

NEW JERSEY



COMPREHENSIVE ANNUAL FINANCIAL REPORT FISCAL YEAR ENDED JUNE 30, 2002

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**STATE OF NEW JERSEY
 COMPREHENSIVE ANNUAL FINANCIAL REPORT
 FISCAL YEAR ENDED JUNE 30, 2002
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DEPARTMENT OF THE TREASURY
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JAMES E. MCGREEVEY
Governor

JOHN E. MCCORMAC, CPA
State Treasurer

November 27, 2002

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, 2002. 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 first year that the State has implemented the new standards provided in GASB Statements No. 34 and No. 35. The objectives of the new 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 \$292.3 million.

The New Jersey Comprehensive Annual Financial Report for the fiscal year ended June 30, 2002 is organized in three sections: introductory, financial, and statistical. The introductory section includes this transmittal letter, the State's organization chart, and the 2001 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.

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 contains 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

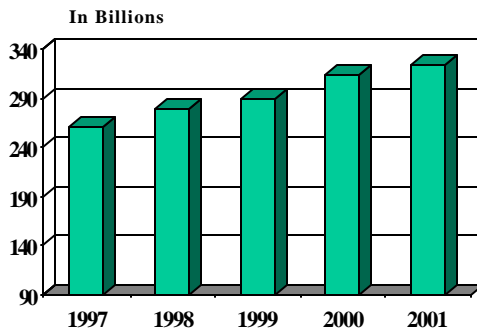
This Comprehensive Annual Financial Report for the fiscal year ended June 30, 2002 includes the accounts of the various public authorities, colleges, and universities in accordance with the requirements of GASB Statement No. 14, The Financial Reporting Entity. These authorities are legally separate entities 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

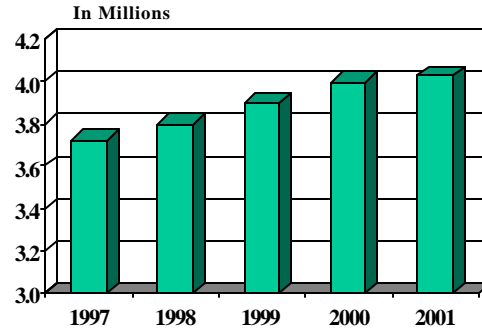
March 2001 marked the introduction of this nation's tenth recession since the beginning of World War II. New Jersey's economy paralleled the nation and entered into recession three months later. Despite the onset of recession, New Jersey employment for calendar year 2001 was 27,200 above the 12-month average for calendar year 2000. By the end of calendar year 2001, the State's labor market reflected the aftereffects of the national recession and mixed impacts from the World Trade Center Attack. After the September 11, 2001 terrorist attacks, the State added jobs in October as displaced New York City businesses scrambled to locate temporary or new permanent operations in New Jersey. On a monthly basis, jobs peaked in February and then paralleled national declines in employment.

New Jersey's personal income growth advanced by an estimated 3.0 percent in calendar year 2001, reflecting tight labor market conditions that existed early in the calendar year. For the beginning of calendar year 2002, personal income growth ranged from 2.0 to 2.5 percent, due to the constraints of sluggish job growth, lower bonuses in the financial sector, and modest wage increases elsewhere. For calendar year 2001, retail sales were negatively impacted by a slowing economy, a drop in home construction, the World Trade Center attacks, and a late season drop in tourism, but were then aided by year-end sales promotions for automobiles.

**New Jersey Personal Income
1997 - 2001**



**New Jersey Employment
1997 - 2001**



Recovery for the New Jersey's economy is expected to occur during calendar year 2003. The likelihood of a moderate recovery is reinforced by a much weakened New York City economy that typically exerts a strong influence on Northern New Jersey businesses.

FISCAL YEAR 2002 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 2002 revenue collections totaled \$20.6 billion, \$387.5 million below Fiscal Year 2001 revenue. Revenue changes in the State's three major taxes over Fiscal Year 2001 levels were as follows: the Sales and Use Tax increased by \$238.1 million or 4.1 percent, including \$89.0 million for tax amnesty; the Gross Income Tax decreased by \$1,152.2 million or 14.4 percent, including \$61.0 million for tax amnesty; and the Corporation Business Tax decreased by \$218.0 million or 15.7 percent, including \$105.0 million for tax amnesty. Overall, Fiscal Year 2002 levels reflect the slowdown of New Jersey's economy.

Collections for the State's three major taxes, as a percentage of Fiscal Year 2002 total receipts, were as follows: the Gross Income Tax represented 33.2 percent; the Sales and Use Tax equaled 29.2 percent; and the Corporation Business Tax represented 5.7 percent. The State's three major taxes represented 68.1 percent of Fiscal Year 2002 total receipts, as compared to 72.2 percent for Fiscal Year 2001.

EXPENDITURES: CATEGORY DESCRIPTIONS AND FISCAL YEAR 2002 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 2002 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 2002 expenditures. Direct State Services expenditures increased between Fiscal Year 2002 and Fiscal Year

2001 by \$93.9 million. The largest increases in Direct State Services centered on Human Services and Law and Public Safety.

- 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 32.0 percent of total Fiscal Year 2002 expenditures. This is a \$1,054.1 million increase from the prior fiscal year. Major changes in Grants-in-Aid expenditures were associated with Health and Senior Services, Human Services and Treasury.
- 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 39.0 percent of total Fiscal Year 2002 expenditures. State Aid expenditures increased between Fiscal Year 2002 and Fiscal Year 2001 by \$426.6 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 4.5 percent of total Fiscal Year 2002 expenditures. Construction for capital projects decreased by \$158.8 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 2.0 percent of total Fiscal Year 2002 expenditures. Debt Service expenditures decreased by \$73.8 million primarily due

to the issuance of \$608.3 million of General Obligation Refunding Bonds Series H and I which produced \$27.5 million in debt service savings for Fiscal Year 2002.

Total Fiscal Year 2002 expenditures of \$22.7 billion are \$1.3 billion more than expenditures for the prior fiscal year.

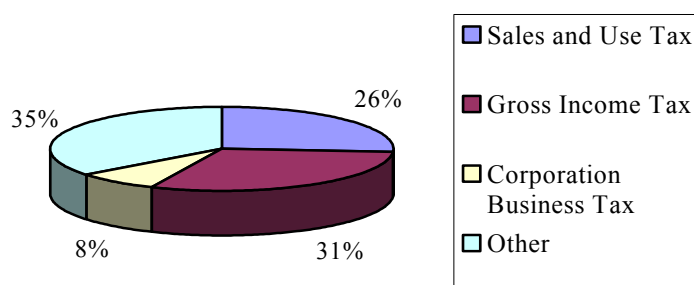
FISCAL YEAR 2003 REVENUE PROJECTIONS

The Fiscal Year 2003 revenue projections are based on estimates of slight economic growth. At the time of the Appropriation Act underlying economic indicators were mixed, with forecasters anticipating a slow growth economy. Prior to the events of September 11, 2001, it had been anticipated that the slowdown experienced in calendar year 2001 would stabilize by year's end leading to relatively low but positive growth for most 2002 economic indicators. It was anticipated that moderate positive growth would resume early in 2002 and continue. However, given the many economic and civic uncertainties unleashed by the events of September 11, 2001 and the reactions to those events, the economic slowdown has continued in calendar year 2002. The State and the nation have experienced further contraction of the economy and the expected 2002 recovery has been delayed. Consumers, investors, and businesses are cautiously assessing the Federal Reserve and the markets to determine whether a bottoming out of the economy has occurred and whether or not a recovery has begun.

Fiscal Year 2003 revenues are projected to be \$23.4 billion, \$2.8 billion above Fiscal Year 2002 revenue. Projected revenue changes in Fiscal Year 2003 for the State's three major taxes over Fiscal Year 2002 are as follows: the Sales and Use Tax is expected to increase by \$175.2 million or 2.9 percent, the Gross Income Tax is expected to increase by \$460.5 million or 6.7 percent, and the Corporation Business Tax is expected to increase by \$658.0 million or 56.2 percent. Substantial growth in the Corporation Business Tax reflects a total tax restructure that effectively closed various tax loopholes.

Fiscal Year 2003 resources, including the Fiscal Year 2003 opening balance, are projected at \$23.7 billion. The State's three major taxes as a percent of total resources are as follows: the Gross Income Tax represents 30.8 percent; the Sales and Use Tax represents 26.0 percent; and the Corporation Business Tax represents 7.7 percent. The State's three major taxes are projected to represent 64.5 percent of total resources.

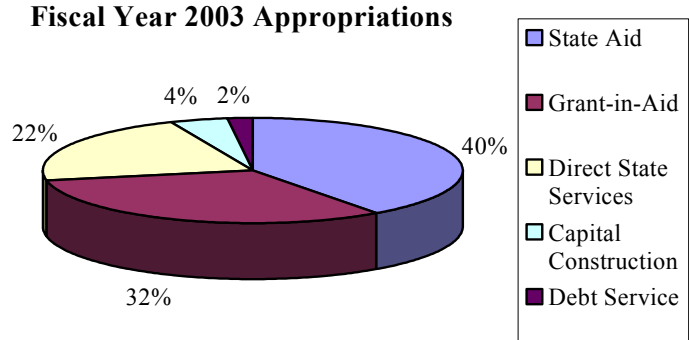
Fiscal Year 2003 Revenue



Fiscal Year 2003 anticipates revenue of \$1,350.2 million from the Tobacco Settlement. This represents \$275.2 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 \$1.8 billion in Tobacco Settlement Asset-Backed Bonds. This issuance represents a securitization of 50.0 percent of future Tobacco Settlement payments the State is to receive on and after December 1, 2003 to perpetuity or until the bonds are paid off. Of the amount issued, \$1.075 billion is to be deposited into the State's General Fund for Fiscal Year 2003 expenditures while another \$413 million is to be held in reserve.

FISCAL YEAR 2003 APPROPRIATIONS

The total Fiscal Year 2003 appropriation is \$23.4 billion. Of the \$23.4 billion appropriated in Fiscal Year 2003 from the General Fund, the Property Tax Relief Fund, the Casino Control Fund, the Casino Revenue Fund, and the Gubernatorial Elections Fund, \$9.3 billion (39.9 percent) is appropriated for State Aid to Local Governments, \$7.5 billion (32.0 percent) is appropriated for Grants-in-Aid, \$5.1 billion (21.7 percent) for Direct State Services, \$1.0 billion (4.4 percent) for Capital Construction, and \$0.5 billion (2.0 percent) for Debt Service on State General Obligation Bonds.



State Aid to local governments constitutes the most important aspect of Fiscal Year 2003 appropriations. These funds are essential in the funding of local government operating costs as well as property tax relief. In Fiscal Year 2003, \$9,332.5 million will be distributed to municipalities, counties, and school districts. Major State Aid programs are: Aid to School Districts (\$7,620.8 million), Unrestricted Aid to Municipalities and Counties through the Department of Community Affairs (\$985.6 million), and Aid to County Colleges (\$181.3 million).

Grants-in-Aid represent the second largest portion of the State’s Fiscal Year 2003 appropriation. In Fiscal Year 2003, \$7,506.3 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 (\$3,200.9 million), Higher Education (\$868.8 million), Health and Senior Services programs (\$810.1 million), Property Tax Relief Programs (\$1,350.8 million), and Public Transportation (\$260.0 million).

The Direct State Services Fiscal Year 2003 appropriation is \$5,070.2 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 (\$772.9 million), Human Services (\$631.4 million), Law and Public Safety (\$450.6 million), Transportation (\$235.5 million), and Treasury (\$400.8 million).

Capital Construction appropriations for Fiscal Year 2003 totals \$1,022.0 million. Of this amount, \$745.0 million is appropriated to the New Jersey Transportation Trust Fund Authority, \$98.0 million is for open space preservation, \$43.5 million is for hazardous substance and underground tank remediation, and \$25.0 million is for shore protection.

Debt Service for General Obligation Bonds is \$470.7 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 2002 as well as some of the goals the State hopes to achieve for Fiscal Year 2003.

Fiscal Year 2002

- The New Jersey Transportation Trust Fund Authority was legislatively reauthorized for an additional four-year period beginning in Fiscal Year 2001, with a total State spending authority of \$3.8 billion. In Fiscal Year 2002, the New Jersey Transportation Trust Fund Authority's annual spending authority totaled \$1,107.5 million, which was \$157.5 million more than originally authorized. The added funding has been used primarily to further advance the Hudson Bergen Light Rail System. For Fiscal Year 2002, when factoring in federal highway and mass transit funds, the total spending authorization exceeded \$2.4 billion, making this fiscal year the largest annual construction program in the Department of Transportation's history.
- The Fiscal Year 2002 Appropriations Act included a \$1,089.4 million appropriation for property tax relief in the form of rebates. The NJ SAVER Program, a five-year plan to provide direct school property tax relief, was accelerated by one year to its fourth year funding level. The \$607.4 million appropriation to the NJ SAVER program was used to offset the school taxes that homeowners pay on the first \$45,000 of assessed value on their homes. This amount represented an average family check of \$500. The Fiscal Year 2002 Appropriations Act included a \$482.0 million appropriation for the Homestead Rebate program. Funding of an additional \$147.5 million maximized the entitlement to \$750 per eligible claimant, from \$500, the first increase to the program in over 10 years.
- The Fiscal Year 2002 State Budget provided a \$110.8 million appropriation for NJ KidCare, a federal and state funded program that provides health insurance for children whose parents cannot afford to purchase it privately. This expansion coverage program is 35 percent state funded and 65 percent federally funded. The NJ KidCare program provides a comprehensive array of health services to qualified children who have been without medical coverage for six months and are not Medicaid-eligible. In addition, health insurance coverage for over 140,000 parents with family incomes below 200 percent of the poverty line and adults without children with income below 100 percent of the poverty line is provided through NJ FamilyCare. NJ FamilyCare was funded with \$181.3 million in Fiscal Year 2002 State appropriations and over \$200 million in federal funds.
- During Fiscal Year 2002, in an effort to combat poverty, the New Jersey Earned Income Tax Credit program was expected to assist approximately 237,000 working families with children. When fully implemented in Fiscal Year 2004, the New Jersey Earned Income Tax Credit program will provide an annual refundable tax credit of over \$800 for a family of one adult and two children earning up to \$10,000 per year, over \$700 for a similar family with an annual income of \$15,000, and \$480 for a similar family with an annual income of \$20,000. The Fiscal Year 2002 cost for this program was \$59.6 million.

Fiscal Year 2003

- The cornerstone to Governor McGreevey's Fiscal Year 2003 education plan is a literacy program that will include 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 million represents the first installment of a four-year, \$40 million commitment. A new federal program, "Reading First," which has the same goal, will supplement 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 Budget provides 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 represents 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 is being created as part of a \$57 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, is beginning 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.
- The Fiscal Year 2003 Budget includes \$33.6 million for cancer research and treatment. Most prominently, an appropriation of \$20 million is earmarked to the Cancer Institute of New Jersey through the Department of Health. 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 have been provided with \$500,000 in new state funds that will highlight new developments in cancer research and treatment and to support a public "SWAT" team to investigate cancer clusters, providing rapid response and analysis.

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. Public Employees' Retirement System and 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, 2002, the State's seven retirement plans had a combined \$66.3 billion in total assets, with a combined total liability of \$389.0 million, leaving the State's pension fund system with net total assets of 65.9 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, 2002, the New Jersey Cash Management Fund's average

daily-annualized rate of return for participating State accounts was 2.93 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 2.75 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, 2001.

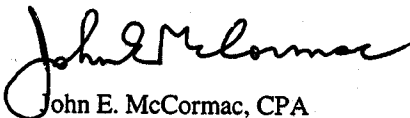
In order to qualify for the Certificate of Achievement, a governmental entity must publish an easily readable and efficiently organized comprehensive annual financial report, the contents of which conform to program standards. Such reports must satisfy both generally accepted accounting principles and 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, 2002 continues with this fine tradition and conforms to the Certificate of Achievement Program requirements.

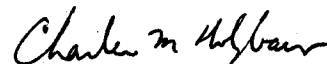
ACKNOWLEDGEMENTS

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, 2001

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.



William Patrick Pate
President

Jeffrey L. Essler
Executive Director

ORGANIZATION OF NEW JERSEY STATE GOVERNMENT

