



# Financial Section



2008 - 2009

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*New Jersey State Legislature*

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The Honorable Sheila Y. Oliver

Speaker of the General Assembly

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INDEPENDENT AUDITOR'S REPORT

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, 2011, which collectively comprise the state's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the State of New Jersey's management. 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 and revenues of the aggregate discretely presented component units, 90 percent of the assets and 52 percent of the revenues

(including additions to fiduciary net assets) of the aggregate remaining fund information, and 100 percent of the information disclosed in Note 2-C of the basic financial statements. 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 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 component units, the New Jersey Sports and Exposition Authority, the Atlantic City Convention and Visitors Authority, and the Casino Reinvestment Development Authority, were not audited in accordance with *Government Auditing Standards*. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the State of New Jersey's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the reports of other auditors provide a reasonable basis for our opinions.

In our opinion, based on our audit and the reports of other auditors, the financial statements referred to previously 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, 2011, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 2-A, the State of New Jersey adopted the provisions of Governmental Accounting Standards Board Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions* as of July 1, 2010.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 5, 2012 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* and should be considered in assessing the results of our audit.

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 are not a required part of the basic

financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We and the other auditors have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

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 – non-major funds section, other information section and the statistical section, 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 – non-major funds section and the other information section have been subjected to the auditing procedures applied by us and the other auditors in the audit of the basic financial statements and, in our opinion, based on our audit and the reports of other auditors, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The introductory section and the statistical section have not been subjected to the auditing procedures applied by us and the other auditors in the audit of the basic financial statements and, accordingly, we express no opinion on them.

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

Stephen M. Eells  
State Auditor  
January 5, 2012

## **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, 2011. 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.

Since July 1, 2002, the State has been accounting and reporting under the standards outlined in the Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*. Therefore, a majority of the information provided is not easily comparable to reporting periods prior to the fiscal year ended June 30, 2002. Year-to-year comparisons are provided in the Management's Discussion and Analysis and the Statistical Section. It is the intent of GASB Statement No. 34 to provide meaningful comparisons that will further explain the State's financial position and results of its operations.

### **FINANCIAL HIGHLIGHTS**

#### **Government-wide**

- The primary government's assets and deferred outflows total \$36.9 billion, an increase of \$952.5 million from the prior fiscal year. As of June 30, 2011, liabilities exceeded assets and deferred outflows by \$34.2 billion. The State's unrestricted net assets, which represent net assets that have no statutory commitments and are available for discretionary use, totaled a negative \$45.1 billion. The negative balance is primarily a result of under funding 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 asset amount include liabilities from pension 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, 2011 component unit assets and deferred outflows exceeded component unit liabilities and deferred inflows by \$17.3 billion. Total component unit assets and deferred outflows grew to \$45.8 billion, a \$3.4 billion increase from the prior fiscal year. Higher investment balances and capital assets represent the majority of this increase.

#### **Fund Level**

- The State's governmental funds reported June 30, 2011 combined ending fund balances of \$8.3 billion, which is an increase of \$926.0 million 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 (\$3.0 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 (\$864.1 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 assets decreased by \$17.6 million resulting in net assets of negative \$784.0 million as of June 30, 2011.

#### **Long-term Debt**

- The State's long-term debt obligations increased 12.3 percent, to \$65.1 billion, which includes a net increase in bonded debt of \$1.1 billion. During the fiscal year, the State issued \$4.9 billion in bonds. New money issuances represented \$1.6 billion primarily for transportation system improvements, while \$3.3 billion represented five refunding transactions that provided the State with \$30.9 million in net present value savings. During Fiscal Year 2011, the State paid \$2.4 billion in debt service on its long-term obligations.
- Non-bonded portions of the State's long-term debt total \$27.0 billion. This amount represents a \$6.0 billion increase from the prior fiscal year and is mainly attributable to increases in Net Pension Obligation as well as the State's 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>1 Statement of Net Assets</li> <li>1 Statement of Activities</li> </ul>	<ul style="list-style-type: none"> <li>1 Balance Sheet</li> <li>1 Statement of Revenues, Expenditures, and Changes in Fund Balance</li> </ul>	<ul style="list-style-type: none"> <li>1 Statement of Net Assets</li> <li>1 Statement of Revenues, Expenses, and Changes in Net Assets</li> <li>1 Statement of Cash Flows</li> </ul>	<ul style="list-style-type: none"> <li>1 Statement of Fiduciary Net Assets</li> <li>1 Statement of Changes in Fiduciary Net Assets</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>1 Revenues for which cash is received during or soon after the end of the fiscal year</li> <li>1 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 Assets** Presents all of the State's assets and liabilities and calculates net assets. Increases or decreases in the State's net assets 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 assets changed during the fiscal year. All changes in net assets 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 Assets 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** Certain State operations 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. The State Lottery Fund and the Unemployment Compensation Fund are two such examples.
- **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 Assets 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 currently consist of twelve 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 of 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 Assets and Changes in Fiduciary Net Assets. 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 Health Benefits Program Fund.



### Combining Financial Statements

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

### 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 Assets

The State ended Fiscal Year 2011 with combined net assets for the primary government totaling a negative \$34.2 billion. This amount represents a reduction of net assets of \$5.2 billion from the prior fiscal year. Restricted net assets include 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. Invested in capital assets, net of related debt, includes land, land improvements, buildings and improvements, machinery and equipment, infrastructure (roads, bridges, and other immovable assets), and construction in progress. The deficit in unrestricted governmental net assets 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 Assets For Fiscal Year Ended June 30 (Expressed in Millions)

	Governmental Activities		Business-type Activities		Total Primary Government	
	2011	2010	2011	2010	2011	2010
Current and other noncurrent assets	\$ 12,575.0	\$ 11,913.6	\$ 1,534.2	\$ 1,938.1	\$ 14,109.2	\$ 13,851.7
Capital assets, net	22,799.8	21,793.5	-	-	22,799.8	21,793.5
<b>Total Assets</b>	<b>35,374.8</b>	<b>33,707.1</b>	<b>1,534.2</b>	<b>1,938.1</b>	<b>36,909.0</b>	<b>35,645.2</b>
Deferred outflows	24.9	336.1	-	-	24.9	336.1
<b>Total Assets and Deferred Outflows</b>	<b>35,399.7</b>	<b>34,043.2</b>	<b>1,534.2</b>	<b>1,938.1</b>	<b>36,933.9</b>	<b>35,981.3</b>
Current liabilities	5,255.5	5,407.4	434.8	551.1	5,690.3	5,958.5
Noncurrent liabilities	63,564.3	56,837.0	1,883.5	2,153.4	65,447.8	58,990.4
<b>Total Liabilities</b>	<b>68,819.8</b>	<b>62,244.4</b>	<b>2,318.3</b>	<b>2,704.5</b>	<b>71,138.1</b>	<b>64,948.9</b>
Net Assets:						
Invested in capital assets, net of related debt	6,999.7	6,439.8	-	-	6,999.7	6,439.8
Restricted	3,877.3	4,364.6	10.9	10.2	3,888.2	4,374.8
Unrestricted	(44,297.2)	(39,005.6)	(794.9)	(776.6)	(45,092.1)	(39,782.2)
<b>Total Net Assets</b>	<b>\$ (33,420.2)</b>	<b>\$ (28,201.2)</b>	<b>\$ (784.0)</b>	<b>\$ (766.4)</b>	<b>\$ (34,204.2)</b>	<b>\$ (28,967.6)</b>

### Changes in Net Assets

The State's Fiscal Year 2011 net assets decreased by \$5.2 billion. Approximately 47.5 percent of the State's total revenues came from general taxes, while 31.7 percent was derived from operating grants. Charges for services amounted to 18.2 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, 23.0 percent, was for educational, cultural, and intellectual development, which includes approximately \$222.6 million disbursed by the New Jersey Schools Development Authority (a blended component unit) to help finance school facilities construction. Government direction, management and control amounted to 19.1 percent of total expenses, while physical and mental health amounted to 18.6 percent. Other major expenditures focused on economic planning, development, and security; public safety and criminal justice; and community development and environmental management. During Fiscal Year 2011, governmental activity expenses exceeded program revenues; this imbalance was mainly funded through \$27.9 billion of general revenues (mostly taxes and transfers). The remaining \$5.2 billion resulted in a decrease in net assets. The deficit net assets in the Business-type Activities of \$784.0 million resulted from the Unemployment Compensation Fund's need to pay claims in excess of available resources.

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

	Governmental Activities		Business-type Activities		Primary Government Total	
	2011	2010	2011	2010	2011	2010
<b>Revenues</b>						
Program revenues						
Charges for services	\$ 4,736.1	\$ 4,621.6	\$ 5,457.1	\$ 4,820.8	\$ 10,193.2	\$ 9,442.4
Operating grants	13,326.1	14,240.8	4,408.5	4,953.4	17,734.6	19,194.2
Capital grants	139.6	212.5	-	-	139.6	212.5
General revenues						
General taxes	26,569.4	25,745.0	-	-	26,569.4	25,745.0
Interest earnings	48.9	(63.2)	-	-	48.9	(63.2)
Miscellaneous	762.0	818.9	-	-	762.0	818.9
<b>Total Revenues</b>	<b>45,582.1</b>	<b>45,575.6</b>	<b>9,865.6</b>	<b>9,774.2</b>	<b>55,447.7</b>	<b>55,349.8</b>
<b>Expenses</b>						
Public safety and criminal justice	3,169.3	3,133.2	-	-	3,169.3	3,133.2
Physical and mental health	11,392.4	10,989.6	-	-	11,392.4	10,989.6
Educational, cultural, and intellectual development	14,091.6	15,013.1	-	-	14,091.6	15,013.1
Community development and environmental management	1,694.1	2,166.9	-	-	1,694.1	2,166.9
Economic planning, development, and security	6,729.5	6,663.1	-	-	6,729.5	6,663.1
Transportation programs	1,927.5	2,017.7	-	-	1,927.5	2,017.7
Government direction, management, and control	11,671.6	11,627.1	-	-	11,671.6	11,627.1
Special government services	348.9	337.9	-	-	348.9	337.9
Interest expense	1,227.7	1,125.8	-	-	1,227.7	1,125.8
State Lottery Fund	-	-	1,724.3	1,705.0	1,724.3	1,705.0
Unemployment Compensation Fund	-	-	7,206.6	8,214.4	7,206.6	8,214.4
<b>Total Expenses</b>	<b>52,252.6</b>	<b>53,074.4</b>	<b>8,930.9</b>	<b>9,919.4</b>	<b>61,183.5</b>	<b>62,993.8</b>
Excess (Deficiency) Before Transfers	(6,670.5)	(7,498.8)	934.7	(145.2)	(5,735.8)	(7,644.0)
Transfers	1,451.5	1,056.5	(952.3)	(942.2)	499.2	114.3
<b>Increase (Decrease) in Net Assets</b>	<b>(5,219.0)</b>	<b>(6,442.3)</b>	<b>(17.6)</b>	<b>(1,087.4)</b>	<b>(5,236.6)</b>	<b>(7,529.7)</b>
<b>Net Assets - July 1</b>	<b>(28,201.2)</b>	<b>(21,758.9)</b>	<b>(766.4)</b>	<b>321.0</b>	<b>(28,967.6)</b>	<b>(21,437.9)</b>
<b>Net Assets - June 30</b>	<b>\$ (33,420.2)</b>	<b>\$ (28,201.2)</b>	<b>\$ (784.0)</b>	<b>\$ (766.4)</b>	<b>\$ (34,204.2)</b>	<b>\$ (28,967.6)</b>

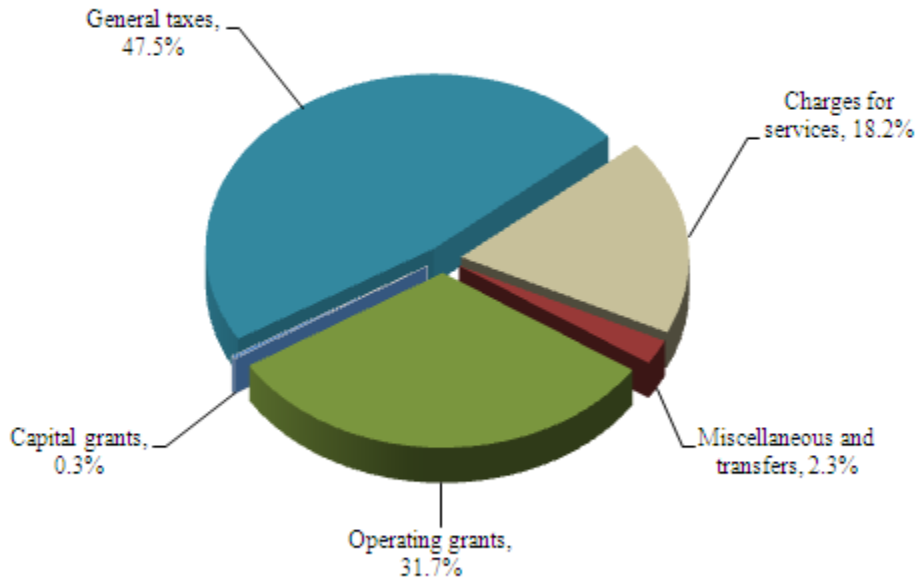
**Primary Government – Fiscal Year 2011 Revenues and Expenses**

During Fiscal Year 2011, State revenues, including transfers, totaled \$55.9 billion, or an increase of \$482.8 million when compared to the prior fiscal year. This increase in total revenues is primarily attributable to an overall increase in the State’s general taxes, especially the Gross Income Tax and, to a lesser degree, the Sales and Use and Corporate Business taxes. General taxes totaled \$26.6 billion and accounted for 47.5 percent of total State revenues for Fiscal Year 2011. The State’s Gross Income Tax totaled \$10.6 billion, the Sales and Use Tax totaled \$8.1 billion, and the Corporation Business Tax totaled \$2.3 billion. The State’s three major taxes comprised 79.4 percent of the total general taxes that were collected during Fiscal Year 2011. The State’s economy showed a slight improvement, as indicated by the \$824.4 million increase in general taxes when compared to Fiscal Year 2010.

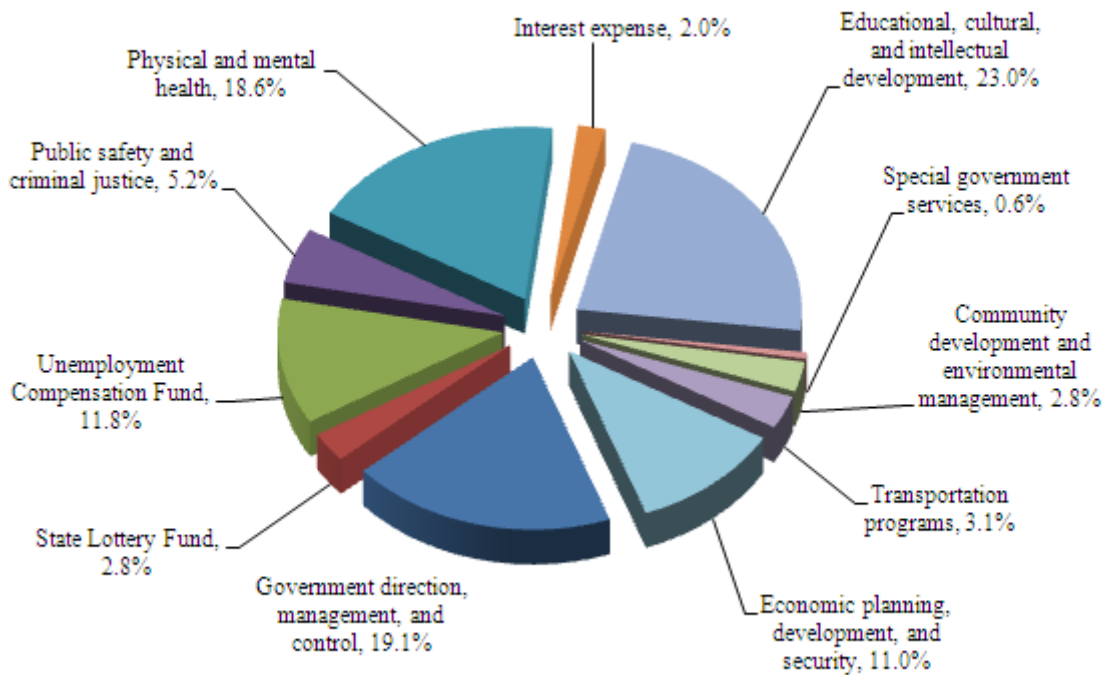
Fiscal Year 2011 expenses totaled \$61.2 billion, for a decrease of \$1.8 billion in comparison to the prior fiscal year. State spending increased by \$402.8 million in physical and mental health, \$66.4 million in economic planning, development, and security, and \$44.5 million in government direction, management, and control, which were offset by decreases of \$921.5 million in educational, cultural, and intellectual development, \$472.8 million in community development and environmental management, and \$1.0 billion in unemployment compensation.

The following pie charts depict primary government activities for revenues and expenses for the fiscal year ended June 30, 2011:

**Revenues – Primary Government  
Fiscal Year Ended June 30, 2011**



**Expenses – Primary Government  
Fiscal Year Ended June 30, 2011**



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 2011 amounted to \$10.8 billion and \$11.5 billion, respectively. Total operations along with other revenue and expenses contributed to total combined net assets at fiscal year end of \$17.3 billion. The component units received \$1.1 billion in State appropriations during Fiscal Year 2011.

**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, 2011 fund balances of \$8.3 billion. The \$926.0 million increase in fund balance was primarily from greater Fiscal Year 2011 revenues resulting from the slightly improved economy.

The American Recovery and Reinvestment Act of 2009 (“ARRA”) provided federal fiscal stimulus funding to the State for Fiscal Years 2010 and 2011. Funding across both fiscal years totaled approximately \$3.3 billion. Fiscal Year 2010 funding of \$2.3 billion reflected \$1.0 billion for enhanced Medicaid funding, with the remainder primarily for fiscal stabilization which the State used as a resource for the General Fund. The Fiscal Year 2011 Appropriations Act assumed that the State would receive \$1.0 billion of federal ARRA stimulus funding; that amount subsequently was reduced by approximately \$200 million during Fiscal Year 2011. There is no federal stimulus funding expected in Fiscal Year 2012, as all ARRA funding expired on June 30, 2011.

**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 \$3.8 billion, of which \$864.1 million represented unassigned fund balance.

On a budgetary basis, general revenues of \$29.2 billion were \$4.1 billion lower than the final budget. The negative variance was primarily the result of unearned federal and other grant revenues of \$2.1 billion, plus declines of \$1.2 billion in other revenues, \$419.5 million in services and assessments, and \$497.4 million in taxes that were offset by a \$26.2 million increase in licenses and fees. 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 \$4.7 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 2011, the State's appropriation of federal funds and other grants exceeded expenditures by \$2.1 billion; these excess appropriations are available for use in future years. From a Fiscal Year 2011 program perspective, under-spending transpired in physical and mental health (\$1.3 billion); community development and environmental management (\$745.7 million); economic planning, development, and security (\$706.5 million); public safety and criminal justice (\$701.7 million); government direction, management, and control (\$649.4 million); educational, cultural, and intellectual development (\$438.9 million); special government services (\$129.6 million); and transportation programs (\$42.5 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 2011, \$10.8 billion of property tax relief expenditures were made. The Property Tax Relief Fund's Fiscal Year 2011 ending fund balance was \$431.0 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 2011, gross revenues totaled \$2.7 billion, of which \$1.5 billion was returned in prizes, \$930.0 million went to state education and institutions, \$180.7 million was paid to sales agents and ticket vendors, and \$22.3 million covered Lottery operational and promotional expenses. As of June 30, 2011, the State Lottery, since its inception, has generated over \$52.2 billion in gross revenues, \$27.9 billion in prizes, and contributed \$20.0 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.

The economic difficulties experienced by the State of New Jersey and the nation have impacted claims against, and the funding of, the State's Unemployment Compensation Fund. Under State law, the rates for employers are subject to automatic annual adjustment, as necessary, to maintain the Fund's sufficiency. The Fund operates independently and its obligations are not payable from the State's General Fund. To provide for sufficient cash flow to fund unemployment claims, commencing on March 2009, the State, under federal law, applied to the United States Department of Labor for cash advances. As of October 31, 2011, \$1.4 billion of such advances are outstanding. Until the economic conditions in the State improve, the use of such advances is likely to continue.

### **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 has faced large budget deficits and resources have been scarce.

The Fiscal Year 2011 capital appropriation included \$3.3 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 \$800.0 million for State highway infrastructure, \$200.0 million for local highways, and \$600.0 million for mass transit. During Fiscal Year 2011, the New Jersey Economic Development Authority did not issue any School Facilities Construction Bonds to help fund the New Jersey Schools Development Authority's program; accordingly, as of June 30, 2011, a total of \$8.6 billion of the \$12.5 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 \$22.8 billion as of June 30, 2011. Depreciation expense charges for Fiscal Year 2011 totaled \$737.1 million.

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

	Total Primary Government	
	2011	2010
Land and Easements	\$ 4,765.1	\$ 4,669.5
Land Improvements	85.9	88.0
Buildings and Improvements	1,591.1	1,680.4
Machinery, Equipment and Software	412.6	319.8
Infrastructure	12,057.4	11,420.8
Sub-Total	18,912.1	18,178.5
Construction-In-Progress	3,887.7	3,615.0
Total	\$ 22,799.8	\$ 21,793.5

**Notes:**

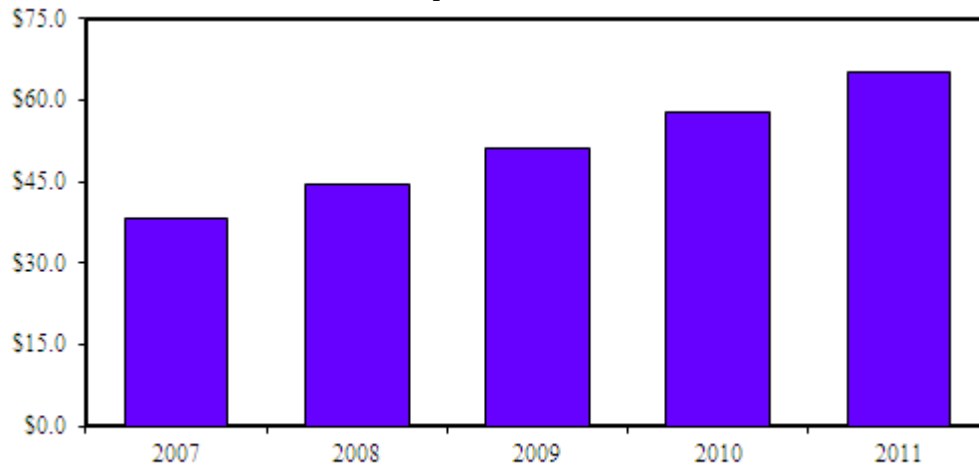
Funding for capital investment requirements is derived either from the State’s operating budget or from legislative-approved or voter-approved bonded debt.

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

**Debt Administration**

As of June 30, 2011, New Jersey’s outstanding long-term obligations for governmental activities totaled \$65.1 billion, a \$7.1 billion increase over the prior fiscal year. Of the \$7.1 billion increase, \$5.9 billion is attributable to increases in the Net Pension Obligation and Net OPEB Obligation. Long-term bonded debt obligations totaled \$38.1 billion, while other long-term obligations totaled \$27.0 billion. In addition, the State has \$7.2 billion of legislatively authorized bonding capacity that has not yet been issued. As of June 30, 2011, the legislatively authorized but unissued debt decreased by \$1.6 billion (See Statistical Section – Legislatively Authorized But Unissued Debt, 2011 and 2010). The State’s long-term obligations for the past five fiscal years are shown below:

**Long-Term Obligations  
Fiscal Year 2007 to Fiscal Year 2011  
(Expressed in Billions)**



**Note:**

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 has been gradually improving, with payroll employment modestly but steadily growing since January 2011. Nonetheless, the State's October 2011 unemployment rate of 9.4 percent was slightly higher than the national rate. The New Jersey economic forecasts as of November 2011, from the Treasury Department's Office of the Chief Economist, as well as those from Global Insight, Moody's Economy.com, and Rutgers University, call for continued improvement in economic conditions for the balance of 2011 and through 2012. However, the recovery remains fragile, with high unemployment and the loss of home values making many residents unusually vulnerable to any deterioration in the economic situation.

The economic outlook hinges on increased private demands for goods and services, given the unlikelihood that national fiscal and monetary policies will be providing any marked impetus to growth in the near term. Stability in the financial markets and improvements in consumer and business confidence are critical factors necessary to sustain growth nationally and in New Jersey.

The State and the nation may experience deterioration in growth, and the expected pace of economic expansion may decline, if consumers, investors, and businesses become more concerned about the job situation and credit availability. In that regard, the possibility that the European debt crisis could lead to reduced lending by U.S. financial firms is a significant risk. To a large extent, the future direction of the economy, both nationally and in New Jersey, also hinges on the assumptions regarding the relative strength of normal cyclical recovery forces and the behavior of energy prices. Based on the information available as of the date hereof, economic conditions in the State should continue to improve in the coming months, but the recovery remains fragile.

## **REQUEST FOR INFORMATION**

This Comprehensive Annual Financial Report for the fiscal year ended June 30, 2011 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, 2011, 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>.

## Historic Sites of New Jersey

**Allaire Village, Allaire State Park**  
**P.O. Box 220, Farmingdale NJ 07727**  
**(732) 938-2371**

Allaire State Park is best known for Allaire Village, a well-preserved early 19th-century iron-making town with a general store, blacksmith shop, carpenter's shop, owner's house, foreman's house, church, and museum. Allaire Village Inc., a nonprofit corporation, sponsors more than 40 programs and events annually, including living history events, antique shows, arts and craft shows, and flea markets. For more information call (732) 919-3500 or visit the website.

Website:

<http://www.state.nj.us/dep/parksandforests/parks/allaire.html>

For more information on New Jersey's State historic sites or parks, call (800) 843-6420 or (609) 984-0370 or visit the web site at <http://www.state.nj.us/dep/parksandforests/historic/index.html>. Text telephone users: call N.J. Relay Services at (800) 852-7899.