



STATE OF NEW JERSEY

SCHOOLS DEVELOPMENT AUTHORITY

32 EAST FRONT STREET
P.O. BOX 991
TRENTON, NJ 08625-0991
609-943-5955

TO: Members of the Authority

FROM: Charles B. McKenna, Chief Executive Officer *CBM*

RE: 2013 Report Pursuant to Executive Order No. 37 (2006)

DATE: April 2, 2014

Executive Order No. 37 (2006) requires that each state authority, on an annual basis, prepare a comprehensive report concerning that authority's operations.

The Executive Order specifically provides that the report shall:

- Set forth the significant actions from the previous year, including the degree of success the authority had in promoting the State's economic growth strategies
- Include authority financial statements and identify internal financial controls that govern expenditures, financial reporting, procurement and other financial matters

Consistent with the requirements of Executive Order No. 37, Executive management is providing the attached report for review and approval by the Members.

Following approval of the report by the Members and expiration of the Governor's veto period, a copy of the Annual Report will be submitted to the Governor's Authorities Unit and posted on the SDA website.

Attachment



April 2, 2014

The following report is presented by the New Jersey Schools Development Authority ("SDA") as required by Executive Order 37 (2006). This report discusses significant accomplishments of the SDA during 2013 as well as the SDA's role in promoting the State's economic growth strategies and other policies.

I am pleased to inform you that the independent auditing firm of Ernst & Young, LLP has issued an unmodified opinion with regard to the SDA's 2013 financial statements. An unmodified opinion is issued by an auditor when the financial statements are found to be free of material misstatement and are represented fairly in accordance with generally accepted accounting principles. It is the highest level of assurance given by an external auditor on a company's financial statements. The financial statements included in this report complete the SDA's requirements under Executive Order No. 37 concerning the comprehensive report.

In addition, as discussed in the section that details the SDA's internal financial controls, management employs the services of both internal and external auditors to evaluate the effectiveness of its internal financial control structure and procedures. In the performance of their audits, the auditors will, from time to time, make recommendations with regard to internal controls that require appropriate corrective action by management. Management views these kinds of remedial actions as part of a long-term continuous process to improve internal controls. Management does not consider any known deficiency to be a material weakness.

Accordingly, we hereby forward the appropriate certifications as required pursuant to Executive Order 37, Sections 2 and 22 (c).

Sincerely,

Charles B. McKenna
Chief Executive Officer

**New Jersey Schools
Development Authority**

**Annual Report
2013**



SDA Results Under the Christie Administration

The Christie Administration - 4 Years of Accomplishments 2010-2013	
Capital Projects Approved for Advancement	34
New Schools Construction Completed	13
Emergent Projects (SDA-Managed and District Delegated) Completed	77
Construction Contracts Advertised	More Than \$600M
Construction Contracts Awarded	Nearly \$500M
Contracts Awarded for SDA-Managed Emergent Projects	Nearly \$30M
Regular Operating District Grants Executed	976
Regular Operating District Grants State Share	More Than \$350M
Funds Recovered Through Cost Recovery Efforts	More than \$10M

About This Report

The 2013 Annual Report on the operations of the New Jersey Schools Development Authority (SDA) is presented pursuant to the provisions of Executive Order No. 37 (Corzine), issued on September 26, 2006. The report provides a comprehensive overview of the SDA's operations, highlighting significant actions taken in 2013.

The SDA operates under the Educational Facilities Construction and Financing Act (EFCFA) of 2000 and subsequent August 2007 legislative amendments. Since its inception, the school construction program has been authorized to expend up to \$12.5 billion, comprising \$8.9 billion for SDA Districts and \$3.6 billion for Regular Operating Districts (RODs). Of the ROD funding, \$150 million is set aside for vocational schools. Funding is provided through the issuance of bonds by the New Jersey Economic Development Authority (EDA).

For more information, please refer to the SDA website at www.njsda.gov or the most recent Biannual Report on the School Construction Program (for the period April 1 through September 30, 2013). The Biannual Report can be found at the following link: http://www.njsda.gov/RP/Biannual_Report/2013_2.PDF

The Mission of the New Jersey Schools Development Authority is to deliver high-quality educational facilities that best meet the needs of the students of the State of New Jersey. While providing efficiently designed facilities that enhance the academic environment, we promote fiscal responsibility in the management of taxpayers' resources.



January

- SDA Officials Tour Demolition Activities at Site of Future Elementary School 3 in Jersey City
- SDA Announces Demolition Activities to Clear Site for Future PS #16 in Paterson

February

- Governor Christie Marks Grand Opening of New Colin Powell Elementary School in Union City



March

- SDA Breaks Ground for New A. Chester Redshaw Elementary School in New Brunswick

2013

SDA: Year At A Glance



May

- SDA Officials Joined By Long Branch Students for Beam Signing Event for New George L. Catrambone Elementary School
- Governor Christie Announces Largest School Construction Grant Program in New Jersey History



April

- 17 New Jersey Businesses Graduate from SDA-sponsored SMWBE Contractor Training Program
- SDA Awards \$80 Million Construction Contract for New Phillipsburg High School Project



June

- SDA Officials Joined By New Brunswick Students for Beam Signing Event for New A. Chester Redshaw Elementary School



December

- Governor Christie Announces Charles B. McKenna New SDA Chief Executive Officer



August

- SDA Announces Start of Construction of the New Academic High School in Elizabeth



September

- SDA Announces Opening of New Victor Mravlag School Number 21 in Elizabeth



October

- SDA Announces Start of Construction of the New Henry Street Elementary School in Passaic City

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Message from CEO Charles B. McKenna



I am gratified to have the opportunity to serve as Chief Executive Officer of the New Jersey Schools Development Authority (SDA) to assist in the Administration's goal of providing proper educational facilities for all New Jersey students. In my short time at the Authority, it is clear to me that I inherited an organization that has hardworking, dedicated individuals who give of themselves everyday as they work to provide thousands of children with learning environments that will help them to succeed.

The Christie Administration has taken painstaking efforts to implement significant changes and reforms to ensure that this Agency is one that will safeguard New Jersey's limited resources while advancing appropriate projects. In 2013, the SDA advanced construction activities on 11 Capital Portfolio projects. This is a clear sign that great progress has been made to improve educational facilities, as these projects will impact more than 9,000 students statewide.

The aggressive and thoughtful advancement of projects will continue under my leadership. In fact, Governor Christie asked that one of my first actions after being named to replace Marc Larkins be to personally visit Trenton Central High School. After seeing the conditions first-hand, it became clear to me that no measure of renovations would provide the students of TCHS with an appropriate learning environment. Thankfully, SDA management shared my concerns as did the Trenton School Board, the District Superintendent, the School Principal, the SDA Board of Directors and most importantly, the Community. With the complete support of Governor Christie, we are all moving forward to provide a new school that will maintain some of the iconic architecture of the existing building while completely addressing the issues that have plagued Trenton students.

Decisive action will continue in the coming year. While I do not seek to reinvent the wheel, changes will come when needed and in a collaborative fashion. Externally, I will seek to improve communications with the communities we serve and internally I will look to ensure that SDA operations run efficiently, doing more with less and at a rapid pace. The framework that has been put in place at the SDA over the last four years is solid, and I will look to continue the advancement of work that is already in the pipeline.

The facility needs throughout the state are significant. The problems we face with the aging infrastructure did not come upon us overnight and will take years and additional resources to properly address. Nevertheless, we will work with our stakeholders and industry partners to remedy as many

problems as our resources permit. I have no illusion that the months ahead will not be without their problems. More importantly, however, there will also be great successes as we begin to open new schools to eager students. In the end, through hard work, proper communications and a positive attitude we will make a real difference in the lives of many young people throughout the State.

I look forward to working with all of you as we continue on the path to provide New Jersey students with the quality infrastructure they need to learn and flourish. I welcome and encourage your feedback and collaboration as we move forward.

Sincerely,



Charles B. McKenna
SDA Chief Executive Officer

Providing the Building Blocks for a Strong Education

Overcoming Obstacles to Give Students What They Need



Construction of Victor Mravlag Elementary School

September 2013 brought a renewed excitement for learning for the nearly 500 students of Victor Mravlag Elementary School in Elizabeth in Union County. As they walked through the doors of their new, state-of-the-art school, they were met with a learning environment fully equipped to provide them the educational tools they need to succeed.

The completion of this new \$45.5 million, 80,164 square-foot facility for students in pre-kindergarten through the eighth grade was not an easy feat. SDA had to overcome significant construction issues that existed when this Administration took office. However, under Governor Christie's leadership, the project was extensively evaluated and analyzed by the SDA for the most cost effective and timely course of action to overcome construction delays that stemmed from unforeseen structural deficiencies. The project was restarted in 2011, with the SDA serving as the Construction Manager to help bring this project to a successful completion in time for students to start the school year in their new school that will aid them in their journey for educational success.

More than \$387 Million Awarded, Projects Underway Across the State

Following significant agency reforms and new processes implemented under the Christie Administration, the SDA continues to advance new projects. In 2013, five projects began construction, four projects initiated design-build activities, two initiated constructability reviews and two entered design. Combined, these projects represent more than \$387.5 million in construction. Following the completion of these buildings, more than 9,000 new or renovated seats will be provided for students throughout the state. In addition, construction work continued on the George L. Catrambone Elementary School project in Long Branch that broke ground in 2012.

SDA Capital Projects Advanced in 2013

District	School	Project Type	2013 Advancement Status
Bridgeton	Buckshutem E.S.	Addition/Renovation	Initiated Design-Build
Bridgeton	Quarter Mile Lane E.S.	Addition/Renovation	Initiated Design-Build
Elizabeth	Academic H.S.	New Construction	Initiated Construction
Garfield	James Madison E.S.	New Construction	Reengaged Design Consultant
Jersey City	E.S. #3	New Construction	Initiated Design-Build
Jersey City	Public School #20 E.S.	New Construction	Initiated Constructability Review
New Brunswick	A. Chester Redshaw E.S.	New Construction	Initiated Construction
Newark	Oliver Street E.S.	New Construction	Initiated Design-Build
Newark	Elliott Street E.S.	New Construction	Initiated Construction
Passaic City	Henry Street E.S.	New Construction	Initiated Construction
Paterson	Marshall Street E.S.	New Construction	Initiated Constructability Review
Phillipsburg	Phillipsburg H.S.	New Construction	Initiated Construction
West New York	Harry L. Bain E.S.	Addition/Renovation	Engaged Pre-Design Services

A Smart, Efficient Approach to School Construction Realizes Results

The SDA is currently managing a robust portfolio of more than \$2 billion in active projects. Nearly half of the projects in the SDA’s Capital Portfolio have initiated construction or design-build activities. All of this significant project activity is occurring with new processes in place to ensure that past missteps are not repeated – that facility needs are addressed through an efficient, responsible program to safeguard New Jersey’s limited resources.

As the Capital Portfolio projects advance, the SDA is realizing the benefits of new processes and procedures implemented. The design-build methodology is being utilized for certain projects in the portfolio. The SDA’s in-house design team plays a vital role in this process through their drafting of initial design documents to serve as bridging documents for the design-build teams. In 2013, the SDA’s in-house design studio initiated work associated with four school facilities (Gloucester City Middle School, Keansburg Port Monmouth Elementary School, Passaic Dayton Avenue Campus and Elizabeth New E.S. at Halloran PS 22 site) in preparation for future design-build procurements. SDA is utilizing the design-build method on selected projects as a way to fast track construction and minimize change orders. While SDA incurs administrative costs due to its design work, the ultimate cost to the state for the project should be more predictable and lower due to the initial control SDA commands. This process is proving effective thus far, as demonstrated by projects such as the Redshaw Elementary School in New Brunswick in Middlesex County. After receiving the initial notice to proceed in

October 2012, it was only five months before the Redshaw Elementary School groundbreaking occurred with the start of footings and foundations. By the end of 2013, the Redshaw Elementary School was fully enclosed. The project is on target for school occupancy in September 2014.

On projects where a design already exists and a traditional design-bid-build method is utilized, SDA has employed an expanded Constructability Review. This process provides SDA, the contractor and the design consultant with an opportunity to identify any potential conflicts in the drawings in advance of construction in order to eliminate costly change orders and project delays. Again, the SDA is experiencing success in the use of this enhanced process with projects in Long Branch in Monmouth County and Elizabeth in Union County, proceeding to construction following satisfactory completion of this review process. Moving forward, the SDA will continue to utilize both design-build and design-bid-build with a constructability review on a case-by-case basis.

SDA Celebrates Project Milestones With Students and Communities

With this significant project activity, the SDA is providing communities with opportunities to celebrate construction milestones on their school facility projects. In 2013, SDA celebrated with students, district leadership and the community at projects in New Brunswick, Long Branch and Phillipsburg.



Redshaw E.S. Beam Signing



Catrambone E.S. Beam Signing

Students in Long Branch and New Brunswick participated in beam signing ceremonies. These ceremonies offer students and teachers the chance to sign their names to a piece of steel that is later hoisted into place as part of their new facility, forever making their mark on their new school. Both of these schools continue to make significant construction progress and are on schedule for a September 2014 opening.

In Phillipsburg, SDA officials joined district leadership to celebrate the award of a construction contract. In fact, this \$80.5 million contract represents one of the largest single construction awards in the state. At the writing of this report, the Phillipsburg High School project Constructability Review process has been completed and construction activities have commenced, marking a critical milestone in the ultimate realization of a new high school for Phillipsburg.



Phillipsburg H.S. Award Announcement

Working in Partnership with Districts Earns Trust and Productivity

Through positive and active partnerships with SDA District leadership, the SDA is able to verify that the projects that proceed are the most appropriate projects to best address each district's school facility needs. With this in mind, SDA has established working groups, comprised of SDA, DOE and district officials. These groups meet regularly to determine the specific approach for advancing these projects to meet the district's needs while identifying key details before a project advances. In 2013, SDA's planning team conducted 74 site visits and meetings with working groups in various districts.

The success of this approach has been realized multiple times in the past couple of years, most recently in Millville in Cumberland County. In Millville, the working group was able to identify a better alternative for addressing overcrowding in the high school grade levels. Rather than expand the current high school or build a new high school, the working group developed a plan that will allow for the conversion of the current middle school to a high school with an addition/renovation and the conversion of the high school to a middle school with an addition/renovation. While the new approach requires the delivery of two separate projects, the revision will address the district's core needs in a cost effective manner. Following approval by the working group, SDA management advanced these two projects to the Board of Directors which approved the package.

The benefits of these collaborative working group meetings have helped the SDA in establishing and fostering productive relationships with the State's SDA Districts. These meetings allow for constant communication and feedback which is an essential component of maintaining the trust of the districts we serve.

Largest Single ROD Grant Offering in Program History

In May 2013, Governor Christie announced that nearly a half billion dollars in grants would become available for needed construction projects in Regular Operating Districts (ROD) across New Jersey. This largest single offering of grant funding in history clearly demonstrated this Administration's commitment to providing modern and efficient educational facilities for students in all school districts across New Jersey. As a result, in December 2013, the DOE announced the approval of 1,538 school construction projects in 331 districts through this new round of grant funding. This includes 54 projects in 15 vocational-technical school districts.

State-funded ROD grants represent at least 40 percent of eligible costs for projects in school districts across the state, addressing health and safety issues, student overcrowding and other critical needs. Following approval by the DOE, the project is transmitted to SDA which, in turn, offers a grant to the

district. Upon the district's submission of proof of local share and completion of other required grant-related documents, the SDA is then able to execute a grant agreement. With this round of grants, all funding authorized by the Legislature for the RODs have been exhausted.

ROD Grants Enabling School Improvements Statewide

Once executed, the grants announced by the DOE in December will further bolster the SDA's robust portfolio of grants. In fact, since the start of the Christie Administration, the SDA has executed more than 975 grants providing \$350 million in grant funding to local districts. The benefits of these grants are being felt throughout the state. Grant funding supports projects such as significant additions/renovations, upgrades to science labs, increased safety measures, new windows, new roofing, and revamped HVAC systems.



Pennsville Memorial High School Renovations

During 2013, SDA staff visited districts throughout the state to see firsthand the positive impacts that grant funding has on their science facilities. In Pennsville Township in Salem County, \$589,340 in state funding supported renovations to four science rooms, including rooms for chemistry and biology. In Brick Township in Ocean County, nearly \$1.1 million in state funding leveraged local funding to enable renovations to 11 science rooms – including two physics labs, two life science classrooms, three chemistry labs and four biology labs. In the northwest part of the state, Hackettstown in Warren County received \$358,759 in ROD Grant funding that facilitated the renovation of two existing chemistry labs.

This investment by the Christie Administration is another tool used by local towns to help keep property taxes stable. By providing at least 40 percent of eligible costs, ROD grants leverage local resources to make it possible for school districts to make necessary upgrades and improvements to schools, thus ensuring that students have the facilities they need to support a quality education. The more than \$500 million in ROD Grant funding approved in December will continue this support of local districts. ROD grants are funded by the SDA and projects are managed by the local school districts.

REGULAR OPERATING DISTRICT GRANTS			
2013 Grant Executions		Grant Executions Since Program Inception	
No. of Grants Executed	40	No. of Grants Executed	3,976
State Share	\$15,258,936	State Share	\$2,613,560,933
Local Share	\$29,852,735	Local Share	\$5,440,173,481
Total Estimated Costs	\$45,111,671	Total Est. Costs	\$8,053,734,414
No. of Districts Impacted	16	No. of Districts Impacted	508
No. of Counties Impacted	12	No. of Counties Impacted	21

Emergent Projects Highlight SDA’s Commitment to Providing Students Safe, Modern and Efficient Facilities

Providing the children of New Jersey with schools that offer appropriate learning environments is a priority of the Christie Administration. This goal goes beyond building new schools – it requires that poor conditions in our State’s aging infrastructure be remedied as well. One way in which the SDA is working to address these poor facilities conditions is through the advancement of emergent projects. Emergent projects typically include the repair or replacement of roofs, windows, exterior masonry, heating and cooling systems, plumbing, electrical, mechanical and security systems.

In order to receive SDA funding and advancement, projects must meet the stipulations of the law and receive initial approval by the DOE. Some emergent projects are managed by the SDA and some are delegated to local school districts for management. For those projects that are delegated for district management, the SDA executes a grant agreement with the district, which is then responsible for procuring and disbursing payment to the project consultants and contractors. The SDA funds such projects in their entirety and maintains oversight throughout the entire process.

Thirty seven projects were delegated for district management from the 2012 Emergent Project Program. As of December 31, 2013 the status of the district delegated emergent projects was:

- 1 project completed
- 4 projects in construction
- 13 projects in design; and
- 19 projects in post design

The remaining 30 projects from the 2012 Emergent Project Program are being managed by the SDA. In order to expedite the repair process, a variety of advancement methods have been utilized including the SDA’s general contractor task order pool and architectural pool as well as the traditional design/bid/build method. SDA also appreciates the importance of minimizing any disruption of

student learning. For this reason, whenever possible, construction work for many of these emergent projects is scheduled to proceed when students are not in school. As of December 31, 2013 the status of the SDA-managed emergent projects was:

- 10 projects completed
- 5 projects in construction
- 10 projects in design
- 3 projects in design procurement; and
- 2 projects undergoing needs verification

In Salem City in Salem County, an emergent project to replace the existing roof and remedy water infiltration issues at Salem High School was started during the summer and completed in September 2013, just after the new school year began. Additionally, a separate project at Salem Middle School to remedy water infiltration issues will be completed in two phases. Phase I, which replaced the existing roof, was completed in December 2013. Phase II, which will repair the exterior masonry as well as replace the window and vent lintels, will begin this spring. SDA anticipates the final completion of the Salem Middle School project in time for the start of the 2014-2015 school year in September.

In Irvington in Essex County, five projects at four schools advanced as part of the 2012 Emergent Project Program. SDA officials and State Legislators toured the construction progress at Madison Avenue Elementary School in July. This emergent project involved replacement of the existing roof at the school. The project was completed in the fall. The remaining emergent projects in Irvington are slated to begin this spring.



Madison Avenue E.S. Emergent Project

Bolstering New Jersey's Construction Businesses

Strengthening New Jersey's Small Businesses

The growth and success of small businesses is an integral part of New Jersey's economic success. The SDA oversees and implements an effective and proactive Small Business Enterprise (SBE) program that abides by the current State set-aside law and Executive Order 71 (McGreevey) which mandates that 25 percent of the total dollar value of publicly advertised contracts awarded by SDA during a fiscal year go to small business enterprises. The SDA historically has met and exceeded the 25 percent mandate. This trend continued in 2013 with an SBE participation of 39.42%. This represents more than \$107 million in contracts for SBE companies. This total is up significantly since 2012, which saw a participation total of 26.12%. The increased participation of small businesses is due, in large part, to the start of construction of many SDA-managed emergent projects.

In 2013, the SDA's Emergent Project Program served as an important source of revenue for SBE companies. During the year, 51 SBE vendors participated in 24 contracts associated with SDA's Emergent Program.

Contractor Training Program Continues Success in 2013



Graduates of the 2013 SMWBE Contractor Training Program

The backbone of the New Jersey economy is small business, and it is through the SDA's Small Minority and Women Owned Business Enterprise (SMWBE) Contractor Training Program that these companies are provided with the tools they need to succeed. Working to maximize participation of SMWBE's in school construction and renovation work, the SDA provides small, minority and women-owned businesses with some of the skills and resources needed to grow and successfully do business

with the SDA. With the fourth offering of the program in progress, the SDA continues its commitment to this mission.

In the Spring of 2013, SDA successfully completed the third offering of the training program. Seventeen firms graduated from the 2013 Program, bringing in April the total number of graduated firms to 45 since the program began in 2011.

The 2013 program instituted a few changes as a result of the feedback solicited from previous participants, in hopes of improving upon the program's current success to provide a more meaningful experience for future participants. Upon recommendations from the 2012 graduates, an attorney specializing in construction industry issues was engaged, at no cost, to facilitate a session on Contract Law for the 2013 program. This addition was found to be useful and will be continued in 2014 with the use of an SDA attorney as the instructor. The majority of the instructional sessions continue to be facilitated by SDA staff, affording participants firsthand knowledge of how to do business with the SDA while minimizing overhead costs.

A vital component of the program is the ongoing relationships developed with participating firms. Program staff members serve as a resource for graduating firms and provide assistance and guidance with such fundamentals as the prequalification process, how best to interface with other state agencies and on identifying available opportunities for participants to explore. The 2013 Program culminated with a successful networking event that afforded graduates an opportunity to interact with representatives from other State contracting entities (e.g. New Jersey Transit, New Jersey Department of Transportation) as well as executives from large construction companies. The SDA is planning to expand upon this graduation/networking event at the culmination of the 2014 program.

Committed to Our Stakeholders

Proactive Outreach and Open Communication Efforts

Keeping the community apprised through proactive outreach is one way in which the Authority strives to provide for accountability and transparency. One tool used to achieve this is the SDA's electronic newsletter, which was established in 2012. The SDA's newsletter was published three times in 2013, distributed to legislators, district officials, trade organizations and other partner agencies. It is also available on the SDA's website.

The SDA's Communications Department continues to staff a Customer Service Hotline to serve as a point of immediate access to assist the public with any questions related to SDA activities. In 2013, SDA staff responded to more than 90 inquiries received via the hotline.

In addition, throughout 2013, members of the SDA management team met with various stakeholder groups to continue an open dialogue and keep them informed about the activities of the SDA. Over the course of the year, participants in these meetings or appearances included: Alliance for Action, the Joint Committee on the Public Schools, Legislative Budget Committees, New Jersey Subcontractors Association, The Healthy Schools Now Coalition, African American Chamber of Commerce, New Jersey Hispanic Chamber of Commerce, and the Building Contractors Association of New Jersey.

Strengthening Communication With ROD Districts

The SDA also continued its positive outreach with the New Jersey Association of School Business Officials (NJASBO) in 2013. Following the Governor's June 2013 announcement of the new round of ROD Grant funding, SDA partnered with DOE to offer informational sessions to NJASBO members on what to expect with the grant application process. In September 2013, SDA held informational seminars at various NJASBO locations throughout the state to provide school district officials with information on the grant requirements, application, offer, execution and payment processes.

The SDA looked to strengthen its communication with school districts by holding numerous meetings with individual districts at its offices to review the grant process and expeditiously resolve any project-specific issues.

Throughout the year, SDA worked on the close out of the most challenging grant projects from the original funding (executed 2001-2008), and was successful in closing out 103 projects impacting 53

ROD districts during 2013. In addition, 234 grant projects (executed post-2008) impacting 82 ROD districts were closed out during 2013.

Finally, the conversion of SDA grant documents and forms to electronic format was completed in 2013. This is greatly enhancing the efficiency of the system both for the grantees and for the SDA.

SDA Financial Update

2013 PROJECT EXPENDITURES¹	
SDA-managed projects (new/addition/renovation)	
• SDA District Projects	\$80.9 million
• ROD District Projects	\$1.2 million
• <i>SDA expenditures</i>	<i>\$0.9 million</i>
• <i>District local share</i>	<i>\$0.3 million</i>
SDA-managed emergent projects	\$9.3 million
SDA District-managed emergent projects	\$7.5 million
ROD grant projects	\$251.6 million
• <i>SDA grant expenditures</i>	<i>\$100.6 million</i>
• <i>District local share</i>	<i>\$151 million</i>
TOTAL	\$350.5 million

Reclassification of Project Costs

Prior to 2013, all SDA salary and benefit costs were charged to operating expenses in the Authority's financial statements. In 2013, in order to achieve a true accountability of SDA's operating costs, the SDA began tracking employee time sheet information and allocating a portion of its salary and benefit costs to School Facilities Project Costs related to the work. This change was made to reflect the reality that a large portion of the Authority's staff is responsible for the direct management and administration of school facilities projects. Support functions, such as Contract Management and Procurement, may also charge a portion of their time, as appropriate, to school facilities projects.

This change demonstrates and distinguishes between overhead/administrative operating costs and costs directly associated with the construction of school facilities projects. To achieve its mission to deliver high quality schools to New Jersey's students, it is necessary for the SDA to employ highly trained individuals with expertise in areas of architecture, engineering and construction management. The charging of the professionals' time to specific projects better accounts for SDA's overhead as well as the true cost of the project.

¹ The numbers in the expenditure chart do not include internal SDA staff costs charged to projects, which were \$16.6 million for 2013.

SDA Office Relocation Offers Financial and Operational Benefits

In March 2013, the SDA Board approved a lease facilitating the consolidation of all Authority staff into one building located at 32 Front Street in Trenton. Since 2007, some SDA staff had been housed in this location but, given the imminent expiration of its lease for the 1 West State Street space (Trenton), SDA staff worked diligently to identify the most efficient and appropriate location for SDA's continuing operations. The move of all SDA operations to the 32 Front Street location was completed in November 2013.

The Front Street building offers a lower base fixed rent than was previously paid. In addition, the building contains newer, integrated and efficient systems which should avoid the need for costly repairs thus helping to reduce building operating expenses. Among the most important factors behind the determination to move the SDA offices was the ability to include all employees in one building, which was not possible before. Additionally, the ability to locate more employees on each floor, has allowed for seating arrangements that promote easier collaboration and more synergy between SDA teams, with the goal of achieving greater efficiencies. SDA teams are already realizing the productivity benefits of their new space.

SDA Budget Savings

At the start of the Christie Administration, the SDA had 331 permanent employees. At the end of 2013, it had 243 full time employees, representing a reduction of 26.6%, with associated budgetary savings of approximately \$4.2 million in salaries and benefit costs. Additional operational budgetary savings were realized in 2013 due to reduced spending for pension contributions (\$199K), Common Area Maintenance fees for SDA-leased office space (\$189K), and Deputy Attorney General legal fees (\$93K).

Cost Recovery/Cost Avoidance

The SDA's active pursuit of cost recovery and cost avoidance whenever appropriate and responsible is a result of its commitment to safeguarding the limited resources available to the program. This is accomplished in various ways including litigation, settlements, rebate programs and refunds. In 2013, SDA was able to reinvest \$1,090,922 into the school construction program as the result of these efforts.

2013 Settlements:

- In April and July, the SDA settled two environmental cost recovery lawsuits related to the Camden Dudley Elementary School project (Camden County) for a total of \$507,127.
- In April, the SDA recovered \$87,000 in errors/omissions damages for a project in Manchester (Ocean County).
- In July, the SDA received \$141,295 via settled environmental remediation valuation disputes relating to the Passaic City Leonard Place project (Passaic County).
- Also in July, the SDA recovered \$30,000 as a result of a litigation settlement relating to Barnegat High School (Ocean County).
- Finally, the SDA recovered \$52,500 in errors/omissions damages for a settlement on behalf of PS #3 and M.S. #4 in Jersey City (Hudson County).

2013 Rebates:

- In January, SDA received \$250,000 in rebates from NJ Smart Start Incentive Rebate Program for the Science Park H.S. in Newark (Essex County). The NJ Smart Start Incentive Rebate Program provides financial incentives for energy efficient measures.
- In October, SDA received \$23,000 in NJ Smart Start Incentive rebates for the Union Avenue Middle School in Irvington (Essex County).

With a continued focus on close out activities, four land deeds were transferred during 2013, resulting in \$16,484 in cost avoidance for property liability insurance payments. Also during the year, 36 Capital and Emergent projects were closed or transferred to the districts. An additional 14 previous design projects were closed-out, deobligating \$15.8 million in SDA funds.

Finally, in 2013 the Division of Chief Counsel was able to resolve \$100.8 million in contract claims asserted against the SDA for negotiated settlements totaling \$21.9 million. These settlements equal roughly 22% of the original amounts claimed and reflect a cost avoidance of some \$78.9 million for the Authority.

Management's Report on Internal Financial Controls

Governance

Pursuant to P.L.2007, c.137, s.3 (N.J.S.A. 52:18A-237) and Executive Order 122 (2004), the New Jersey Schools Development Authority (the "Authority") is required to undergo an annual financial statement audit. The 2013 financial statements have been audited by the Authority's independent auditors, Ernst & Young LLP. In performing its audit, Ernst & Young LLP considered the Authority's internal control structure in determining the extent of audit procedures to be applied. In addition, Ernst & Young LLP was given unrestricted access to all financial records and related data of the Authority, including minutes of all Board and Audit Committee meetings. Ernst & Young LLP has issued an unmodified opinion on the Authority's 2013 financial statements, which audit report, dated March 4, 2014 is presented on pages 1 and 2 of the 2013 financial statements.

The Authority is responsible for both the accuracy of the financial data and the completeness and fairness of its presentation, including all disclosures. The financial statements are prepared in accordance with accounting principles generally accepted in the United States. In preparing the financial statements, management makes informed judgments and estimates as to the expected effects of events and transactions that are currently being reported.

The Audit Committee assists the Board in fulfilling its oversight responsibilities for the integrity and quality of the Authority's financial statements, the financial reporting process, the system of internal controls, the external auditor's qualifications and independence, the performance of the Authority's internal audit function and external auditors, the audit process and the Authority's process for monitoring compliance with laws, regulations and ethical requirements. The Audit Committee periodically meets with management, as well as the SDA's independent auditors and internal auditors. Both the independent auditors and the internal auditors have unrestricted access to the Audit Committee. At least twice a year, the Audit Committee meets privately with the independent auditors without management present to discuss internal controls and other financial matters. The Audit Committee may request to meet with the Authority's management, internal auditor, or counsel, as necessary to fulfill its responsibilities.

Management considers the internal and external auditors' recommendations concerning the Authority's internal controls and takes appropriate responsive action. Regularly a report showing the status of open audit recommendations is reviewed with the Audit Committee to ensure that appropriate progress is being made to address all audit recommendations. The Authority has already taken corrective action to respond to certain internal control deficiencies and will continue to take appropriate action to respond to other internal control areas. Management views these types of remedial actions as part of a long-term continuous process to improve internal controls and efficiencies.

Budgetary and Financial Controls

The Authority maintains a system of internal controls to provide reasonable assurance that transactions are executed in accordance with management's requirements and authority, that responsibilities are appropriately segregated, that the financial statements are prepared in accordance with accounting principles generally accepted in the United States, and that the assets of the Authority are properly safeguarded. Since internal controls are designed to provide reasonable, but not absolute, assurance that these objectives are met, there are inherent limitations in the effectiveness of any system of internal controls. The concept of reasonable assurance generally recognizes that: (1) the cost of a control should not exceed the benefits likely to be derived; and (2) the valuation of costs and benefits requires estimates and judgments by management. These internal controls are subject to continuous evaluation by the Authority's management.

Budgetary Controls

The Authority maintains budgetary controls to ensure operating expenditures do not exceed the annual level approved by the Board. A variance analysis of accounts is performed monthly and the results are summarized and presented to the Audit Committee in a monthly report. As appropriate, the Authority may allocate a portion of its operating budget for various internal capital projects such as expenditures for leasehold improvements, and the acquisition of equipment, computer software, furniture and fixtures. The Authority's Capitalization & Depreciation policy prescribes when capitalization of an asset is appropriate.

In addition, the Authority develops and maintains comprehensive project budgets and schedules for each of the school facilities projects that it manages. The Authority uses various Primavera software products to plan, record and monitor project budgets and schedules, and various other software products are used for cost estimating, analyses and reporting. Project budgets, which include all financial aspects of a project, are analyzed and reviewed monthly, and revised as necessary. The data obtained from regular monthly re-forecasting sessions are used to track the current and anticipated status of projects relative to their approved budgets. The results are then summarized and presented to the Audit Committee in a monthly report.

Financial Controls

The Authority maintains financial controls through the use of an integrated accounting and budgeting system which enables the Authority to access, analyze and report financial data. Furthermore, the Authority uses financial reporting software to: (1) efficiently and effectively monitor its financial performance; (2) identify financial trends; and (3) generate accurate and timely financial data. These capabilities are continuously improved to meet new information needs.

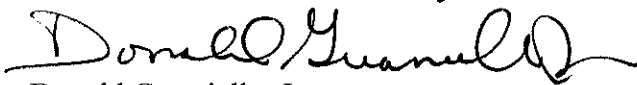
In order to document and evaluate the appropriateness of the Authority's internal controls, policies and procedures are developed and periodically updated to ensure they remain current. These policies and procedures include a Code of Ethics to foster a strong ethical climate, and are communicated to the

Authority's employees as deemed appropriate. These policies and procedures provide a system of internal controls and accountability which is designed to safeguard the Authority's assets. The Authority's internal auditors periodically review the Authority's adherence to internal control policies and procedures.

The Authority's Board of Directors periodically reviews and approves modifications to the SDA's Operating Authority policy. The Operating Authority is a key control document as it designates staff levels of those persons who are required (either generally or in specific transactions) to approve contracts and/or to execute documents legally binding on the Authority, or to sign checks and approve disbursements on behalf of the Authority. Several other policies and procedures (or other analogous documents, including, but not limited to: policy notices, bulletins, standard operating procedures, etc.) have been implemented in the areas of accounting, accounts payable, procurement and program operations.

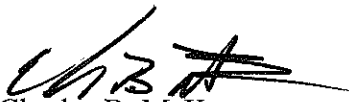
Certifications Pursuant to Section 22c of Executive Order 37 (2006)

I certify that, to the best of my knowledge, the financial information provided to the Authority's independent auditors in connection with their audit of the 2013 financial statements is accurate, and that such information fairly presents the financial condition and operational results of the Authority as of December 31, 2013 and for the year then ended.



Donald Guarriello, Jr.
Chief Financial Officer

I certify that, to the best of my knowledge, the financial information provided to the Authority's independent auditors in connection with their audit of the 2013 financial statements is accurate, and that such information fairly presents the financial condition and operational results of the Authority as of December 31, 2013 and for the year then ended.



Charles B. McKenna
Chief Executive Officer

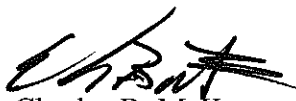
Certification Pursuant to Section 2 of Executive Order 37 (2006)

In accordance with Executive Order 37 (2006), please find enclosed the New Jersey Schools Development Authority's (the "Authority") 2013 comprehensive report of Authority operations (the "2013 Annual Report"). This report highlights the significant actions of the Authority for the year ending December 31, 2013, including the degree of success the SDA had in promoting the State's economic growth strategies and other policies during the year.

The report of independent auditors, issued by Ernst and Young LLP on March 4, 2014, is included within the financial statements section of the 2013 Annual Report. The completion of the audit report fulfills the Authority's requirements under Executive Order 37 and the audit requirements of Executive Order 122 (2004).

Executive Order 37 Section 2 Certification:

I, Charles B. McKenna, certify that, from January 1, 2013, to December 31, 2013, the Authority has, to the best of my knowledge, followed all of its standards, procedures and internal controls.


Charles B. McKenna
Chief Executive Officer

SDA Board Members and Staff

Public Members

Edward Walsh
SDA Chairman
*Principal and Managing Director,
Avison Young*

Michael Capelli
*Executive Secretary-Treasurer,
NJ Regional Council of Carpenters*

Kevin Egan
Business Representative, I.B.E.W. Local 456

Karim A. Hutson
*Managing Partner and Founder, Genesis
Companies*

Lester Lewis-Powder
Executive Director, Let's Celebrate, Inc.

Loren P. Lemelle
Retired Executive, Johnson and Johnson

Michael Maloney
*Business Manager/ Financial Secretary,
Plumbers & Pipefitters Local Union No. 9
President, Mercer County Central Labor Council*

Joseph McNamara
Director, LECET & Health and Safety

Robert Nixon
*Director of Government Affairs,
NJ State Policeman's Benevolent Assn.*

Mario Vargas
Farmers Insurance

Ex-Officio Members

Michele A. Brown
*Chief Executive Officer, New Jersey Economic
Development Authority*

David C. Hespe
*Acting Commissioner, New Jersey Department of
Education*

Richard E. Constable, III
*Commissioner, New Jersey Department of
Community Affairs*

Andrew P. Sidamon-Eristoff
*State Treasurer, New Jersey Department of the
Treasury*

SDA Executive Staff

Charles B. McKenna
Chief Executive Officer

Jason E. Ballard
Chief of Staff

Donald R. Guarriello
Vice President – Chief Financial Officer

Jane F. Kelly
*Vice President – Corporate Governance and
Operations*

Andrew D. Yosha
Vice President – Program Operations

SDA Office: 32 East Front Street, Trenton NJ 08625
Mailing Address: Post Office Box 991, Trenton, NJ 08625-0991
Phone: 609-943-5955

Website: WWW.NJSDA.GOV

Email: schools@njsda.gov

NEW JERSEY SCHOOLS DEVELOPMENT AUTHORITY
(a component unit of the State of New Jersey)



FINANCIAL STATEMENTS AND REQUIRED SUPPLEMENTARY INFORMATION

For the Year Ended December 31, 2013

New Jersey Schools Development Authority
(a component unit of the State of New Jersey)

Financial Statements and Required Supplementary Information

For the Year Ended December 31, 2013

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Ernst & Young LLP
99 Wood Avenue South
Metropark
P.O. Box 751
Iselin, NJ 08830-0471

Tel: +1 732 516 4200
Fax: +1 732 516 4429
ey.com

Report of Independent Auditors

Management and Members of the Authority
New Jersey Schools Development Authority

We have audited the accompanying financial statements of the New Jersey Schools Development Authority (the “Authority”), a component unit of the State of New Jersey, as of and for the year ended December 31, 2013, and the related notes to the financial statements, which collectively comprise the Authority’s basic financial statements as listed in the table of contents.

Management’s Responsibility for the Financial Statements

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

Auditor’s Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in 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.

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

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



Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Authority as of December 31, 2013, and the changes in financial position for the year then ended in conformity with U.S. generally accepted accounting principles.

Required Supplementary Information

U.S. generally accepted accounting principles require that management's discussion and analysis and the schedule of funding progress on pages 3 through 8 and page 30, respectively, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board which considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Ernst & Young LLP

March 4, 2014

New Jersey Schools Development Authority
(a component unit of the State of New Jersey)

Management's Discussion and Analysis

For the Year ended December 31, 2013

This section of the New Jersey Schools Development Authority's (the "Authority" or "SDA") annual financial report presents our discussion and analysis of the Authority's financial performance during the fiscal year ended December 31, 2013. This management discussion and analysis should be read in conjunction with the Authority's financial statements and accompanying notes.

Nature of the Authority

The SDA was established on August 6, 2007 to replace the New Jersey Schools Construction Corporation ("SCC") pursuant to reform legislation (P.L.2007, c.137). As of the date of the legislation, the SCC was dissolved and all its functions, powers, duties and employees were transferred to the SDA. Organizationally, the Authority is situated in, but not of, the New Jersey Department of the Treasury.

The School Construction Program is the largest public construction program undertaken by the State of New Jersey ("State") and represents one of the largest school construction programs ever undertaken in the nation. The program was initiated in response to the New Jersey Supreme Court's decision in Raymond Abbott et al. v. Fred G. Burke, 153 N.J. 480 (1998), which eventually led to the Legislature's adoption of the Educational Facilities Construction and Financing Act, P.L.2000, c.72 ("EFCFA") on July 18, 2000. The EFCFA, as amended in P.L.2008, c.39, provides for an aggregate \$12.5 billion principal amount of bond proceeds ("EFCFA funding") to be issued by the New Jersey Economic Development Authority ("EDA"), the financing agent for the Schools Construction Program, and transferred to the Authority. Of this amount, \$8.9 billion is allocated to 31 urban school districts referred to as the "SDA Districts" (formerly Abbott Districts), \$3.45 billion is for non-SDA districts ("Regular Operating Districts") and \$150 million is reserved for vocational schools.

School Construction Program Authorized Funding and Disbursements

The Authority does not have an economic interest in any school facility project. With the exception of interest income on invested funds, the Authority does not generate substantial operating revenues, yet it incurs significant operating expenses to administer the School Construction Program. Costs related to school facilities projects are reported as school facilities project costs in the statement of activities. Program administrative and general expenses not identifiable specifically to school facilities projects are considered eligible project costs under EFCFA and are therefore paid from EFCFA funding.

Through December 31, 2013, the Authority has received \$9.02 billion of the designated \$12.5 billion principal amount of bond proceeds authorized for the School Construction Program. In addition, as of that date, the Authority has disbursed 70.3% of the currently authorized program funding, as follows:

	<u>Bonding Cap</u>	<u>Program Funding</u> ¹	<u>Disbursements</u>	<u>% Paid</u>
SDA Districts	\$8,900,000,000	\$9,007,075,361	\$6,086,345,921	67.6%
Regular Operating Districts	3,450,000,000	3,492,812,653	2,710,935,608	77.6%
Vocational Schools	150,000,000	151,710,644	98,937,497	65.2%
Totals	<u>\$12,500,000,000</u>	<u>\$12,651,598,658</u>	<u>\$8,896,219,026</u>	70.3%

¹ Program funding includes the amounts authorized under the respective bonding caps in addition to approximately \$152 million of interest income and miscellaneous revenue earned through December 31, 2013.

The 31 SDA Districts are located in 14 Counties throughout the State, as follows:

<u>County</u>	<u>School District</u>	<u>County</u>	<u>School District</u>
Atlantic	Pleasantville	Hudson	Union City
Bergen	Garfield	Hudson	West New York
Burlington	Burlington City	Mercer	Trenton
Burlington	Pemberton Township	Middlesex	New Brunswick
Camden	Camden	Middlesex	Perth Amboy
Camden	Gloucester City	Monmouth	Asbury Park
Cumberland	Bridgeton	Monmouth	Keansburg
Cumberland	Millville	Monmouth	Long Branch
Cumberland	Vineland	Monmouth	Neptune Township
Essex	East Orange	Passaic	Passaic City
Essex	Irvington	Passaic	Paterson
Essex	Newark	Salem	Salem City
Essex	Orange	Union	Elizabeth
Hudson	Harrison	Union	Plainfield
Hudson	Hoboken	Warren	Phillipsburg
Hudson	Jersey City		

In 2013, the Authority completed two new school facilities projects in the SDA Districts, which benefited approximately 11,800 students.

From inception through December 31, 2013, the School Construction Program has completed 656 projects in the SDA Districts. The completed projects consist of: 66 new schools, including 6 demonstration projects; 43 extensive additions, renovations and/or rehabilitations; 26 rehabilitation projects; 354 health and safety projects; and 167 Section 13 Grants for SDA District-managed projects under \$500,000. The demonstration projects serve as a cornerstone of revitalization efforts and are funded by the Authority but managed by a municipal redevelopment entity and redeveloper. In addition, in the Regular Operating Districts the Authority has completed 26 projects that it managed for the districts, and state funding was provided through Section 15 Grants for 3,315 school projects throughout the 21 counties of New Jersey.

As of December 31, 2013, the SDA has 14 active construction projects in the SDA Districts. In addition, pre-construction activity has commenced on several other projects. Furthermore, the Authority is currently in construction on 10 emergent need projects in the SDA Districts. Emergent need projects most often address roof repairs or replacements; deteriorating façades; water infiltration; heating and cooling system issues; and plumbing, electrical, mechanical and security systems. The Authority maintains separate program reserves to address such emergent conditions as well as unforeseen events.

Through the approval of various capital plans, the Authority’s current capital portfolio of school facilities projects includes 39 projects consisting of: 35 new or addition/major renovation projects; and 4 capital maintenance projects that address serious facility deficiencies. The total estimated project costs for the current capital program exceeds \$1.5 billion. The SDA continues to evaluate other school facilities projects for advancement.

The following un-audited information provides insight into the activities of the School Construction Program during the last five years and is not intended to be presented in accordance with generally accepted accounting principles.

	\$ In thousands				
	2013	2012	2011	2010	2009
EFCFA funding received from State	\$-	\$375,000	\$-	\$499,200	\$775,000
Investment earnings, net	272	205	546	1,299	2,345
Administrative and general expenses *	19,835	34,749	35,699	44,333	44,707
Capital expenditures	295	54	26	52	234
School facilities project costs *	172,238	145,584	154,930	274,584	509,462
Employee count at end of year	243	241	255	304	332

* Commencing January 1, 2013, the Authority began allocating employee salaries and benefit costs between operating expense (i.e., administrative and general expenses) and school facilities project costs.

2013 Financial Highlights

- At year end, the Authority’s net position is \$181.2 million.
- At year end, cash and cash equivalents total \$281.9 million.
- For the year, revenues total \$427 thousand, consisting primarily of investment earnings and rental property income. The Authority did not receive revenue from bond sales in 2013.
- For the year, expenses total \$192.6 million, \$172.2 million (89.4%) of which is for school facilities project costs.
- For the year, general fund expenditures exceed general fund revenues by \$237.3 million.

Overview of the Financial Statements

The financial section of this annual report consists of three parts: Management’s Discussion and Analysis (this section); the basic financial statements; and required supplementary information. The Authority’s basic financial statements consist of three components: 1) government-wide financial statements; 2) governmental fund financial statements (these are also referred to as the “general fund” financial statements); and 3) notes to financial

statements. Because the Authority operates a single governmental program, its government-wide and governmental fund financial statements have been combined using a columnar format that reconciles individual line items of general fund financial data to government-wide data in a separate column on the face of the financial statement.

Government-wide financial statements are designed to provide readers with a broad overview of the Authority's finances, in a manner similar to a private sector business. The statement of net position presents information on all of the Authority's assets and liabilities, with the difference between the two reported as net position. Over time, an increase or decrease in net position may serve as a useful indicator of whether the financial position of the Authority is improving or deteriorating.

The statement of activities presents information showing how the Authority's net position changed during the most recent period. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of the related cash flows. Thus, revenue and expenses are reported in this statement for some items that will only result in cash flows in the future fiscal period.

Governmental fund financial statements are designed to provide the reader information about an entity's various funds. A fund is a grouping of related accounts that is used to maintain control over the resources that have been segregated for specific activities or objectives. The Authority uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The Authority operates a single governmental fund for financial reporting purposes and this fund is considered a general fund.

The focus of governmental fund financial statements is on near-term inflows and outflows of spendable resources as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating the Authority's near-term financing requirements.

Because the focus of the governmental fund is narrower than that of the government-wide financial statements, it is useful to compare the information presented for the governmental fund with similar information presented in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the Authority's near-term financing decisions. Both the fund balance sheet and the statement of revenues, expenditures, and changes in fund balance provide a reconciliation to facilitate this comparison.

Financial Analysis of the Authority

Net Position - The Authority's net position decreased to \$181.2 million at year-end, primarily due to 2013 expenditures for school facilities projects (\$172.2 million) exceeding total revenue (\$427 thousand).

The following table summarizes the Authority's net position at December 31, 2013 and 2012.

	\$ In thousands			
	2013	2012	\$ Increase/ (Decrease)	% Increase/ (Decrease)
Current assets	\$283,909	\$516,391	\$(232,482)	(45.0)%
Capital assets-net	370	645	(275)	(42.6)%
Total assets	<u>\$284,279</u>	<u>\$517,036</u>	<u>\$(232,757)</u>	<u>(45.0)%</u>
Current liabilities	\$52,358	\$47,738	\$4,620	9.7%
Non-current liabilities	50,672	95,834	(45,162)	(47.1)%
Total liabilities	<u>\$103,030</u>	<u>\$143,572</u>	<u>\$(40,542)</u>	<u>(28.2)%</u>
Net position:				
Invested in capital assets	370	645	(275)	(42.6)%
Restricted for schools construction:				
Build America Bond program	-	98,297	(98,297)	(100.0)%
Special revenue fund	180,879	274,522	(93,643)	(34.1)%
Net position	<u>181,249</u>	<u>373,464</u>	<u>(192,215)</u>	<u>(51.5)%</u>
Total liabilities and net position	<u>\$284,279</u>	<u>\$517,036</u>	<u>\$(232,757)</u>	<u>(45.0)%</u>

Note: All percentages are calculated using unrounded figures.

Operating Activities – The Authority earns interest on invested funds primarily through its participation in the State Cash Management Fund, a fund managed by the Division of Investment under the Department of Treasury. The fund consists of U.S. Treasury obligations, government agencies obligations, certificates of deposit and commercial paper.

The following table summarizes the change in net position for the years ended December 31, 2013 and 2012.

	\$ In thousands			
	2013	2012	\$ Increase/ (Decrease)	% Increase/ (Decrease)
Revenues				
EFCFA funding received from State	\$-	\$375,000	\$(375,000)	(100.0)%
Bidding fees-plans and specs	-	30	(30)	(100.0)%
Investment earnings, net	272	205	67	32.7%
Rental property income	150	186	(36)	(19.4)%
Other revenue	5	348	(343)	(98.5)%
Total revenues	<u>\$427</u>	<u>\$375,769</u>	<u>\$(375,342)</u>	<u>(99.9)%</u>

	\$ In thousands			
	2013	2012	\$ Increase/ (Decrease)	% Increase/ (Decrease)
Expenses				
Administrative and general expenses *	\$19,834	\$34,749	\$(14,915)	(42.9)%
Depreciation	570	878	(308)	(35.1)%
School facilities project costs *	172,238	145,584	26,654	18.3%
Total expenses	192,642	181,211	11,431	6.3%
Change in net position	(192,215)	194,558	(386,773)	(198.8)%
Beginning net position	373,464	178,906	194,558	108.7%
Ending net position	\$181,249	\$373,464	\$(192,215)	(51.5)%

* Commencing January 1, 2013, the Authority began allocating employee salaries and benefit costs between operating expense (i.e., administrative and general expenses) and school facilities project costs.

Note: All percentages are calculated using unrounded figures.

Contacting the Authority's Financial Management

This financial report is designed to provide New Jersey citizens and taxpayers, and the Authority's customers, clients and creditors, with a general overview of the Authority's finances and to demonstrate the Authority's accountability for the funds it receives from the State. If you have questions about this report or need additional financial information, contact the Office of the Chief Financial Officer, New Jersey Schools Development Authority, P.O. Box 991, Trenton, NJ 08625-0991, or visit our web site at www.njsda.gov.

New Jersey Schools Development Authority
(a component unit of the State of New Jersey)

Statement of Net Position and General Fund Balance Sheet

December 31, 2013

	General Fund Total	Adjustments (Note 8)	Statement of Net Position
Assets			
Cash and cash equivalents	\$281,909,622		\$281,909,622
Receivables	642,222	\$ 711,097	1,353,319
Prepaid expenses	645,466		645,466
Capital assets-net		370,153	370,153
Total assets	\$283,197,310	\$ 1,081,250	\$284,278,560
Liabilities			
Accrued school facilities project costs	\$ 45,380,669	\$35,658,300	\$ 81,038,969
Other post-employment benefits obligation		13,880,767	13,880,767
Other accrued liabilities	576,518	1,132,558	1,709,076
Deposits	6,400,990		6,400,990
Total liabilities	52,358,177	50,671,625	103,029,802
Fund Balance/Net Position			
Invested in capital assets		370,153	370,153
Nonspendable:			
Prepaid expenses	645,466	(645,466)	
Restricted for schools construction:			
Special revenue fund	230,193,667	(49,315,062)	180,878,605
Total fund balance/net position	230,839,133	(49,590,375)	181,248,758
Total liabilities and fund balance/net position	\$283,197,310	\$ 1,081,250	\$284,278,560

See accompanying notes.

New Jersey Schools Development Authority
(a component unit of the State of New Jersey)

Statement of Activities and General Fund Revenues,
Expenditures and Changes in Fund Balance

For the Year Ended December 31, 2013

	General Fund Total	Adjustments (Note 8)	Statement of Activities
Revenues			
General:			
Investment earnings	\$ 271,871		\$ 271,871
Rental property income	150,222		150,222
Other revenue	5,189		5,189
Total revenues	<u>427,282</u>		<u>427,282</u>
Expenditures/Expenses			
Administrative and general expenses	17,517,366	\$ 2,317,163	19,834,529
Capital expenditures	295,214	(295,214)	
Capital depreciation		570,279	570,279
School facilities project costs	219,871,277	(47,632,803)	172,238,474
Total expenditures/expenses	<u>237,683,857</u>	<u>(45,040,575)</u>	<u>192,643,282</u>
Excess of expenditures over revenues	(237,256,575)	45,040,575	
Change in net position			(192,216,000)
Fund Balance/Net Position			
Beginning of year, January 1, 2013	468,095,708	(94,630,950)	373,464,758
End of year, December 31, 2013	<u>\$230,839,133</u>	<u>\$(49,590,375)</u>	<u>\$181,248,758</u>

See accompanying notes.

New Jersey Schools Development Authority
(a component unit of the State of New Jersey)

Notes to Financial Statements

1. Nature of the Authority

The New Jersey Schools Development Authority (the “Authority” or “SDA”) was established on August 6, 2007 to replace the New Jersey Schools Construction Corporation (“SCC”) pursuant to reform legislation (P.L.2007, c.137). As of the date of the legislation, the SCC was dissolved and all its functions, powers, duties and employees were transferred to the SDA. The Authority is governed by its own Board of Directors and is fiscally dependent upon the State of New Jersey (“State”) for funding. Organizationally, the Authority is situated in, but not of, the New Jersey Department of the Treasury.

The School Construction Program was initiated in response to the New Jersey Supreme Court’s decision in Raymond Abbott et al. v. Fred G. Burke, 153 N.J. 480 (1998), which eventually led to the Legislature’s adoption of the Educational Facilities Construction and Financing Act, P.L.2000, c.72 (“EFCFA”) on July 18, 2000. The EFCFA, as amended in P.L.2008, c.39, provides for an aggregate \$12.5 billion principal amount of bond proceeds (“EFCFA funding”) to be issued by the New Jersey Economic Development Authority (“EDA”), the financing agent for the Schools Construction Program, and transferred to the Authority. Of this amount, \$8.9 billion is allocated to 31 urban school districts referred to as the “SDA Districts” (formerly Abbott Districts), \$3.45 billion is for non-SDA districts (“Regular Operating Districts”) and \$150 million is reserved for vocational schools.

2. Summary of Significant Accounting Policies

(a) Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all the activities of the Authority.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. Direct expenses are those that are clearly identifiable with a specific program. Program revenues include (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment, and (2) EFCFA funding received from the State which monies are restricted to meeting either the operational or capital requirements of the School Construction Program.

Separate financial statements are provided for the Authority’s governmental fund (these are also referred to as the “general fund” financial statements). Because the Authority operates a single governmental program, its government-wide and governmental fund financial statements have been combined using a columnar format that reconciles individual line items of general fund financial data to government-wide data in a separate column on the face of the financial statement.

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Notes to Financial Statements (Continued)

(b) Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows.

The Authority's governmental fund is classified as a general fund and its financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Authority considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual basis accounting; however, expenditures related to compensated absences and certain other accruals are recorded only when payment is due. With regard to the Authority's restricted schools construction special revenue fund, restricted amounts are considered to have been spent only after the expenditure is incurred for which there is available restricted fund balance.

(c) Revenue Recognition

Rental property income is received under month-to-month lease occupancy agreements. Acquisitions of various properties for the construction of school facilities projects generate rental revenue prior to the relocation of the occupants. Rental property income is generally recognized when received.

(d) Allocation of Employee Salaries and Benefits Costs

Commencing January 1, 2013 the Authority began allocating employee salaries and benefits costs between operating expense (i.e., administrative and general expenses) and school facilities project costs on the Statement of Activities and General Fund Revenues, Expenditures and Changes in Fund Balance. Previously, these costs were charged entirely to operating expense. The allocation of employee salaries to school facilities project costs is supported by weekly time sheet data; employee benefits costs are allocated to projects based on a projected annual fringe benefit rate determined by the Authority. The fringe benefit rate utilized for 2013 is 42.36%.

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Notes to Financial Statements (Continued)

For the year ended December 31, 2013, employee salary and benefit costs are allocated as follows:

Employee salary and fringe benefits costs:	
Charged to administrative and general expenses	\$14,188,284
Charged to school facilities project costs	<u>14,017,987</u>
Total employee salary and benefits costs	<u><u>\$28,206,271</u></u>

(e) Rebate Arbitrage

Rebate arbitrage is defined by Internal Revenue Code (“IRC”) Section 148 as earnings on investments purchased with the gross proceeds of a bond issue in excess of the amount that would have been earned if the investments were invested at a yield equal to the yield on the bond issue. The amount of rebates due the federal government is determined and payable during each five-year period and upon final payment of the tax-exempt bonds. The Authority, the EDA and the New Jersey Department of the Treasury, Office of Public Finance have determined that any rebate arbitrage liability associated with an issue of School Facilities Construction Bonds shall be recorded on the Authority’s books since the Authority retains the income on the investment of bond proceeds.

It is the Authority’s policy to record rebate arbitrage liabilities only when it is probable that any excess investment income, as defined above, will not be retained by the Authority. The Authority does not record rebate liabilities in cases where it is projected that the liability will be negated by the 24-month spending exception in accordance with the IRC.

Rebate arbitrage calculations have been performed for all series of School Facilities Construction Bonds up through 2013 Series KK, G, and H. As of December 31, 2013, no rebate arbitrage liabilities exist.

(f) Cash Equivalents

Cash equivalents consist of highly liquid debt instruments with original maturities of three months or less, and participation in the State’s Cash Management Fund (“NJCMF”), a fund managed by the Division of Investment under the Department of Treasury. It consists of U.S. Treasury obligations, government agencies obligations, certificates of deposit and commercial paper. Cash equivalents are stated at fair value.

(g) Prepaid Expenses

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both the government-wide and governmental fund financial statements.

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Notes to Financial Statements (Continued)

(h) Capital Assets

Capital assets are reported in the governmental activity column in the government-wide financial statements and are recorded at historical cost or estimated historical cost if purchased and constructed. The Authority's current capitalization threshold is \$10,000 for individual items meeting all other capitalization criterion. As of December 31, 2013, the Authority's capital assets consist of leasehold improvements, equipment, computer software and furniture and fixtures. Depreciation is provided by the straight-line method over the shorter of the life of the lease or the useful life of the related asset.

The Authority does not have an economic interest in any school facility project that it finances. Therefore, costs related to school facilities projects are not recorded as capital assets in the Authority's Statement of Net Position but instead are reported as school facilities project costs in the statement of activities.

(i) Taxes

The Authority is exempt from all federal and state income taxes and real estate taxes.

(j) Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

(k) Recent Accounting Pronouncements

In June 2012, the Governmental Accounting Standards Board ("GASB") issued Statement No. 67, *Financial Reporting for Pension Plans* ("GASB 67"). The objective of this Statement is to improve the usefulness of pension information included in the general purpose external financial reports of state and local governmental pension plans for making decisions and assessing accountability. The provisions of this Statement are effective for financial statements for periods beginning after June 15, 2013. Since this standard impacts the financial reporting of pension plans, the Authority does not anticipate that the implementation of this standard will have an impact on its financial statements.

In June 2012, GASB issued Statement No. 68, *Accounting and Financial Reporting for Pensions* ("GASB 68"). The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for pensions. GASB 68 also improves information provided by state and local governmental employers about financial support for pensions that is provided by other entities. The provisions of this Statement are effective for financial statements for periods beginning after June 15, 2014.

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Notes to Financial Statements (Continued)

The Authority has not completed the process of evaluating the impact of GASB 68 on its financial statements.

In January 2013, GASB issued Statement No. 69, *Government Combinations and Disposals of Government Operations* (“GASB 69”). The objective of this Statement is to improve the accounting for mergers and acquisitions among state and local governments by providing guidance specific to the situations and circumstances encountered within the governmental environment. The provisions of this Statement are effective for financial statements for periods beginning after December 15, 2013. The Authority does not anticipate that the implementation of this standard will have an impact on its financial statements.

In February 2013, GASB issued Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees* (“GASB 70”). The objective of this Statement is to improve the comparability of financial statements among governments by requiring consistent reporting by those governments that extend and/or receive nonexchange financial guarantees. The provisions of this Statement are effective for financial statements for periods beginning after June 15, 2013. The Authority does not anticipate that the implementation of this standard will have an impact on its financial statements.

In November 2013, GASB issued Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date, an amendment of GASB 68*, (“GASB 71”). The objective of this Statement is to address an issue regarding application of the transition provisions of GASB 68. The issue relates to amounts associated with contributions, if any, made by a state or local government employer or non-employer contributing entity to a defined benefit pension plan after the measurement date of the government’s beginning net pension liability. The provisions of this Statement are effective for financial statements for periods beginning after June 15, 2014. The Authority has not completed the process of evaluating the impact of GASB 71 on its financial statements.

3. Cash, Cash Equivalents and Investments

(a) Cash Flows

Overall cash and cash equivalents decreased during the year by \$232.6 million to \$281.9 million as follows:

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Notes to Financial Statements (Continued)

Cash and cash equivalents, beginning of year	\$514,531,670
Changes in cash:	
Investment and interest income	271,871
Miscellaneous revenue	155,411
School facilities project costs	(211,970,054)
Administrative and general expenses	(17,264,215)
Capital expenditures	(295,214)
Deposits	(3,519,847)
Cash and cash equivalents, end of year	\$281,909,622

(b) Cash and Cash Equivalents

Operating cash, in the form of Negotiable Order of Withdrawal (“NOW”) accounts, is held in the Authority’s name by two commercial banking institutions. At December 31, 2013, the carrying amount of operating cash is \$1,070,533 and the bank balance is \$1,362,716. Regarding the amount held by commercial banking institutions, up to \$250,000 at each institution is insured with Federal Deposit Insurance.

Pursuant to GASB Statement No. 40, *Deposit and Investment Risk Disclosures*, NOW accounts are profiled in order to determine exposure, if any, to custodial credit risk (risk that in the event of failure of the counterparty the account owner would not be able to recover the value of its deposits or investment). Deposits are considered to be exposed to custodial credit risk if they are: uninsured and uncollateralized (securities not pledged to the depositor); collateralized with securities held by the pledging financial institution; or collateralized with securities held by the financial institution’s trust department or agent but not in the government’s name. At December 31, 2013, all of the Authority’s deposits were insured or collateralized by securities held in its name and, accordingly, not exposed to custodial credit risk. The Authority does not have a policy for custodial credit risk.

As of December 31, 2013, cash and cash equivalents include deposits of \$6,400,990 consisting mainly of district local share funding requirements (see Note 5).

(c) Investments

In order to maximize liquidity, the Authority utilizes the NJCMF as its sole investment. The NJCMF invests pooled monies from various State and non-State agencies in primarily short-term investments. These investments include: U.S. Treasuries; short-term commercial paper; U.S. Agency Bonds; Corporate Bonds; and Certificates of Deposit. Agencies that participate in the NJCMF typically earn returns that mirror short-term investment rates. Monies can be freely added or withdrawn from the NJCMF on a daily basis without penalty. At December 31, 2013, the Authority’s investments in the NJCMF total \$280,839,089.

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Notes to Financial Statements (Continued)

Custodial Credit Risk: Pursuant to GASB Statement No. 40, the NJCMF, which is a pooled investment, is exempt from custodial credit risk disclosure. As previously stated, the Authority does not have a policy for custodial credit risk.

Credit Risk: The Authority does not have an investment policy regarding the management of credit risk. GASB Statement No. 40 requires that disclosure be made as to the credit rating of all debt security investments except for obligations of the U.S. government or investments guaranteed by the U.S. government. The NJCMF is not rated by a rating agency.

Interest Rate Risk: The Authority does not have a policy to limit interest rate risk. The average maturity of the Authority's sole investment, the NJCMF, is less than one year.

4. Prepaid Expenses

As of December 31, 2013, the Authority's prepaid expenses are as follows:

Insurance	\$528,703
Office rents	76,259
Service contracts	28,108
Other	12,396
Total prepaid expenses	<u>\$645,466</u>

5. Local Share Deposits

The Authority has received funds from several local school districts as required by Local Share Agreements for the funding of the local share portion of Regular Operating District school facility projects, or to cover certain ineligible costs pertaining to projects in the SDA Districts. These deposits, including investment earnings, are reflected as liabilities in the accompanying financial statements.

As of December 31, 2013, local share deposits held in SDA bank accounts, inclusive of interest earned but not refunded to the district, are as follows:

City of Newark	\$4,822,639
Egg Harbor City	644,561
Buena Borough	933,790
Total local share deposits	<u>\$6,400,990</u>

6. Rental of Office Space

The Authority rents commercial office space for its headquarters facility in Trenton, as well as other office space in Newark. The remaining terms of these leases range from 5 to 10 years. With respect to the Trenton office lease, the Authority has the right to terminate the

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Notes to Financial Statements (Continued)

lease after five years. Total rental expense for the year ended December 31, 2013 amounted to \$2,193,624.

Future rent commitments under operating leases as of December 31, 2013 are as follows:

2014	\$1,185,353
2015	1,197,407
2016	1,212,416
2017	1,227,651
2018	1,243,113
2019-2023 (optional years)	5,668,549
Total future rent expense	\$11,734,489

7. Capital Assets

Capital asset activity for the year ended December 31, 2013 is as follows:

	Beginning Balance	Additions	Retirements	Ending Balance
Leasehold improvements	\$7,916,738	\$27,672	\$(7,441,731)	\$502,679
Office furniture and equipment	5,094,937	225,542	-	5,320,479
Computer software	568,993	-	-	568,993
Automobiles	289,615	42,000	-	331,615
Capital assets-gross	13,870,283	295,214	(7,441,731)	6,723,766
Less: accumulated depreciation	(13,225,065)	(570,279)	7,441,731	(6,353,613)
Capital assets-net	\$645,218	\$(275,065)	\$-	\$370,153

8. Reconciliation of Government-Wide and Fund Financial Statements

(a) Explanation of certain differences between the governmental fund balance sheet and the government-wide statement of net position

“Total fund balances” for the Authority’s general fund (\$230,839,133) differs from the “net position” reported on the statement of net position (\$181,248,758). This difference results from the long-term economic focus of the statement of net position versus the current financial resources focus of the fund balance sheet. When capital assets that are to be used in the Authority’s activities are constructed or acquired, the costs of those assets are reported as expenditures in the fund financial statements. However, the statement of net position includes those capital assets among the assets of the Authority as a whole. In addition, expenses associated with depreciation, accrued school facilities project costs not currently due for payment and non-current other post-employment benefits and compensated absences are not recorded in the fund financial statements until paid. A summary of these differences at December 31, 2013 is as follows:

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Notes to Financial Statements (Continued)

Fund balances	\$230,839,133
Capital assets, net of related depreciation of \$(6,353,613)	370,153
Accrued school facilities project costs, net of related receivable	(34,947,203)
Accrued other post-employment benefits	(13,880,767)
Accrued compensated absences	(1,132,558)
Net position	\$181,248,758

(b) Explanation of certain differences between the governmental fund statement of revenues, expenditures, and changes in fund balances and the government-wide statement of activities

The governmental fund statement of revenues, expenditures, and changes in fund balances includes a reconciliation between excess of revenues over expenditures and changes in net position as reported in the government-wide statement of activities. Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. Also, some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. A summary of these differences for the year ended December 31, 2013 is as follows:

Excess of expenditures over revenues	\$(237,256,575)
School facilities project costs	47,632,803
Other post-employment benefits expense	(2,245,741)
Compensated absences expense	(71,422)
Capital asset acquisitions	295,214
Depreciation expense	(570,279)
Changes in net position	\$(192,216,000)

9. Pollution Remediation Obligations

In accordance with GASB Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*, the Authority has recorded in the statement of net position a pollution remediation obligation (“PRO”) liability (net of environmental cost recoveries not yet realized) in the amount of \$24,554,794 as of December 31, 2013. Additionally, as of the same date the Authority has recorded in the statement of net position a receivable in the amount of \$711,097 for realized environmental cost recoveries. The Authority’s PRO liability and asset are charged or credited to school facilities project costs in the statement of activities. The Authority’s PRO liability is measured based on the current cost of future activities. Also, the PRO liability was estimated using “the expected cash flow technique,” which measures the liability as the sum of probability weighted amounts in a range of possible estimated outcomes.

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Notes to Financial Statements (Continued)

The Authority owns numerous properties with environmental issues that meet the criteria for “obligating events” and disclosure under GASB Statement No. 49. All of the properties meeting the criteria were acquired by the Authority for the purpose of constructing a school facilities project on behalf of an SDA District and, at the present, the Authority believes it has obligated itself to commence clean-up activities. The Authority will continue to evaluate the applicability of this Statement relating to specific project sites as adjustments are made to its portfolio of school facilities projects. The Authority’s remediation activities generally include: pre-cleanup activities including preliminary assessment and site investigation; asbestos and lead based paint removal; underground storage tank removal; neutralization, containment, removal and disposal of ground pollutants; site restoration; and post-remediation monitoring and oversight. The following table summarizes the Authority’s expected cash outlays (estimated costs), payments and cost recoveries related to numerous SDA-owned properties associated with school facilities projects in various stages of pre-development and construction.

Description	Estimated Cost	Payments to Date	PRO at 12-31-2013
Pre-cleanup activities	\$5,599,448	\$5,314,934	\$284,514
Site remediation work	71,444,051	48,501,879	22,942,172
Post-remediation monitoring	1,060,353	386,266	674,087
Asbestos and lead based paint removal	18,352,718	15,989,752	2,362,966
Sub-total	96,456,570	70,192,831	26,263,739
Less: Estimated environmental cost recoveries (ECR) not yet realized	1,708,945	-	1,708,945
Liability for pollution remediation obligations	<u>\$94,747,625</u>	<u>\$70,192,831</u>	<u>\$24,554,794</u>
Receivable for realized ECR	<u>\$711,097</u>	<u>\$-</u>	<u>\$711,097</u>

The following table summarizes the changes in the Authority’s PRO liability during the year ended December 31, 2013:

PRO at 12-31-2012	Decrease in Expected Cash Outlays	PRO Payments	Decrease in ECR Not Yet Realized	PRO at 12-31-2013
\$34,748,298	(\$5,945,079)	(\$4,324,825)	\$76,400	\$24,554,794

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Notes to Financial Statements (Continued)

10. Commitments and Contingencies

(a) Contractual Commitments

At December 31, 2013, the Authority has approximately \$733 million of unaccrued contractual commitments relating to future expenditures associated with school facilities projects.

(b) Contractor Claims

Numerous contractor claims, the vast majority of which are not in litigation, have been filed with the Authority by design consultants, general contractors and project management firms relating to disputes concerning school construction matters (e.g., delays, labor and material price increases). The Authority resolves contractor claims by following the administrative process noted in the relevant contract. As of December 31, 2013, the Authority's potential loss from these claims has been estimated at approximately \$11.1 million, which represents a decrease of \$37.3 million from the prior year end accrual. The decrease resulted primarily from paid settlements in 2013. Accordingly, as of December 31, 2013, an accrued liability of \$11.1 million is reflected in the statement of net position and, for the year then ended, \$37.3 million is offset against school facilities project costs on the statement of activities.

(c) Insurance

The Authority maintains commercial insurance coverage for, among other things, workers' compensation, tort liability (including public liability and automobile) and property damage. Additionally, in support of its construction operations the Authority has implemented an Owner-Controlled Insurance Program ("OCIP") and has also purchased Owners Protective Professional Indemnity Insurance ("OPPI"), both of which are discussed below. As of December 31, 2013, management is not aware of any insurable claim that is expected to exceed its commercial insurance coverage. The Authority is also involved in several lawsuits not covered under its commercial insurance; however, in the opinion of management, none of the claims is expected to have a material effect on the Authority's financial statements.

The Authority has implemented an OCIP that "wraps up" multiple types of insurance coverage into one program. The Authority initially implemented a three-year OCIP, effective December 31, 2003 ("OCIP I"), to provide workers' compensation, commercial general liability, umbrella/excess liability and builders risk insurance for all eligible contractors performing labor on school facilities projects. OCIP I was subsequently extended to March 31, 2009. Builders risk coverage for OCIP I expired as of December 31, 2009. Policy limits for OCIP I vary depending upon, among other things, the type of insurance coverage; a \$300 million umbrella/excess liability program provides additional protection against potentially catastrophic losses resulting from workers' compensation and commercial general liability claims. Losses are subject to a \$250,000 per claim deductible. Although OCIP I is no longer enrolling new projects into the program since its expiration, completed operations

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coverage continues for 10 years from the end of construction for all previously enrolled projects.

In 2009, the Authority purchased a new five-year OCIP (“OCIP II”). OCIP II, as originally purchased, provided coverage for projects commencing construction between March 31, 2009 and March 31, 2012. The OCIP II enrollment period was extended to March 31, 2014 at no additional cost to the Authority. The extension also provides an additional two years for the completion of enrolled projects. Builders risk coverage for OCIP II had an initial three-year term commencing December 31, 2009 and was subsequently extended for an additional year to include projects that will begin construction prior to December 31, 2013. Similar to OCIP I, policy limits for OCIP II vary depending upon, among other things, the type of insurance coverage; a \$200 million umbrella/excess liability program provides additional protection against potentially catastrophic losses resulting from workers’ compensation and commercial general liability claims. Losses are subject to either a \$250,000 per claim deductible or a \$350,000 deductible in the event that both a workers’ compensation and general liability claim occur from the same incident. Additionally, OCIP II provides 10 years of completed operations coverage for claims that arise after the completion of construction. Premiums for OCIP II are adjustable based upon actual construction values for enrolled contractors (not all trades are eligible for enrollment) on insured projects, estimated at \$2 billion when the program was purchased.

In connection with OCIP I, the Authority executed a Funded Multi-Line Deductible Program Agreement which, among other things, required the Authority to fund a Deductible Reimbursement Fund (“DRF”) to collateralize the Authority’s estimated deductible obligations under certain OCIP I policies. The DRF, which was established at \$37 million, consists of cash payments by the Authority totaling \$34.9 million, and a one-time credit of \$2.1 million received at inception for estimated interest. The cash portion of the DRF was funded by the Authority in installments during the period from December 2003 through December 2006, and expensed as paid as school facilities project costs on the statement of activities and general fund revenues, expenditures and changes in fund balance.

Concurrent with the Authority’s purchase of OCIP II, the insurer agreed to transfer the available funds from the Authority’s DRF to a new Loss Reimbursement Fund (“LRF”). The LRF for OCIP II was initially established at approximately \$18.9 million to partially fund a maximum deductible obligation of \$26 million. The funds remaining, totaling approximately \$9.9 million, were allocated to fund the LRF for OCIP I. All monies deposited in the LRF accrue interest to the benefit of the Authority and are available to pay claim costs arising from construction projects enrolled within the respective OCIP.

As of December 31, 2013, the Authority has incurred general liability and workers’ compensation claims totaling approximately \$3.9 million and \$11.5 million, respectively, under OCIP I and OCIP II. All monies deposited in the LRF and not used to pay claims will be refunded to the Authority along with accrued interest. Under the terms of the contract, the

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Notes to Financial Statements (Continued)

Authority has no claim or interest in the LRF until six (6) months after the expiration of the program. At this time, and annually thereafter, the LRF for OCIP I shall be reviewed and the deductible obligation re-determined.

In connection with the OCIP II extension, discussed above, the maximum deductible obligation is \$16 million. A reasonable estimate of future refunds from the OCIP II LRF is not yet known since the majority of covered school facilities projects are in various stages of completion and therefore the Authority's ultimate obligation cannot be immediately determined.

In October 2009, the Authority purchased a 5-year, \$25 million limit liability OPPI policy designed to provide additional protection in excess of the professional liability insurance maintained by the Authority's contracted design professionals. The policy is subject to a \$500,000 self-insured retention, and provides coverage for construction projects. In addition, the policy provides an Extended Reporting Period ("ERP") of up to 10 years to report claims. The ERP commences on the earlier of project completion or the policy expiration date of October 1, 2014.

11. Employee Benefits

(a) Public Employees Retirement System of New Jersey

All active, full-time employees of the Authority are required as a condition of employment to participate in the Public Employees Retirement System of New Jersey ("PERS" or "Plan"), a cost-sharing, and multiple-employer defined benefit plan administered by the State. Effective July 1, 2013, employees are required to contribute 6.64% (up from 6.5%) of their annual compensation to the Plan. An additional 0.86% increase will be phased in over the next 6 years, bringing the total pension contribution rate to 7.5%. All Plan participants are categorized within membership Tiers in accordance with their enrollment date in the PERS, as follows: Tier 1 includes those members enrolled in PERS prior to July 1, 2007; Tier 2 includes those members enrolled in PERS on or after July 1, 2007 and prior to November 2, 2008; Tier 3 includes those members enrolled in PERS on or after November 2, 2008 and on or before May 21, 2010; Tier 4 includes those members enrolled in PERS after May 21, 2010 and prior to June 28, 2012; and Tier 5 includes those members enrolled in PERS on or after June 28, 2012. Depending on the Tier, other factors including minimum base salary amounts and/or minimum hours worked, among other things, may impact an employee's eligibility in the PERS. As discussed below, members enrolled in the PERS on or after July 1, 2007, and who earn an annual salary in excess of established limits, are eligible to participate in a Defined Contribution Retirement Program ("DCRP") administered by Prudential Financial on behalf of the State.

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The Authority's total payroll for the years ended December 31, 2013, 2012 and 2011, which approximates its covered payroll, was \$18,329,051, \$18,472,472 and \$19,904,178, respectively.

In 2013, 2012 and 2011, the Authority's pension contributions to the PERS totaled \$2,163,895, \$2,673,145, and \$2,545,016, respectively; such amounts were charged to salaries and benefits expense. The Authority's 2014 pension contribution, due on April 1, 2014, is expected to be \$2,182,794.

The general formula for annual retirement benefits for Tier 1, Tier 2, and Tier 3 members is the final 3 year average salary divided by 55, times the employee's years of service. The formula for Tier 4 and Tier 5 members is the final 5 year average salary divided by 60, times the employee's years of service. Pension benefits for all members fully vest upon reaching 10 years of credited service. Tier 1 and Tier 2 members are eligible for normal retirement at age 60, while Tier 3 and Tier 4 members are eligible for normal retirement at age 62. Tier 5 members are eligible for normal retirement at age 65. No minimum years of service is required once an employee reaches the applicable retirement age.

Tier 1 members who have 25 years or more of credited service may elect early retirement without penalty at or after age 55, and receive full retirement benefits; however, the retirement allowance is reduced by 3% per year (1/4 of 1 percent per month) for each year the member is under age 55. For Tier 2 members with 25 years or more of credited service the retirement allowance is reduced by 1% per year (1/12 of 1 percent per month) for each year the member is under age 60 (until age 55) and 3% per year (1/4 of 1 percent per month) for each year the member is under age 55. For Tier 3 and Tier 4 members the retirement allowance is reduced by 1% per year (1/12 of 1 percent per month) for each year the member is under age 62 (until age 55) and 3% per year (1/4 of 1 percent per month) for each year the member is under age 55. Lastly, for Tier 5 members the retirement allowance is reduced by 3% per year (1/4 of 1 percent per month) for each year the member is under age 65.

The PERS also provides death and disability benefits. The State of New Jersey has the authority to establish and/or amend any of the benefit provisions and contribution requirements. The State of New Jersey, Department of the Treasury, Division of Pension and Benefits, issues publicly available financial reports that include the financial statements and required supplementary information for the PERS. The financial reports may be obtained by writing to the State of New Jersey, Department of the Treasury, Division of Pension and Benefits, P.O. Box 295, Trenton, New Jersey, 08625-0295.

(b) Defined Contribution Retirement Program and Early Retirement Changes for Employees Enrolled in the PERS on or after July 1, 2007

The DCRP was established on July 1, 2007 under the provisions of P.L.2007, c.92 and P.L.2007, c.103. The DCRP provides eligible members with a tax-sheltered, defined

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contribution retirement benefit, along with death and disability benefits. A PERS member who becomes eligible and is enrolled in the DCRP is immediately vested in the DCRP. To be eligible for the DCRP, an employee is required to have enrolled in the PERS on or after July 1, 2007 (Tiers 2 through 5), and they must earn an annual salary in excess of established “maximum compensation” limits. The maximum compensation is based on the annual maximum wage for Social Security and is subject to change at the start of each calendar year. A PERS member who is eligible for the DCRP may voluntarily choose to waive participation in the DCRP for a reduced retirement benefit from the State. If a member waives DCRP participation and later wishes to participate, the member may apply for DCRP enrollment, with membership to be effective January 1 of the following calendar year. PERS members who participate in the DCRP continue to receive service credit and are eligible to retire under the rules of the PERS, with their final salary at retirement limited to the maximum compensation amounts in effect when the salary was earned. The participating member would also be entitled to a supplementary benefit at retirement based on both the employee (above the maximum compensation limit) and employer contributions to the DCRP. For the direct benefit of those participating in the DCRP, the Authority would be required to contribute 3% to the DCRP (“employer matching”) based on the member’s annual compensation (base salary) in excess of the maximum compensation limit.

For the year ending December 31, 2013, the Authority had eight active employees enrolled in the DCRP and made matching contributions totaling \$8,271. Employer matching contributions relating to 2012, 2011 and 2010 totaled \$5,596, \$6,858, and \$4,853, respectively.

(c) Deferred Compensation

The Authority has established an Employees Deferred Compensation Plan under section 457 of the Internal Revenue Code. All active, full-time employees are eligible to participate in the plan, which permits participants to defer a portion of their pay in accordance with the contribution limits established in section 457(b) of the Internal Revenue Code. The Authority does not make any contributions to the plan.

(d) Other Post-Employment Benefits

The Authority provides post-employment healthcare benefits (including Medicare Part B reimbursement) and prescription drug coverage through participation in the New Jersey Health Benefits Program, as sponsored and administered by the State of New Jersey, to retirees having 25 years or more of service in the PERS, or to those individuals approved for disability retirement. These post-employment benefits also extend to the retirees’ covered dependents. Upon turning 65 years of age, a retiree must opt for Medicare as their primary coverage, with State benefits providing supplemental coverage. In addition, life insurance is provided to retirees in an amount equal to 3/16 of their average salary during the final 12 months of active employment. These post-employment benefits, referred to as OPEB, are

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presently provided by the Authority at no cost to the retiree. The State has the authority to establish and amend the benefit provisions offered and contribution requirements. The plan is considered an agent multiple-employer defined benefit plan for financial reporting purposes. The State of New Jersey, Department of the Treasury, Division of Pension and Benefits, issues publicly available financial reports that include the financial statements for the State Health Benefits Program Funds. The financial reports may be obtained by writing to the State of New Jersey, Department of the Treasury, Division of Pension and Benefits, P.O. Box 295, Trenton, New Jersey, 08625-0295.

The Authority accounts for its OPEB obligations in accordance with GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. The Authority's OPEB cost is calculated based on the annual required contribution of the employer ("ARC"), an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal costs each year and to amortize any unfunded actuarial liabilities over a period not to exceed 30 years.

The Authority's annual OPEB cost for 2013 and 2012 and the related information for the plan are as follows:

	<u>2013</u>	<u>2012</u>
Annual required contribution	\$2,001,296	\$1,928,499
Adjustment to annual required contribution *	<u>381,181</u>	<u>287,154</u>
Annual OPEB cost	2,382,477	2,215,653
Contributions made	<u>(136,736)</u>	<u>(126,150)</u>
Increase in net OPEB obligation	2,245,741	2,089,503
Net OPEB obligation – beginning of year	<u>11,635,026</u>	<u>9,545,523</u>
Net OPEB obligation – end of year	<u><u>\$13,880,767</u></u>	<u><u>\$11,635,026</u></u>

* The adjustment to the ARC includes interest on the net OPEB obligation, less amortization of the net OPEB obligation.

The annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2013, 2012, and 2011 is as follows:

<u>Year Ended</u>	<u>Annual OPEB Cost</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
12/31/2013	\$2,382,477	5.7%	\$13,880,767
12/31/2012	\$2,215,653	5.7%	\$11,635,026
12/31/2011	\$1,994,814	5.7%	\$9,545,523

The Authority's most recent OPEB valuation date is January 1, 2012; however, based on a roll forward calculation performed as of January 1, 2013, the Authority's projected actuarial accrued liability was \$18,105,493, all of which was unfunded. The Authority is

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recognizing this liability over a 30-year period using level dollar amortization, which is representative of amortizing on a level percentage of payrolls on an open basis. The covered payroll (annual payroll of active employees covered by the plan) as of the roll forward date was \$17,969,800 and the ratio of the unfunded actuarial accrued liability to the covered payroll was 100.8%. Additionally, as of December 31, 2013, seven active and seven retired employees were eligible for post-employment benefits.

The Authority has elected at this time to finance its annual OPEB cost on a pay-as-you-go basis in view of the fact that the Authority is not authorized to pre-fund an OPEB trust from the proceeds of tax-exempt bonds (nor from the income earned on the investment of those proceeds) from which it presently derives essentially all of its revenue. Payments for retiree post-employment benefits totaled \$136,736 and \$126,150, respectively, in 2013 and 2012.

Actuarial Methods and Assumptions: Actuarial valuations of a perpetual plan involve formulating estimates and assumptions about the probability of occurrence of future events, such as employment, mortality and healthcare costs, among other things. Consequently, the amounts derived from an actuarial valuation are subject to continual revision as actual results will undoubtedly differ from past expectations and assumptions. The schedule of funding progress, presented as required supplementary information following the notes to financial statements, presents multi-year trend information that shows whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation date and the historical pattern of benefit cost sharing between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

For the most recent actuarial valuation the projected unit credit actuarial cost method was used with a 4.5% discount rate. Pursuant to this method, benefits are recognized from date of hire to the date the employee is first eligible for benefits. No investment return was assumed in the current valuation since there are no OPEB plan assets. The annual healthcare cost inflation rates (trend) for retiree benefits is 9% for 2014, which is assumed to decline 1% per year to an ultimate trend assumption of 5% for the year 2018 and beyond. The same trend rates are assumed for Medicare Part B premium reimbursement and prescription drug costs. As required in GASB Technical Memorandum 2006 1 on the accounting for the federal Retiree Drug Subsidy (“RDS”), the Authority’s actuarial liabilities are shown without a reduction for the RDS even though the NJ Health Benefits Program has opted to receive the RDS.

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To be consistent with the NJ Health Benefits Program, the Authority's January 1, 2012 actuarial valuation included the impacts of both the healthcare reform law (i.e., excise "Cadillac" tax), and the new Mortality Improvement Projection Scale BB. These assumptions were not applied in previous actuarial valuations.

12. Compensated Absences

In accordance with GASB Statement No. 16, *Accounting for Compensated Absences*, the Authority recorded a liability in the amount of \$1,132,558 as of December 31, 2013 in the statement of net position. The liability is the value of employee accrued vacation time as of the balance sheet date and vested sick leave benefits that are probable of payment to employees upon retirement. The vested sick leave benefit to future retirees for unused accumulated sick leave is calculated at the lesser of ½ the value of earned time or \$15,000. The payment of sick leave benefits, prior to retirement, is dependent on the occurrence of sickness as defined by the Authority's policy; therefore, such unvested benefits are not accrued.

13. Long-Term Liabilities

During 2013, the following changes in long-term liabilities are reflected in the statement of net position:

	Beginning Balance	Additions	Deductions	Ending Balance
Accrued school facilities project costs	\$83,138,303	\$76,400	\$(47,556,403)	\$35,658,300
Other post-employment benefits obligation	11,635,026	2,382,477	(136,736)	13,880,767
Compensated absences	1,061,136	71,422	-	1,132,558
Total long-term liabilities	<u>\$95,834,465</u>	<u>\$2,530,299</u>	<u>\$(47,693,139)</u>	<u>\$50,671,625</u>

For further information, see Notes 11(d) and 12.

14. Net Position

The Authority's net position is categorized as either invested in capital assets, or restricted for schools construction. At December 31, 2013, the Authority's net position is \$181.2 million. Invested in capital assets includes leasehold improvements, furniture and fixtures, equipment and computer software used in the Authority's operations, net of accumulated depreciation. Restricted for schools construction includes sub-categories for Build America Bond ("BAB") proceeds, which proceeds were fully expended in 2013, and special revenue fund for all other sources. Net position arising from BAB proceeds are more restricted than those in the special revenue fund. Additionally, only the portion of the Authority's operating costs deemed capitalizable may be funded from BAB proceeds. The special revenue fund includes all net

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position not included in the other categories. When both restricted and unrestricted resources are available for use, it is the Authority's policy to first use restricted resources then unrestricted resources as needed.

The changes during 2012 and 2013 in net position are as follows:

	Invested in Capital Assets	Restricted for Schools Construction Build America Bond Program	Restricted for Schools Construction Special Revenue Fund	Totals
Net position, January 1, 2012	\$1,469,503	\$258,299,957	\$(80,862,763)	\$178,906,697
(Loss)/excess before receipt of EFCFA funding and transfers	(878,427)	(13,245,207)	(20,733,745)	(34,857,379)
Capital assets acquired	54,142	-	(54,142)	-
EFCFA funding received from State	-	-	375,000,000	375,000,000
School facilities project costs	-	(146,757,435)	1,172,875	(145,584,560)
Net position, December 31, 2012	645,218	98,297,315	274,522,225	373,464,758
(Loss)/excess before receipt of EFCFA funding and transfers	(570,279)	(3,777,151)	(15,630,096)	(19,977,526)
Capital assets acquired	295,214	-	(295,214)	-
School facilities project costs	-	(94,520,164)	(77,718,310)	(172,238,474)
Net position, December 31, 2013	\$370,153	\$-	\$180,878,605	\$181,248,758

NEW JERSEY SCHOOLS DEVELOPMENT AUTHORITY
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REQUIRED SUPPLEMENTARY INFORMATION

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Schedule of Funding Progress - Post-Employment Healthcare Benefit Plan

\$ In thousands

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Level Dollar (b)	Unfunded AAL (UAAL) (b) - (a)	Funded Ratio (a) / (b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll (b) - (a) / (c)
1-1-2012	\$ -	\$15,905	\$15,905	- %	\$18,789	85%
1-1-2011 *	\$ -	\$15,706	\$15,706	- %	\$22,667	69%
1-1-2010 *	\$ -	\$18,876	\$18,876	- %	\$24,658	77%

* The actuarial valuations for these years do not include the impacts of either the healthcare reform law (i.e., the excise “Cadillac” tax), or the new Mortality Improvement Projection Scale BB.