SDA

NJ SCHOOLS DEVELOPMENT AUTHORITY

NEW JERSEY SCHOOLS DEVELOPMENT AUTHORITY

(a component unit of the State of New Jersey)

FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION

For the Year Ended December 31, 2007

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

Financial Statements and Supplementary Information

For the Year Ended December 31, 2007

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Report of Independent Auditors

Members of the Authority
New Jersey Schools Development Authority

We have audited the accompanying basic financial statements of the New Jersey Schools Development Authority (the Authority), a component unit of the State of New Jersey, as of December 31, 2007 and for the year then ended as listed in the table of contents. These financial statements are the responsibility of the Authority's management. 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. We were not engaged to perform an audit of the Authority's internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed in Note 10, during 2007, the Authority adopted Governmental Accounting Standards Board Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the New Jersey Schools Development Authority as of December 31, 2007, and the changes in its financial position for the year then ended in conformity with U.S. generally accepted accounting principles.

Management's discussion and analysis and the schedule of funding progress on pages 2 to 9 and page 32 are not a required part of the financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of this required supplementary information. However, we did not audit the information and express no opinion on it.

Ernst & Young LLP

March 7, 2008

Management's Discussion and Analysis

For the Year ended December 31, 2007

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, 2007. This management discussion and analysis should be read in conjunction with the Authority's financial statements and accompanying notes.

Background

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. Key provisions of the reform legislation are discussed below.

The SCC was created on October 1, 2002, pursuant to N.J.S.A. 34:1B-159 and Executive Order #24 (2002), as a subsidiary organization of the New Jersey Economic Development Authority (EDA). As a separate activity set apart from the EDA's mandated economic development mission, the SCC's task was to carry out the obligations of the EDA, with the exception of the power to incur indebtedness, in undertaking the construction of school facilities projects in New Jersey ("State"). Under P.L.2007, c.137, the EDA continues its role as the financing agent for the School Construction Program and maintains a seat on the Authority's Board of Directors.

The School Construction Program in New Jersey 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. As a result of this court decision and the EFCFA, the State is required to provide certain educational infrastructure improvements in the poor, urban school districts ("Abbott School Districts") so that students in these school districts can receive a thorough and efficient education, an explicit requirement of the New Jersey Constitution. The EFCFA was amended in 2007 pursuant to reform legislation discussed below.

The School Construction Program is the largest public construction program undertaken by the State of New Jersey and represents one of the largest school construction programs ever undertaken in the nation. The EFCFA provides for an aggregate $8.6 billion principal amount of bond proceeds ("EFCFA funding") to be issued by the EDA and transferred to the Authority. Of this amount, $6 billion is slated for the Abbott School Districts, $2.5 billion is for non-Abbott districts ("Regular Operating Districts"), and $100 million is for vocational schools.

Reform Legislation (P.L.2007, c.137)

In August 2007, Governor Jon S. Corzine signed legislation that made several changes to the School Construction Program. The initiatives provided in the reform legislation modified the governance and strengthened oversight of the program. Organizational structure was enhanced by establishing the SDA as an independent State Authority, rather than as a subsidiary corporation of the EDA. The number of public members was increased to 11 and the members require confirmation by the State Senate. In addition, the legislation provides enhanced opportunities for the 31 Abbott School Districts, the public, and stakeholders to provide input during the various phases of the construction of school facilities projects. Other key initiatives of the legislation are:

- Oversight has been enhanced by requiring the Authority to formally report upon its activities every six months to the Governor and Legislature.
- Abbott School Districts are no longer barred from managing projects of more than $500,000 and are permitted to address their own capital maintenance projects. The Department of Education will develop regulations regarding districts' eligibility to manage projects and their capacity to do so.
- Eliminates the requirement that the school facilities projects of Level II State monitoring districts and districts with a district aid percentage of 55% or greater be constructed by the Authority, as well as the option for a district with a district aid percentage of less than 55% to elect to have the Authority construct a school facilities project. A "grandfather" provision is included for projects approved prior to the effective date of the legislation.
- Sites identified for schools are preserved for a 180-day period. The Authority will have the opportunity to acquire property before approvals or variances are granted that could escalate cost.
- Abbott School Districts will be required to submit an inventory of district- and municipally-owned land if they seek to purchase land for a school. The district and municipality will have to explain why their own properties are unsuitable.
- The process of prioritizing and sequencing school facility projects is institutionalized, providing consistency with the State's educational policy.
- The Commissioner of Education, in consultation with an Abbott School District, is directed to give an educational priority ranking of New Jersey school facilities projects.
- The SDA, in consultation with the Commissioner of Education and the Abbott School Districts, will also create and maintain a state-wide strategic plan to sequence projects.

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. Administrative and general expenses, considered to be eligible project costs under the EFCFA, but not identifiable to a specific project, are also paid from EFCFA funding.

In April 2007, the Board of Directors approved a Capital Plan (the "2007 Capital Plan") which, in effect, is a revision to the capital plan adopted by the Board in July 2005. The most significant modification to the plan was the decision to defer construction of 27 projects included in the 2005 Capital Plan. The deferral of construction was necessary due to an estimated $600 million shortfall to fund the plan in its entirety. Although construction of these projects is deferred, sufficient funding is provided through completion of design and pre-construction activities. As regards to the funding of other projects, the 2007 Capital Plan provides full funding through construction of 32 school facilities projects in the Abbott School Districts.

As of December 31, 2007, essentially all of the funds authorized under the statutory bonding cap have either been committed or set aside in the 2007 Capital Plan approved by the SDA Board. Regarding monies set aside in the plan, approximately $150 million is reserved for emergent projects and other unforeseen events. Therefore, until such time that the bonding cap is increased the School Construction Program will neither undertake any additional school facilities projects in the Abbott School Districts (with the exception of emergent projects as program reserve funds permit) nor provide any new funding grants to the Regular Operating Districts.

In October 2007, the Education Law Center ("ELC"), an organization representing school children in the low-income communities, filed legal action asking the New Jersey Supreme Court to set December 31, 2007 as the deadline for the Legislature to provide the funding needed to restart the School Construction Program. On February 19, 2008, the Supreme Court denied the ELC's motion finding the relief sought by the plaintiffs premature based on the Governor's representation that it would seek passage of legislation to raise the bond cap by a minimum of $2.5 billion in February 2008. The additional $2.5 billion is expected to provide sufficient funds to complete the construction of the 27 projects deferred in the 2007 Capital Plan and provide needed funding for other projects identified through the prioritization of projects identified in each district's Long-Range Facilities Plan, as well as for emergent projects and other unforeseen events. There can be no assurance that the Authority will receive additional funding above the $8.6 billion presently authorized by the State under the EFCFA.

Through December 31, 2007, the Authority has received $6.921 billion of the allotted $8.6 billion principal amount of bond proceeds authorized for the School Construction Program.

In addition, as of that date, the Authority has disbursed 72.5% of the current total funding, as follows:

	EFCFA Funding	Total Funding[1]	Disbursements	% Paid
Abbott School Districts	$6,000,000,000	$6,095,302,906	$4,429,917,837	72.7%
Regular Operating Districts	2,500,000,000	2,538,721,001	1,816,215,083	71.5%
Vocational Schools	100,000,000	101,547,218	86,405,461	85.1%
Totals	$8,600,000,000	$8,735,571,125	$6,332,538,381	72.5%

1 Includes EFCFA funding as well as other income and miscellaneous revenue of $135.6 million earned through December 31, 2007, consisting primarily of interest income on invested funds and State appropriations received prior to 2003.

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

County	School District	County	School District
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		

From its inception through 2007, the SDA has completed construction of 451 school facilities projects in the Abbott School Districts consisting of: 41 new schools; 37 major additions, renovations and/or rehabilitations; 19 minor rehabilitation projects; and 354 projects that addressed health and safety issues. Of these projects, 26 were completed during 2007, including 13 new schools and 6 major additions, renovations and/or rehabilitations. The SDA's funding to date in these 451 school facilities projects is over $2.579 billion. In addition, the SDA provides funding to Abbott School Districts through Section 13A Grant Agreements for projects with construction costs valued at less than $500,000. To date, the SDA has provided 211 grants to the Abbott School Districts worth in excess of $48 million in State funding.

During 2007, the SDA completed construction of the first two of six Demonstration Projects designated for the Abbott School Districts. The completed projects include the $73.0 million (SDA-share) Octavius V. Catto Community School and Boys & Girls Club of Camden County and the $54.8 million (SDA-share) Center City School in Vineland. Demonstration

Projects, as provided for under the EFCFA, are designed as community development initiatives with schools serving as a community anchor to provide children with safe, modern classrooms while maximizing urban renewal efforts. The remaining Demonstration Projects located in East Orange, New Brunswick, Trenton, and Union City, are currently forecasted to cost upwards of nearly $543 million to construct. By the end of 2007, only the New Brunswick Demonstration Project had not commenced construction.

Since its inception, the SDA has completed construction of 13 school facilities projects that it managed for the Regular Operating Districts. These projects consist of four new schools - three of which were completed in 2007 - and nine major additions, renovations and/or rehabilitations. The SDA's funding to date in these 13 school facilities projects is over $135 million. Additionally, since program inception, the Authority has executed 2,563 Section 15 Grant Agreements totaling $2.205 billion of State funding to Regular Operating Districts. These grants have helped to fund school facilities projects at 1,431 schools in 473 Regular Operating Districts throughout the 21 counties of New Jersey. Furthermore, these grants support an additional investment of $4.902 billion in construction funded by the Regular Operating Districts.

Not counting the Demonstration Projects, as of December 31, 2007 the Authority has 26 school facilities projects under construction which, in the aggregate, have an estimated cost at completion of more than $1.171 billion.

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				
	2007	**2006**	**2005**	**2004**	**2003**
EFCFA funding received from State	$800,000	$600,000	$2,075,000	$1,700,000	$607,929
Investment earnings	25,697	39,702	17,473	8,098	5,488
Administrative and general expenses	35,750	31,717	29,127	27,950	22,135
Capital expenditures	1,027	349	194	844	7,610
School facilities project costs	925,665	1,061,962	1,466,536	1,374,637	1,096,481
Employee count at end of year	272	241	240	250	204

2007 Financial Highlights

- The Authority's total net assets are $477.7 million
- Cash and investments are $774.9 million
- Total revenues are $827 million, $800 million of which is EFCFA funding received from the State (or 96.7%)
- Total expenses are $963 million, $925.7 million of which are school facilities project costs (or 96.1%)
- Excess of general fund expenditures over general fund revenues is $134.3 million

Overview of the Financial Statements

The 2007 financial statements of the Authority cover the period from January 1, 2007 to December 31, 2007. For financial reporting purposes, the transition to a new authority was a change in the name of the legal entity. The New Jersey Office of Management and Budget was consulted regarding the presentation of the Authority's 2007 financial statements, and they are in agreement that separate financial statements are neither required for the SCC, for the period from January 1, 2007 through the effective date of the legislation, nor for the SDA for the period from enactment to December 31, 2007.

The financial section of this annual report consists of two parts: Management's Discussion and Analysis (this section); and the basic financial statements. 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 assets presents information on all of the Authority's assets and liabilities, with the difference between the two reported as net assets. Over time, an increase or decrease in net assets 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 assets changed during the most recent period. All changes in net assets 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 financial statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison.

Financial Analysis of the Authority

Net Assets - The Authority's net assets decreased to $477.7 million at year-end, primarily due to 2007 expenditures for school facilities projects ($925.7 million) exceeding 2007 State funding under the EFCFA ($800 million). The following table summarizes the Authority's financial position at December 31, 2007 and 2006.

	$ In thousands			
	2007	**2006**	**$ Increase/ (Decrease)**	**% Increase/ (Decrease)**
Current assets	$776,679	$897,398	$(120,719)	(13.5)%
Capital assets-net	6,144	6,690	(546)	(8.2)%
Total assets	782,823	904,088	(121,265)	(13.4)%
Current liabilities	281,974	268,411	13,563	5.1%
Non-current liabilities	23,141	22,009	1,132	5.1%
Total liabilities	305,115	290,420	14,695	5.1%
Net assets:				
Invested in capital assets	6,144	6,690	(546)	(8.2)%
Restricted for Qualified Zone Academies	2,829	2,690	139	5.2%
Restricted for Schools Construction Special Revenue Fund	468,735	604,288	(135,553)	(22.4)%
Total net assets	$477,708	$613,668	$(135,960)	(22.2)%

Operating Activities - During the bidding process, the Authority charges a minimal fee ranging from $50 up to $500 for copies of design plans and specifications as specified in the construction project advertisements.

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 assets for the years ended December 31, 2007 and 2006.

	$ In thousands			
	2007	2006	$ Increase/ (Decrease)	% Increase/ (Decrease)
Revenues				
EFCFA funding received from State	$800,000	$600,000	$200,000	33.3%
Bidding fees-plans and specs	44	31	13	44.9%
Investment earnings	25,697	39,702	(14,005)	(35.3)%
Rental property income	1,277	386	891	230.5%
Other revenue	10	30	(20)	(67.6)%
Total revenues	827,028	640,149	186,879	29.2%
Expenses				
Administrative and general expenses	35,750	31,717	4,033	12.7%
Depreciation	1,573	1,514	59	3.9%
School facilities project costs	925,665	1,061,962	(136,297)	(12.8)%
Total expenses	962,988	1,095,193	(132,205)	(12.1)%
Change in net assets	(135,960)	(455,044)	319,084	(70.1)%
Net assets, beginning of year	613,668	1,068,712	(455,044)	(42.6)%
Net assets, end of year	$477,708	$613,668	$(135,960)	(22.2)%

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 Assets and General Fund Balance Sheet

December 31, 2007

	General Fund Total	Adjustments (Note 8)	Statement of Net Assets
Assets			
Cash and cash equivalents	$774,937,584		$774,937,584
Receivables	840,000		840,000
Prepaid expenses	901,648		901,648
Capital assets-net of accumulated depreciation of $6,943,347		$6,144,329	6,144,329
Total assets	776,679,232	6,144,329	782,823,561
Liabilities			
Accrued school facilities project costs	228,160,896	18,162,689	246,323,585
Other post-employment benefits obligation		1,567,271	1,567,271
Other accrued liabilities	2,811,425	3,411,110	6,222,535
Deposits	51,001,688		51,001,688
Total liabilities	281,974,009	23,141,070	305,115,079
Fund Balances and Net Assets			
Fund balances:			
Reserved for prepaid expenses	901,648	(901,648)	
Reserved for qualified zone academies	2,828,715	(2,828,715)	
Unreserved-designated for schools construction special revenue fund	490,974,860	(490,974,860)	
Total fund balances	494,705,223	(494,705,223)	
Total liabilities and fund balances	$776,679,232		
Net Assets			
Invested in capital assets		6,144,329	6,144,329
Restricted for qualified zone academies		2,828,715	2,828,715
Restricted for schools construction special revenue fund		468,735,438	468,735,438
Total net assets		$477,708,482	$477,708,482

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 Balances

For the Year ended December 31, 2007

	General Fund Total	Adjustments (Note 8)	Statement of Activities
Revenues			
School Construction Program:			
EFCFA funding received from State	$800,000,000		$800,000,000
Bidding fees-plans and specs	44,550		44,550
General:			
Investment earnings	28,354,347	$(2,657,140)	25,697,207
Rental property income	1,276,822		1,276,822
Other revenue	9,693		9,693
Total revenues	829,685,412	(2,657,140)	827,028,272
Expenditures/Expenses			
Administrative and General:			
Salaries and benefits	24,062,569	1,682,886	25,745,455
Other administrative and general	10,003,944		10,003,944
Capital expenditures	1,027,056	(1,027,056)	-
Capital depreciation		1,573,235	1,573,235
School facilities project costs	928,873,758	(3,208,396)	925,665,362
Total expenditures/expenses	963,967,327	(979,331)	962,987,996
Excess of expenditures (over)/under revenues	(134,281,915)	(1,677,809)	
Change in net assets			(135,959,724)
Fund Balance/Net Assets			
Beginning of year, January 1, 2007	628,987,138	(15,318,932)	613,668,206
End of year, December 31, 2007	$494,705,223	$(16,996,741)	$477,708,482

See accompanying notes.

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.

These 2007 financial statements of the Authority cover the period from January 1, 2007 to December 31, 2007. For financial reporting purposes, the transition to a new authority was a change in the name of the legal entity. The New Jersey Office of Management and Budget was consulted regarding the presentation of the Authority's 2007 financial statements, and they are in agreement that separate financial statements are neither required for the SCC, for the period from January 1, 2007 through the effective date of the legislation, nor for the SDA for the period from enactment to December 31, 2007.

The SCC was created on October 1, 2002, pursuant to N.J.S.A. 34:1B-159 and Executive Order #24 (2002), as a subsidiary organization of the New Jersey Economic Development Authority (EDA). With the exception of the power to incur indebtedness, the Authority assumed all the responsibilities and obligations conferred upon the EDA pursuant to the Educational Facilities Construction and Financing Act, P.L.2000, c.72 ("EFCFA") relating to the construction of school facilities projects in the State. Under P.L.2007, c.137, the EDA continues its role as the financing agent for the School Construction Program and maintains a seat on the Authority's Board of Directors.

The School Construction Program in New Jersey 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 EFCFA on July 18, 2000. As a result of this court decision and the EFCFA, the State is required to provide certain educational infrastructure improvements in the poor, urban school districts ("Abbott School Districts") so that students in these school districts can receive a thorough and efficient education, an explicit requirement of the New Jersey Constitution. School facilities projects constructed in any of the 31 designated Abbott School Districts are eligible for full funding by the State. The EFCFA was amended in 2007 pursuant to P.L. 2007, c.137.

The EFCFA currently provides for an aggregate $8.6 billion principal amount of bond proceeds ("EFCFA funding") to be issued by the EDA and transferred to the Authority. Of this amount, $6 billion is slated for the Abbott School Districts, $2.5 billion is for non-Abbott districts ("Regular Operating Districts") and $100 million is for vocational schools.

The Authority has reviewed its current operating cost obligations and outstanding commitments. It has concluded that sufficient resources are available to satisfy these anticipated expenditures through at least January 1, 2009. Assuming the realization of assets and payment of liabilities in the ordinary course of business, the accompanying financial statements have been prepared on the basis that the Authority will continue to operate as a going concern.

In the Abbott School Districts, the Authority has 26 school facilities projects currently under construction and 4 fully-funded projects awaiting the award of construction contracts. Six of the projects in construction pre-date both the 2005 and 2007 Capital Plans. The Authority is committed to completing these 30 projects, and has set aside the necessary funds to ensure they are completed with the remaining authorized funding provided under the EFCFA. The Authority has 27 additional Abbott School District projects in various stages of predevelopment and design that are partially funded, and numerous other projects that are suspended; however, these facilities will not be constructed until the Authority receives additional State funding.

Apart from those circumstances where program reserve funds are made available to address emergent projects and other unforeseen events, the Authority will neither undertake any additional school facilities projects nor provide any new funding grants to school districts unless additional funding is provided by the State. In October 2007, the Education Law Center ("ELC"), an organization representing school children in the low-income communities, filed legal action asking the New Jersey Supreme Court to set December 31, 2007 as the deadline for the Legislature to provide the funding needed to restart the School Construction Program. On February 19, 2008, the Supreme Court denied the ELC's motion finding the relief sought by the plaintiffs premature based on the Governor's representation that it would seek passage of legislation to raise the bond cap by a minimum of $2.5 billion in February 2008. There can be no assurance that the Authority will receive additional funding above the $8.6 billion authorized by the State under the EFCFA.

Recent Developments

(a) Approval of 2007 Capital Plan

In April 2007, the Board of Directors approved a Capital Plan (the "2007 Capital Plan") which in effect is a revision to the capital plan adopted by the Board in July 2005. The most significant modification to the plan was the decision to defer construction of 27 projects included in the 2005 Capital Plan. The deferral of construction was necessary due to an estimated $600 million shortfall to fund the plan in its entirety. The shortfall primarily stems from the lack of accurate cost projections at the time the plan was adopted, and inflation.

In summary, the 2007 Capital Plan provides full funding through construction of 32 school facilities projects in the Abbott School Districts, of which 8 projects were completed in 2007. Of the remaining projects, 20 are active construction projects (included in the above-mentioned 26 school facilities projects under construction), and 4 projects, as discussed above, are in the pre-construction phase. Regarding the deferred projects, funds will only permit the completion of design and other pre-construction activities.

(b) Reform Legislation (P.L.2007, c.137)

In August 2007, Governor Jon S. Corzine signed legislation that made several changes to the School Construction Program. The initiatives provided in the reform legislation modified the governance and strengthened oversight of the program. Organizational structure was enhanced by establishing the SDA as an independent State Authority, rather than as a subsidiary corporation of the EDA. The number of public members was increased to 11 and the members require confirmation by the State Senate. In addition, the legislation provides enhanced opportunities for the 31 Abbott School Districts, the public, and stakeholders to provide input during the various phases of the construction of school facilities projects. Other key initiatives of the legislation are:

- Oversight has been enhanced by requiring the Authority to formally report upon its activities every six months to the Governor and Legislature.
- Abbott School Districts are no longer barred from managing projects of more than $500,000 and are permitted to address their own capital maintenance projects. The Department of Education will develop regulations regarding districts' eligibility to manage projects and their capacity to do so.
- Eliminates the requirement that the school facilities projects of Level II State monitoring districts and districts with a district aid percentage of 55% or greater be constructed by the Authority, as well as the option for a district with a district aid percentage of less than 55% to elect to have the Authority construct a school facilities

project. A "grandfather" provision is included for projects approved prior to the effective date of the legislation.

- Sites identified for schools are preserved for a 180-day period. The Authority will have the opportunity to acquire property before approvals or variances are granted that could escalate cost.
- Abbott School Districts will be required to submit an inventory of district- and municipally-owned land if they seek to purchase land for a school. The district and municipality will have to explain why their own properties are unsuitable.
- The process of prioritizing and sequencing school facility projects is institutionalized, providing consistency with the State's educational policy.
- The Commissioner of Education, in consultation with an Abbott School District, is directed to give an educational priority ranking of New Jersey school facilities projects.
- The SDA, in consultation with the Commissioner of Education and the Abbott School Districts, will also create and maintain a state-wide strategic plan to sequence projects.

2. Summary of Significant Accounting Policies

(a) Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets 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.

(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 accounting; however, expenditures related to compensated absences and accruals associated with remediation of the Dr. Martin Luther King, Jr. Middle School in Trenton (see Note 9) are recorded only when payment is due.

(c) Revenue Recognition

The Authority charges a minimal fee during the bidding process for copies of the design plans and specifications as specified in the construction project advertisements. Rental revenue is received under a month-to-month lease occupancy agreement. Acquisitions of various properties for the construction of school facilities projects generate rental revenue prior to the relocation of the occupants. Fees and rental revenues are generally recognized when received.

(d) Rebatable Arbitrage

Rebatable arbitrage is defined by Internal Revenue Code (IRC) Section 148 as earnings on investment purchase 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.

It is the Authority's policy to record arbitrage rebate liabilities only when it is probable that any excess investment income, as defined above, will not be retained by the Authority. Therefore, 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.

Rebatable arbitrage calculations have been performed, as of December 31, 2006, by a professional consulting firm engaged by the New Jersey Economic Development Authority (EDA), for the following EDA School Facilities Construction Bond issues: 2004 Series H, I, and J; and 2005 Series L, M, N, O, P, and Q. Based on these calculations, the Authority has recorded an arbitrage rebate liability of $2,657,140, related to 2005 Series P-Q, on the statement of net assets as of December 31, 2007, with a corresponding charge to investment earnings on the statement of activities for the year then ended. This accumulated rebate liability is estimated to be payable to the federal government on September 1, 2010.

At present, arbitrage rebate calculations have not been performed for the 2006 and 2007 Series bond issues. The 2006 Series bonds were excluded since those bond proceeds weren't received until November 2006. Arbitrage rebate computations as of December 31, 2007 are not expected to be received until the spring of 2008.

(e) 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.

(f) 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.

(g) 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, 2007, 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.

(h) Taxes

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

(i) 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.

(j) Recently Issued GASB Standard

In November 2006, the Governmental Accounting Standards Board ("GASB") issued Statement No. 49, *"Accounting and Financial Reporting for Pollution Remediation Obligations,"* which establishes standards of accounting and financial reporting for pollution remediation obligations. The Authority is required to implement Statement No. 49 during the fiscal year ending December 31, 2008. As of December 31, 2007, the Authority has not determined the future impact of Statement No. 49 on its financial statements.

3. Cash, Cash Equivalents and Investments

(a) Cash Flows

Overall cash and cash equivalents decreased during the year by nearly $122 million to $775 million as follows:

Cash and cash equivalents, beginning of year	$896,731,246
Changes in cash:	
EFCFA funding received from State	800,000,000
Investment and interest income	28,304,347
School facilities project costs	(890,787,821)
Administrative and general expenses	(35,055,800)
Local share deposits, net	(24,228,538)
Other, net	(25,850)
Cash and cash equivalents, end of year	$774,937,584

(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, 2007, the carrying amount of operating cash is $1,002,628 and the bank balance is $2,142,745. Regarding the amount held by commercial banking institutions, up to $100,000 at each institution is insured with Federal Deposit Insurance.

Pursuant to GASB Statement No. 40, "Deposit and Investment Risk Disclosures" ("GASB 40"), 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: 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, 2007, all of the Authority's deposits were 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, 2007, cash and cash equivalents include $50,867,572 for local share deposits (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, 2007, the Authority's investments in the NJCMF total $773,934,956.

Custodial Credit Risk: Pursuant to GASB 40, the NJCMF, which is a pooled investment, is exempt from custodial credit risk disclosure. 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 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, 2007, the Authority's prepaid expenses are as follows:

Insurance	$703,450
Office rents	183,968
Other	14,230
Total prepaid expenses	$901,648

5. 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 Abbott School Districts. These deposits, including investment earnings, are reflected as liabilities in the accompanying financial statements.

As of December 31, 2007, deposits held in bank accounts are as follows:

Egg Harbor Township	$14,441,511
Barnegat Township	14,125,513
Buena Borough	9,626,805
Neptune Township	4,276,681
Clark Township	3,866,562
City of Long Branch	1,260,062
Cumberland Township	821,817
City of Newark	774,832
Harrison Township	487,408
Fairfield Township	472,839
Manchester Township	363,333
Burlington City	185,306
Other local share deposits	164,903
Total local share deposits	50,867,572
Other deposits	134,116
Total deposits	$51,001,688

6. Rental of Office Space

The Authority rents commercial office space for its headquarters facility in Trenton, as well as rents office space to house its three regional offices located in Trenton, Newark and Jersey

City. The remaining terms of these leases range from six months to over six years. Total rental expense for the year ended December 31, 2007 amounted to $2,067,862.

Future rent commitments under operating leases are as follows:

2008	$2,163,291
2009	1,887,600
2010	1,796,058
2011	1,477,891
2012	1,485,259
2013-2014	1,281,811
Total future rent expense	$10,091,910

7. Capital Assets

Capital asset activity for the year ended December 31, 2007 is as follows:

	Beginning Balance	**Additions**	**Retirements**	**Ending Balance**
Leasehold improvements	$7,850,699	$181,042	$(113,664)	$7,918,077
Office furniture and equipment	4,083,610	459,298	-	4,542,908
Computer software	-	568,993	-	568,993
Automobiles	14,068	43,630	-	57,698
Construction in progress	225,907	(225,907)	-	-
Capital assets-gross	12,174,284	1,027,056	(113,664)	13,087,676
Less: accumulated depreciation	5,483,776	1,573,235	(113,664)	6,943,347
Capital assets-net	$6,690,508	$(546,179)	$ -	$6,144,329

Construction in progress consists of computer software under development as of the beginning of the year. This software was placed in service when it was determined to be operational in July 2007.

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 assets

"Total fund balances" for the Authority's general fund ($494,705,223) differs from the "net assets" reported on the statement of net assets ($477,708,482). This difference results from the long-term economic focus of the statement of net assets versus the current financial resources focus of the fund balance sheet. When capital assets (leasehold improvements, equipment, and furniture and fixtures) 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 assets includes those capital assets among the assets of the Authority as a whole. In addition, expenses associated with depreciation, arbitrage rebate (shown as a reduction in investment earnings) and noncurrent other post-employment benefits and compensated absences are not recorded in the fund financial statements.

Fund balances	$494,705,223
Capital assets, net of related depreciation of $6,943,347	6,144,329
Accrued school facilities project costs	(18,162,689)
Accrued other post-employment benefits	(1,567,271)
Accrued arbitrage rebate	(2,657,140)
Accrued compensated absences	(753,970)
Net assets	$477,708,482

(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 expenditures over revenues and changes in net assets 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.

Excess of expenditures over revenues	$(134,281,915)
Arbitrage rebate	(2,657,140)
Other post-employment benefits expense	(1,567,271)
Compensated absences expense	(115,615)
Capital asset acquisitions	1,027,056
Depreciation expense	(1,573,235)
School facilities project costs	3,208,396
Changes in net assets	$(135,959,724)

9. Commitments and Contingencies

(a) Contractual Commitments

At December 31, 2007, the Authority has approximately $1.559 billion of unaccrued contractual commitments relating to future expenditures associated with school facilities projects.

(b) Contractor Claims

Numerous contractor claims not involving lawsuits 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, 2007, the Authority's potential loss from these claims has been reasonably estimated to be approximately $50.9 million, which represents an increase of $30.7 million from the prior year end accrual. Accordingly, as of December 31, 2007, an accrued liability of $50.9 million is reflected in the statement of net assets and general fund balance sheet and, for the year then ended, $30.7 million is charged to school facilities project costs on the statement of activities and general fund revenues, expenditures and changes in fund balances.

(c) Litigation and Insurance

During construction of the Dr. Martin Luther King, Jr. Middle School ("MLK") in Trenton, New Jersey, Turner Construction Company ("Turner"), the firm contracted by the Authority to construct the new school facility, is alleged to have brought contaminated fill onto the site consisting of recycled concrete aggregate and other materials. Testing of samples of the fill material collected on the site has revealed the presence of several hazardous substances. The MLK site is owned by the Trenton Board of Education ("TBOE") which filed a lawsuit against the Authority, Turner and others demanding, among other things, remediation of the site as well as costs and damages. Construction of the new school facility ceased in May 2005 with the structure being only partially completed.

TBOE has demanded that the contaminated fill be removed from the site and replaced with clean fill, which will also require that the partially-constructed school be torn down and rebuilt ("TBOE's demand"). The New Jersey Department of Environmental Protection ("NJDEP") has issued a Directive and Notice to Insurers dated September 21, 2005, and a Supplemental Directive and Notice to Insurers dated October 24, 2005, ("NJDEP Directives") which, among other things, require the Authority to comply with TBOE's demand. The Superior Court Judge presiding over this matter has placed all litigation on hold, permitting the parties to resolve TBOE's demand in accordance with the NJDEP Directives.

The Authority has indicated its intention to fully comply with the NJDEP Directives, including TBOE's demand. As of December 31, 2007, the partially constructed school has been torn down. Additionally, remediation work to remove the contaminated fill from the site and replace it with clean fill is substantially complete.

As of December 31, 2007, the Authority estimates the cost to comply with TBOE's demand to be approximately $18.2 million, which is net of $5.6 million spent to date. This amount represents an increase in the estimated liability of $0.8 million over the previous year's estimate. The overall cost estimate ($23.8 million) includes removal of all contaminated fill brought onto the site and replacement with clean fill, removal of a portion of the historical fill on the site, environmental monitoring, reconstruction of the school facility to its prior state and general inflation. Accordingly, as of December 31, 2007, an accrued liability of $18.2 million is reflected on the statement of net assets. For the year ended December 31, 2007, $4.0 million is charged to school facilities project costs on the statement of general fund revenues, expenditures and changes in fund balances for the portion of work that was completed in 2007; however, the $4.0 million expense is not reflected in the 2007 statement of activities since it was previously recognized in 2005 (when the Authority accrued $23 million for the then estimated cost of TBOE's demand).

The Authority will vigorously oppose unrelated allegations made by the TBOE, and intends to seek recovery from Turner and other third parties for any cost or liability incurred by the Authority related to the contamination, or any associated effects including, but not limited to, fugitive dust that allegedly may have migrated to a nearby school facility. However, there can be no assurance as to either the outcome of this matter or the extent to which the Authority will be successful in recovering any such cost from third parties.

The Authority has also either received Notices of Claims or is a named defendant in several lawsuits relating to its real estate activities including, among other things, disputes over relocation benefits, and various claims for damages. As of December 31, 2007, management believes its exposure related to these matters is reasonably estimated to be $1.5 million, which amount represents a $2.2 million decrease from the prior year end accrual. Accordingly, as of December 31, 2007, an accrued liability of $1.5 million is reflected on the statement of net assets and general fund balance sheet and, for the year then ended, $2.2 million is credited to school facilities project costs on the statement of activities and general fund revenues, expenditures and changes in fund balances.

The Authority maintains commercial insurance coverage for, among other things, workers' compensation, tort liability (including public liability and automobile) and property damage. As of December 31, 2007, management is not aware of any insurable claim that is expected to exceed its commercial insurance coverage. In addition, the Authority is 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.

10. 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, multiple-employer defined benefit plan administered by the State. Employees currently contribute 5% of their annual compensation to the Plan. The Authority's total payroll for the years ended December 31, 2007, 2006 and 2005, which approximates its covered payroll, was \$18,622,173, \$17,385,246 and \$17,100,699, respectively.

The primary funding objective of the PERS is to accumulate sufficient plan assets during its members' active careers so as to have their pension benefits fully funded at the time of retirement. Local employers are essentially responsible by State statute to cover any shortfall in the amount of funds required to meet the retirement system's obligations, and those funds available from employee contributions and investment earnings on plan assets. Thus, employers may also be required to make annual normal and accrued liability contributions to the PERS. Pursuant to State statute, annual employer contributions to the PERS are determined using the projected unit credit actuarial cost method. This method utilizes a set of actuarial assumptions to forecast a pension system's liabilities and annual funding requirements. These assumptions include such things as mortality among active and retired members, former service, expected salary increases, investment performance, and rates of disability, retirement and withdrawal. An employer's annual normal cost represents the present value of benefits that have accrued on behalf of its own members during the valuation year. An accrued liability contribution represents an employer's respective share of the pension system's unfunded actuarial liability amortized over a 30 to 40 year period. The unfunded actuarial liability of a retirement system at any time is the excess of the system's actuarial liability over the value of its assets.

The State and local employers, including independent authorities such as the Authority, were not required to make normal contributions to the PERS between 1997 and 2004 based on Pension Security legislation passed in 1997. Beginning in 2005, mandatory normal and accrued liability contributions to the PERS were resumed since the actuarial value of the Plan's assets was insufficient to support the projected value of accrued liabilities. However, in order to minimize the immediate fiscal impact of the annual pension obligation, P.L. 2003, c.108 was enacted, which calls for a phase-in of the employer's funding requirement. This State statute provides that the Treasurer shall reduce an employer's normal and accrued liability contributions to a percentage of the amount certified annually by the PERS as follows: 20% of the actuarially calculated liability is payable in 2005; not more than 40% of the actuarially calculated liability is payable in 2006; not more than 60% of the actuarially calculated liability is payable in 2007; not more than 80% of the actuarially calculated liability is payable in 2008; and 100% of the actuarially calculated liability is payable in 2009. In 2007, 2006 and 2005, the Authority's pension contributions to the PERS totaled $618,649, $309,156 and $48,633, respectively, which amounts were charged to salaries and benefits expense. The Authority's 2008 pension contribution, due on April 1, 2008, is expected to be in the amount of $1,006,609.

The general formula for annual retirement benefits is the final average salary divided by 55, times the employee's years of service. Pension benefits fully vest upon reaching 10 years of credited service. Members are eligible for retirement at age 60 with no minimum years of service required. 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. The PERS also provides death and disability benefits. All benefits are established by State statute. 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) 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.

(c) 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 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.

Prior to January 1, 2007, the cost of OPEB was charged to expense as paid by the Authority. Pursuant to this method of accounting, the Authority's 2006 OPEB cost was $20,954. Effective January 1, 2007, the Authority prospectively implemented accrual accounting 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 2007 and the related information for the plan are as follows:

Annual required contribution	$1,596,100
Contributions made	(28,829)
Increase in net OPEB obligation	1,567,271
Net OPEB obligation – beginning of year	-
Net OPEB obligation – end of year	$1,567,271

The annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2007 is as follows:

Year Ended	**Annual OPEB Cost**	**Percentage of Annual OPEB Cost Contributed**	**Net OPEB Obligation**
12/31/2007	$1,596,100	1.8%	$1,567,271

As of the valuation date (January 1, 2007), the Authority's actuarial accrued liability was $8,922,100, all of which was unfunded as of December 31, 2007. In 2007, the Authority began recognition of this liability over a 30-year period using 4% annual increasing amortization, which is representative of amortizing on a level percentage of payroll on an open basis. The covered payroll (annual payroll of active employees covered by the plan) was $17,271,100 and the ratio of the unfunded actuarial accrued liability to the covered payroll was 51.7%. Four active and two retired employees were eligible for post-employment benefits as of the valuation date.

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 post-employment benefits related to the Authority's two retirees totaled $28,829 in 2007.

Additionally, the Authority is responsible for the cost of post-employment benefits for three former employees who retired from the School Construction Program when it was under the EDA. The cost of post-employment benefits related to these retirees is paid directly to the EDA and amounted to $44,280 and $48,399, respectively, for 2007 and 2006.

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 the current 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 January 1, 2007 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 healthcare cost trend assumed in the actuarial valuation includes an initial annual cost rate increase of between 10% and 11% annually depending on the medical plan (i.e. traditional plan, NJ Plus or HMO), decreasing by .5% annually to a long-term trend rate of 5% annually commencing in 2019. The prescription drug cost trend assumed in the actuarial valuation includes an initial annual cost rate increase of 12% annually, decreasing by .5% annually to a long-term trend rate of 5% annually commencing in 2021. The Medicare Part B premium reimbursement cost trend assumed in the actuarial valuation includes an initial annual cost rate increase of 6.5% annually through 2009, decreasing to a long-term trend rate of 5% annually commencing in 2010. 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 State Health Benefits Program has opted to receive the RDS.

11. Compensated Absences

In accordance with GASB Statement No. 16, "Accounting for Compensated Absences", the Authority recorded a liability in the amount $753,970 as of December 31, 2007. 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 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.

12. Long-Term Liabilities

During 2007, the following changes in long-term liabilities are reflected in the statement of net assets:

	Beginning Balance	Additions	Deductions	Ending Balance
Accrued school facilities project costs	$21,371,085		$(3,208,396)	$18,162,689
Other post-employment benefits obligation	-	$1,596,100	(28,829)	1,567,271
Arbitrage rebate	-	2,657,140		2,657,140
Compensated absences	638,355	115,615		753,970
Total long-term liabilities	$22,009,440	$4,368,855	$(3,237,225)	$23,141,070

The general fund is normally used to liquidate long-term liabilities. As of December 31, 2007, the Authority estimates that a majority of the $18.2 million of long-term accrued school facilities project costs will be liquidated in 2008.

For further information, see Notes 2(d), 9(c), 10(c) and 11.

13. Net Assets

The Authority’s net assets are categorized as: invested in capital assets; restricted for qualified zone academies; and restricted for schools construction special revenue fund.

Invested in capital assets includes leasehold improvements, furniture and fixtures, equipment and computer software used in the Authority’s operations, net of accumulated depreciation. Qualified zone restricted assets include net assets that have been restricted in use for construction projects that qualify under Section 1397E(e)(2) of the Internal Revenue Code as qualified zone academies. Schools construction restricted assets include all net assets not included in the other two 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 2006 and 2007 in net assets are as follows:

Notes to Financial Statements (continued)

	Invested in Capital Assets	Restricted for Qualified Zone Academies	Restricted for Schools Construction Special Revenue Fund	Totals
Net assets, December 31, 2005	$7,855,137	$3,539,457	$1,057,317,711	$1,068,712,305
(Loss)/Excess before receipt of EFCFA funding and transfers	(1,513,787)		8,431,436	6,917,649
Capital assets acquired	349,158		(349,158)	-
EFCFA funding received from State			600,000,000	600,000,000
School facilities project costs		(850,189)	(1,061,111,559)	(1,061,961,748)
Net assets, December 31, 2006	6,690,508	2,689,268	604,288,430	613,668,206
(Loss)/Excess before receipt of EFCFA funding and transfers	(1,573,235)		(8,721,127)	(10,294,362)
Capital assets acquired	1,027,056		(1,027,056)	-
EFCFA funding received from State			800,000,000	800,000,000
School facilities project costs		139,447	(925,804,809)	(925,665,362)
Net assets, December 31, 2007	$6,144,329	$2,828,715	$468,735,438	$477,708,482

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

REQUIRED SUPPLEMENTARY INFORMATION

For the Year Ended December 31, 2007

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

Schedule of Funding Progress - Post-Employment Healthcare Benefit Plan

December 31, 2007

$ 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)
1-1-2007	$0	$8,922	$8,922	0%	$17,271	52%