNMENT FINANCE OFFICERS ASSOCIATION OF THE UNITED STATES AND CANADA CORPORATION SEAL CHICAGO

President

Executive Director

ORGANIZATION OF NEW JERSEY STATE GOVERNMENT



FINANCIAL SECTION

The State House is the second oldest statehouse in continuous use in the United States. In the early morning hours of March 21, 1845, a fire destroyed the front part of the State House. The rotunda and the dome had to be reconstructed.

New Jersey State Legislature
OFFICE OF LEGISLATIVE SERVICES
OFFICE OF THE STATE AUDITOR
125 SOUTH WARREN STREET
PO BOX 067
TRENTON NJ 08625-0067

ALBERT PORRONI
Executive Director
(609) 292-4625

RICHARD L. FAIR
State Auditor
(609) 292-3700
FAX (609) 633-0834

The Honorable Donald T. DiFrancesco
Acting Governor of New Jersey

The Honorable Donald T. DiFrancesco
President of the Senate

The Honorable Jack Collins
Speaker of the General Assembly

Mr. Albert Porroni
Executive Director
Office of Legislative Services

INDEPENDENT AUDITOR'S REPORT

We have audited the accompanying general purpose financial statements of the State of New Jersey as of and for the year ended June 30, 2001, as listed in the table of contents. These general purpose financial statements are the responsibility of the State of New Jersey's management. Our responsibility is to express an opinion on these general purpose financial statements based on our audit. We did not audit the financial statements of the Component Units - Authorities and College and University Funds. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion on the general purpose financial statements, insofar as it relates to the amounts included for the Component Units - Authorities and College and University Funds, is based upon 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 opinion.

In our opinion, based on our audit and the reports of other auditors, the general purpose financial statements referred to above present fairly, in all material respects, the financial position of the State of New Jersey as of June 30, 2001, and the results of its operations and cash flows of the nonexpendable trust funds and the proprietary fund type authorities for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 2A to the general purpose financial statements, the State of New Jersey has adopted accounting principles changing the recognition of certain revenues previously deferred, and changed its method of expenditure recognition for certain liabilities.

In accordance with *Government Auditing Standards,* we have also issued our report dated November 26, 2001 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 combining and individual fund and account group financial statements and schedules listed in the table of contents are presented for purposes of additional analysis and are not a required part of the general purpose financial statements of the State of New Jersey. The information has been subjected to the auditing procedures applied in the audit of the general purpose financial statements and, in our opinion, based upon our audit and the reports of other auditors, is fairly stated in all material respects in relation to the general purpose 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 26, 2001