

# NEW JERSEY



## COMPREHENSIVE ANNUAL FINANCIAL REPORT FISCAL YEAR ENDED JUNE 30, 2007

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**STATE OF NEW JERSEY  
 COMPREHENSIVE ANNUAL FINANCIAL REPORT  
 FISCAL YEAR ENDED JUNE 30, 2007  
 TABLE OF CONTENTS**

<b>INTRODUCTION</b>	<b>Page</b>
Letter of Transmittal .....	1
Certificate of Achievement .....	7
<b>FINANCIAL SECTION</b>	
Independent Auditor's Report .....	11
Management's Discussion and Analysis .....	14
<b>Basic Financial Statements</b>	
Government-wide Financial Statements	
Statement of Net Assets .....	27
Statement of Activities .....	28
Governmental Fund Financial Statements	
Balance Sheet .....	30
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Assets .....	31
Statement of Revenues, Expenditures and Changes in Fund Balance .....	32
Reconciliation of the Changes in Fund Balances of Governmental Funds to the Statement of Activities .....	33
Proprietary Fund Financial Statements	
Statement of Net Assets .....	34
Statement of Revenues, Expenses and Changes in Fund Net Assets .....	35
Statement of Cash Flows .....	36
Fiduciary Fund Financial Statements	
Statement of Fiduciary Net Assets .....	38
Statement of Changes in Fiduciary Net Assets .....	40
Component Unit Financial Statements	
Statement of Net Assets .....	42
Statement of Activities .....	44
Index to the Notes to the Financial Statements .....	47
Notes to the Financial Statements .....	48
<b>Required Supplementary Information</b>	
Budgetary Comparison Schedule .....	96
Budgetary Comparison Schedule – Budget to GAAP Reconciliation Major Funds .....	99
Notes to Required Supplemental Information .....	101
Schedule of Funding Progress All Pension Trust Funds .....	102
<b>Combining Financial Statements - Non-Major Funds</b>	
Governmental Funds – Non-Major Funds	
Balance Sheet – By Fund Type .....	105
Statement of Revenues, Expenditures and Changes in Fund Balances – By Fund Type .....	106

Special Revenue Funds	
Balance Sheet.....	108
Statement of Revenues, Expenditures and Changes in Fund Balances.....	140
Capital Projects Funds	
Balance Sheet.....	172
Statement of Revenues, Expenditures and Changes in Fund Balances.....	176
Fiduciary Funds	
Agency Funds	
Statement of Fiduciary Net Assets .....	180
Statement of Changes in Assets and Liabilities .....	184
Pension and Other Employee Benefits Trust Funds	
Statement of Fiduciary Net Assets .....	188
Statement of Changes in Fiduciary Net Assets .....	192
Private Purpose Trust Funds	
Statement of Fiduciary Net Assets .....	196
Statement of Changes in Fiduciary Net Assets .....	198
Component Units	
Statement of Net Assets – Non-Major Component Units.....	200
Statement of Activities – Non-Major Component Units .....	201
Authorities	
Statement of Net Assets .....	202
Statement of Activities.....	208
Colleges and Universities	
Statement of Net Assets .....	214
Statement of Activities.....	218
Description of Funds .....	222
<b>Other Information</b>	
Capital Assets	
Schedule of Changes in Gross Capital Assets by Function.....	245
Schedule of Gross Capital Assets by Function .....	246
Schedule of Changes in Accumulated Depreciation by Function.....	248
Long-Term Debt	
Schedule of Long-term Debt.....	250
Budgetary Schedules	
Budgetary Comparison Schedule Non-Major Governmental Funds .....	252
Budgetary Comparison Schedule-Budget to GAAP Reconciliation – Non-Major Funds.....	256
Schedule of Anticipated Revenue.....	257
Schedule of Appropriated Revenue .....	269
Schedule of Appropriations and Expenditures .....	270
 <b>STATISTICAL SECTION</b>	
Statistical Section Index.....	291
Statistical Schedules .....	292

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# Introduction



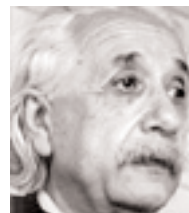
Harriet Tubman  
(Cape May)  
One of the great figures involved with the Underground Railroad during the time of slavery



Woodrow Wilson  
(Princeton)  
Governor of New Jersey  
28th President of the US



F. Scott Fitzgerald  
(Hackensack, Princeton)  
Writer



Albert Einstein  
(Princeton)  
Most important scientist of the 20th century; awarded the 1921 Nobel Prize for physics



Walt Whitman  
(Camden)  
Poet



Clara Barton  
(Bordentown)  
Created New Jersey's first free public school and founded the Red Cross



Thomas A. Edison  
(Newark, Menlo Park, West Orange)  
Inventor



Robert Wood Johnson  
(New Brunswick, Highland Park, Raritan)  
President & Chairman of Johnson & Johnson

New Jersey Hall of Fame



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

**JON S. CORZINE**  
*Governor*

**R. DAVID ROUSSEAU**  
*Acting State Treasurer*

February 29, 2008

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

In accordance with the provisions of N.J.S.A. 52:27B-46, we are pleased to transmit to you the New Jersey Comprehensive Annual Financial Report for the fiscal year ended June 30, 2007. The Department of the Treasury's Office of Management and Budget prepared this report and is responsible for data accuracy as well as the completeness and fairness of the presentation, including all disclosures.

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

The State operates in accordance with the standards provided in GASB Statements No. 34 and No. 35. The objectives of this reporting model, as reflected in these statements, are to provide a clear picture of the government as a single unified entity as well as providing traditional fund based financial statements. All revenues, costs, assets, and liabilities of the State are shown to clearly portray the State's fiscal health. Management's discussion and analysis is included in order to provide users with an objective and easily readable analysis of New Jersey's financial performance for the fiscal year ended June 30, 2007. We are confident that the data is accurate in all material respects, that it is presented in a manner designed to set forth fairly the financial position and results of the State's operations as measured by the financial activity of its various funds, and that all disclosures necessary to enable the reader to gain a reasonable understanding of the State's financial affairs have been included.

### **HIGHLIGHTS AND INITIATIVES**

#### **Fiscal Year 2007**

- In an effort to reform, replenish, and revitalize; the New Jersey Transportation Trust Fund Authority was legislatively reauthorized through June 30, 2011. The five year program provides for a \$1.6 billion annual capital program to be supported by an annual \$895.0 million State appropriation and additional bonding authority. Reform measures include freezing the level of capital maintenance projects and establishing an independent policy oversight board that ensures compliance with strict guidelines for capital expenditures. Replenishment means dedicating the final 1.5 cents of the existing Motor Fuels Tax and resuming the dedication of a portion of toll road authority funds to support the Trust Fund's appropriation. An annual capital program of \$1.6 billion has helped revitalize the New Jersey economy by supporting approximately 100,000 jobs. The Fiscal Year 2007 Capital Program is now \$400 million more than the prior fiscal year and consists of an additional \$230.0 million for the Department of Transportation, \$145.0 million for the New Jersey Transit Corporation, and \$25.0 million for local aid to counties and municipalities.
- Although fiscal constraints limited the State's ability to fully fund pension costs, additional resources were provided in the Fiscal Year 2007 Appropriations Act. The \$865.8 million increase in expenditures represented more than the State's total combined contribution to the State pension systems from Fiscal Year 1997 through Fiscal Year 2006.

#### **Fiscal Year 2008**

- The Fiscal Year 2008 Appropriations Act includes \$2.3 billion worth of property tax relief programs that almost entirely consists of rebate checks for homeowners and tenants. Annual gross income thresholds determine the size of the rebate check received. For those with annual gross incomes below \$100,000, a 20.0

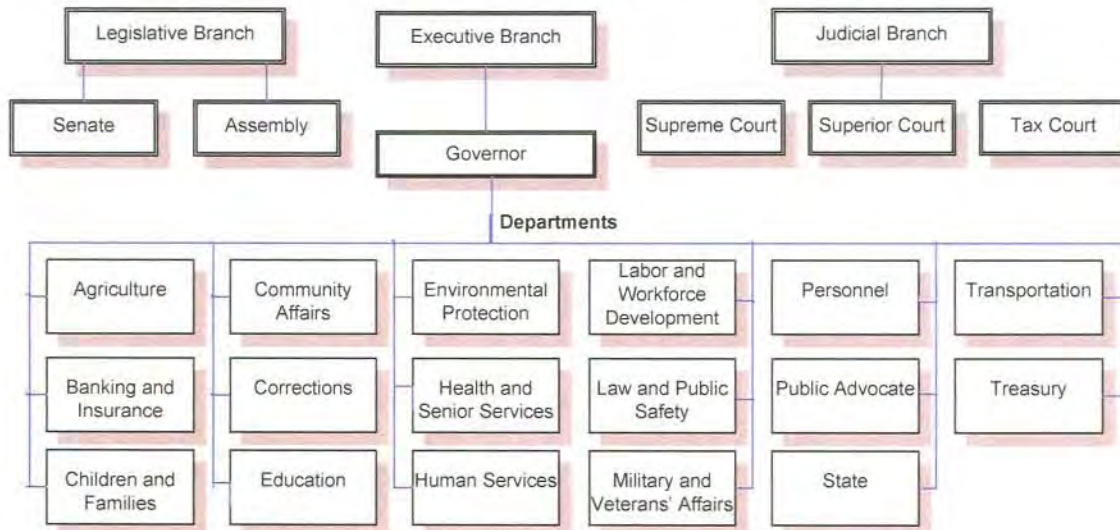
percent rebate check with a maximum value of up to \$2,000 will be sent to subsidize a homeowner's property tax bill. For those with annual gross incomes between \$100,001 and \$150,000, a 15.0 percent rebate check with a maximum value of up to \$1,500 will be sent to subsidize a homeowner's property tax bill. For those with annual gross incomes between \$150,001 and \$250,000, a 10.0 percent rebate check with a maximum value of up to \$1,000 will be sent to subsidize a homeowner's property tax bill. Other property tax reform measures enacted include establishing an appointed State Comptroller and mandating pension forfeiture for public officials convicted of criminal acts.

- State Aid for school districts comprises nearly \$11.0 billion, a \$381.8 million increase from the prior fiscal year. Of this increase, \$195.0 million in school formula aid funding has been targeted toward Non-Abbott Districts. This represents the largest increase in aid to Non-Abbott Districts and exceeds the combined total increase received from Fiscal Year 2003 through Fiscal Year 2007. The common methodology for comparison is through the District Factor Group which measures a community's relative socioeconomic status, which range from "A" districts to "J" districts. The neediest districts, both "A" and "B" will see average aid increases of 10.3 percent and 9.0 percent respectively, and both "C" and "D" districts will have average aid increases of 8.0 percent. The most affluent districts, "J," will receive the 3.0 percent inflationary increase. The Fiscal Year 2008 Appropriations Act also includes funding to ensure that parity is guaranteed for all Abbott Districts. A \$1.7 billion appropriation for Education Opportunity Aid will allow for a 3.0 percent increase in State Aid for the Abbott Districts that are already at parity, increased operating costs of new facilities, and other documented needs. Other State Aid for school districts includes funds for school construction, pension systems, post-retirement medical benefits, and social security.

### NEW JERSEY GOVERNMENT

The Executive Branch is headed by the Office of the Chief Executive, which includes the Governor and staff that assist in the execution of the Governor's constitutional powers and duties. The Governor is the State's chief operating officer, and assists in directing and coordinating the activities of the various State departments. These duties include the implementation of new laws and activities, as well as ongoing responsibilities associated with existing laws, and other essential aspects of governing. The Office of the Chief Executive is active in the review and formulation of proposals of law that are ultimately submitted to the State Legislature. Staff assists in the development of public policy affecting the citizens of the State, and in the implementation of the State's fiscal plan once it is adopted.

#### *ORGANIZATION OF NEW JERSEY STATE GOVERNMENT*



The Executive Branch consists of 17 departments comprising approximately 69,200 employees on the payroll as of January 2007. The maximum number of departments permitted by the State Constitution is 20. Each department is headed by a single executive; four also have boards with policy-making and oversight responsibilities. Department heads and board members are appointed by the Governor with the advice and consent of the Senate, except for the

Secretary of Agriculture, who is chosen by the Board of Agriculture with the approval of the Governor. Department heads continue in office until successors are named and confirmed by the Senate, with the exception of the Attorney General and the Secretary of State, who are appointed to serve during the Governor's term. The Executive Branch oversees the performance of 566 municipalities and 611 school districts, and the incarceration and rehabilitation of approximately 27,600 prisoners. The Executive Branch also provides social services for one out of eight New Jersey citizens, reliable transportation, and protection for the State's citizenry and environment.

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

The Judicial Branch consists of the Supreme Court, the Appellate Division of the Superior Court, and the Tax Court. Judges are nominated by the Governor and must be confirmed by the Senate. Terms are for seven years. For purposes of judicial administration, the State is divided into 15 vicinages, each consisting of a single county or a combination of counties. The Administrative Office of the Courts provides support services. Approximately 7.0 million new cases are filed in New Jersey's courts every year, including 6.0 million in Municipal Court and 1.0 million in Superior Court. These cases address matters concerning civil, criminal, and family law.

### **COMPONENT UNITS**

This Comprehensive Annual Financial Report for the fiscal year ended June 30, 2007 includes the accounts of 22 public authorities, and 12 State colleges and universities in accordance with the requirements of GASB Statement No. 14, *The Financial Reporting Entity*. Public authorities are legal, separate entities that are not operating departments of the State. Governing boards are vested with the power to independently manage. Each component unit is established for a specific purpose for the benefit of the State's citizenry. GASB Statement No. 14 provides that the State's financial statements should emphasize the primary government and permit financial statement users to distinguish between the primary government and its component units. As a result, the transmittal letter, management's discussion and analysis, and the financial statements focus on the primary government of the State and its activities, although information pertaining to the component units is presented. For additional information, please see Note 18 – Component Units.

### **NEW JERSEY'S ECONOMIC CONDITION**

New Jersey's economy continues to expand in 2007 but at a slower pace than 2006. The State added approximately 151,600 jobs between the bottom of the employment cycle in March 2003 and December 2007. Payroll employment is growing at an average annual rate of 0.6 percent in 2007 after growing at rates of 0.9 percent in 2006, and 1.0 percent in 2005. The level of payroll employment in December 2007, 4.1 million, represents the 42<sup>nd</sup> consecutive month payroll has remained above the 4.0 million mark.

The generally improving labor market conditions have kept the State's jobless rate below 5.0 percent in December 2007 for the 43<sup>rd</sup> time since June 2004. New Jersey's unemployment rate was 4.5 percent in December and remains below the national unemployment rate.

According to the United States Bureau of Economic Analysis (release dated December 21, 2007), the preliminary growth rate for New Jersey's personal income of 6.4 percent for the third quarter of 2007 came in above the revised growth rate of 5.1 percent for the second quarter of 2007. However, given the general economic slow down in the United States economy, the average annual growth in personal income for New Jersey is expected to show moderate growth in 2008.

The housing sector is expected to cool off further in the months ahead with housing permits in 2007 to stay around 25,000 plus units, significantly below the 34,000 plus units for 2006. Vehicle registrations through November 2007 remains 2.8 percent below the year ago level, following a 0.4 percent decline in registrations in 2006.

New Jersey's and the nation's economy is expected to continue to experience moderating near term economic growth in 2008. In the latest Beige Book released on January 16, 2008, the Federal Reserve Board pointed toward a weakening economy. The latest New Jersey economic forecasts from Global Insight, Moody's Economy.com, and

Rutgers University project continued economic growth at a moderate pace. All expect easing in the economic momentum due to the subprime problem and the slowing housing market.

New Jersey's economy is expected to follow the national trend for 2008. Employment is projected to expand at around 0.6 percent average annual rate in 2008 and improve to 0.9 percent in 2009. Personal income is expected to grow at a moderate pace below 5.0 percent in 2008 and 2009. Corrections are expected to continue in the housing market with housing activity to remain below the mid-twenty thousand units range. New motor vehicle registrations are projected to remain above the 600,000 level in 2008 and 2009.

Inflation is expected to remain under control but higher energy prices are a concern. Low interest rates have supported spending on housing and other consumer durables in the State and further easing, expected in the short term, may provide the necessary support.

The Statistical Section contains various demographic and economic tables for New Jersey.

## **BUDGET AND ACCOUNTING**

### **Legal Level of Control**

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

### **Accounting Systems**

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

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

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

## **RELEVANT FINANCIAL POLICIES**

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

As part of the General Fund's resources and fund balance, the Surplus Revenue Fund was created as a rainy day fund. It is used to account for excess revenues from prior fiscal years that are legislatively reserved and may be used to



support current year's appropriations in the event that anticipated revenues in the General Fund are estimated to be less than those certified by the Governor upon approval of the annual Appropriations Act. The Surplus Revenue Fund was designed to build fund balance during economic upswings, and to be expended during economic downturns and emergency situations.

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

## **FINANCIAL TRENDS**

### **Office of Economic Growth**

During September 2006, the Office of Economic Growth unveiled the Governor's Economic Growth Strategy, aimed at building New Jersey's economic base. The strategy is organized around six core priorities to ensure that State government supports economic growth, develops a world-class workforce, supports smart sustainable growth and infrastructure investments, supports and encourages innovation, encourages entrepreneurship and growth of small, minority-owned and women-owned businesses, and enhances global competitiveness of New Jersey's business and expands access to international trade opportunities. Under the direction of the Office of Economic Growth, the Division of Small, Women and Minority Business Development has been established, a new State business website and a centralized business hotline has been opened to facilitate one-stop delivery, the Edison Innovation Fund to grow high tech businesses has been launched based on a commitment of \$150.0 million from the Economic Development Authority and the leveraging of private funds, and another \$185.0 million from the Economic Development Authority and leveraged private sector funds has been set aside to create the Urban Fund to stimulate investment in urban communities.

### **Labor and Workforce Development**

The department's mission is to ensure the opportunity for employment at fair wages in a safe environment; enhance the quality of the State's labor force and labor market activities; stimulate economic growth; promote labor management harmony; and administer income support services to unemployed or disabled workers. Since 2004, implementing information technology systems has been a priority at the department. Full automation of New Jersey's Worker's Compensation Program continues with the completion of Phases I and II of the Case Organization Utilization Reporting Tracking System. Phase III, the e-filing component, was the recent phase completed and has provided significant efficiencies in the data collection area. As part of the consolidation of all workforce development services, a new program was designed to enable welfare eligible individuals to pursue two and four year college degree programs. Funding for Smart STEPS is provided by the State's Workforce Development Partnership program, as opposed to the federal Temporary Assistance for Needy Families (TANF) program, thereby effectively stopping the clock on TANF's five-year limitation and eliminating the TANF requirement, which mandates individuals must work part-time while attending school. While participating in the program, welfare recipients can devote all of their time to pursuing their education, which will aid in their success. During 2008, the department will continue the development of a new computer system - NJ SUCCESS, which will consolidate unemployment insurance business processes and technical systems into a single, comprehensive one-stop career system.

### **Law and Public Safety**

Under the Attorney General, the department is primarily focused on the safety and protection of the lives and property of New Jersey citizens. In addition to providing statewide law enforcement and emergency response services, the department is responsible for protecting citizens; civil and consumer rights, promoting highway traffic safety, maintaining public confidence in the alcoholic beverage, gaming and racing industries and providing legal services and counsel to other state agencies. Recent department initiatives have included addressing recent gang problems by expanding Operation CeaseFire, a community-based response program that partners with criminal justice, government, social service, and faith-based and community organizations, to reduce gun violence. Executive Order 5 created the Office of Homeland Security and Preparedness, (HSP) in-but-not-of the department. This office will coordinate homeland security related issues across all levels of government and the private sector. The Domestic Security Preparedness Task Force, as part of HSP, will ensure the development of a comprehensive, statewide emergency plan.

**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.


**CERTIFICATE OF ACHIEVEMENT FOR EXCELLENCE IN FINANCIAL REPORTING**

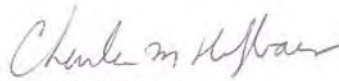
The GFOA awarded the Certificate of Achievement for Excellence in Financial Reporting to the State of New Jersey for its Comprehensive Annual Financial Report for the fiscal year ended June 30, 2006. In order to qualify, a governmental entity must publish an easily readable and efficiently organized comprehensive annual financial report, the contents of which conform to program standards. Such reports must satisfy both generally accepted accounting principles and applicable legal requirements. The State of New Jersey has received this award every year since 1993.

**ACKNOWLEDGEMENTS**

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

Sincerely,

  
R. David Rousseau  
Acting State Treasurer

  
Charlene M. Holzbaaur  
Director, Office of Management and Budget

# Certificate of Achievement for Excellence in Financial Reporting

Presented to

## State of New Jersey

For its Comprehensive Annual  
Financial Report  
for the Fiscal Year Ended  
June 30, 2006

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.



*Charles S. Cox*

President

*Jeffrey R. Emer*

Executive Director