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, 2012

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, 2012

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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 and for the year ended December 31, 2012, 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, 2012, 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 5, 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, 2012. 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. 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.

Through December 31, 2012, 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 68.5% of the currently authorized program funding, as follows:

	Bonding Cap	Program Funding[1]	Disbursements	% Paid
SDA Districts	$8,900,000,000	$9,006,730,272	$5,962,968,183	66.2%
Regular Operating Districts	3,450,000,000	3,492,733,621	2,605,886,099	74.6%
Vocational Schools	150,000,000	151,707,483	97,835,261	64.5%
Totals	$12,500,000,000	$12,651,171,376	$8,666,689,543	68.5%

[1] Program funding includes the amounts authorized under the respective bonding caps in addition to approximately $151 million of interest income and miscellaneous revenue earned through December 31, 2012.

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

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

In 2012, the Authority completed two new school facilities projects in the SDA Districts, which benefited approximately 1,400 students.

From inception through December 31, 2012, the School Construction Program has completed 636 projects in the SDA Districts. The completed projects consist of: 65 new schools, including 6 demonstration projects; 42 extensive additions, renovations and/or rehabilitations; 26 rehabilitation projects; 354 health and safety projects; and 149 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 3,097 school projects throughout the 21 counties of New Jersey.

As of December 31, 2012, the SDA has four 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 four 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 34 projects consisting of: 29 new or addition/major renovation projects; and 5 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				
	2012	2011	2010	2009	2008
EFCFA funding received from State	$375,000	$-	$499,200	$775,000	$450,000
Investment earnings, net	205	546	1,299	2,345	12,060
Administrative and general expenses	34,749	35,699	44,333	44,707	41,021
Capital expenditures	54	26	52	234	526
School facilities project costs	145,584	154,930	274,584	509,462	922,823
Employee count at end of year	241	255	304	332	298

2012 Financial Highlights

- At year end, the Authority's net position is $373.5 million.
- At year end, cash and cash equivalents total $514.5 million.
- For the year, revenues total $375.8 million, $375 million of which is from EFCFA funding received from the State (or 99.8%)
- For the year, expenses total $181.2 million, $145.6 million (80.3%) of which is for school facilities project costs.
- For the year, general fund revenues exceed general fund expenditures by $181.1 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 financial statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison.

Financial Analysis of the Authority

Net Position - The Authority's net position increased to $373.5 million at year-end, primarily due to 2012 State funding under the EFCFA ($375 million) exceeding 2012 expenditures for school facilities projects ($145.6 million).

The following table summarizes the Authority's net position at December 31, 2012 and 2011.

	$ In thousands			
	2012	2011	$ Increase/ (Decrease)	% Increase/ (Decrease)
Current assets	$516,391	$365,855	$150,536	41.1%
Capital assets-net	645	1,469	(824)	(56.1)%
Total assets	$517,036	$367,324	$149,712	40.8%
Current liabilities	$47,738	$78,271	$(30,533)	(39.0)%
Non-current liabilities	95,834	110,147	(14,313)	(13.0)%
Total liabilities	$143,572	$188,418	($44,846)	(23.8)%
Net position:				
Invested in capital assets	645	1,469	(824)	(56.1)%
Restricted for schools construction:				
Build America Bond program	98,297	258,300	(160,003)	(61.9)%
Special revenue fund	274,522	(80,863)	355,385	439.5%
Net position	373,464	178,906	194,558	108.8%
Total liabilities and net position	$517,036	$367,324	$149,712	40.8%

Note: All percentages are calculated using unrounded figures.

Operating Activities – In October 2012, the Authority received proceeds of $375 million from the sale of tax exempt EDA School Facilities Construction Bonds and Notes. This raises the total amount of bond and note proceeds received since program inception to $9.02 billion.

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 position for the years ended December 31, 2012 and 2011.

	$ In thousands			
	2012	2011	$ Increase/ (Decrease)	% Increase/ (Decrease)
Revenues				
EFCFA funding received from State	$375,000	$-	$375,000	N/A
Bidding fees-plans and specs	30	5	25	564.5%
Investment earnings, net	205	546	(341)	(62.5)%
Rental property (loss)/income	186	309	(123)	(39.7)%
Other revenue	348	3	345	11,971.2%
Total revenues	$375,769	$863	374,906	43,452.4%

	$ In thousands			
	2012	2011	$ Increase/ (Decrease)	% Increase/ (Decrease)
Expenses				
Administrative and general expenses	$34,749	$35,699	$ (950)	(2.7)%
Depreciation	878	1,032	(154)	(14.9)%
School facilities project costs	145,584	154,930	(9,346)	(6.0)%
Total expenses	181,211	191,661	(10,450)	(5.5)%
Change in net position	194,558	(190,798)	385,356	202.0%
Beginning net position	178,906	369,704	(190,798)	(51.6)%
Ending net position	$373,464	$178,906	$194,558	108.8%

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, 2012

	General Fund Total	Adjustments (Note 8)	Statement of Net Position
Assets			
Cash and cash equivalents	$514,531,670		$514,531,670
Receivables	551,353	$558,297	1,109,650
Prepaid expenses	749,536		749,536
Capital assets-net		645,218	645,218
Total assets	515,832,559	1,203,515	517,036,074
Liabilities			
Accrued school facilities project costs	37,230,956	83,138,303	120,369,259
Other post-employment benefits obligation		11,635,026	11,635,026
Other accrued liabilities	585,058	1,061,136	1,646,194
Deposits	9,920,837		9,920,837
Total liabilities	47,736,851	95,834,465	143,571,316
Fund Balance/Net Position			
Invested in capital assets		645,218	645,218
Nonspendable:			
Prepaid expenses	749,536	(749,536)	
Restricted for schools construction:			
Build America Bond program	98,297,315		98,297,315
Special revenue fund	369,048,857	(94,526,632)	274,522,225
Total fund balance/net position	468,095,708	(94,630,950)	373,464,758
Total liabilities and fund balance/net position	$515,832,559	$1,203,515	$517,036,074

See accompanying notes.

New Jersey Schools Development Authority
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Statement of Activities and General Fund Revenues, Expenditures and Changes in Fund Balance

For the Year Ended December 31, 2012

	General Fund Total	Adjustments (Note 8)	Statement of Activities
Revenues			
School Construction Program:			
EFCFA funding received from State	$375,000,000		$375,000,000
Bidding fees-plans and specs	30,425		30,425
General:			
Investment earnings	204,840		204,840
Rental property income	186,440		186,440
Other revenue	348,132		348,132
Total revenues	375,769,837		375,769,837
Expenditures/Expenses			
Administrative and General:			
Salaries and benefits	26,745,674	$2,138,548	28,884,222
Other administrative and general	5,864,567		5,864,567
Capital expenditures	54,142	(54,142)	
Capital depreciation		878,427	878,427
School facilities project costs	162,035,812	(16,451,252)	145,584,560
Total expenditures/expenses	194,700,195	(13,488,419)	181,211,776
Excess of revenues over expenditures	181,069,642	13,488,419	
Change in net position			194,558,061
Fund Balance/Net Position			
Beginning of year, January 1, 2012	287,026,066	(108,119,369)	178,906,697
End of year, December 31, 2012	$468,095,708	$(94,630,950)	$373,464,758

See accompanying notes.

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.

(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

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 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. Fees and rental revenues are generally recognized when received.

(d) 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 2012 Series KK, G, and H. As of December 31, 2012, no rebate arbitrage liabilities exist.

(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, 2012, 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.

(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 Adopted Accounting Pronouncements

In June 2011, the Governmental Accounting Standards Board ("GASB") issued Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position* ("GASB 63"). The objective of this Statement is to provide guidance for reporting deferred outflows of resources, deferred inflows of resources, and net position in a statement of financial position. Amounts that are required to be reported as deferred outflows should be reported in a statement of financial position in a separate section following assets. Similarly, amounts required to be reported as deferred inflows of resources should be reported in a separate section following liabilities. The statement of net position should report the residual amount as net position, rather than net assets. The provisions of this Statement are effective for financial statements for periods beginning after December 15, 2011. The Authority's adoption of GASB 63 in 2012 resulted in a change in the presentation of the Statement of Net Assets to what is now referred to as the Statement of Net Position and the term "net assets" was changed to "net position" throughout the financial statements.

In June 2011, GASB issued Statement No. 64, *Derivative Instruments; Application of Hedge Accounting Termination Provisions* ("GASB 64"). The objective of this Statement is to clarify GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments,* as it applies to termination provisions when a counterparty of an interest rate or commodity swap is replaced. The provisions of this Statement are effective for financial statements for periods beginning after June 15, 2011. The Authority does not have interest rate or commodity swaps; therefore, the implementation of GASB 64 did not have an impact on its financial statements.

(k) Recent Accounting Pronouncements

In March 2012, GASB issued Statement No. 65, *Items Previously Reported as Assets and Liabilities* ("GASB 65"). Pursuant to this Statement, certain items that were previously reported as assets and liabilities will either (a) be properly classified as deferred outflows of resources or deferred inflows of resources, or (b) be recognized as outflows of resources (expenses or expenditures) or inflows of resources (revenues). The provisions of this Statement are effective for financial statements for periods beginning after December 15, 2012. The Authority is currently evaluating the impact GASB 65 will have on its financial statements.

In March 2012, GASB issued Statement No. 66, *Technical Corrections–2012* ("GASB 66"). The objective of this Statement is to improve accounting and financial reporting by state and local governmental entities by resolving conflicting guidance that resulted from the issuance of two pronouncements–Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, and Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. The provisions of this Statement are effective for financial statements for periods beginning after December 15, 2012. The Authority does not anticipate the implementation of GASB 66 to have an impact on its financial statements.

In June 2012, 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. GASB 67 will not have an impact on the Authority.

In June 2012, GASB issued Statement No. 68, *Accounting and Financial Reporting for Pensions* ("GASB 68"). The objective of this Statement is to improve the information provided in government financial reports about pension-related financial support provided by certain nonemployer entities that make contributions to pension plans that are used to provide benefits to the employees of other entities. 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 68.

3. Cash, Cash Equivalents and Investments

(a) Cash Flows

Overall cash and cash equivalents increased during the year by $152.1 million to $514.5 million as follows:

Cash and cash equivalents, beginning of year	$362,471,682
Changes in cash:	
EFCFA funding received from State	375,000,000
Investment and interest income	204,840
Miscellaneous revenue	230,997
School facilities project costs	(189,648,010)
Administrative and general expenses	(32,441,010)
Capital expenditures	(54,142)
Deposits	(1,232,687)
Cash and cash equivalents, end of year	$514,531,670

(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, 2012, the carrying amount of operating cash is $550,080 and the bank balance is $1,399,933. 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, 2012, 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, 2012, cash and cash equivalents include deposits of $9,920,837 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, 2012, the Authority's investments in the NJCMF total $513,981,590.

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, 2012, the Authority's prepaid expenses are as follows:

Insurance	$532,020
Office rents	145,564
Service contracts	41,888
Other	30,064
Total prepaid expenses	$749,536

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, 2012, local share deposits held in SDA bank accounts, inclusive of interest earned but not refunded to the district, are as follows:

City of Newark	$6,317,480
Egg Harbor City	1,348,764
Greater Egg Harbor	827,960
Buena Borough	933,266
Other	363,617
Total local share deposits	$9,791,087

6. Rental of Office Space

The Authority rents commercial office space for its headquarters facility in Trenton, as well as rents other office space in Trenton and Newark. The remaining terms of these leases range from one year to 22 months. Total rental expense for the year ended December 31, 2012 amounted to $2,335,819.

The Authority is currently in the process of negotiating extensions and modifications of its existing lease(s) for commercial office space. It is currently expected that one or more of the leases will be extended for an additional 10 years expiring on December 31, 2023, with the right to terminate the lease after five years.

Future rent commitments under operating leases as of December 31, 2012 are as follows:

2013	$1,585,479
2014	127,617
Total future rent expense	$1,713,096

7. Capital Assets

Capital asset activity for the year ended December 31, 2012 is as follows:

	Beginning Balance	Additions	Retirements	Ending Balance
Leasehold improvements	$7,916,738	$-	$-	$7,916,738
Office furniture and equipment	5,094,937	-	-	5,094,937
Computer software	568,993	-	-	568,993
Automobiles	235,473	54,142	-	289,615
Capital assets-gross	13,816,141	54,142	-	13,870,283
Less: accumulated depreciation	12,346,638	878,427	-	13,225,065
Capital assets-net	$1,469,503	$(824,285)	$-	$645,218

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 ($468,095,708) differs from the "net position" reported on the statement of net position ($373,464,758). 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, 2012 is as follows:

Fund balances	$468,095,708
Capital assets, net of related depreciation of $13,225,065	645,218
Accrued school facilities project costs, net of related receivable	(82,580,006)
Accrued other post-employment benefits	(11,635,026)
Accrued compensated absences	(1,061,136)
Net position	$373,464,758

(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, 2012 is as follows:

Excess of revenues over expenditures	$181,069,642
School facilities project costs	16,451,252
Other post-employment benefits expense	(2,089,503)
Compensated absences expense	(49,045)
Capital asset acquisitions	54,142
Depreciation expense	(878,427)
Changes in net position	$194,558,061

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 $34,748,298 as of December 31, 2012. Additionally, as of the same date the Authority has recorded in the statement of net position a receivable in the amount of $558,297 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.

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 12-31-2012
Pre-cleanup activities	$5,973,362	$5,311,192	$662,170
Site remediation work	76,304,985	44,783,922	31,521,063
Post-remediation monitoring	1,069,299	384,346	684,953
Asbestos and lead based paint removal	19,054,003	15,388,546	3,665,457
Sub-total	102,401,649	65,868,006	36,533,643
Less: Estimated environmental cost recoveries (ECR) not yet realized	1,785,345	-	1,785,345
Liability for pollution remediation obligations	$100,616,304	$65,868,006	$34,748,298
Receivable for realized ECR	$558,297	$-	$558,297

The following table summarizes the changes in the Authority's PRO liability during the year ended December 31, 2012:

PRO at 12-31-2011	Increase in Expected Cash Outlays	PRO Payments	Increase in ECR Not Yet Realized	PRO at 12-31-2012
$37,847,100	$1,371,654	$(5,215,973)	$745,517	$34,748,298

10. Commitments and Contingencies

(a) Contractual Commitments

At December 31, 2012, the Authority has approximately $606 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, 2012, the Authority's potential loss from these claims has been estimated at approximately $48.4 million, which represents a decrease of $13.3 million from the prior year end accrual. Accordingly, as of December 31, 2012, an accrued liability of $48.4 million is reflected in the statement of net position and, for the year then ended, $13.3 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, 2012, 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 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, 2012, the Authority has incurred general liability and workers' compensation claims totaling approximately $3.2 million and $11.1 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 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, 2012, 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, 2011; and Tier 5 includes those members enrolled in PERS on or after June 28, 2011. 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.

The Authority's total payroll for the years ended December 31, 2012, 2011 and 2010, which approximates its covered payroll, was $18,472,472, $19,904,178 and $23,961,013, respectively.

In 2012, 2011 and 2010, the Authority's pension contributions to the PERS totaled $2,673,145, $2,545,016, and $1,793,455, respectively; such amounts were charged to salaries and benefits expense. The Authority's 2013 pension contribution, due on April 1, 2013, is expected to be $2,163,895.

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 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, 2012, the Authority had eight active employees enrolled in the DCRP and made matching contributions totaling $5,596. Employer matching contributions relating to 2011, 2010 and 2009 totaled $6,858, $4,853, and $5,819, 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 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 2012 and 2011 and the related information for the plan are as follows:

	2012	2011
Annual required contribution	$1,928,499	$2,072,654
Adjustment to annual required contribution *	287,154	(77,840)
Annual OPEB cost	2,215,653	1,994,814
Contributions made	(126,150)	(114,444)
Increase in net OPEB obligation	2,089,503	1,880,370
Net OPEB obligation – beginning of year	9,545,523	7,665,153
Net OPEB obligation – end of year	$11,635,026	$9,545,523

* 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 2012, 2011, and 2010 is as follows:

Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
12/31/2012	$2,215,653	5.7%	$11,635,026
12/31/2011	$1,994,814	5.7%	$9,545,523
12/31/2010	$3,594,282	2.5%	$7,665,153

As of the most recent valuation date (January 1, 2012), the Authority's actuarial accrued liability was $15,905,032, all of which was unfunded as of December 31, 2012. The Authority is 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 valuation date was $18,788,600 and the ratio of the unfunded actuarial accrued liability to the covered payroll was 84.7%. Additionally, as of the valuation date 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 $126,150 and $114,444, respectively, in 2012 and 2011.

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 January 1, 2012 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 10% for 2013, 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.

In the fall of 2012, the NJ Health Benefits Program incorporated both the healthcare reform impact (excise "Cadillac" tax), and the mortality improvement projection scale in the valuation report that was released to the public. These assumptions were not applied in previous state valuations. To remain consistent with the state health plan, the Authority elected to include both changes in their 2012 actuarial valuation. The results included an increase to the unfunded accrual liability and the annual OPEB cost by $1,045,973 and $189,547, respectively.

12. Compensated Absences

In accordance with GASB Statement No. 16, *Accounting for Compensated Absences,* the Authority recorded a liability in the amount $1,061,136 as of December 31, 2012 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 2012, 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	$99,589,555	$745,517	$(17,196,769)	$83,138,303
Other post-employment benefits obligation	9,545,523	2,215,653	(126,150)	11,635,026
Compensated absences	1,012,091	49,045	-	1,061,136
Total long-term liabilities	$110,147,169	$3,010,215	$(17,322,919)	$95,834,465

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

14. Net Position

The Authority's net position are categorized as either invested in capital assets, or restricted for schools construction. At December 31, 2012, the Authority's net position is $373.5 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 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 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 2011 and 2012 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, 2011	$2,475,270	$345,002,960	$22,225,653	$369,703,883
(Loss)/excess before receipt of EFCFA funding and transfers	(1,031,909)	(14,712,814)	(20,123,248)	(35,867,971)
Capital assets acquired	26,142	-	(26,142)	-
School facilities project costs	-	(71,990,189)	(82,939,026)	(154,929,215)
Net position, December 31, 2011	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

NEW JERSEY SCHOOLS DEVELOPMENT AUTHORITY

(a component unit of the State of New Jersey)

REQUIRED SUPPLEMENTARY INFORMATION

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

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%