

# FINANCIAL SECTION



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## New Jersey State Legislature

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## INDEPENDENT AUDITOR'S REPORT

The Honorable Chris Christie  
Governor of New Jersey

The Honorable Stephen M. Sweeney  
President of the Senate

The Honorable Vincent Prieto  
Speaker of the General Assembly

Mr. David J. Rosen  
Executive Director  
Office of Legislative Services

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the State of New Jersey as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the state's basic financial statements as listed in the table of contents.

### ***Management's Responsibility for the Financial Statements***

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

### ***Auditor's Responsibility***

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the discretely presented component units, the pensions and other employee benefits trust funds, and the Port Authority of New York and New Jersey which represent 100 percent of the assets and deferred outflows of resources and 100 percent of the revenues of the aggregate discretely presented component units, 93 percent of the assets and 56 percent of the revenues (including additions to fiduciary net position) of the aggregate remaining fund information, and 100 percent of the information disclosed in Note 2-F of the basic financial statements, respectively. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinions, insofar as they relate to the amounts and disclosures included for the discretely presented component units, the pensions and other employee benefits trust funds, and the Port Authority of New York and New Jersey, are based solely on the reports of the other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The financial statements of the pensions and other employee benefits trust funds and three discretely presented component units, the New Jersey Sports and Exposition Authority, the Higher Education Student Assistance Authority, and the Casino Reinvestment Development Authority, were not audited in accordance with *Government Auditing Standards*.

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

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

### ***Opinions***

In our opinion, based on our audit and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the State of New Jersey as of June 30, 2014, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## ***Emphasis of Matter***

### *Adoption of New Accounting Pronouncements*

As discussed in Note 2-A, the State of New Jersey adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 65, *Items Previously Reported as Assets and Liabilities*, GASB Statement No. 67, *Financial Reporting for Pension Plans*, and GASB Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees* as of July 1, 2013. Our opinion was not modified with respect to these matters.

## ***Other Matters***

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, the budgetary comparison schedules, and the funding progress schedule for all pension trust funds and health benefits program fund be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We and the other auditors have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### *Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the State of New Jersey's basic financial statements. The introductory section, combining financial statements section, other information section, and the statistical section, as listed in the table of contents, are presented for the purposes of additional analysis and are not a required part of the basic financial statements.

The combining financial statements section and the other information section are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America by us and other auditors.

In our opinion, based on our audit, the procedures performed as described above, and the reports of the other auditors, the combining financial statements section and the other information section are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The introductory section and the statistical section have not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on them.

**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated April 2, 2015 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 grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the State of New Jersey's internal control over financial reporting and compliance.

A handwritten signature in black ink, appearing to read "S. M. Eells". The signature is fluid and cursive, with a large loop at the beginning and a long horizontal stroke at the end.

Stephen M. Eells  
State Auditor  
April 2, 2015



## MANAGEMENT'S DISCUSSION AND ANALYSIS

The following narrative provides an overview and analysis concerning New Jersey State Government's financial performance of its activities for the fiscal year ended June 30, 2014. Readers should consider this information in conjunction with the transmittal letter, which precedes Management's Discussion and Analysis, and the State's financial statements, which follow.

### FINANCIAL HIGHLIGHTS

#### Government-wide

- The primary government's assets and deferred outflows of resources totaled \$39.6 billion, an increase of \$1.1 billion from the prior fiscal year. As of June 30, 2014, liabilities exceeded assets and deferred outflows of resources by \$49.6 billion. The State's unrestricted net position, which represents net assets that have no statutory commitments and are available for discretionary use, totaled a negative \$62.2 billion. The negative balance is primarily a result of underfunding the annual pension costs to the State's retirement systems and the State's recognition of other postemployment benefits under GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other than Pensions* (See Note 17 – Retirement Systems, Health Benefits, and Post-Retirement Medical Benefits). Financing activities that have contributed to the State's negative unrestricted net position amount include liabilities from pension obligation bonds, the funding of a portion of local elementary and high school construction, and the securitization of a major portion of annual tobacco master settlement agreement receipts with no corresponding assets.
- June 30, 2014 component unit assets and deferred outflows of resources exceeded component unit liabilities and deferred inflows of resources by \$19.7 billion. Total component unit assets and deferred outflows of resources grew to \$50.0 billion, a \$3.1 billion increase from the prior fiscal year.

#### Fund Level

- The State's governmental funds reported June 30, 2014 combined ending fund balances of \$7.1 billion, a decrease of \$0.3 billion when compared to the prior fiscal year. Fund balances are segregated into the following categories: nonspendable, restricted, committed, and unassigned. The nonspendable fund balance classification (\$20.4 million) includes amounts that are legally required to remain intact. The restricted fund balance classification (\$4.4 billion) is used when constraints have been placed upon the use of resources through enabling legislation initiated by voter referendum, constitutional provisions, debt covenants, or other external parties such as the federal government. The committed fund balance classification (\$2.4 billion) includes amounts that can only be used for purposes specified in enabling legislation with the consent of both the legislative and executive branches. In contrast to the restricted fund balance classification, amounts in this category may be redeployed for other purposes with appropriate due process. Finally, the unassigned fund balance (\$295.1 million) represents the fund balance amount that has not been restricted or committed to a specific purpose within the General Fund.
- During the fiscal year, the proprietary funds' net position increased by \$614.4 million resulting in net position of \$1.1 billion as of June 30, 2014.

#### Long-term Obligations

- The State's long-term obligations increased 6.5 percent to \$84.9 billion, which includes a net increase in bonded obligations of \$0.4 billion. During the fiscal year, the State issued \$3.0 billion in bonds. New money issuances represented \$1.2 billion primarily for transportation program improvements, while \$1.8 billion represented refunding transactions that provided the State with \$30.5 million in net present value savings. During Fiscal Year 2014, the State paid \$3.1 billion in debt service on its long-term obligations.
- Non-bonded portions of the State's long-term obligations total \$43.0 billion. This amount represents a \$4.8 billion increase from the prior fiscal year and is mainly attributable to increases in the Net Pension Obligation (NPO) as well as the State's Net Other Postemployment Benefits (OPEB) Obligation.

### OVERVIEW OF THE FINANCIAL STATEMENTS

The State's basic financial statements are comprised of three components: (1) government-wide financial statements, (2) fund financial statements, and (3) notes to the financial statements. This Comprehensive Annual Financial Report also contains required supplementary information (RSI) and other information, in addition to the basic financial statements.

**Major Features of the Basic Financial Statements**

| Features                                      | Government-wide Financial Statements   | Fund Financial Statements   |  |   |
|---|--|---|--|---|
|   |  | Governmental Funds  | Proprietary Funds  | Fiduciary Funds   |
| <b>Scope</b>                                  | Entire State government (except fiduciary funds) and the State's component units                                 | State activities that are not proprietary or fiduciary  | State activities that are operated similar to a private business   | Instances in which the State is the trustee or agent for someone else's resources   |
| <b>Required Financial Statements</b>          | <ul style="list-style-type: none"> <li>• Statement of Net Position</li> <li>• Statement of Activities</li> </ul> | <ul style="list-style-type: none"> <li>• Balance Sheet</li> <li>• Statement of Revenues, Expenditures, and Changes in Fund Balance</li> </ul>   | <ul style="list-style-type: none"> <li>• Statement of Net Position</li> <li>• Statement of Revenues, Expenses, and Changes in Net Position</li> <li>• Statement of Cash Flows</li> </ul> | <ul style="list-style-type: none"> <li>• Statement of Fiduciary Net Position</li> <li>• Statement of Changes in Fiduciary Net Position</li> </ul> |
| <b>Accounting Basis and Measurement Focus</b> | Accrual accounting and economic resources focus  | Modified accrual accounting and current financial resources focus   | Accrual accounting and economic resources focus  | Accrual accounting and economic resources focus   |
| <b>Types of Asset/Liability Information</b>   | All assets and liabilities, both financial and capital, and short-term and long-term                             | Only assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets included   | All assets and liabilities, both financial and capital, and short-term and long-term   | All assets and liabilities, both short-term and long-term   |
| <b>Types of Inflow/Outflow Information</b>    | All revenues and expenses during the year, regardless of when cash is received or paid                           | <ul style="list-style-type: none"> <li>• Revenues for which cash is received during or soon after the end of the fiscal year</li> <li>• Expenditures when goods or services have been received and payment is due during the year or soon thereafter</li> </ul> | All revenues and expenses during the year, regardless of when cash is received or paid   | All revenues and expenses during the year, regardless of when cash is received or paid  |

**Government-wide Financial Statements**

Government-wide financial statements provide a broad view of the State's operations in a manner similar to private sector business standards, as well as both short-term and long-term information regarding the State's overall financial position through the fiscal year end. The government-wide financial statements include the following two statements:

- **Statement of Net Position**

Presents all of the State's assets and deferred outflows of resources and liabilities and deferred inflows of resources and calculates net position. Increases or decreases in the State's net position over time may serve as a useful indicator as to whether or not the State's overall financial position is improving or deteriorating.

- **Statement of Activities**

Presents how the State's net position changed during the fiscal year. All changes in net position are reported when the underlying event occurs, giving rise to the change, regardless of the timing of related cash flows. This statement also presents a comparison between direct expenses and program revenues for each State function.

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

- **Governmental Activities**

The majority of State service functions fall into this category, which includes Executive, Legislative, and Judicial Branch operations. Governmental activity functions rely heavily on State taxes and federal grant receipts for funding their respective programs and functions.

- **Business-type Activities**

These operations, consisting of the State Lottery Fund and the Unemployment Compensation Fund, are legislatively able to charge fees to external users to recover all or a portion of the cost of the services provided and are, therefore, classified as business-type activities.

- **Component Units**

Legally separate operations and organizations for which the State has financial accountability are considered component units. Operating as business-type activities, financial statements of component units are presented discretely in either the major or non-major categories in both the Statement of Net Position and the Statement of Activities based upon the relative size of assets, liabilities, revenues, and expenses in relation to the total. The State's component units for the period covered by the Comprehensive Annual Financial Report, consist of 11 senior public institutions of higher education as well as 21 authorities; of the latter 21, five (the Garden State Preservation Trust, the New Jersey Building Authority, the New Jersey Schools Development Authority, the New Jersey Transportation Trust Fund Authority, and the Tobacco Settlement Financing Corporation) are blended into governmental activities. A complete list of the State's component units is shown in Note 1B – Summary of Significant Accounting Policies – Financial Reporting Entity and Note 18 – Component Units. Audit reports of the individual component units can be obtained from their respective administrative offices.

### **Reconciliation of Government-wide and Governmental Funds Financial Statements**

This Comprehensive Annual Financial Report includes two schedules that reconcile the amount reported on the governmental funds financial statements (modified accrual basis of accounting) with government-wide financial statements (accrual basis of accounting). The following summarizes the major differences between the financial reporting impacts of transitioning from a modified accrual basis of accounting to a full accrual basis of accounting:

- Capital assets used in governmental activities are not reported on governmental funds financial statements.
- Capital outlay spending results in capital assets on the government-wide financial statements, but is reported as expenditures on the governmental funds financial statements.
- Bond and note proceeds result in liabilities on the government-wide financial statements, but are recorded as other financing sources on the governmental funds financial statements.
- Certain other outflows represent either increases or decreases in liabilities on the government-wide financial statements, but are reported as expenditures on the governmental funds financial statements.

For more detailed information, which is essential to a full understanding of the data provided in the government-wide financial statements and governmental funds financial statements, see “Notes to the Financial Statements.”

### **Fund Financial Statements**

A fund is a fiscal and accounting entity with a self-balancing set of accounts recording cash and other financial resources together with all related liabilities and residual equities or balances, and changes therein, which is segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions, or limitations. The State's fund financial statements reflect financial reporting practices in accordance with this definition. The State's funds, which exclude component units, are divided into three categories: governmental, proprietary, and fiduciary.

- **Governmental Funds Financial Statements**

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

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

- **Proprietary Funds Financial Statements**

Proprietary funds are used to account for State business-type activities. Since these funds charge fees to external users, they are known as enterprise funds. Proprietary funds provide the same information as government-wide financial statements and use the accrual basis of accounting.

- **Fiduciary Funds Financial Statements**

Fiduciary funds, which include State pension fund systems, are used to account for resources held by the State for the benefit of parties outside of State government. Fiduciary funds are reported using the accrual basis of accounting in separate Statements of Fiduciary Net Position and Changes in Fiduciary Net Position. Government-wide financial statements exclude fiduciary fund activity and balances since the assets are legislatively restricted in purpose and do not represent discretionary assets the State can use to fund its operations.

### **Notes to the Financial Statements**

The Notes to the Financial Statements provide additional background information that assists the reader in understanding the data provided in the government-wide financial statements and fund financial statements.

### **Required Supplementary Information**

The basic financial statements are followed by a required supplementary information section. This section includes budgetary schedules that reconcile the statutory intent of the program with fund balances in accordance with generally accepted accounting principles at fiscal year end as well as variances between the final budget and actual results on a budgetary basis. Also, there is a Schedule of Funding Progress for all Pension Trust Funds and the Health Benefits Program Fund.

### **Combining Financial Statements**

Combining financial statements are presented for non-major governmental, proprietary, and fiduciary funds. Non-major funds are shown in the aggregate in the basic financial statements. Combining schedules are presented for the General Fund.

### **Other Information**

Information on New Jersey's capital assets, long-term obligations, and non-major budgetary comparison schedules are displayed in this section. Schedules of Anticipated and Appropriated Revenues provide detailed information on major and miscellaneous taxes, fees, and other revenues. The Schedule of Anticipated Revenue provides further analysis by showing dollar and percentage variances of actual collections as compared to the original anticipation. The Schedule of Appropriations and Expenditures details the comparison of expenditures at the legal level of control to the final budget.

## GOVERNMENT-WIDE FINANCIAL ANALYSIS

### Net Position

The State ended Fiscal Year 2014 with combined net position for the primary government totaling a negative \$49.6 billion. This amount represents a reduction of net position of \$3.5 billion from the prior fiscal year. Restricted net position includes funds used to pay unemployment claims and open space preservation. Capital assets, net of depreciation, are used by the State to provide services to citizens; consequently, these assets are not available for future spending. Net investment in capital assets includes land, land easements, land improvements, buildings and improvements, equipment and software, infrastructure (roads, bridges, and other immovable assets), and construction in progress. The deficit in unrestricted governmental net position arose primarily as a result of the cost of the State's school facilities construction program, depreciation expense related to capital assets, and certain liabilities, including but not limited to the Net Pension Obligation and the Net OPEB Obligation, that are required to be included in the government-wide financial statements.

### Net Position For Fiscal Year Ended June 30 (Expressed in Millions)

|  | Governmental<br>Activities |                      | Business-type<br>Activities |                 | Total<br>Primary Government |                      |
|--|----------------------------|----------------------|-----------------------------|-----------------|-----------------------------|----------------------|
|  | 2014                       | 2013*                | 2014                        | 2013            | 2014                        | 2013*                |
| Current and other noncurrent assets                    | \$ 11,361.5                | \$ 11,494.8          | \$ 1,584.2                  | \$ 1,514.5      | \$ 12,945.7                 | \$ 13,009.3          |
| Capital assets, net                                    | 25,532.0                   | 24,388.5             | -                           | -               | 25,532.0                    | 24,388.5             |
| <b>Total Assets</b>                                    | <b>36,893.5</b>            | <b>35,883.3</b>      | <b>1,584.2</b>              | <b>1,514.5</b>  | <b>38,477.7</b>             | <b>37,397.8</b>      |
| Deferred outflows of resources                         | 1,121.9                    | 1,085.3              | -                           | -               | 1,121.9                     | 1,085.3              |
| <b>Total Assets and Deferred Outflows of Resources</b> | <b>38,015.4</b>            | <b>36,968.6</b>      | <b>1,584.2</b>              | <b>1,514.5</b>  | <b>39,599.6</b>             | <b>38,483.1</b>      |
| Current liabilities                                    | 5,959.0                    | 5,662.4              | 270.5                       | 805.6           | 6,229.5                     | 6,468.0              |
| Noncurrent liabilities                                 | 82,740.9                   | 77,835.1             | 246.2                       | 255.8           | 82,987.1                    | 78,090.9             |
| <b>Total Liabilities</b>                               | <b>88,699.9</b>            | <b>83,497.5</b>      | <b>516.7</b>                | <b>1,061.4</b>  | <b>89,216.6</b>             | <b>84,558.9</b>      |
| Net Position:  |                            |                      |                             |                 |                             |                      |
| Net investment in capital assets                       | 8,038.2                    | 7,343.4              | -                           | -               | 8,038.2                     | 7,343.4              |
| Restricted   | 3,429.5                    | 3,678.9              | 1,067.5                     | 453.1           | 4,497.0                     | 4,132.0              |
| Unrestricted   | (62,152.2)                 | (57,551.2)           | -                           | -               | (62,152.2)                  | (57,551.2)           |
| <b>Total Net Position</b>                              | <b>\$ (50,684.5)</b>       | <b>\$ (46,528.9)</b> | <b>\$ 1,067.5</b>           | <b>\$ 453.1</b> | <b>\$ (49,617.0)</b>        | <b>\$ (46,075.8)</b> |

\* Net Position was restated to reflect the following: implementation of GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, resulting in \$301.6 million in debt issuance costs, previously reported as assets and amortized, being immediately recognized in the current reporting period; implementation of GASB Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*, resulting in an increase in non-bonded debt of \$184.1 million relating to the South Jersey Port Corporation bonds; an increase in capital assets of \$60.4 million and an increase in accumulated depreciation of \$4.7 million across all statewide functions and categories; and an increase in unamortized premium on bonds payable of \$52.5 million due to over amortization in prior years.

### Changes in Net Position

The State's Fiscal Year 2014 net position decreased by \$3.5 billion. Approximately 50.2 percent of the State's total revenues came from general taxes, while 28.4 percent was derived from operating grants. Charges for services amounted to 18.7 percent of total revenues, while other items such as capital grants, interest earnings, and miscellaneous revenues accounted for the remainder. State expenses cover a range of services. The largest expense, 25.7 percent, was for educational, cultural, and intellectual development, which includes approximately \$237.7 million disbursed by the New Jersey Schools Development Authority (a blended component unit) to help finance school facilities construction. Physical and mental health amounted to 21.2 percent of total expenses, while government direction, management and control amounted to 19.2 percent. Other major expenditures focused on economic planning, development, and security, public safety and criminal justice, and unemployment compensation. During Fiscal Year 2014, governmental activity expenses exceeded program revenues. This imbalance was mainly funded through \$30.7 billion of general revenues (mostly taxes and transfers). The remaining \$4.2 billion resulted in a decrease in net position. Offsetting the governmental net position decrease, Business-type Activities reflected a net position increase of \$614.4 million as the Unemployment Compensation Fund's available resources exceeded the need to pay claims.

**Statement of Activities**  
**For Fiscal Year Ended June 30**  
**(Expressed in Millions)**

|  | <b>Governmental<br/>Activities</b> |                      | <b>Business-type<br/>Activities</b> |                 | <b>Primary Government<br/>Total</b> |                      |
|--|------------------------------------|----------------------|-------------------------------------|-----------------|-------------------------------------|----------------------|
|  | <b>2014</b>                        | <b>2013*</b>         | <b>2014</b>                         | <b>2013</b>     | <b>2014</b>                         | <b>2013*</b>         |
| <b>Revenues</b>  |                                    |                      |                                     |                 |                                     |                      |
| Program revenues                                       |                                    |                      |                                     |                 |                                     |                      |
| Charges for services                                   | \$ 4,802.7                         | \$ 4,834.0           | \$ 5,942.5                          | \$ 6,124.0      | \$ 10,745.2                         | \$ 10,958.0          |
| Operating grants                                       | 15,638.0                           | 13,680.3             | 680.6                               | 2,220.8         | 16,318.6                            | 15,901.1             |
| Capital grants   | 658.8                              | 349.5                |                                     | -               | 658.8                               | 349.5                |
| General revenues                                       |                                    |                      |                                     |                 |                                     |                      |
| General taxes  | 28,838.6                           | 28,313.6             |                                     | -               | 28,838.6                            | 28,313.6             |
| Interest earnings                                      | 16.3                               | 335.8                |                                     |                 | 16.3                                | 335.8                |
| Miscellaneous  | 916.7                              | 982.9                |                                     | -               | 916.7                               | 982.9                |
| <b>Total Revenues</b>                                  | <b>50,871.1</b>                    | <b>48,496.1</b>      | <b>6,623.1</b>                      | <b>8,344.8</b>  | <b>57,494.2</b>                     | <b>56,840.9</b>      |
| <b>Expenses</b>  |                                    |                      |                                     |                 |                                     |                      |
| Public safety and criminal justice                     | 3,462.2                            | 3,375.1              | -                                   | -               | 3,462.2                             | 3,375.1              |
| Physical and mental health                             | 12,935.4                           | 11,777.2             | -                                   | -               | 12,935.4                            | 11,777.2             |
| Educational, cultural, and<br>intellectual development | 15,684.9                           | 15,632.4             | -                                   | -               | 15,684.9                            | 15,632.4             |
| Community development and<br>environmental management  | 2,274.3                            | 1,708.4              | -                                   | -               | 2,274.3                             | 1,708.4              |
| Economic planning,<br>development, and security        | 6,527.4                            | 6,741.5              | -                                   | -               | 6,527.4                             | 6,741.5              |
| Transportation programs                                | 1,786.9                            | 2,144.9              | -                                   | -               | 1,786.9                             | 2,144.9              |
| Government direction,<br>management, and control       | 11,726.6                           | 11,509.8             | -                                   | -               | 11,726.6                            | 11,509.8             |
| Special government services                            | 358.7                              | 344.5                | -                                   | -               | 358.7                               | 344.5                |
| Interest expense                                       | 1,235.3                            | 1,354.3              | -                                   | -               | 1,235.3                             | 1,354.3              |
| State Lottery Fund                                     | -                                  | -                    | 1,985.6                             | 1,899.2         | 1,985.6                             | 1,899.2              |
| Unemployment Compensation Fund                         | -                                  | -                    | 3,058.1                             | 4,666.5         | 3,058.1                             | 4,666.5              |
| <b>Total Expenses</b>                                  | <b>55,991.7</b>                    | <b>54,588.1</b>      | <b>5,043.7</b>                      | <b>6,565.7</b>  | <b>61,035.4</b>                     | <b>61,153.8</b>      |
| Excess (Deficiency) Before Transfers                   | (5,120.6)                          | (6,092.0)            | 1,579.4                             | 1,779.1         | (3,541.2)                           | (4,312.9)            |
| Transfers  | 965.0                              | 1,085.0              | (965.0)                             | (1,085.0)       | -                                   | -                    |
| <b>Increase (Decrease) in Net Position</b>             | <b>(4,155.6)</b>                   | <b>(5,007.0)</b>     | <b>614.4</b>                        | <b>694.1</b>    | <b>(3,541.2)</b>                    | <b>(4,312.9)</b>     |
| <b>Net Position - July 1 (restated)</b>                | <b>(46,528.9)</b>                  | <b>(41,521.9)</b>    | <b>453.1</b>                        | <b>(241.0)</b>  | <b>(46,075.8)</b>                   | <b>(41,762.9)</b>    |
| <b>Net Position - June 30</b>                          | <b>\$ (50,684.5)</b>               | <b>\$ (46,528.9)</b> | <b>\$ 1,067.5</b>                   | <b>\$ 453.1</b> | <b>\$ (49,617.0)</b>                | <b>\$ (46,075.8)</b> |

\* Net Position was restated to reflect the following: implementation of GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, resulting in \$301.6 million in debt issuance costs, previously reported as assets and amortized, being immediately recognized in the current reporting period; implementation of GASB Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*, resulting in an increase in non-bonded debt of \$184.1 million relating to the South Jersey Port Corporation bonds; an increase in capital assets of \$60.4 million and an increase in accumulated depreciation of \$4.7 million across all statewide functions and categories; and an increase in unamortized premium on bonds payable of \$52.5 million due to over amortization in prior years.

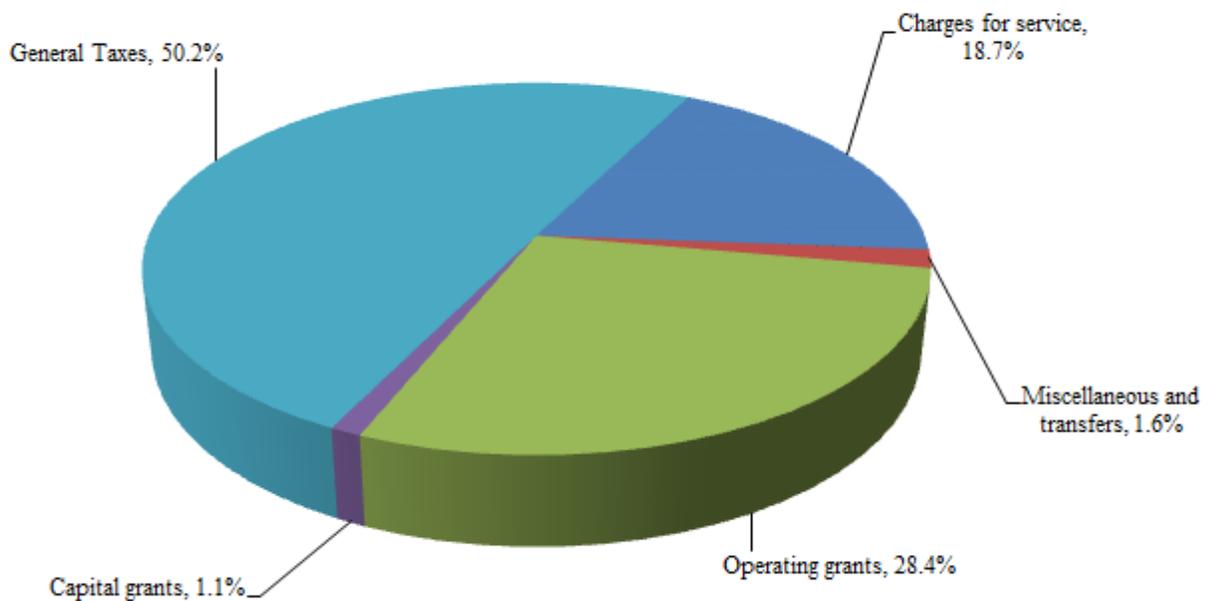
**Primary Government – Fiscal Year 2014 Revenues and Expenses**

During Fiscal Year 2014, State revenues, including transfers, totaled \$57.5 billion or an increase of \$0.7 billion when compared to the prior fiscal year. This increase in total revenues is primarily attributable to an overall increase in general taxes, primarily the State’s Gross Income Tax and Sales and Use Tax resulting from a strengthening of the economy. General taxes totaled \$28.8 billion and accounted for 50.2 percent of total State revenues for Fiscal Year 2014. The State’s Gross Income Tax totaled \$12.3 billion, the Sales and Use Tax totaled \$8.8 billion, and the Corporation Business Tax totaled \$2.1 billion. The State’s three major taxes comprised 80.6 percent of the total general taxes that were collected during Fiscal Year 2014. The State’s economy showed a slight improvement, as indicated by the \$0.5 billion increase in general taxes when compared to Fiscal Year 2013.

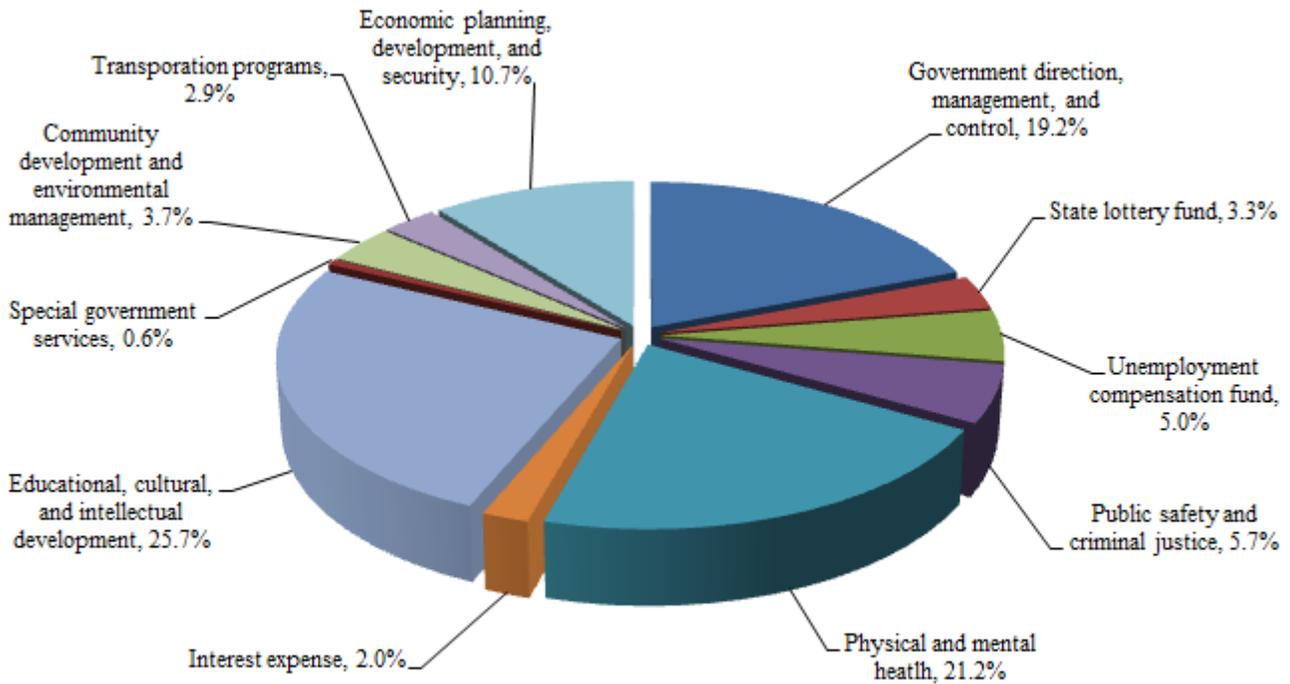
Fiscal Year 2014 expenses totaled \$61.0 billion, for a decrease of \$118.4 million in comparison to the prior fiscal year. State spending decreased by \$1.6 billion in unemployment compensation and \$358.0 million in transportation programs, which were offset by increases of \$1.2 billion in physical and mental health and \$565.9 million in community development and environmental management.

The following pie charts depict primary government activities for revenues and expenses for the fiscal year ended June 30, 2014:

**Revenues – Primary Government  
Fiscal Year Ended June 30, 2014**



**Expenses – Primary Government  
Fiscal Year Ended June 30, 2014**



Please see the Statistical Section for current and prior fiscal year revenue and expense comparisons.

**Component Units**

Combined operating revenues and expenses for the State’s component units for Fiscal Year 2014 amounted to \$13.1 billion and \$12.5 billion, respectively. Total operations along with other revenue and expenses contributed to total combined net assets at fiscal year end of \$19.7 billion. The component units received \$1.0 billion in State appropriations during Fiscal Year 2014.

**MAJOR GOVERNMENTAL FUNDS FINANCIAL ANALYSIS**

The focus of the State’s governmental funds reported in the fund financial statements is on near term inflows, outflows, and balance of expendable resources, which are essential elements in assessing the State’s financing needs and serve as useful measures of the government’s net resources available for future spending. The State’s governmental funds reported June 30, 2014 fund balances of \$7.1 billion. The \$308.2 million decrease in fund balance was primarily from higher Fiscal Year 2014 expenditures.

**General Fund**

The General Fund is the State’s chief operating fund and is the fund into which all State revenues, not otherwise restricted by statute, are deposited. The General Fund’s ending fund balance totaled \$3.3 billion of which \$295.1 million represented unassigned fund balance.

On a budgetary basis, general revenues of \$32.5 billion were \$4.4 billion lower than the final budget. The negative variance was primarily the result of unearned federal and other grant revenues of \$2.0 billion, declines of \$1.5 billion in other revenues, and \$0.6 billion in taxes. Federal and other grant revenues are not earned unless there has been a grant award and eligible grant expenses incurred. To the extent that federal and grant appropriations are made in anticipation of grant awards and the incurrence of grant expenditures, grant revenues are budgeted.

Total expenditures were \$3.8 billion lower than original appropriations as set forth in the annual Appropriations Act plus supplemental appropriations enacted during the fiscal year. A major cause for under-spending resulted from the overestimate of federal funds. This practice allows the State to receive the maximum federal dollars that become available. During Fiscal Year 2014, the State's appropriation of federal funds and other grants exceeded expenditures by \$2.0 billion. These excess appropriations are available for use in future years. From a Fiscal Year 2014 program perspective, under-spending transpired in physical and mental health (\$1.2 billion); government direction, management, and control (\$685.6 million); community development and environmental management (\$619.4 million); economic planning, development, and security (\$603.7 million); public safety and criminal justice (\$370.4 million); educational, cultural, and intellectual development (\$139.2 million); special government services (\$106.8 million); and transportation programs (\$104.2 million).

### **Property Tax Relief Fund**

The Property Tax Relief Fund accounts for revenues from the Gross Income Tax and one-half percent of the Sales and Use Tax that is constitutionally dedicated for property tax relief. Appropriations from this fund must be used exclusively for the constitutional purpose of reducing or offsetting property taxes. During Fiscal Year 2014, \$13.0 billion of property tax relief expenditures were made. The Property Tax Relief Fund's Fiscal Year 2014 ending fund balance was \$8.3 million.

## **PROPRIETARY FUNDS FINANCIAL ANALYSIS**

### **State Lottery Fund**

Monies derived from the sale of State lottery tickets are deposited into this fund. Disbursements are authorized for the payment of prizes to holders of winning lottery tickets, vendor fees in the production and distribution of lottery tickets, and for the administrative expenses of the Division of the State Lottery. Available fund balances are transferred to the State's General Fund in support of the amounts annually appropriated for State institutions and for education. The present value of obligations for future installment payments of lottery prizes, which are funded by the purchase of deposit fund contracts and United States Government Treasury securities, are accounted for in this fund.

In Fiscal Year 2014, gross revenues totaled \$2.9 billion of which \$1.7 billion was returned in prizes, \$1.0 billion went to State education and institutions, \$208.4 million was paid to sales agents and ticket vendors, and \$45.2 million covered Lottery operational and promotional expenses. As of June 30, 2014, the State Lottery, since its inception, has generated over \$60.9 billion in gross revenues, \$32.9 billion in prizes, and contributed \$23.0 billion to the State.

### **Unemployment Compensation Fund**

The Unemployment Compensation Fund accounts for monies deposited from employers' and employees' contributions for unemployment compensation, amounts credited or advances made by the federal government, and amounts received from any other source. After consideration is given to any claim for refund of overpayment of contributions, the Division of Employment Security transfers the remainder to the Treasurer of the United States for credit to the State of New Jersey Unemployment Compensation Fund.

**CAPITAL ASSETS AND DEBT ADMINISTRATION**

**Capital Assets**

New Jersey’s Office of Management and Budget, under the purview of the Department of the Treasury, is responsible for recording all capital assets in the State’s capital asset system. In addition to New Jersey’s Department of Transportation identifying significant requirements for bridge repair and maintenance, the New Jersey Commission on Capital Budgeting and Planning has identified a significant amount of capital investment requirements for State facilities. The State’s annual budget and planning process prioritizes these requirements and recommends funding, as can be accommodated within available resources. Over the last few years, New Jersey budgets have been built on limited resources.

The Fiscal Year 2014 capital appropriation included \$2.8 billion of State and matching federal funds for both the Department of Transportation and the New Jersey Transit Corporation. The State’s share, funded through the New Jersey Transportation Trust Fund Authority, produced \$443.9 million for State highway infrastructure, \$284.6 million for local highways, and \$495.5 million for mass transit. During Fiscal Year 2014, the New Jersey Economic Development Authority issued \$60.0 million of School Facilities Construction Bonds, net of refundings, to help fund the New Jersey Schools Development Authority’s program; accordingly, as of June 30, 2014, a total of \$9.1 billion of the \$12.6 billion school facilities construction bond program has been issued. The constitutional dedication of 4.0 percent of the Corporation Business Tax was appropriated to fund hazardous discharge cleanup, underground storage tank improvements, and surface water quality projects.

Capital asset data is shown below. The State’s investment in capital assets, net of accumulated depreciation, totaled \$25.5 billion as of June 30, 2014. Depreciation expense charges for Fiscal Year 2014 totaled \$911.0 million.

**Capital Assets (Net of Accumulated Depreciation)  
As of June 30  
(Expressed in Millions)**

|                            | Total Primary Government |             |
|----------------------------|--------------------------|-------------|
|                            | 2014                     | 2013*       |
| Land and Easements         | \$ 5,045.4               | \$ 4,965.2  |
| Land Improvements          | 76.4                     | 82.9        |
| Buildings and Improvements | 1,709.8                  | 1,575.2     |
| Equipment and Software     | 412.7                    | 469.2       |
| Infrastructure             | 15,332.4                 | 14,742.8    |
| Sub-Total                  | 22,576.7                 | 21,835.3    |
| Construction-In-Progress   | 2,955.3                  | 2,553.2     |
| Total                      | \$ 25,532.0              | \$ 24,388.5 |

**Notes:**

\* Fiscal Year 2013 Capital Assets has been restated by \$60.4 million and the Accumulated Depreciation balance has been increased by \$4.7 million to correct prior year error.

Funding for capital investment requirements is derived either from the State’s operating budget or from legislative-approved or voter-approved bonded debt.

For more detailed information about the State’s capital assets, see Note 7 – Capital Assets.

**Debt Administration**

As of June 30, 2014, New Jersey’s outstanding long-term obligations for governmental activities totaled \$84.9 billion, a \$5.2 billion increase over the prior fiscal year. Of the \$5.2 billion increase, \$4.8 billion is attributable to increases in the Net Pension Obligation and Net OPEB Obligation. Long-term bonded obligations totaled \$41.9 billion, while other long-term obligations totaled \$43.0 billion. In addition, the State has \$7.1 billion of legislatively authorized bonding capacity that has not yet been issued. As of June 30, 2014, the legislatively authorized but unissued debt decreased by \$1.2 billion (See Statistical Section – Legislatively Authorized But Unissued Debt, 2014 and 2013). The State’s long-term obligations for the past five fiscal years are shown below:

**Long-Term Bonded and Non-Bonded Obligations  
Fiscal Year 2010 to Fiscal Year 2014  
(Expressed in Billions)**



**Note:**

\* Restated to reflect the implementation of Governmental Accounting Standards Board (GASB) Statement No. 65, *Items Previously Reported as Assets and Liabilities* and the implementation of GASB Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*. GASB Statement No 65 resulted in the reclassification of Unamortized Deferral on Refunding from long term obligation to Deferred Outflow of Resources. GASB Statement No. 70 resulted in an increase in the July 1, 2013 outstanding balance in Non-bonded debt of \$0.2 billion relating to the South Jersey Port Corporation bonds.

For more detailed information about the State’s long-term debt activity, see Note 10 – Long-Term Obligations.

**ECONOMIC CONDITION AND OUTLOOK**

New Jersey’s economy is continuing to recover. In December 2014, the New Jersey unemployment rate fell to 6.2 percent, down a full percentage point from the year before and marking five straight years of annual private sector employment growth. The State’s unemployment rate had peaked in December 2009 when it stood at 9.7 percent. The decline of unemployment is notable because, over this period, New Jersey has maintained a particularly strong labor force participation rate. That means that a higher fraction of the working age population was either employed or seeking work than the comparable ratio, nationwide. If New Jersey shared the nation’s lower level of workforce participation, its unemployment rate would be at or below that of the December national rate of 5.6 percent. Treasury expects job recovery to continue and unemployment to decline further in 2015.

Three important New Jersey sectors improved at the end of 2014: real estate, autos, and energy. In the real estate sector, performance had been mixed in 2014. There was annual growth in sales of multi-family homes and commercial property. Sales of single family homes were weak for the year, but listings and pending home sales picked up in December. The U.S. Census reports that building permits in New Jersey grew by 15.9 percent in 2014. This augurs well for an uptick in real estate in 2015. Auto sales also started weak, but ended strong. In the whole of 2014, new car sales grew by 4.5 percent, but the year finished particularly well with year-over-year December sales growing by 21.7 percent. Energy prices have been falling and motor fuel prices fell rapidly in the last quarter of 2014. Reduced expenses in this sector may lead to increased consumption in others. The reduction in transportation costs should aid the logistics and tourism industries.

New Jersey's economic outlook always hinges, critically, on the national economy. Initial real GDP numbers indicate the U.S. economy grew at a 2.6 percent annualized rate in the fourth quarter of 2014. While slower than the growth rate in the prior two quarters this is by itself a respectable pace. Fourth quarter personal consumption expenditures grew well at a 4.3 percent annualized rate, which builds upon the strong 3.2 percent growth of the third quarter. However, the fourth quarter also saw a surge in inventory accumulation and soft capital spending, two conditions that could weaken the first half of 2015. Nationally, the collapse in oil prices will help some sectors and regions, but harm others.

Resolution of uncertainties arising from ongoing controversies about federal taxes and spending, the implementation of the Affordable Care Act and the Dodd-Frank financial reform law, as well as the maintenance of supportive monetary policies are critical to sustaining consumer and business confidence and the recovery in national and state economies. Stability in both national and international financial markets is requisite to providing an environment for growth in the state.

The State and the nation risk some near-term deterioration in growth and the expected pace of economic expansion may decline if consumers, investors, and businesses are negatively affected by concerns regarding long term federal budget sustainability, the impact of federal health care reform on business costs, lack of credit availability, U.S. and international financial market stresses, any slowdown in the pace of global economic recovery, and geopolitical tensions. Eastern Europe, the Middle East, the Far East, North Africa, and West Africa are all potential flashpoints that could suddenly impact the world economy and divert or constrain resources. Terror remains an ever present global threat. The economic prognosis for the nation and the State, hinges on our assumptions regarding the strength of the current economic recovery and stability in the financial markets and world affairs. Treasury's current judgment is that economic conditions in the State should improve over the next year, but the recovery continues to carry some vulnerability.

### **REQUEST FOR INFORMATION**

This Comprehensive Annual Financial Report for the fiscal year ended June 30, 2014 is designed to provide a general overview of the State of New Jersey's finances to our citizens, taxpayers, customers, investors, and creditors, and to demonstrate the State's accountability for the money it receives and the stewardship over its resources. Requests concerning any of the data presented in this Comprehensive Annual Financial Report for the fiscal year ended June 30, 2014, or for additional information, should be addressed to the State of New Jersey, Office of Management and Budget, P.O. Box 221, 33 West State Street, Trenton, New Jersey, 08625. Historical copies of the Comprehensive Annual Financial Report, the State Budget, and the Appropriations Handbook are accessible via: <http://www.state.nj.us/treasury/omb>.