

NEW JERSEY



COMPREHENSIVE ANNUAL FINANCIAL REPORT FISCAL YEAR ENDED JUNE 30, 2003

JAMES E. McGREEVEY

Governor

JOHN E. McCORMAC, CPA

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

**STATE OF NEW JERSEY
 COMPREHENSIVE ANNUAL FINANCIAL REPORT
 FISCAL YEAR ENDED JUNE 30, 2003
 TABLE OF CONTENTS**

INTRODUCTION	Page
Letter of Transmittal	1
Certificate of Achievement	12
Organization Chart	13
FINANCIAL SECTION	
Independent Auditor's Report	17
Management's Discussion and Analysis	19
Basic Financial Statements	
Government-wide Financial Statements	
Statement of Net Assets	37
Statement of Activities	38
Governmental Fund Financial Statements	
Balance Sheet	40
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Assets	42
Statement of Revenues, Expenditures and Changes in Fund Balance	44
Reconciliation of the Changes in Fund Balances of Governmental Funds to the Statement of Activities	46
Proprietary Fund Financial Statements	
Statement of Net Assets	47
Statement of Revenues, Expenses and Changes in Fund Net Assets	48
Statement of Cash Flows	50
Fiduciary Fund Financial Statements	
Statement of Fiduciary Net Assets	52
Statement of Changes in Fiduciary Net Assets	54
Component Unit Financial Statements	
Statement of Net Assets	56
Statement of Activities	58
Index to the Notes to the Financial Statements	61
Notes to the Financial Statements	62
Required Supplementary Information	
Budgetary Comparison Schedule	106
Budgetary Comparison Schedule – Budget to GAAP Reconciliation Major Funds	109
Schedule of Funding Progress All Pension Trust Funds	111
Notes to Required Supplemental Information	112
Combining Financial Statements - Non-Major Funds	
Governmental Funds – Non-Major Funds	
Balance Sheet – By Fund Type	114
Statement of Revenues, Expenditures and Changes in Fund Balances – By Fund Type	115
Special Revenue Funds	
Balance Sheet	116
Statement of Revenues, Expenditures and Changes in Fund Balances	146
Capital Projects Funds	
Balance Sheet	176
Statement of Revenues, Expenditures and Changes in Fund Balances	180

Proprietary Funds	
Statement of Net Assets	184
Statement of Revenues, Expenses and Changes in Fund Net Assets.....	185
Statement of Cash Flows.....	186
Fiduciary Funds	
Agency Funds	
Statement of Fiduciary Net Assets	188
Statement of Changes in Assets and Liabilities	192
Pension and Other Employee Benefit Trust Funds	
Statement of Fiduciary Net Assets	196
Statement of Changes in Fiduciary Net Assets	200
Private Purpose Trust Funds	
Statement of Fiduciary Net Assets	204
Statement of Changes in Fiduciary Net Assets	206
Component Units	
Authorities	
Statement of Net Assets	208
Statement of Activities	214
Colleges and Universities	
Statement of Net Assets	220
Statement of Activities	224
Description of Funds.....	228
Other Information	
Capital Assets	
Schedule of Gross Capital Assets by Function.....	256
Schedule of Gross Capital Assets by Source.....	258
Schedule of Changes in Gross Capital Assets by Function.....	260
Schedule of Changes in Accumulated Depreciation by Function	261
Long-Term Debt	
Schedule of Outstanding General Obligation Bonds.....	262
Schedule of Changes in General Long-Term Debt	264
Budgetary Comparison Schedule Non-Major Governmental Funds	
Casino Control Fund	266
Casino Revenue Fund	267
Gubernatorial Elections Fund	268
Schedule of Anticipated Revenue	
General Fund.....	270
Casino Control Fund	281
Casino Revenue Fund	281
Gubernatorial Elections Fund	281
Property Tax Relief Fund.....	281
Schedule of Appropriated Revenue	
General Fund.....	282
Casino Revenue Fund	282
Schedule of Appropriations and Expenditures	
General Fund.....	284
Casino Control Fund	302
Casino Revenue Fund	302
Property Tax Relief Fund.....	304

STATISTICAL SECTION

Ten-Year Financial Summary	308
Revenue Summary for Budgeted Funds.....	310
Percent Distribution of Revenue Collections for Budgeted Funds.....	310
Expenditure Summary for Budgeted Funds	311
Expenditure Summary for Budgeted Funds Percent Distribution by Major Expenditure Category.....	311
Expenditures for Budgeted Funds	312
State Aid, Tax Relief, and Local Budget Savings Initiatives	313
State Aid for Local School Districts Consolidated Summary	314
Ratio of Total Debt Service on General Obligation Bonds to Total State Expenditures.....	315
Ratio of General Long-Term Bonded Debt to Assessed Value and Debt Per Capita.....	315
State Constitution – Legal Debt Limitations	316
Calculation of Legal Debt Limits.....	316
Authorized But Unissued Debt	317
Corporate Headquarters Located in The State of New Jersey	318
Fifty Largest Private Sector Employers	319
New Jersey Full-Time Paid Employees	320
Sector Summary of Fall Enrollment New Jersey Colleges and Universities.....	321
Public and Independent College Enrollment Summary	322
Population and Employment Trends	323
Personal and Per Capita Income, and New Dwelling Units	323
Valuations of Taxable Real Property, Personal, and Per Capita Income	324
Goods Producing and Service Producing Employment.....	325
Wage and Salary Workers in Non-Agriculture Establishments	326
Composition of Non-Agricultural Wage and Salary Employment.....	326
New Vehicle Registrations.....	327
Construction Contracts Awarded	327
Cash Receipts From Farm Marketings.....	328
State of New Jersey Facts and Figures.....	328



State of New Jersey

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

JAMES E. MCGREEVEY
Governor

JOHN E. MCCORMAC, CPA
State Treasurer

December 1, 2003

Honorable Governor James E. McGreevey
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 Comprehensive Annual Financial Report of the State of New Jersey for the fiscal year ended June 30, 2003. The Office of Management and Budget, Department of the Treasury, which is responsible for data accuracy as well as the completeness and fairness of the presentation, including all disclosures, prepared this report.

This Comprehensive Annual Financial Report, which has earned an unqualified audit opinion, 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. This is the second year in which the State has operated in accordance with the standards provided in GASB Statements No. 34 and No. 35. The objectives of the 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. 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 has met its constitutionally mandated balanced budget requirement, by having a positive undesignated fund balance in the major budgeted funds which include the General Fund, Property Tax Relief Fund, Casino Revenue Fund, and Casino Control Fund. The undesignated fund balance for the State's budgeted funds is \$377.3 million.

The New Jersey Comprehensive Annual Financial Report for the fiscal year ended June 30, 2003 is organized in three sections: introductory, financial, and statistical. The introductory section includes this transmittal letter, the State's organization chart, and the 2002 GFOA Certificate of Achievement for Excellence in Financial Reporting. The financial section includes the independent auditor's report on the basic financial statements, management's discussion and analysis which provides an introduction, overview and analysis of the basic financial statements, the government-wide financial statements, the fund financial statements for governmental funds, proprietary funds, fiduciary funds, and component units, together with notes to the basic financial statements as well as additional required supplementary information (Budgetary Schedules), and the other supplementary information (Combining Fund Statements). The statistical section includes the budgetary basis schedules, as well as selected financial and demographic information.

All funds and component units of the entity called the State are included in this Comprehensive Annual Financial Report. These functional areas provide 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 in GASB Statement No. 14, The Financial Reporting Entity.

BUDGETARY PROCESS, ACCOUNTING SYSTEMS, AND INTERNAL CONTROLS

The following sections provide a summary of the State's budget process, its accounting system, and its internal controls:

Budgetary Process

The State Constitution as well as certain other New Jersey Statutes contain provisions concerning the budget and appropriation system. On or before October 1st of each year, each Department, Board, Commission, Office or other Agency of the State must file with the Director of the Office of Management and Budget (the "Director") a request for appropriation or permission to spend, specifying all expenditures proposed to be made by such spending agency during the following fiscal year. The Director then examines each request and determines the necessity or advisability of the appropriation request. On or before December 31st of each year, or such other time as the Governor may request, after review and examination, the Director submits the requests, together with findings, comments and recommendations, to the Governor. It is the responsibility of the Governor to examine and consider all requests and formulate budget recommendations. The Governor's Budget Message is then transmitted on or before the third Tuesday following the first meeting of the State Legislature in each year, except in the year when a Governor is inaugurated, when it must be transmitted on or before February 15th, unless otherwise provided through legislation.

During the course of the fiscal year, the Governor may take steps to reduce State expenditures if it appears that revenues have fallen below those originally anticipated. The Governor, with approval from the State Legislature, may enact supplemental appropriations after the adoption of the annual Appropriations Act, should there be sufficient revenues on hand or anticipated, as certified by the Governor, to meet such appropriation.

Over the past two decades, the New Jersey budget process has evolved into a strategic planning process in which the budget is related directly to the program objectives of governmental activities, and the costs and benefits of the programs of each agency are justified at various alternative funding levels.

Accounting Systems

For the various State departments, accounting records are maintained by a central accounting system. The system operations are directed and supervised by the Office of Management and Budget. 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 expenditure objects. 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 the end of the fiscal year.

Internal Controls

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.

AUDIT INFORMATION

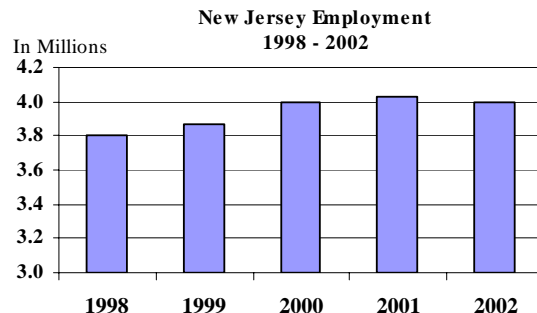
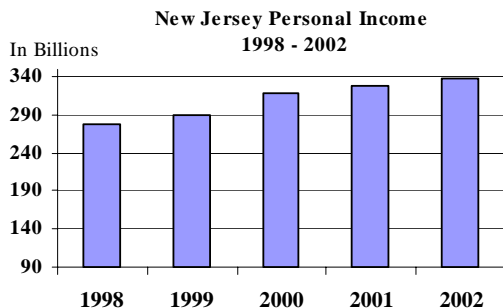
The principal auditor of the State's reporting entity is the Office of the State Auditor, which resides in the legislative branch of State government. The State Auditor's examination was conducted in accordance with generally accepted auditing standards and its opinion precedes the Basic Financial Statements. Outside public accounting firms have been used for the audits for 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 the various State agencies. This audit received an unqualified opinion on the Basic Financial Statements contained in this Comprehensive Annual Financial Report.

COMPONENT UNITS

This Comprehensive Annual Financial Report for the fiscal year ended June 30, 2003 includes the accounts of the various public authorities, colleges, and universities in accordance with the requirements of GASB Statement No. 14. These authorities are legally separate entities that are not operating departments of the State. Governing boards are vested with the power to independently manage these 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. GASB Statement No. 14 provides that the 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 and its activities, although information pertaining to the Component Units is presented.

ECONOMIC CONDITION AND OUTLOOK

New Jersey's sluggish economic performance during calendar year 2002 mirrored the nation's pace. The economic slowdown that began in calendar year 2001 retarded growth in New Jersey's labor market. Average annual employment for calendar year 2001 declined to 0.1 percent, well below calendar year 2000's 2.4 percent growth. Employment growth for calendar year 2002 was negative 0.1 percent. New Jersey's average annual rate of unemployment in calendar year 2002 was 5.8 percent, up from 4.2 percent in calendar year 2001. The State's unemployment rate hovered around 6.0 percent during the second half of calendar year 2002, but was consistently below 6.0 percent for the first six months of calendar year 2003. The State's employment level remained close to 4.0 million for most of calendar year 2002. Total non-farm employment remained slightly above 4.0 million in June 2003.



Due to labor market conditions, New Jersey's personal income continued to grow moderately at 3.1 percent last year, close to the 3.3 percent rate set in calendar year 2001 but substantially below the record pace of 10.2 percent in calendar year 2000.

Economic forecasts for the national and State economies project a modest economic recovery in calendar year 2003. Economic activity is expected to pick up in the third and fourth quarters of calendar year 2003 and accelerate in calendar year 2004. Employment growth is projected to remain below 1.0 percent in calendar year 2003. Personal income growth in New Jersey is expected to grow modestly in calendar year 2003. Housing starts in calendar year 2003 are expected to ease slightly after another strong year in calendar year 2002. New vehicle registrations are projected to moderate but remain close to 630,000 units in calendar years 2003 and 2004. Inflation is expected to remain modest, below 3.0 percent in calendar years 2003 and 2004. Low inflation continues to support spending on housing and other consumer durables in the State.

FISCAL YEAR 2003 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 those anticipated revenues realized in support of the annual appropriations and do not include federal grants or dedicated revolving funds.

Fiscal Year 2003 revenue collections totaled \$23.5 billion, \$2.9 billion above Fiscal Year 2002 revenue. Revenue changes in the State's three major taxes over Fiscal Year 2002 levels were as follows: the Sales and Use Tax decreased by \$60.7 million or 1.0 percent, the Gross Income Tax decreased by \$101.7 million or 1.5 percent, and the Corporation Business Tax increased by \$1.4 billion or 115.6 percent. Major increases in the Corporation Business Tax were mainly attributable to tax restructuring, loophole closures, and one time accelerations. Overall, Fiscal Year 2003 levels reflect the slowdown of New Jersey's economy when compared to prior fiscal year performances.

Collections for the State's three major taxes, as a percentage of Fiscal Year 2003 total receipts, were as follows: the Gross Income Tax represented 28.7 percent; the Sales and Use Tax equaled 25.3 percent; and the Corporation Business Tax represented 10.7 percent. The State's three major taxes represented 64.7 percent of Fiscal Year 2003 total receipts, as compared to 68.1 percent for Fiscal Year 2002.

EXPENDITURES: CATEGORY DESCRIPTIONS AND FISCAL YEAR 2003 SUMMARY

State expenditures encompass 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 are based on the annual Appropriations Act and are divided into five major categories. They are Direct State Services, Grants-in-Aid, State Aid, Capital Construction, and Debt Service. Each category and its Fiscal Year 2003 expenditure is described below:

- Direct State Services represents those functions operated directly by State Government. Funding consists primarily of the salary and benefits of State employees and operational support 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.
 - Direct State Services accounted for 22.5 percent of total Fiscal Year 2003 expenditures. Direct State Services expenditures increased between Fiscal Year 2003 and Fiscal Year 2002 by \$331.1 million. The largest increases in Direct State Services centered on

employee fringe benefits in the Interdepartmental Accounts, public health protection and addiction services in the Department of Health and Senior Services, and system wide program support in the Department of Corrections.

- 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, 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 under the Grants-in-Aid category.
 - Grants-in-Aid accounted for 33.3 percent of total Fiscal Year 2003 expenditures. This is a \$771.2 million increase from the prior fiscal year. Major changes in Grants-in-Aid expenditures were associated with Health and Senior Services, and Human Services.
- State Aid represents funds that are distributed to municipalities, counties, and school districts. The major portion of the Gross Income Tax revenue is apportioned to State Aid. 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.
 - State Aid represented 38.0 percent of total Fiscal Year 2003 expenditures. State Aid expenditures increased between Fiscal Year 2003 and Fiscal Year 2002 by \$328.8 million. State Aid includes aid to public schools, teachers' pensions and social security costs, municipal aid programs, reimbursement to counties for welfare programs, and other miscellaneous programs.
- Capital Construction represents allocations for various construction projects. Included in this expenditure category is the appropriation to the New Jersey Transportation Trust Fund Authority, which is used to fund both New Jersey Transit and the Department of Transportation's annual capital program.
 - Capital Construction represented 4.4 percent of total Fiscal Year 2003 expenditures. Construction for capital projects increased by \$63.3 million as compared to the prior fiscal year. Primary focus for capital construction projects centered on transportation and environmental areas.
- Debt Service represents interest and principal payments on various voter approved General Obligation Bond Acts. After a general obligation bond act has been both legislatively and voter approved, the State Legislature appropriates capital projects against dollar amounts authorized. General Obligation Bonds are backed by the State's full faith and credit. Projects that have been funded by State General Obligation Bonds include prisons, roads, human services facilities, and various environmental protection projects.

The State Legislature also appropriates amounts for debt service related to State contract obligations, certificates of participation, and the State's line of credit. These debt instruments have an underlying credit structure that relies on debt service being subject to annual State appropriations made from time to time by the State Legislature. Except for the Capital Construction classified debt service of the New Jersey Transportation Trust Fund Authority, debt service associated with these instruments is included within the Direct State Services category.

- Debt Service on General Obligation Bonds represented 1.8 percent of total Fiscal Year 2003 expenditures. Debt Service expenditures decreased by \$20.8 million primarily due

to the issuance of \$300.4 million of General Obligation Refunding Bonds, Series J that produced \$38.0 million in debt service savings for Fiscal Year 2003.

Total Fiscal Year 2003 expenditures of \$24.1 billion are \$1.5 billion more than expenditures for the prior fiscal year.

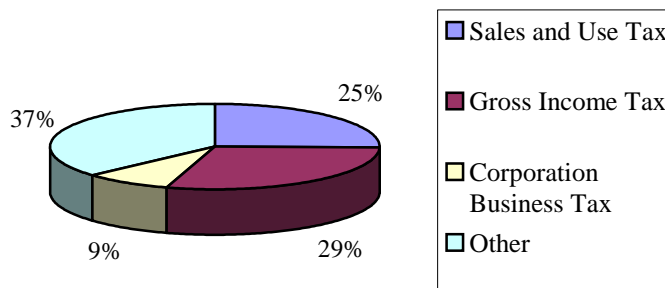
FISCAL YEAR 2004 REVENUE PROJECTIONS

The Fiscal Year 2004 revenue projections are based on estimates of modest economic growth. At the time of the Appropriations Act, positive underlying economic indicators were allowing forecasters to predict that the State's economy was improving despite general sluggish conditions and that economic activity is expected to pick up in the third and fourth quarters of calendar year 2003 and accelerate in calendar year 2004. To a large extent, the future direction of economic recovery nationally and in New Jersey hinges on the assumptions of no further terrorist attacks, supportive monetary and fiscal stimulus, and increasing stable financial markets. The State and the nation may experience further near-term slow growth and the expected recovery may stall late into calendar year 2003 if consumers, investors, and businesses become more cautious than currently assumed. However, the fundamentals of the State's economic health remain stable and the long run prospects for economic growth of the State in calendar year 2003 and beyond are favorable.

Fiscal Year 2004 revenues are projected to be \$24.0 billion, \$523.2 million above Fiscal Year 2003 revenue. Projected revenue changes in Fiscal Year 2004 for the State's three major taxes over Fiscal Year 2003 are as follows: the Sales and Use Tax is expected to increase by \$228.9 million or 3.9 percent, the Gross Income Tax is expected to increase by \$394.7 million or 5.9 percent, and the Corporation Business Tax is expected to decrease by \$470.4 million or 18.6 percent.

Fiscal Year 2004 resources, including the Fiscal Year 2004 opening balance, are projected at \$24.4 billion. The State's three major taxes as a percent of total resources are as follows: the Gross Income Tax represents 29.2 percent; the Sales and Use Tax represents 25.3 percent; and the Corporation Business Tax represents 8.4 percent. The State's three major taxes are projected to represent 62.9 percent of total resources.

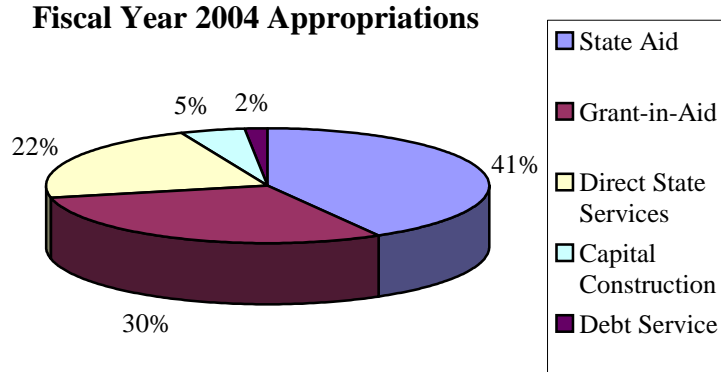
Fiscal Year 2004 Revenue



Fiscal Year 2004 anticipates revenue of \$1,612.0 million from the Tobacco Settlement. This represents \$121.7 million in payments from the Master Settlement Agreement (the "MSA") reached in November 1998 between 46 states and the major tobacco companies. The remainder came from proceeds derived from the sale of Tobacco Settlement Asset-Backed Bonds as well as interest income earned from its associated balances. As of June 30, 2003, 100.0 percent of future Tobacco Settlement payments the State was to receive on and after December 1, 2004 has been securitized to perpetuity, or until the bonds have been fully amortized.

FISCAL YEAR 2004 APPROPRIATIONS

The total Fiscal Year 2004 appropriation is \$24.0 billion. Of the \$24.0 billion appropriated in Fiscal Year 2004 from the General Fund, the Property Tax Relief Fund, the Casino Control Fund, the Casino Revenue Fund, and the Gubernatorial Elections Fund, \$10.0 billion (41.6 percent) is appropriated for State Aid to Local Governments, \$7.2 billion (30.1 percent) is appropriated for Grants-in-Aid, \$5.2 billion (21.8 percent) for Direct State Services, \$1.1 billion (4.7 percent) for Capital Construction, and \$0.5 billion (1.8 percent) for Debt Service on State General Obligation Bonds.



State Aid to local governments constitutes the most important aspect of Fiscal Year 2004 appropriations. These funds are essential in the funding of local government operating costs as well as property tax relief. In Fiscal Year 2004, \$9,960.0 million will be distributed to municipalities, counties, and school districts. Major State Aid programs are: Aid to School Districts (\$8,122.2 million), Unrestricted Aid to Municipalities and Counties through the Department of Community Affairs (\$980.1 million), and Aid to County Colleges (\$208.3 million).

Grants-in-Aid represent the second largest portion of the State's Fiscal Year 2004 appropriation. In Fiscal Year 2004, \$7,226.2 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 (\$3,332.4 million), Higher Education (\$1,619.8 million), Health and Senior Services programs (\$764.3 million), Property Tax Relief Programs (\$847.3 million), and Public Transportation (\$193.8 million).

The Direct State Services Fiscal Year 2004 appropriation is \$5,238.1 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 (\$829.1 million), Human Services (\$677.3 million), Law and Public Safety (\$494.0 million), Treasury (\$382.1 million), and Environmental Protection (\$206.8 million).

Capital Construction appropriations for Fiscal Year 2004 total \$1,136.4 million. Of this amount, \$805.0 million is appropriated to the New Jersey Transportation Trust Fund Authority, \$98.0 million is for open space preservation, \$90.2 million is for hazardous substance and underground tank remediation, and \$25.0 million is for shore protection.

Debt Service for General Obligation Bonds is \$442.5 million. This amount reflects the cost of financing various infrastructure and environmental projects that have been approved through prior voter referenda.

SERVICE EFFORTS AND ACCOMPLISHMENTS

The following sections highlight various service efforts and accomplishments the State has achieved during Fiscal Year 2003 as well as some of the goals the State hopes to achieve for Fiscal Year 2004.

Fiscal Year 2003

- The cornerstone to Governor McGreevey's Fiscal Year 2003 education plan was a literacy program that included the hiring of reading coaches in under-performing elementary schools to ensure that all students are reading at or above grade level by the end of the third grade. A new State appropriation of \$10.0 million represented the first installment of a four-year commitment to the program. A new federal program, "Reading First," which has the same goal, supplemented state resources through \$18.4 million in aid.
- Recognizing that the State's approach to early childhood education must be comprehensive, the Fiscal Year 2003 appropriations provided a total increase of \$157.4 million for preschool programs. The integration of educational, social, and family programs so that children can develop the academic and social skills needed for kindergarten, higher grades and life after school requires the involvement of both the Department of Education and the Department of Human Services. Of the \$157.4 million, \$142.4 million represented Abbott Preschool Expansion Aid to fund the increased costs between Fiscal Year 2002 and Fiscal Year 2003 for the approved preschool programs for three-and four-year olds in Abbott districts.
- The Office of Counter-Terrorism was created as part of a \$90.2 million Homeland Security initiative designed to provide a uniform, cohesive, and coordinated response to the threats posed to New Jersey following the tragic events of September 11, 2001. The Office of the Attorney General, in cooperation with the Domestic Security Preparedness Task Force, began to meet the enormous challenge of coordinating the State's response and intelligence capabilities with federal, State, county, and local law enforcement agencies, as well as the National Guard. This office is a separate unit within the Department of Law and Public Safety and has all of the law enforcement powers conferred by the Criminal Justice Act.
- The Fiscal Year 2003 appropriations included \$33.6 million for cancer research and treatment. Most prominently, an appropriation of \$20.0 million was earmarked to the Cancer Institute of New Jersey through the Department of Health and Senior Services. Established in 1990, the Cancer Institute is the only center in New Jersey designated by the National Cancer Institute and is one of only 13 National Cancer Institute designated cancer centers in the nation. The International Conference on New Initiatives in Cancer and Chronic Illness was provided with \$500,000 in new state funds to highlight new developments in cancer research and treatment and to support a public "SWAT" team to investigate cancer clusters, providing rapid response and analysis.
- The Department of Transportation's appropriations reflected the establishment of the New Jersey Motor Vehicle Commission, which was created to replace the Division of Motor Vehicles. The Commission operates autonomously "in but not of" the Department of Transportation with dedicated revenues in lieu of a State General Fund appropriation. Its goals are to increase customer satisfaction, reduce processing time, produce effective customer transactions without an office visit, generate secure documents, and efficiently communicate accurate information to New Jersey state residents. The New Jersey Motor Vehicle Commission continues all functions and programs formerly conducted by the Division of Motor Vehicles, including inspection and maintenance. The New Jersey Motor Vehicle Commission is expected to have total dedicated resources of \$276.0 million in Fiscal Year 2004.

Fiscal Year 2004

- Concerns in the Department of Human Services, Division of Youth and Family Services' (DYFS) system of keeping children safe were exposed when the circumstances surrounding the death of a seven-year-old boy was discovered in Newark. In the aftermath, Governor McGreevey ordered an

immediate accounting of all the cases statewide where a child had not been located yet an open allegation of abuse existed. As a result, it was determined that numerous allegations remained open and uninvestigated. Governor McGreevey also ordered a fact-finding process that made a clear-cut case for sweeping changes. It was revealed that DYFS' mission was too broad; its delivery system for children was fragmented, its caseworker supervision was inadequate, its workforce was too inexperienced, and that there was a lack of accountability across the whole system. As part of the Fiscal Year 2004 Budget, over \$30.0 million has been provided for the purpose of reforming and improving the DYFS' information systems and services. Implementation of the Statewide Automated Child Welfare Information System to comprehensively track and monitor cases and the hiring of additional direct care staff, support staff, and Human Services Police officers are expected. The anticipated result is increased accountability, a revision in management expectations, enhanced recruitment, an expansion and mandate in training, strengthened supervision, and a reduction in caseloads.

- In Fiscal Year 2004, over \$8.1 billion in school aid will be provided and Governor McGreevey's 21 point plan for education reform will be expanded. In addition to the continued commitment to literacy and preschool programs, new funding is provided for the development of a summer institute to provide intensive training to potential teachers choosing the alternate route for certification and grants to help teachers seeking the National Board of Professional Teaching Standards certification.
- The State of New Jersey has taken steps to streamline the procedures for the State school construction program, which will provide \$8.6 billion over a 10-year period to build and renovate schools. In Fiscal Year 2004, \$107.4 million is appropriated for State debt service and increased aid for recently issued local debt for school construction.
- The New Jersey Earned Income Tax Credit (the "EITC") program will provide low-income taxpayers with 20.0 percent of their federal EITC. This is the fourth and final year of the phase-in of this program. The New Jersey EITC is a credit for residents with earned income below a certain level. The credit reduces the amount of New Jersey tax that is owed and may also provide a refund, even when there is no tax liability to New Jersey. This program will create \$100.0 million in income tax relief for New Jersey's economically disadvantaged in Fiscal Year 2004.
- In Fiscal Year 2004 there is over \$100.0 million in funding for various homeland security and counter-terrorism initiatives. These funds will provide enhanced security for the State's nuclear power plants as well as prompt emergency medical response and additional support for the Office of Counter-Terrorism and State Police efforts to guard New Jersey residents against potential terrorist activities.
- The State of New Jersey, as a public employer, is covered by the New Jersey Public Employer-Employee Relations Act, which guarantees public employees the right to negotiate collectively through employee organizations certified or recognized as the exclusive representatives for units of public employees found to be appropriate for collective bargaining purposes. Approximately 64,700 executive branch employees are paid through the State payroll system. Of the 64,700 employees, 57,800 are represented by certified or recognized exclusive majority representatives and are organized into various negotiation units. The State of New Jersey entered into four-year contracts for fiscal years 2004-2007 with the unions that represent approximately 48,000 State employees. The contracts provide for a total salary increase of 11.5 percent, comprising increases of 0.0 percent, 2.9 percent, 4.0 percent and 4.6 percent in fiscal years 2004 through 2007, respectively.

INVESTMENTS

The State's Division of Investments was legislatively created 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.

PENSION FUND ADMINISTRATION

The State operates seven retirement plans. The Public Employees' Retirement System and the Teachers' Pension and Annuity Fund are the principal plans. The other systems are Police and Firemen's Retirement System, Consolidated Police and Firemen's Pension Fund, State Police Retirement System, Judicial Retirement System, and Prison Officer's Pension Fund. State law regulates the administration of the pension fund systems and requires actuarial valuations every year and actuarial experience investigations every three years. Such valuations and investigations are designed to insure that these programs adequately recognize the additional costs resulting from experience or legislative changes in the benefits to be paid.

As of June 30, 2003, the State's seven retirement plans had a combined \$64.7 billion in total assets, with a combined total liability of \$387.3 million, leaving the State's pension fund system with net total assets of \$64.3 billion.

For further information about the State's Pension Fund Systems, please refer to Notes No. 14 and No. 15 of this Comprehensive Annual Financial Report.

CASH MANAGEMENT

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, 2003, the New Jersey Cash Management Fund's average daily-annualized rate of return for participating State accounts was 1.77 percent. For "Other-than-State" participants, such as municipalities and school districts, the average daily-annualized rate of return, which includes charges for administrative and operating expenses, was 1.67 percent for the same timeframe.

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 budget 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.

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 year ended June 30, 2002.

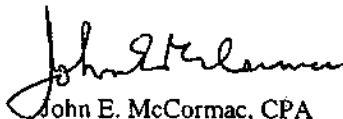
In order to qualify for the Certificate of Achievement, a governmental entity must publish an easily readable and efficiently organized comprehensive annual financial report, the contents of which conform to program standards. Such reports must satisfy both generally accepted accounting principles and applicable legal requirements.

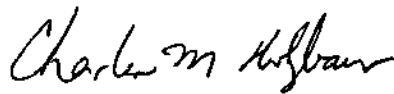
The State of New Jersey has received this award every year since 1993. It is our belief that this Comprehensive Annual Financial Report for the fiscal year ended June 30, 2003 continues this tradition and conforms to the GFOA's Certificate of Achievement Program requirements.

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,


John E. McCormac, CPA
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, 2002

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.



A handwritten signature in black ink, appearing to read "Edward Henry".

President

A handwritten signature in black ink, appearing to read "Jeffrey R. Enos".

Executive Director

ORGANIZATION OF NEW JERSEY STATE GOVERNMENT

