

**NEW JERSEY ECONOMIC  
DEVELOPMENT AUTHORITY**  
Financial Statements

Years Ended December 31, 2008 and 2007

## NEW JERSEY ECONOMIC DEVELOPMENT AUTHORITY

Financial Statements and Additional Information on  
Federal Grant Programs in Accordance  
with OMB Circular A-I33

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## **I. Financial Section**

## Members of the Authority New Jersey Economic Development Authority

We have audited the accompanying basic financial statements of New Jersey Economic Development Authority (the "Authority"), a component unit of the State of New Jersey, as of and for the years ended December 31, 2008 and 2007. 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 audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of New Jersey Economic Development Authority as of December 31, 2008 and 2007, and the respective changes in financial position and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 12, 2009, on our consideration of the Authority's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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OVER 45 YEARS OF SERVICE TO THE COMMUNITY

INDEPENDENT AUDITORS' REPORT (CONTINUED)

Management's Discussion and Analysis ("MD&A") on pages 3 through 11 is not a required part of the basic financial statements, but is supplemental information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

*MacArthur, PC*  
*Certified Public Accountants*

March 12, 2009

## **NEW JERSEY ECONOMIC DEVELOPMENT AUTHORITY**

### **Management's Discussion and Analysis**

**Years Ended December 31, 2008 and 2007**

This section of the New Jersey Economic Development Authority's ("Authority" or "NJEDA") annual financial report presents management's discussion and analysis of the Authority's financial performance during the fiscal years ended on December 31, 2008 and 2007. Please read it in conjunction with the Authority's financial statements and accompanying notes.

#### **2008 FINANCIAL HIGHLIGHTS**

- The Authority's total net assets decreased \$14.8 million (or 2.0%).
- Current liabilities decreased \$14.5 million (or 35.5%).
- Bonds payable-gross decreased \$32.7 million (or 28.6%) due to scheduled debt service payments.
- Capital assets-net decreased \$ 20.8 million (or 15.1%) primarily due to the sale of Barnes & Noble land, building and equipment, MSNBC production equipment and offset by ongoing construction in progress for Tech IV at the Technology Centre of New Jersey.

#### **2007 FINANCIAL HIGHLIGHTS**

- The Authority's total net assets decreased \$61.8 million (or 7.7%) primarily due to grant disbursements for the Business Employment Incentive Program ("BEIP").
- Current liabilities increased \$5.0 million (or 14.2%).
- Bonds payable-gross decreased \$23.1 million (or 16.8%) due to scheduled debt service payments.
- Capital assets-net decreased \$5.8 million (or 4.0%) primarily due to the sale of MSNBC production equipment and offset by the completion of leasehold improvements at the Waterfront Technology Center at Camden ("WTCC").

#### **OVERVIEW OF THE FINANCIAL STATEMENTS**

This annual financial report consists of two parts: *Management's Discussion and Analysis* (this section) and the *basic financial statements*. The Authority is a self-supporting entity and follows enterprise fund reporting; accordingly, the financial statements are presented using the economic resources measurement focus and the accrual basis of accounting. Enterprise fund statements offer short- and long-term financial information about the activities and operations of the Authority. These statements are presented in a manner similar to a private business engaged in such activities as real estate development, investment banking, commercial lending, construction management and consultation. While detailed sub-fund information is not presented, separate accounts are maintained for each program or project to control and manage money for particular purposes or to demonstrate that the Authority is properly using specific appropriations, grants and bond proceeds.

## FINANCIAL ANALYSIS OF THE AUTHORITY

**Net Assets.** The following table summarizes the changes in Net Assets for the years ended December 31, 2008 and 2007:

	<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>Current Year % increase/ (decrease)</u>	<u>Prior Year % increase/ (decrease)</u>
Other Assets	\$753,693,388	\$798,191,189	\$883,221,154	(5.6)%	(9.6)%
Capital Assets, net	<u>117,409,324</u>	<u>138,220,607</u>	<u>143,997,656</u>	(15.1)%	(4.0)%
Total Assets	<u>871,102,712</u>	<u>936,411,796</u>	<u>1,027,218,810</u>	(7.0)%	(8.8)%
Long Term Debt	92,006,687	120,771,886	145,190,669	(23.8)%	(16.8)%
Other Liabilities	<u>48,192,168</u>	<u>69,892,751</u>	<u>74,440,705</u>	(31.0)%	(6.1)%
Total Liabilities	<u>140,198,855</u>	<u>190,664,637</u>	<u>219,631,374</u>	(26.5)%	(13.2)%
Net Assets:					
Invested in Capital Assets, Net of Related Debt	58,654,324	54,010,607	43,582,656	8.6%	23.9%
Restricted for School Loan Program	31,239,841	38,459,932	45,688,363	(18.8)%	(15.8)%
Unrestricted	<u>641,009,692</u>	<u>653,276,620</u>	<u>718,316,417</u>	(1.9)%	(9.1)%
Total Net Assets	<u>\$730,903,857</u>	<u>\$745,747,159</u>	<u>\$807,587,436</u>	(2.0)%	(7.7)%

During 2008, the Authority's combined net assets decreased \$14.8 million (or 2.0%) due to:

(\$16.4)	Million	BEIP appropriations received in support of grant award payments
\$19.8	Million	PUST grant award payments and loan disbursements
\$5.1	Million	Hazard program disbursements
\$20.1	Million	Municipal Economic Recovery Initiative grant award payments
\$6.9	Million	School Loan Program repayments returned to the State
(\$5.0)	Million	Business Assistance, Marketing and International Trade transferred from the State
(\$15.7)	Million	Other Program Payments and Payments to/from the State

During 2007, the Authority's combined net assets decreased \$61.8 million (or 7.7%) primarily due to \$56.3 million in BEIP grant award payments. In addition, other appropriations, Program Payments and Payments to/from the State amounted to (\$5.5 million) for the following purposes:

\$2.4	Million	PUST grant award payments and loan disbursements
(\$13.7)	Million	Hazard appropriations in excess of program disbursements
\$27.1	Million	Municipal Economic Recovery Initiative grant award payments
\$7.2	Million	School Loan Program repayments returned to the State
(\$17.5)	Million	Other Program Payments and Payments to/from the State

**Operating Activities.** The Authority charges financing fees that may include an application fee, commitment fee, closing fee and a document execution fee. The Authority also charges an agency fee for the administration of financial programs for various government agencies; a program service fee for the administration of Authority programs that are service-provider based, rather than based on the exchange of assets such as the commercial lending program; and a real estate development fee for real estate activities undertaken on behalf of governmental entities and commercial enterprises. Interest income on investments, notes and intergovernmental obligations is recognized as earned. Grant revenue is earned when the Authority has complied with the terms and conditions of the grant agreements. The Authority also earns income from operating leases and interest income on lease revenue from capital lease financings. Late fees are charged to borrowers delinquent in their monthly loan payments. All forms of revenue accrue to the benefit of the program for which the underlying source of funds are utilized. The Authority considers all activity, except for the sale of capital assets and interest earned from investments, to be operating activities.

The following table summarizes the changes in operating and nonoperating activities between fiscal year 2008 and 2007:

	<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>Current</u> <u>Year %</u> <u>increase/</u> <u>(decrease)</u>	<u>Prior</u> <u>Year %</u> <u>increase/</u> <u>(decrease)</u>
Operating Revenues					
Financing Fees	\$3,504,883	\$3,080,786	\$3,086,276	13.8%	(0.2)%
Interest Income-Notes	7,222,905	6,936,927	6,492,123	4.1%	6.9%
Interest Income-Intergovernmental	522,998	618,345	706,977	(15.4)%	(12.5)%
Lease Revenue	18,599,425	17,889,952	22,071,456	4.0%	(18.9)%
Other	<u>5,552,071</u>	<u>8,844,328</u>	<u>7,378,156</u>	(37.2)%	19.9%
Total Operating Revenues	<u>35,402,282</u>	<u>37,370,338</u>	<u>39,734,988</u>	(5.3)%	(6.0)%
Operating Expenses					
Administrative Expenses	21,708,790	16,827,612	27,560,919	29.0%	(38.9)%
Interest Expense	4,467,024	6,850,482	7,444,219	(34.8)%	(8.0)%
Depreciation	10,062,085	11,489,306	14,820,974	(12.4)%	(22.5)%
Loss Provisions-Net	11,500,774	4,898,638	2,981,250	134.8%	64.3%
Other	<u>8,123,759</u>	<u>7,428,524</u>	<u>7,100,622</u>	9.4%	4.6%
Total Operating Expenses	<u>55,862,432</u>	<u>47,494,562</u>	<u>59,907,984</u>	17.6%	(20.7)%
Operating Loss	<u>(20,460,150)</u>	<u>(10,124,224)</u>	<u>(20,172,996)</u>	102.1%	(49.8)%



Nonoperating Revenues and  
(Expenses)

Interest Income-investments	16,221,076	28,742,994	29,302,049	(43.6)%	(1.9)%
State Appropriations and Program Payments-Net	(21,967,067)	(83,698,819)	(123,451,504)	(73.8)%	(32.2)%
Other Revenue	<u>11,362,839</u>	<u>3,239,772</u>	<u>3,218,461</u>	250.7%	0.7%
Total Nonoperating, Net	<u>5,616,848</u>	<u>(51,716,053)</u>	<u>(90,930,994)</u>	(110.9)%	(43.1)%
Change in Net Assets	(14,843,302)	(61,840,277)	(111,103,990)	(76.0)%	(44.3)%
Beginning Net Assets	<u>745,747,159</u>	<u>807,587,436</u>	<u>918,691,426</u>		
Ending Net Assets	<u>\$730,903,857</u>	<u>\$745,747,159</u>	<u>\$807,587,436</u>		

### Operating Revenues

During 2008, the Authority's operating revenues were materially impacted by the following:

- Financing fees increased by \$0.4 million.
- Lease revenue decreased by \$0.7 million.
- Program services revenue decreased by \$0.4 million.
- Loss Recoveries decreased by \$1.4 million.
- Distributions received decreased by \$0.3 million from Edison IV Venture Fund.

During 2007, the Authority's operating revenues were materially impacted by the following:

- Lease revenue decreased by \$4.3 million.
- Program services revenue increased by \$0.2 million.
- Loss Recoveries increased by \$1.3 million.
- Distributions received increased by \$0.4 million from Edison IV Venture Fund.

### Operating Expenses

In 2008, operating expenses increased in part due to the passing of Senate bill, No. 1980 which abolished the New Jersey Commerce Commission and transferred its primary function, powers and duties to the Division of Business Assistance, Marketing and International Trade within the Authority. This increase was offset by an Appropriation from the State for the Division and a decrease in Interest expense.

In 2007, salaries and benefits expenses decreased \$11.0 million, primarily due to the cost of other postemployment benefits, since the Authority adopted Governmental Accounting Standards Board Statement No. 45 "Accounting & Financial Reporting by Employers for Postemployment Benefits Other Than Pensions" in the prior year.

### **Nonoperating Revenues**

In 2008, Interest Income from investments decreased \$12.5 million and the gain on sale of assets increased by \$6.4 million, primarily due to Barnes & Noble and MSNBC production equipment sold.

In 2007, sale of assets decreased by \$15.6 million, primarily due to MSNBC production equipment sold.

### **Allowance for Credit Losses**

The Authority, although not required to do so, has aligned its allowance policy to that practiced in the financial services industry. Allowances for doubtful notes and guarantee payments are determined in accordance with guidelines established by the Office of the Comptroller of the Currency. The Authority accounts for its potential loss exposure through the use of risk ratings. These specifically assigned risk ratings are continuously updated to account for changes in financial condition of the borrower or guarantor, delinquent payment history, loan covenant violations, and changing economic conditions.

The assigned risk rating classifications are consistent with the ratings used by the Office of the Comptroller of the Currency. Each risk rating is assigned a specific loss factor in accordance with the severity of the classification. Each month an analysis is prepared using the current loan balances, existing exposure on guarantees, and the assigned risk rating to determine the adequacy of the reserve. Any adjustments needed to adequately provide for potential credit losses are reported as a Loss Provision.

The following table summarizes the Loan Allowance activity for the end of the period from January 1, 2006 through December 31, 2008:

**December 31, 2006**

Allowance for loan losses	\$10,875,186	
Accrued guarantee losses	<u>4,286,240</u>	
<b>Total allowance</b>		15,161,426
2007 Provision for credit losses-net	7,749,965	
2007 Write-offs	<u>(1,330,554)</u>	<u>6,419,411</u>

**December 31, 2007**

Allowance for loan losses	16,196,326	
Accrued guarantee losses	<u>5,384,511</u>	
<b>Total allowance</b>		21,580,837
2008 Provision for credit losses-net	7,283,585	
2008 Write-offs	<u>(2,590,167)</u>	<u>4,693,418</u>

**December 31, 2008**

Allowance for loan losses	22,876,101	
Accrued guarantee losses	<u>3,398,154</u>	
<b>Total allowance</b>		<u>\$26,274,255</u>

The Authority's write-down and Loan Loss Reserve policies closely align with the reporting requirements of the banking industry. When management determines that the probability of collection is less than 50% of the remaining balance, it is the policy to assign a Loss rating to the account. For an account rated as Loss, a loss provision is recognized for the entire loan balance.

Under our policy a loan will be written-off against the Loss Allowance when it is determined that the probability of collection is remote. The recognition of a loss does not automatically release the borrower from the obligation to pay the debt. Should the borrower, guarantors, or collateral position improve in the future, any and all steps necessary to preserve the right to collect these obligations will be taken. Debts are forgiven after legal counsel determines there is no further legal recourse available to collect the debt.

Aggregate gross loan and guarantee exposure at December 31, 2008, was \$249,533,709, of which \$202,499,938 (or 81%) is rated Pass, \$13,504,035 (or 5%) is loans made under the Authority's technology initiative, and \$33,529,736 (or 14%) is adversely classified.

Total write-offs for the year ended December 31, 2008, were \$1,090,167 or 0.52% of the total loan portfolio. At December 31, 2008, the total allowance against Notes Receivable was \$22,876,101 or 10.93% of the loan portfolio.

There was \$1,500,000 in write-offs for the year on guarantees honored. At December 31, 2008, the total allowance for guarantee exposure is \$3,398,154 or 8.46% of the total guarantee exposure of \$40,152,236.

The 2008 Loss Provisions - Net of \$11.5 million, are related to the following detailed information:

\$7,263,000	Loan and Guarantee Program activity
\$17,000	Sale of equipment to MSNBC
\$1,235,000	Authority's share in the New Jersey Tech Council Venture Capital Fund
\$128,000	Authority's share in the Edison Venture Capital Fund
\$2,867,000	Authority's share in the Garden State Life Sciences Venture Fund

The 2007 Loss Provisions - Net of \$4.9 million, are related to the following detailed information:

\$7,750,000	Loan and Guarantee Program activity
(\$1,437,000)	Sale of equipment to MSNBC
(\$4,000)	Authority's share in the New Jersey Tech Council Venture Capital Fund
(\$114,000)	Authority's share in the Edison Venture Capital Fund
(\$1,296,000)	Authority's share in the Garden State Life Sciences Venture Fund

## CAPITAL ASSET AND DEBT ADMINISTRATION

**Capital Assets.** The Authority independently, or in cooperation with a private or governmental entity, acquires, invests in and/or develops vacant industrial sites, existing facilities, unimproved land, equipment and other real estate for private or governmental use. Sites developed and equipment purchased for private use are marketed or leased to businesses that will create new job opportunities and tax ratables for the municipalities. Sites are developed for governmental use for a fee and also may be leased to the State or State entities. For the majority of these leases, future minimum lease rental payments are equal to the debt service payments related to the bonds or notes issued for the applicable property.

The following table summarizes the change in other Capital Assets-Net between fiscal year 2008 and 2007:

	<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>Current</u> <u>Year %</u> <u>increase/</u> <u>(decrease)</u>	<u>Prior Year</u> <u>%</u> <u>increase/</u> <u>(decrease)</u>
Land	\$21,248,262	\$23,873,206	\$23,873,206	(11.0)%	
Construction in Progress	<u>5,412,464</u>	<u>450</u>	<u>-0-</u>		
Total Nondepreciable Capital Assets	<u>26,660,726</u>	<u>23,873,656</u>	<u>23,873,206</u>		
Building	97,364,839	121,007,001	121,007,001	(19.5)%	
Leasehold Improvements	21,918,368	22,223,883	18,657,010	(1.4)%	19.1%
Equipment	<u>25,042,893</u>	<u>38,166,827</u>	<u>37,151,625</u>	(34.4)%	2.7%
Total Depreciable Capital Assets	144,326,100	181,397,711	176,815,636		
Less Accumulated Depreciation	<u>(53,577,502)</u>	<u>(67,050,760)</u>	<u>(56,691,186)</u>	(20.1)%	18.3%
Capital Assets-Net	<u>\$117,409,324</u>	<u>\$138,220,607</u>	<u>\$143,997,656</u>	(15.1)%	(4.0)%

The change in Land and Building in the current year resulted from the sale of Barnes & Noble, offset by the increase in Construction in Progress for ongoing work on Tech IV at the Technology Centre of New Jersey. In the prior year, the change represents the completion of leasehold improvements at the WTCC location.

The change in Equipment in the current year is due to the sale of Barnes & Noble equipment, as well as the purchase and sale of production equipment to MSNBC which fluctuates each year.

More detailed information about the Authority's capital assets is presented in the Notes to the financial statements.

**Capital Debt.** At year end, the Authority had \$101,390,000 of gross bond and note principal outstanding; a net decrease of 24.6%, due to the paydown of scheduled debt. More detailed information about the Authority's capital debt is presented in the Notes to the financial statements.

The following table summarizes the changes in capital debt between fiscal year 2008 and 2007:

	<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>Current</u> <u>Year %</u> <u>increase/</u> <u>(decrease)</u>	<u>Prior Year</u> <u>%</u> <u>increase/</u> <u>(decrease)</u>
Bonds Payable - Gross	\$81,560,000	\$114,245,000	\$137,390,000	(28.6)%	(16.8)%
Notes Payable	<u>19,830,000</u>	<u>20,160,000</u>	<u>21,745,315</u>	(1.6)%	(7.3)%
Total Bonds and Notes Payable	<u>\$101,390,000</u>	<u>\$134,405,000</u>	<u>\$159,135,315</u>	(24.6)%	(15.5)%

### Other Matters

On December 9, 2008, the State of New Jersey enacted into law the Invest NJ Business Grant Program Act ("the Act"). Pursuant to the Act, the Authority is directed to establish a new business assistance program to stimulate capital investment and job creation in New Jersey. As outlined in the legislation, the State appropriated up to \$120 million to the Authority for purposes of making grants to eligible businesses. As of December 31, 2008, the Authority has not received any of these funds.

On December 16, 2008, the State of New Jersey enacted into law the Main Street Business Assistance Act ("the Act"). The Act directs the Authority to provide necessary loan and guarantee products in support of small and mid-size businesses that have the greatest potential for stimulating economic growth. As outlined in the legislation, the program is to be funded by a \$50 million State appropriation to the Authority. As of December 31, 2008, the Authority has not received any of these funds.

### CONTACTING THE AUTHORITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide New Jersey citizens, and our customers, clients, investors and creditors, with a general overview of the Authority's finances and to demonstrate the Authority's accountability for the appropriations and grants that it receives. If you have questions about this report or need additional information, contact the Office of Public Affairs, NJEDA, P.O. Box 990, Trenton, NJ 08625-0990, or visit our web site at: [www.njeda.com](http://www.njeda.com).

NEW JERSEY ECONOMIC DEVELOPMENT AUTHORITY  
CONSOLIDATED BALANCE SHEETS

	December 31,	
	2008	2007
<b>Assets</b>		
<b>Current Assets</b>		
Cash and cash equivalents	\$218,633,450	\$234,692,621
Investments	77,861,100	272,801,375
Receivables		
Notes	16,880,109	13,895,731
Accrued interest on notes	787,540	918,825
Accrued interest on investments	2,981,524	2,230,572
Intergovernmental	2,137,500	2,088,889
Leases	100,000	50,000
Other receivables	1,330,499	9,189,100
	24,217,172	28,373,117
Prepays and deferred costs	551,109	989,088
Total Current Assets	321,262,831	536,856,201
<b>Noncurrent Assets</b>		
Investments	249,126,408	74,394,036
Receivables		
Notes	142,190,454	128,238,976
Notes-restricted	50,310,910	62,115,966
Accrued interest on notes	2,864,195	117,720
Accrued interest on notes-restricted	162,299	200,039
	195,527,858	190,672,701
Allowance for doubtful notes and guarantees	(22,876,101)	(16,196,325)
Net notes receivable	172,651,757	174,476,376
Intergovernmental restricted	4,741,664	6,951,386
Unamortized discount	(944,123)	(1,467,123)
Net intergovernmental receivables	3,797,541	5,484,263
Leases-restricted	7,906,869	8,006,869
Unamortized discount	(1,244,630)	(1,347,188)
Net leases receivable	6,662,239	6,659,681
Total receivables	183,111,537	186,620,320
Prepays and deferred costs	192,612	320,632
Nondepreciable capital assets	21,248,262	23,873,656
Depreciable capital assets, net	96,161,062	114,346,951
Total capital assets, net	117,409,324	138,220,607
Total Noncurrent Assets	549,839,881	399,555,595
<b>Total Assets</b>	<u>\$871,102,712</u>	<u>\$936,411,796</u>

See accompanying notes.

**NEW JERSEY ECONOMIC DEVELOPMENT AUTHORITY  
CONSOLIDATED BALANCE SHEETS**

	<b>December 31,</b>	
	<b>2008</b>	<b>2007</b>
<b>Liabilities and Net Assets</b>		
<b>Current Liabilities</b>		
Accrued liabilities	\$3,028,397	\$14,562,797
Deferred lease revenues	1,527,679	1,130,105
Deposits	9,408,736	7,688,155
OPEB Obligation	324,201	360,794
Bonds payable	9,815,000	14,165,000
Notes payable	420,000	732,723
Accrued interest payable	1,493,865	1,833,794
Total Current Liabilities	<u>26,017,878</u>	<u>40,473,368</u>
<b>Noncurrent Liabilities</b>		
Bonds payable-net	72,596,687	101,344,609
Notes payable	19,410,000	19,427,277
OPEB Obligation		3,857,978
Deferred lease revenues	17,388,490	18,442,338
Accrued guarantee losses	3,398,154	5,384,511
Other	1,387,646	1,734,556
Total Noncurrent Liabilities	<u>114,180,977</u>	<u>150,191,269</u>
<b>Total Liabilities</b>	<u>140,198,855</u>	<u>190,664,637</u>
<b>Net Assets</b>		
Invested in capital assets, net of related debt	58,654,324	54,010,607
Restricted for School Loan Program	31,239,841	38,459,932
Unrestricted	641,009,692	653,276,620
<b>Total Net Assets</b>	<u>730,903,857</u>	<u>745,747,159</u>
<b>Total Liabilities and Net Assets</b>	<u>\$871,102,712</u>	<u>\$936,411,796</u>



**NEW JERSEY ECONOMIC DEVELOPMENT AUTHORITY**

**CONSOLIDATED STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS**

	<b>Years ended December 31,</b>	
	<b>2008</b>	<b>2007</b>
<b>Operating Revenues</b>		
Financing fees	\$3,504,883	\$3,080,786
Interest income-intergovernmental obligations	522,998	618,345
Interest income-notes	7,222,905	6,936,927
Total Interest Income	7,745,903	7,555,272
Financing lease revenue	102,558	164,298
Operating lease revenue	18,496,867	17,725,654
Agency fees	1,069,383	1,210,541
Program services	2,996,288	3,375,777
Real estate development	1,167,470	1,947,839
Grant revenue		325,937
Other	318,930	1,984,234
Total Other Revenues	24,151,496	26,734,280
Total Operating Revenue	35,402,282	37,370,338
<b>Operating Expenses</b>		
Salaries and benefits	17,908,389	13,386,196
General and administrative	3,800,401	3,441,416
Interest	4,467,024	6,850,482
Program costs	8,123,759	7,428,524
Depreciation	10,062,085	11,489,306
Loss provisions-net	11,500,774	4,898,638
Total Operating Expenses	55,862,432	47,494,562
<b>Operating Loss</b>	<b>(20,460,150)</b>	<b>(10,124,224)</b>
<b>Nonoperating Revenues and Expenses</b>		
Interest income-investments	16,221,076	28,742,994
Unrealized gain in investment securities	4,905,607	3,137,560
Gain on sale of assets-net	6,457,232	102,212
State Appropriations-net	207,939,119	128,438,344
Program payments	(229,906,186)	(212,137,163)
<b>Nonoperating Expenses, net</b>	<b>5,616,848</b>	<b>(51,716,053)</b>
<b>Change in Net Assets</b>	<b>(14,843,302)</b>	<b>(61,840,277)</b>
<b>Net Assets - Beginning of year</b>	<b>745,747,159</b>	<b>807,587,436</b>
<b>Net Assets - End of Year</b>	<b>\$730,903,857</b>	<b>\$745,747,159</b>

**NEW JERSEY ECONOMIC DEVELOPMENT AUTHORITY  
CONSOLIDATED STATEMENTS OF CASH FLOWS**

	<b>Years ended December 31,</b>	
	<b>2008</b>	<b>2007</b>
<b>Cash flows from operating activities</b>		
Financing fees	\$3,576,873	\$3,224,104
Interest from notes	8,936,803	8,989,407
Lease rents	18,143,038	17,537,650
Grant income		1,458,292
Agency fees	1,070,683	1,209,341
Program services	3,324,352	5,030,326
Real estate development	1,135,102	2,174,947
General and administrative expenses paid	(25,581,741)	(25,069,380)
Program costs paid	(8,760,079)	(6,456,033)
Collection of notes receivable	29,644,027	27,446,385
Guarantee payments recovered	(2,905,350)	
Loan disbursements	(33,262,806)	(42,750,518)
Deposits received	8,675,925	7,363,187
Deposits released	(6,809,085)	(5,711,269)
Net cash used in operating activities	<u>(2,812,258)</u>	<u>(5,553,561)</u>
<b>Cash flows from capital and related financing activities</b>		
Payment of bonds and notes payable	(27,040,000)	(18,565,315)
Interest paid on bonds and notes payable	(3,622,049)	(5,147,289)
Purchase of capital assets	(6,369,157)	(4,614,393)
Sale of assets	22,870,871	331,369
Net cash used in capital and related financing activities	<u>(14,160,335)</u>	<u>(27,995,628)</u>
<b>Cash flows from noncapital financing activities</b>		
Program funding received	2,161,112	2,843,048
Deposits received	1,295	2,140
Redemption and refunding of bonds payable	(7,230,000)	(6,940,000)
Interest paid on revenue bonds	(3,616,368)	(4,060,916)
Obligations paid	(1,229,862)	(1,144,631)
Issuance and servicing costs paid	(561,334)	(594,312)
Appropriations received	205,259,021	120,083,079
Payments to State of New Jersey	(6,867,844)	(7,202,452)
Program payments	(224,014,911)	(200,026,771)
Net cash used in noncapital financing activities	<u>(36,098,891)</u>	<u>(97,040,815)</u>
<b>Cash flows from investing activities</b>		
Interest from investments	15,475,101	28,823,251
Capital investments	(2,724,922)	(2,929,773)
Investments - Purchases	(44,668,621)	(40,151,593)
- Redemptions	68,930,755	62,584,258
Net cash provided by investing activities	<u>37,012,313</u>	<u>48,326,143</u>
<b>Net Decrease in Cash and Cash Equivalents</b>	<u>(16,059,171)</u>	<u>(82,263,861)</u>
<b>Cash and Cash Equivalents - Beginning of Year</b>	<u>234,692,621</u>	<u>316,956,482</u>
<b>Cash and Cash Equivalents - End of Year</b>	<u><u>\$218,633,450</u></u>	<u><u>\$234,692,621</u></u>

**NEW JERSEY ECONOMIC DEVELOPMENT AUTHORITY**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS (continued)**

	<b>Years ended December 31,</b>	
	<b>2008</b>	<b>2007</b>
<b>Reconciliation of Operating Loss to Net Cash Used in Operating Activities</b>		
Operating loss	(\$20,460,150)	(\$10,124,224)
Adjustments to reconcile operating loss to net cash provided by operating activities		
Loss provisions	11,500,774	4,898,638
Depreciation	10,062,085	11,489,306
Amortization of discounts, premiums, deferred loss	(625,556)	(720,864)
Cash provided by nonoperating activities	8,999,750	10,577,517
Change in assets and liabilities		
Notes receivable	(3,619,856)	(15,304,242)
Guarantee payments receivable	(2,905,350)	
Accrued interest receivable-notes	(333,040)	(82,508)
Lease payments receivable	40,682	1,495,315
Other receivables	810,578	1,673,896
Prepays and deferred costs	430,600	286,757
Capital investments	(154,975)	(102,764)
Notes payable	(1,255,000)	(775,000)
Accrued liabilities	(5,527,735)	(9,276,254)
Deferred lease revenues	(749,857)	(1,018,425)
Accrued interest payable	(723,378)	(222,627)
Deposits	1,698,170	1,651,918
<b>Net cash used in operating activities</b>	<b>(\$2,812,258)</b>	<b>(\$5,553,561)</b>
<b>Noncash investing activities</b>		
Unrealized gain in investment securities	\$4,905,607	\$3,137,560

**New Jersey Economic Development Authority  
Notes to Financial Statements  
December 31, 2008 and 2007**

**Note 1: Nature of the Authority**

The New Jersey Economic Development Authority ("Authority") is a public body corporate and politic, constituting an instrumentality and component unit of the State of New Jersey ("State"). The Authority was established by Chapter 80, P.L. 1974 ("Act") on August 7, 1974, as amended and supplemented, primarily to provide financial assistance to companies for the purpose of maintaining and expanding employment opportunities in the State and increasing tax ratables in underserved communities. The Act prohibits the Authority from obligating the credit of the State in any manner.

The Authority primarily offers the following products and services:

**(a) Bond Financing**

The Authority issues tax-exempt private activity bonds and taxable bonds. The proceeds from these single issue or composite series bonds are used to provide long-term, below-market interest loans to eligible entities, which include certain 501(c)(3) nonprofit organizations, manufacturers, exempt public facilities, solid waste facilities, and local, county and State governmental agencies for real estate acquisition, equipment, machinery, building construction and renovations. All such bonds are special conduit debt obligations of the Authority, are payable solely from the revenues pledged with respect to the issue, and do not constitute an obligation against the general credit of the Authority.

**(b) Loans/Guarantees/Investments and Tax Incentives**

The Authority directly provides loans and loan guarantees to commercial enterprises and other nonprofits for various purposes to include: the acquisition of fixed assets; building construction and renovation; financing for working capital; technological development; and infrastructure improvements. The Authority also may provide financial assistance in the form of convertible debt, and take an equity position in technology and life sciences companies through warrant options. In addition to lending and investing its own financial resources, the Authority also administers several business growth programs supported through State appropriation/allocation, including tax credits for film industry and digital media projects, the technology business tax certificate transfer program, and job growth incentive grants. Other state mandated programs include loans/grants to support hazardous discharge site remediation and petroleum underground storage tank remediation.

### (c) Real Estate Development

The Authority independently, or in cooperation with a private or another governmental entity, acquires, invests in and/or develops vacant industrial sites, existing facilities, unimproved land, equipment and other real estate for private or governmental use. Sites developed and equipment purchased for private use are marketed or leased to businesses that will create new job opportunities and tax ratables for municipalities. Sites are developed for governmental use for a fee and also may be leased to the State or State entities.

### (d) Component Units

Pursuant to Governmental Accounting Standards Board Statement No. 14, *The Financial Reporting Entity*, the financial statements include the accounts of the Authority and the Camden County Urban Renewal Limited Partnership ("CCURLP"), a blended component unit. CCURLP is a real estate joint venture which provides services for the exclusive benefit of the Authority. All intercompany transactions and balances are eliminated.

The Authority's financial statements do not include the accounts of the New Jersey Community Development Entity ("NJCDE"), a component unit. NJCDE is a legal entity whose primary mission is to provide investment capital for low-income communities, on behalf of the Authority, through the allocation of federal New Markets Tax Credits. The Authority does not deem the operations of the NJCDE to be significant to the operations of the Authority. As of December 31, 2008 and 2007, total assets were \$3,332,213 and \$942,815.

### Related Party Transactions

The Authority has contracted with several other state entities to administer certain loan programs on their behalf for a fee. In order for the Authority to effectively administer the programs, the Authority has custody of the cash accounts for each program. The cash in these accounts, however, is not an asset of the Authority and, accordingly, the balances in these accounts have not been included in the Authority's consolidated balance sheets. The cash balances total \$32,992,024 and \$40,514,489 at December 31, 2008 and 2007, respectively. The following is a summary of the programs that the Authority manages on behalf of other state entities:

<u>Entity</u>	<u>Program</u>	<u>2008</u>	<u>2007</u>
New Jersey Commerce Commission	Sustainable Business Loan Fund		\$2,864,625
Dept. of Treasury	Local Development Financing Fund	\$16,264,127	20,682,341
Board of Public Utilities	BPU Clean Energy Program	16,177,826	16,927,383
Dept. of Environmental Protection	DEP Recycling Loan Fund	10,861	40,140
Dept. of Human Services	DHS Child Care Facilities Fund	539,210	

## **Note 2: Summary of Significant Accounting Policies**

### **(a) Basis of Accounting and Presentation**

The Authority is a self-supporting entity and follows enterprise fund reporting; accordingly, the accompanying financial statements are presented using the economic resources measurement focus and the accrual basis of accounting. While detailed sub-fund information is not presented, separate accounts are maintained for each program and include certain funds that are legally designated as to use. Administrative expenses are allocated to the various programs.

In its accounting and financial reporting, the Authority follows the pronouncements of the Governmental Accounting Standards Board ("GASB"). In addition, the Authority follows only the pronouncements of all applicable Financial Accounting Standards Board ("FASB") Statements and Interpretations, Accounting Principles Board Opinions and Accounting Research Bulletins of the Committee on Accounting Procedure issued on or before November 30, 1989, unless they conflict with or contradict GASB pronouncements, in which case, GASB standards will be used as the Authority's governing pronouncement. The Authority has elected to follow only the pronouncements of the FASB issued after November 30, 1989, that do not conflict with GASB statements.

### **(b) Revenue Recognition**

The Authority charges various program financing fees that may include an application fee, commitment fee, closing fee and a document execution fee. The Authority also charges a fee for the administration of financial programs for various government agencies and for certain real estate development and management activities. Fees are recognized when earned. Grant revenue is recognized when the Authority has complied with the terms and conditions of the grant agreements. The Authority recognizes interest income by amortizing the discount on intergovernmental obligations and lease revenue by amortizing the discount on capital lease financings. Operating lease revenue is recognized pursuant to the terms of the lease. The Authority considers all activity, except for the sale of capital assets and interest earned from investments, to be operating activities.

When available, it is the Authority's policy to first use restricted resources for completion of specific projects.

**(c) Cash Equivalents**

Cash equivalents are highly liquid debt instruments with original maturities of three months or less and participations in the State of New Jersey Cash Management Fund ("NJCMF"). The NJCMF is managed by the State's Division of Investment under the Department of the Treasury. All investments must fall within the guidelines set forth by the Regulations of the State Investment Council. The Division of Investment is permitted to invest in a variety of securities to include obligations of the U.S. Government and certain of its agencies, certificates of deposit, commercial paper, repurchase agreements, bankers' acceptances and loan participation notes. Investment guidelines provide that all investments in the NJCMF should mature or are to be redeemed within one year, except that up to 25% of the NJCMF may be invested in eligible securities which mature within 25 months; provided, however, that the average maturity of all investments in the NJCMF shall not exceed one year. Cash equivalents are stated at fair value.

**(d) Investments**

All investments, except for investment agreements, are stated at fair value. The Authority also invests in various types of joint ventures and uses the equity method to account for its investment when it exercises significant control or influence in the venture. Under the equity method, the investment is shown as a single amount on the balance sheet and the Authority's proportionate share of income or loss is recognized currently, rather than through dividends or disposal.

**(e) Amortization of Discounts and Premiums**

Interest on capital appreciation bonds is accreted using the interest method over the term of the bonds; for other discounts, the bonds outstanding method is used.

**(f) Guarantees Receivable**

Payments made by the Authority under its various guarantee programs are reported as Guarantees Receivable. These receivables are expected to be recovered either from the lender, as the lender continues to service the loan, or from the liquidation of the underlying collateral. Recoveries increase Worth [see Note 12].

**(g) Allowance for Doubtful Notes and Accrued Guarantee Losses**

Allowances for doubtful notes and accrued guarantee losses are determined in accordance with guidelines established by the Office of Comptroller of Currency. These guidelines include classifications based on routine portfolio reviews of various factors that impact collectability.

#### **(h) Operating and Non-Operating Revenues and Expenses**

The Authority defines operating revenues and expenses as relating to activities resulting from providing bond financing, direct lending and real estate development to commercial businesses, certain not-for-profit entities, and to local, county and State governmental entities. Non-operating revenues and expenses include income earned on the investment of funds, proceeds from the sale of certain assets and State appropriations.

#### **(i) Taxes**

The Authority is exempt from all Federal and State income taxes and real estate taxes.

#### **(j) Use of Estimates**

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

#### **(k) Capitalization Policy**

Unless material, it is the Authority's policy to expense all expenditures of an administrative nature. Administrative expenditures typically include expenses directly incurred to support staff operations, such as automobiles, information technology hardware and software, office furniture, and equipment.

With the exception of immaterial tenant fit-out costs of retail space that is sublet from the State of New Jersey, the Authority capitalizes all expenditures related to the acquisition of land, construction and renovation of buildings, and procurement of certain production equipment intended for sale or lease to its clients.

#### **(l) Depreciation Policy**

Capital assets are stated at cost. Depreciation is computed using the straight-line method over the following estimated economic useful lives of the assets:

Building	20 years
Building Improvements	20 years
Leasehold Improvements	term of the lease
Tenant Fit-Out	term of the lease
Production Equipment	4 to 15 years
Vehicles	expensed
IT Hardware/Software	expensed
Furniture and Equipment	expensed



### **(m) Reclassification of 2007 Balances**

Certain 2007 balances have been reclassified to conform with current year presentation.

### **Note 3: Cash, Cash Equivalents and Investments**

#### **(a) Cash and Cash Equivalents**

Operating cash is held in the form of Negotiable Order of Withdrawal ("NOW") accounts, money market accounts, and certificates of deposit. At December 31, 2008, the carrying amount of the Authority's deposits was \$56,628,067 and the bank balance was \$73,806,959. Of the bank balance, \$2,582,326 was insured with Federal Deposit Insurance.

Pursuant to GASB Statement No. 40 "Deposit and Investment Risk Disclosures" ("GASB 40"), the Authority's NOW accounts, as well as money market accounts and certificates of deposit, are profiled in order to determine exposure, if any, to Custodial Credit Risk (risk that in the event of failure of the counterparty the NJEDA would not be able to recover the value of its deposit or investment). Deposits are considered to be exposed to Custodial Credit Risk if they are: uncollateralized (securities are not pledged to the depositor), collateralized with securities held by the pledging financial institution, or collateralized with securities held by the pledging financial institution's trust department or agent but not in the government (NJEDA) name. At December 31, 2008, all of the Authority's deposits were collateralized by securities held in its name and, accordingly, not exposed to custodial credit risk.

Cash deposits at December 31, 2008, are as follows:

<u>Deposit Type</u>	<u>Deposits</u>
NOW Accounts	\$32,411,818
Money Market Accounts	9,978,578
Certificates of Deposit	<u>14,237,671</u>
<b>Total Deposits</b>	<u><b>\$56,628,067</b></u>

#### **(b) Investments**

Pursuant to the Act, the funds of the Authority may be invested in any direct obligations of, or obligations as to which the principal and interest thereof is guaranteed by, the United States of America or other obligations as the Authority may approve. Accordingly, the Authority directly purchases permitted securities and enters into interest-earning investment contracts.

As of December 31, 2008, the total investment is \$275,648,173. The Portfolio is comprised of short to medium term bonds and is managed by a financial institution, for the Authority, per a schedule of permitted investments. These investments include obligations guaranteed by the U.S. Government, Government Sponsored Enterprises, Money Market Funds, Mortgage Backed Pass-Throughs rated AAA by Standard & Poors or Moody's, and Repurchase Agreements. The Portfolio is managed with the investment objectives of: preserving capital, maintaining liquidity, achieving superior yields, and providing consistent returns over time. In order to limit interest rate risk, investments are laddered, with maturities ranging from several months to a maximum of four years.

Investment of bond proceeds are made in accordance with the Authority's various bond resolutions. The bond resolutions generally permit the investment of funds held by the trustee in the following: (a) obligations of, or guaranteed by, the State or the U.S. Government; (b) repurchase agreements secured by obligations noted in (a) above; (c) interest-bearing deposits, in any bank or trust company, insured or secured by a pledge of obligations noted in (a) above; (d) NJCMF; (e) shares of an open-end diversified investment company which invests in obligations with maturities of less than one year of, or guaranteed by, the U.S. Government or Government Agencies; and (f) non-participating guaranteed investment contracts.

The Authority is the managing member of the Technology Centre of New Jersey, L.L.C., a real estate joint venture formed in 1999 to spur the growth of high tech industries in the State. The Centre is situated on a 50 acre site and comprised of infrastructure improvements and buildings. As the managing member, the Authority earns an administrative fee based on 5% of gross rents received from the operation of the Centre. At December 31, 2008 and 2007, the value of the Authority's investment in the Centre is \$14,948,405 and \$15,299,856, respectively. On behalf of the venture, the Authority prepares an annual report, a copy of which may be obtained by contacting the Authority.

The Authority is also a limited partner in various venture funds formed with the primary purpose of providing venture capital to exceptionally talented entrepreneurs dedicated to the application of proprietary technologies or unique services in emerging markets and whose companies are in the expansion stage. At December 31, 2008 and 2007, the aggregate value of the Authority's investment in these funds is \$14,584,019 and \$15,583,944, respectively. As a limited partner, the Authority receives financial reports from the managing partner of the funds, copies of which may be obtained by contacting the Authority.

In accordance with Financial Accounting Standards Board statement number 157 ("FASB 157"), the following is a reconciliation of changes in the fair value measurements of these venture capital investments using significant unobservable inputs (Level 3):

	Venture Capital Investments	
	Year Ended December 31,	
	2008	2007
Balance, beginning of year	\$ 15,583,944	\$ 14,315,756
Total realized and unrealized gains and losses included in change in net assets*	(2,323,654)	4,050,595
Purchases, issuances and settlements	3,117,843	3,563,348
Transfers in and/or out of Level 3	(1,794,114)	(6,345,755)
Balance, end of year	<u>\$ 14,584,019</u>	<u>\$ 15,583,944</u>

\*These items are included in changes in net assets as operating expenses, loss provisions-net, as follows:

Total realized and unrealized gains and losses included in changes in net assets	<u>\$ (2,323,654)</u>	<u>\$ 4,050,595</u>
Changes in realized and unrealized gains and losses relating to assets still held at end of year	<u>\$ (4,231,276)</u>	<u>\$ 1,414,361</u>

At December 31, 2008 and 2007, the Authority held other equity investments of \$750,000 and \$250,000, respectively. The investments are held in the form of preferred stock. Value is based on market value at time of purchase (conversion of loan receivable).

In order to maintain adequate liquidity, significant NJEDA funds are invested in the NJCMF, which typically earns returns that mirror short term interest rates. Monies can be freely added or withdrawn from the NJCMF on a daily basis without penalty. At December 31, 2008 and 2007 the NJEDA balance is \$168,005,382 and \$181,032,823 respectively.

### **Custodial Credit Risk**

Pursuant to GASB 40, the Authority's investments are profiled to determine if they are exposed to Custodial Credit Risk. Investment securities are exposed to custodial credit risk if the securities are uninsured, are not registered in the name of the government (NJEDA), and are held by either: the counterparty (institution that pledges collateral to government or that buys/sells investments for government) or counterparty's trust department or agent but not in the name of the government. Investment pools such as the NJCMF and open ended mutual funds including Mutual Bond Funds are deemed not to have custodial credit risk. As of December 31, 2008, \$274,057,214 in NJEDA investments, comprised of \$75,921,975 in U.S. Treasuries, \$185,128,901 in U.S. Agencies, and \$13,006,338 in Corporates, were not registered in the name of the NJEDA and were held by the counterparty.

### **Concentration of Credit Risk**

The NJEDA places no limit on the amount the Authority may invest in any one issuer. At December 31, 2008, more than 5 percent of NJEDA investments are in Federal Farm Credit Bank, Federal Home Loan Bank, Federal Home Loan Mortgage Corp (FHLMC), and Federal National Mortgage Association (FNMA). These investments are 8.53% (\$42,026,430); 9.12% (\$44,890,776); 6.42% (\$31,632,285); and 13.52% (\$66,579,410), respectively, of the Authority's total investments. These four investments are included in the U.S. Government Agency category of investments. Investments issued by or guaranteed by the U.S. Government, mutual fund investments, and pooled investments are exempt from this requirement.

### **Credit Risk**

The Authority has investment guidelines regarding the management of Credit Risk, as outlined above. 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. All investments in Mutual Bond Funds and U.S. Agencies are rated Aaa by Moody's and AAA by Standard & Poors ("S&P"). Corporates were rated AAA (\$8,105,818) and A (\$4,900,520) by S&P. The NJCMF is not rated.

### **Interest Rate Risk**

The Authority does not have a policy to limit interest rate risk, however, its practice is to hold investments to maturity.

As of December 31, 2008 and 2007, the NJEDA had the following investments and maturities:

<b>Investment Type</b>	<b>Fair Value</b>	<b>Investments</b>	<b>Maturities</b>	<b>Fair Value</b>
<b>Debt Securities:</b>	<b>as of 12/31/08</b>	<b>Less than 1 Year</b>	<b>1-5 Years</b>	<b>as of 12/31/07</b>
U.S. Treasuries	\$75,921,975	\$40,119,045	\$35,802,930	\$2,221,394
U.S. Agencies	185,128,901	10,010,000	175,118,901	259,596,633
Corporate	13,006,338	5,084,185	7,922,153	
Mutual Bond Funds	16,647,870	16,647,870		56,182,176
NJ Cash Management Fund	<u>168,005,382</u>	<u>168,005,382</u>		<u>181,032,823</u>
<b>Sub total, Total Debt Securities</b>	<u>458,710,466</u>	<u>\$239,866,482</u>	<u>\$218,843,984</u>	<u>499,033,026</u>
<b>Non Debt Securities</b>				
Investment in Technology Center Joint Venture	14,948,405			15,299,856
Venture Fund Investments	14,584,019			15,583,944
Other Equity Investments	<u>750,000</u>			<u>250,000</u>
<b>Sub total</b>	488,992,890			530,166,826
Less amounts reported as Cash Equivalents	<u>(162,005,382)</u>			<u>(182,971,415)</u>
<b>Total Investments</b>	<u>\$326,987,508</u>			<u>\$347,195,411</u>

#### Note 4: Notes Receivable

Notes Receivable consist of the following:	<u>2008</u>	<u>2007</u>
Economic Development Fund ("EDF") loan and guarantee programs; interest ranging up to 7.5%; maximum term 11 years	\$55,774,953	\$45,511,995
Economic Recovery Fund ("ERF") loan and guarantee programs; interest ranging up to 8%; maximum term of 10 years	90,663,082	81,490,844
Hazardous Discharge Site Remediation ("HDSR") loan program; interest ranging up to 5.5%; maximum term of 10 years	5,542,268	5,424,615
Public School Facilities ("PSF") loan program; interest ranging from 1.5% to 5.288%; maximum term of 5 years	54,315,634	67,705,241
Municipal Economic Recovery Initiative ("MERI") loan program; interest ranging up to 3%; maximum term of 22 years	<u>3,085,536</u>	<u>4,117,978</u>
	<u>\$209,381,473</u>	<u>\$204,250,673</u>

Aggregate Notes Receivable activity for the year ended December 31, 2008, was as follows:

	<u>Beginning Balance</u>	<u>Loan Disbursements</u>	<u>Loan Receipts</u>	<u>Write-offs, Adjustments, Restructures- Net</u>	<u>Ending Balance</u>	<u>Amounts Due Within One Year</u>
EDF/ERF	\$127,002,839	\$34,672,757	(\$13,710,122)	(\$1,527,439)	\$146,438,035	\$12,134,609
HDSR	5,424,615	1,298,343	( 1,181,766)	1,076	5,542,268	627,902
PSF	67,705,241	-0-	(13,389,589)	(18)	54,315,634	10,496,696
MERI	<u>4,117,978</u>	<u>197,058</u>	<u>(107,532)</u>	<u>(1,121,968)</u>	<u>3,085,536</u>	<u>112,874</u>
	<u>\$204,250,673</u>	<u>\$36,168,158</u>	<u>(\$28,389,009)</u>	<u>(\$2,648,349)</u>	<u>\$209,381,473</u>	<u>\$23,372,081</u>

Of the amounts due within one year, as noted above, \$7,547,861 due to the Public School Facilities Program ("PSF") is categorized as restricted since it cannot be used to pay other current liabilities.

#### Note 5: Intergovernmental Receivables

The Authority has various Agreements with the State and State entities relating to the issuance of Bonds. Pursuant to the underlying legislation and resolution, the bond proceeds finance various Authority programs and projects. Pursuant to the terms of the Agreements, the debt service on these bonds is payable solely from scheduled amounts receivable.

The Series 1996 Port bonds are secured solely by loan payments originally scheduled to be made to the Port Authority by various utilities authorities. The Port Authority has assigned the right to receive such loan payments to the Authority.

At December 31, 2008, Intergovernmental Receivables are comprised of the following:

	<u>2008</u>	<u>2007</u>
NJ Port District Utilities Authorities Contract	\$6,879,164	\$9,040,275
Unamortized Discount	<u>(944,124)</u>	<u>(1,467,123)</u>
Total Net Intergovernmental Receivable	<u>\$5,935,040</u>	<u>\$7,573,152</u>

Aggregate gross receipts from intergovernmental receivables due through 2013 and thereafter are as follows:

2009	\$2,137,500
2010	2,209,715
2011	904,167
2012	693,056
2013	693,057
2014-2015	<u>241,669</u>
	<u>\$6,879,164</u>

Intergovernmental Receivable activity for the year ended December 31, 2008 was as follows:

	<u>Beginning Balance</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Amount Receivable Within One Year</u>
Gross Receivable	\$9,040,275	(\$2,161,111)	\$6,879,164	<u>\$2,137,500</u>
Discount	(1,467,123)	<u>522,999</u>	(944,124)	
Net Receivable	<u>\$7,573,152</u>	<u>(\$1,638,112)</u>	<u>\$5,935,040</u>	

## Note 6: Leases

### (a) Leases Receivable

The Authority has various financing leases relating to the issuance of Bonds and Notes Payable. Bond and Note proceeds finance specific projects. The financing leases provide for basic rental payments, by the tenant to the Authority, in an amount at least equal to the amount of debt service on the Bonds and Notes. In the event of default by the tenant to make rental payments, the Authority generally has recourse, including, but not limited to, taking possession and selling or subletting the leased premises and property.

The outstanding leases are as follows:

<u>Lease Description</u>	<u>2008</u>	<u>2007</u>
NY Daily News, through 7/30/21	<u>\$8,006,869</u>	<u>\$8,056,869</u>
Unamortized Discount	<u>(1,244,630)</u>	<u>(1,347,188)</u>
Aggregate Lease Payments Receivable-Net	<u>\$6,762,239</u>	<u>\$6,709,681</u>

Aggregate gross lease receipts due through 2013 and thereafter are as follows:

2009	\$100,000
2010	100,000
2011	100,000
2012	100,000
2013	100,000
2014-2018	500,000
2019-2021	<u>7,006,869</u>
	<u>\$8,006,869</u>

Lease payments receivable activity for the year ended December 31, 2008 was as follows:

	<u>Beginning Balance</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Amount Receivable Within One Year</u>
Gross Receivable	\$8,056,869	(\$50,000)	\$8,006,869	<u>\$100,000</u>
Discount	<u>(1,347,188)</u>	<u>102,558</u>	<u>(1,244,630)</u>	
Net Receivable	<u>\$6,709,681</u>	<u>(\$52,558)</u>	<u>\$6,762,239</u>	

**(b) Operating Leases**

**(i) Authority as Lessor**

At December 31, 2008, capital assets with a gross carrying value of \$149,642,481 and accumulated depreciation of \$49,161,308 are leased to commercial enterprises. These leases generally provide the tenant with renewal and purchase options. Aggregate minimum lease receipts are expected as follows:

2009	\$10,092,873
2010	8,810,960
2011	8,187,324
2012	7,752,918
2013	6,294,714
2014-2018	23,159,266
2019-2023	5,868,240
2024-2028	3,295,619
2029-2033	730,000
2034-2036	<u>465,000</u>
	<u>\$74,656,914</u>



**(ii) Authority as Lessee**

The Authority leases commercial property, buildings, office space and parking. The leased premises are either sublet to commercial enterprises or utilized by Authority staff. Aggregate rental expense for the current year on commercial property amounted to \$607,691; and for property used by the Authority, rental expense amounted to \$277,382. Aggregate future lease obligations are as follows:

2009	\$769,595
2010	776,978
2011	761,456
2012	708,023
2013	563,152
2014-2018	2,573,304
2019-2023	1,283,350
2024-2028	1,208,750
2029-2033	1,292,800
2034-2038	1,243,440
2039-2043	646,300
2044-2048	723,860
2049-2053	743,250
2054	<u>148,650</u>
	<u>\$13,442,908</u>

## Note 7: Capital Assets

Capital asset activity for the years ended December 31, 2008 and 2007, was as follows:

	December 31, <u>2006</u>	<u>Additions</u>	<u>Reductions</u>	<u>Adjustments to Reserve</u>	December 31, <u>2007</u>
Capital assets not being depreciated:					
Land	\$23,873,206	-0-	-0-	-0-	\$23,873,206
Construction in progress	-0-	\$50	-0-	-0-	450
Capital assets being depreciated:					
Building	121,007,001	-0-	-0-	-0-	121,007,001
Leasehold improvements	18,657,010	3,804,383	(\$37,510)	-0-	22,223,883
Production equipment	<u>37,151,625</u>	<u>937,127</u>	<u>(1,506,310)</u>	<u>\$,584,385</u>	<u>38,166,827</u>
Capital assets-gross	<u>200,688,842</u>	<u>4,741,960</u>	<u>(1,743,820)</u>	<u>1,584,385</u>	<u>205,271,367</u>
Less: accumulated depreciation	<u>56,691,186</u>	<u>11,489,306</u>	<u>(1,129,732)</u>	<u>-0-</u>	<u>67,050,760</u>
Capital assets-net	<u>\$143,997,656</u>	<u>(\$6,747,346)</u>	<u>(\$614,088)</u>	<u>\$1,584,385</u>	<u>\$138,220,607</u>

	December 31, <u>2007</u>	<u>Additions</u>	<u>Reductions</u>	<u>Adjustments to Reserve</u>	December 31, <u>2008</u>
Capital assets not being depreciated:					
Land	23,873,206	-0-	(\$2,624,944)	-0-	\$21,248,262
Construction in progress	450	\$5,412,014	-0-	-0-	5,412,464
Capital assets being depreciated:					
Building	121,007,001	-0-	(23,642,162)	-0-	97,364,839
Leasehold improvements	22,223,883		(305,515)	-0-	21,918,368
Production equipment	<u>38,166,827</u>	<u>575,197</u>	<u>(13,936,995)</u>	<u>\$237,864</u>	<u>25,042,893</u>
Capital assets-gross	<u>205,271,367</u>	<u>5,987,211</u>	<u>(40,509,616)</u>	<u>237,864</u>	<u>170,986,826</u>
Less: accumulated depreciation	<u>67,050,760</u>	<u>10,072,269</u>	<u>(23,545,527)</u>	<u>-0-</u>	<u>53,577,502</u>
Capital assets-net	<u>\$138,220,607</u>	<u>(\$4,085,058)</u>	<u>(\$16,964,089)</u>	<u>\$237,864</u>	<u>\$117,409,324</u>

In June 2008, Barnes & Noble exercised its option to purchase leased property, including building and land, for the sale price of \$21 million, which resulted in net cash to the Authority of \$2.5 million.

During 2008, the Authority continued tenant fit-out of its Tech IV building, located in North Brunswick. This work was necessary to provide suitable space for new tenants, and will enable the Authority to assist more businesses in the State.

## Note 8: Bonds Payable

The bonds reported in the following table have been issued in order to fund commercial loans, loans to school districts, commercial real estate development and capital construction. The Bonds are secured by lease rental payments, loan repayments and the underlying assets pledged pursuant to the Bond resolutions. In the event of default by the tenant to make rental payments, the Authority generally has recourse, including, but not limited to, taking possession and selling or subletting the leased premises and property.

The Series 1996 Port bonds are secured solely by loan payments originally scheduled to be made to the Port Authority by various utilities authorities. The Port Authority has assigned the right to receive such loan payments to the Authority.

The outstanding issues are as follows:

	<u>2008</u>	<u>2007</u>
<b>\$46,815,000 NJEDA Revenue Bonds</b> (Public Schools Small Project Loan Program), 2004 Series, interest ranging from 3% to 5%; due 8/15/09 through 8/15/13. Series 1993 was refunded on 3/15/04.	\$21,715,000	\$27,595,000
<b>\$43,000,000 Variable Rate Lease Revenue Bonds</b> , 2003 Series A and B, (Camden Center Urban Renewal Limited Partnership Project); interest ranging from 3.89% to 5.909% due annually through 3/15/18	38,155,000	39,410,000
<b>\$167,500,000 NJEDA Taxable Economic Development Bonds MSNBC/CNBC Project</b> , 1997 Series A and B, adjustable rate, due through 10/1/21	14,600,000	20,300,000
<b>\$31,700,000 NJEDA Adjustable Rate Lease Revenue (taxable) Bonds</b> , 1995 Series A and B (Barnes & Noble, Inc. Distribution and Freight Consolidation Center Project); paid in full 6/08		18,500,000
<b>\$18,355,000 NJEDA Taxable Revenue Bonds, North Jersey Port District Utilities Authorities Loan Securitization Program ("Port")</b> , Series 1996, interest ranging from 7.05% to 7.25%; due 2/15/09 through 2/15/12	<u>7,090,000</u>	<u>8,440,000</u>
Subtotal	81,560,000	114,245,000
Unamortized premium	<u>851,687</u>	<u>1,264,609</u>
	<u>\$82,411,687</u>	<u>\$115,509,609</u>

At December 31, 2008, the carrying value of all aggregate bonds payable approximates fair market value. Aggregate debt service requirements of bonds payable through 2013 and thereafter are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2009	\$9,815,000	\$3,384,447	\$13,199,447
2010	7,855,000	3,492,882	11,347,882
2011	6,890,000	3,249,190	10,139,190
2012	7,910,000	2,831,788	10,741,788
2013	6,025,000	2,460,964	8,485,964
2014-2018	32,765,000	8,701,910	41,466,910
2019-2021	<u>10,300,000</u>	<u>532,793</u>	<u>10,832,793</u>
	<u>\$81,560,000</u>	<u>\$24,653,974</u>	<u>\$106,213,974</u>

Bonds payable activity for the years ended December 31, 2008 and 2007, was as follows:

	<b>December 31, 2006</b>	<b>Additions</b>	<b>Reductions</b>	<b>December 31, 2007</b>	<b>Amounts Due Within One Year</b>
Bonds Payable-gross	\$137,390,000	-0-	(\$23,145,000)	\$114,245,000	<u>\$14,165,000</u>
Unamortized premium	<u>1,787,529</u>	<u>-0-</u>	<u>(522,920)</u>	<u>1,264,609</u>	
Total Bonds Payable-net	<u>\$139,177,529</u>	<u>-0-</u>	<u>(\$23,667,920)</u>	<u>\$115,509,609</u>	

  

	<b>December 31, 2007</b>	<b>Additions</b>	<b>Reductions</b>	<b>December 31, 2008</b>	<b>Amounts Due Within One Year</b>
Bonds Payable-gross	\$114,245,000	-0-	(\$32,685,000)	\$81,560,000	<u>\$9,815,000</u>
Unamortized premium	<u>1,264,609</u>	<u>-0-</u>	<u>(412,922)</u>	<u>851,687</u>	
Total Bonds Payable-net	<u>\$115,509,609</u>	<u>-0-</u>	<u>(\$33,097,922)</u>	<u>\$82,411,687</u>	

Pursuant to GASB issued statement, "Disclosure of Conduit Debt Obligations" (GASBI-2), there is no requirement to record conduit debt that is simultaneously recorded by the entity that is responsible for its payment. The State of New Jersey records this debt on its financial statements. It is the Authority's opinion that by not reporting the State backed conduit debt and Agency type transactions on its financial statements a more accurate assessment of its financial position and operations exists.

## **Note 9: Financial Instruments**

### Variable Rate Lease Revenue Refunding Bonds 2002 Series A and B

In connection with its issuance of \$43,000,000 Variable Rate Revenue Bonds, 2002 Series A and B issues, on December 30, 2002, the Authority has entered into a swap agreement with Bank of America, formerly Fleet Bank ("BoA"). The nature and purpose of this transaction is described below:

#### **(a) Interest Rate Swap Agreements**

Under the terms of this agreement, which was executed on January 7, 2003, the Authority pays a fixed rate of 3.89% to BoA on a notional amount equal to the principal amount of the 2002 bonds being hedged pursuant to such swap. In return, the swap provider will pay the Authority a floating amount based on 100% of one month LIBOR on the same notional amount. As the bonds are redeemed, the notional amount of the swap shall decrease proportionately. The purpose of this agreement is to achieve a synthetic fixed rate. The swap remains in effect until December 30, 2009. The fair value of the swap was (\$1,222,541) and (\$135,884) as of December 31, 2008 and 2007, respectively.

#### **(b) Credit Risk**

As of December 31, 2008, the Authority was not exposed to credit risk, because the swap had a negative fair value. However, should interest rates change and the fair value of the swap become positive, the Authority would be exposed to credit risk in the amount of the swap's fair value.

#### **(c) Termination Risk**

The swap contract uses the International Swap Dealers Association Master Agreement, which includes provision for standard termination events, such as failure to pay and bankruptcy. The Authority or the counterparty may terminate the swap if the other party fails to perform under the terms of the contract. If the swap were terminated, the variable-rate bond would no longer carry a synthetic fixed interest rate. Also, if the swap were to have a negative fair value at the time of termination, the Authority would be liable to the counterparty for a payment equal to the swap's fair value.

In connection with the agreement, no amounts are recorded in the financial statements other than the net interest expense resulting from the agreement.

## **Note 10: Notes Payable**

Generally, Notes Payable are special obligations of the Authority payable solely from loan payments, lease rental payments and other revenues, funds and other assets pledged under the notes and do not constitute obligations against the general credit of the Authority. Note proceeds are used to fund specific programs and projects and are not co-mingled with other Authority funds.

The outstanding notes are as follows:

	<u>2008</u>	<u>2007</u>
Community Development Investments, LLC; interest at 5%; principal & interest due monthly through 4/12/14 with final payment due at maturity on 5/12/14	\$2,000,000	\$2,000,000
City of Camden, NJ; interest at 6%; principal & interest due monthly through maturity on 2/5/16	4,000,000	4,000,000
Jersey Central Power & Light; interest at 4%; interest only due monthly through 11/12/10; principal due at maturity on 11/12/10	1,000,000	1,000,000
Public Service New Millennium Economic Development Fund, LLC; interest at 4%; interest only due monthly through 11/7/10; principal due at maturity on 11/7/10	5,000,000	5,000,000
Waterfront Technology Center Construction Loan; variable interest; principal and interest due monthly over 60 month period, through maturity on 1/31/12	<u>7,830,000</u>	<u>8,160,000</u>
	<u>\$19,830,000</u>	<u>\$20,160,000</u>

At December 31, 2008, the carrying value of all notes payable approximates fair market value. Aggregate debt service requirements of notes payable through 2013 and thereafter are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2009	\$420,000	\$1,421,520	\$1,841,520
2010	7,307,876	740,053	8,047,929
2011	1,563,125	514,457	2,077,582
2012	7,624,852	223,330	7,848,182
2013	1,210,126	138,076	1,348,202
2014-2016	<u>1,704,021</u>	<u>111,676</u>	<u>1,815,697</u>
Total	<u>\$19,830,000</u>	<u>\$3,149,112</u>	<u>\$22,979,112</u>

Notes payable activity for the years ended December 31, 2008 and 2007 was as follows:

<u>December 31,</u> <u>2006</u>	<u>Additions</u>	<u>Reductions</u>	<u>December 31,</u> <u>2007</u>	<u>Amounts Due</u> <u>Within One Year</u>
<u>\$21,745,315</u>	<u>\$-0-</u>	<u>(\$1,585,315)</u>	<u>\$20,160,000</u>	<u>\$732,723</u>
<u>December 31,</u> <u>2007</u>	<u>Additions</u>	<u>Reductions</u>	<u>December 31,</u> <u>2008</u>	<u>Amounts Due</u> <u>Within One Year</u>
<u>\$20,160,000</u>	<u>\$-0-</u>	<u>(\$330,000)</u>	<u>\$19,830,000</u>	<u>\$420,000</u>

## Note 11: Net Assets

The Authority's Net Assets are categorized as follows:

- Invested in capital assets, net of related debt
- Restricted
- Unrestricted

Invested in Capital Assets, Net of Related Debt includes capital assets net of accumulated depreciation used in the Authority's operations as well as capital assets that result from the Authority's real estate development and operating lease activities. Restricted assets include net assets that have been restricted in use in accordance with State law, such as the Public School Facilities loan program, noted in Note 4. Unrestricted assets include all net assets not included above. The changes in Net Assets during 2008 and 2007 are as follows:

	<b>Invested in Capital Assets Net of Debt</b>	<b>Restricted</b>	<b>Unrestricted</b>	<b>Totals</b>
Net Assets December 31, 2006	\$43,582,656	\$45,688,363	\$718,316,417	\$807,587,436
Change in net assets	<u>10,427,951</u>	<u>(7,228,431)</u>	<u>(65,039,797)</u>	<u>(61,840,277)</u>
Net Assets December 31, 2007	54,010,607	38,459,932	653,276,620	745,747,159
Change in net assets	<u>4,643,717</u>	<u>(7,220,091)</u>	<u>(12,266,928)</u>	<u>(14,843,302)</u>
Net Assets December 31, 2008	<u>\$58,654,324</u>	<u>\$31,239,841</u>	<u>\$641,009,692</u>	<u>\$730,903,857</u>

## Note 12: Commitments and Contingencies

### (a) Loan and Bond Guarantee Programs

The Authority has a special binding obligation regarding all guarantees to the extent that funds are available in the guarantee accounts as specified in the guarantee agreements. Guarantees are not, in any way, a debt or liability of the State.

#### (1) Economic Development Fund

The guarantee agreements restrict the Authority from approving any loan or bond guarantee if, at the time of approval, the Debt (exposure and commitments) to Worth (the amount on deposit and available for payment) ratio is greater than 3 to 1. At any time, payment of the guarantee is limited to the amount of Worth within the specific guarantee program account.

Principal payments on guaranteed loans and bonds reduce the Authority's exposure. At December 31, 2008, the Authority's Debt and Worth was composed of the following:

	<u>Port District Program</u>	<u>Community Economic Development Program</u>
Total Debt	\$2,261,499	\$29,756
Total Worth	\$18,639,894	\$9,219,133

## **(2) Economic Recovery Fund**

The guarantee agreements restrict the Authority from approving any loan or bond guarantee if, at the time of approval, the Debt to Worth ratio is greater than 5 to 1. At any time, payment of the guarantee is limited to the amount of Worth within the guarantee program account. Principal payments on guaranteed loans and bonds reduce the Authority's exposure. At December 31, 2008, Debt was \$18,739,791 and Worth was \$65,419,671, with a ratio of 0.29 to 1.

## **(3) Economic Growth Composite Bond Program**

The Guarantee Agreement relating to Economic Growth Composite Bonds requires the Authority to establish, in trust, a Cash Collateral Account. This obligation to deliver funds to the trustee is a general obligation of the Authority.

To the extent guarantee payments of principal on the bonds cannot be recovered through collateral liquidation, loan restructure, etc., the Authority's aggregate composite exposure is permanently reduced. At December 31, 2008, aggregate exposure and the cash collateral balance are both \$596,619.

## **(4) New Jersey Business Growth Fund**

The Authority guarantees between 25% and 50% of specific, low-interest loans to New Jersey companies, made by one of its preferred lenders, with a maximum aggregate exposure to the Authority not to exceed \$10 million and, at no time will the Authority pay more than \$10 million, net, of guarantee demands. At December 31, 2008, aggregate exposure and related worth within the Business Growth Fund account are both \$10,000,000.

### **(b) Loan Program Commitments and Project Financings**

At December 31, 2008, the Authority has \$25,372,991 of loan commitments not yet closed or disbursed and \$90,932,508 of project financing commitments.



### **(c) New Markets Tax Credit Program**

On December 28, 2005, the Authority loaned \$31,000,000 to a limited liability company ("company"), to facilitate their investment in a certified community development entity ("entity") whose primary mission is to provide loan capital for commercial projects in low-income areas throughout New Jersey. The company also received an equity investment from a private corporation ("corporation"). The company then invested the combined proceeds in the entity, which was awarded an allocation in Federal tax credits under the New Markets Tax Credit Program.

During 2007, the Authority made two additional New Markets commitments. On September 24, 2007 the Authority facilitated a transaction in which \$3,500,000 in credits were allocated (no Authority funds were utilized). On September 26, 2007, the Authority loaned \$20,296,000 to another company with terms similar to the first transaction.

During 2008, the Authority closed three additional New Markets commitments. A total of \$37,000,000 in credits were allocated (no Authority funds were utilized).

As part of the six agreements, the corporation will claim the Federal tax credits in exchange for their investment. Claiming these credits carries the risk of recapture, whereby an event occurs that would negate the credit taken, causing it to be returned with interest. Based on the agreements between the Authority and the respective companies, the Authority will provide a guaranty to the corporation against adverse consequences caused by a recapture event. As of December 31, 2008, the aggregate exposure to the Authority for all six transactions described above is \$43,418,485. The Authority has determined the likelihood of paying on the guaranty, at this time, is remote.

### **Note 13: Litigation**

The Authority is involved in several lawsuits that, in the opinion of the management of the Authority, will not have a material effect on the accompanying financial statements.

### **Note 14: Employee Benefits**

#### **(a) Public Employees Retirement System of New Jersey ("PERS")**

The Authority's employees participate in the PERS, a cost sharing multiple-employer defined benefit plan administered by the State. The Authority's contribution is based upon an actuarial computation performed by the PERS. Pursuant to the Pension Security Legislation Act of 1997, the issuance of bonds permitted the pension benefit obligation to be fully funded from 1998 to 2004. Beginning in 2005, the Authority was assessed a portion of its normal contribution, which will increase each year until 2009, when 100% of the normal contribution will be assessed, and for each year thereafter. For the years ending December 31, 2008 and 2007, the Authority was assessed \$549,444 and \$303,700, or 80% and 60% of its normal contribution, respectively. No

contribution was required in 2004. Employees of the Authority are required to participate in the PERS and contribute 5% of their annual compensation. The payroll for employees covered by PERS for the years ending December 31, 2008 and 2007 was \$11,114,716 and \$9,333,073, respectively.

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 select 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) Postemployment Health Care and Insurance Benefits**

The Authority sponsors a single employer postemployment benefits plan that provides benefits in accordance with State statute, through the State Health Benefits Bureau, to its retirees having 25 years or more of service in the PERS and are at least 47 years of age or to employees approved for disability retirement. Health benefits and prescription benefits provided by the plan are at no cost to the retiree. Upon turning 65 years of age, a retiree must utilize Medicare as their primary coverage, with State Health Benefits providing supplemental coverage. In addition, life insurance is provided at no cost to the Authority and the retiree in an amount equal to 3/16 of their average salary during the final 12 months of active employment.

Pursuant to GASB Statement No. 45 ("GASB 45"), *Accounting & Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, the Authority obtained an actuarially determined calculation for this obligation, and has established and funded a trustee administered account to meet it.

The Authority's annual other postemployment benefits ("OPEB") cost for the plan is calculated based on the *annual required contribution of the employer* (ARC), an amount actuarially determined in accordance with the parameters of GASB 45. This represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year, and to amortize any unfunded actuarial liability (UAAL) or excess over a period not to exceed 30 years. The Authority elected to amortize the UAAL over one year in 2006. The Authority's annual OPEB cost for the years ended December 31, 2008 and 2007, and the related information for the Plan are as follows (dollar amounts in thousands):

	<u>2008</u>	<u>2007</u>
Annual required contribution (ARC)	\$ 633	\$ 634
Contributions made	<u>4,528</u>	<u>9,071</u>
Decrease in net OPEB obligation	(3,895)	(8,437)
Net OPEB Obligation - beginning of year	<u>4,219</u>	<u>12,656</u>
Net OPEB Obligation - end of year	<u>\$ 324</u>	<u>\$4,219</u>

The Authority's annual OPEB cost, the percentage of annual OPEB cost contributed to the Plan and the net OPEB obligation for fiscal years 2008, 2007 and 2006 were as follows (dollar amounts in thousands):

<u>Fiscal Year</u> <u>Ended</u>	<u>Annual OPEB</u> <u>Cost</u>	<u>Percentage of Annual</u> <u>OPEB Cost Contributed</u>	<u>Net OPEB</u> <u>Obligation</u>
12/31/08	\$633	100.0%	\$324
12/31/07	\$634	100.0%	\$4,219
12/31/06	\$12,851	1.5%	\$12,656

As of December 31, 2008, the actuarial accrued liability for benefits was \$13,317,213, of which none was unfunded. The covered payroll (annual payroll of active employees covered by the plan) was \$11,114,716, and the ratio of unfunded actuarial accrued liability to the covered payroll was 0%.

To fund its OPEB obligation, the Authority has set aside monies (plan assets) in a bank account administered by a Trustee. As of December 31, 2008, the balance was \$13,363,945 and interest earnings on the account were \$370,933 in 2008. The plan assets are valued at fair value.

Actuarial valuations of an ongoing plan involve estimates and assumptions about the probability of occurrence of future events, such as employment, mortality, and healthcare costs. Amounts determined regarding the funded status of the plan and the annual required contributions of the Authority are subject to continual revision as actual results are compared with past expectations and new estimates are made regarding the future. The required schedule of funding progress presented as required supplementary information provides multiyear trend information that shows whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

*Actuarial Methods and Assumptions.* 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 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, 2006, actuarial valuation the projected unit credit actuarial cost method was used. In this method benefits are attributed from date of hire to the date of decrement. In the actuarial assumptions no investment return was cited as there were no plan assets. The healthcare cost trend assumed in the actuarial valuation included an initial annual healthcare cost trend rate of 10% annually, decreasing by 1% per year to an ultimate rate of 5% effective 2012 and thereafter. Both rates included a 4% inflation assumption.

## Required Supplemental Information

*Funding Status and Funding Progress.* The funding status of the plan as of December 31, 2008, and the two preceding years was as follows (actuarial valuation date 1/1/06):

	<u>2008</u>	<u>2007</u>	<u>2006</u>
Actuarial accrued liability (AAL)	\$13,317,213	\$12,994,000	\$12,656,316
Actuarial value of plan assets	<u>13,363,945</u>	<u>8,775,228</u>	<u>-0-</u>
Unfunded actuarial accrued liability/(asset) (UAAL)	<u>(\$46,732)</u>	<u>\$4,218,772</u>	<u>\$12,656,316</u>
Funded ratio (actuarial value of plan assets/AAL)	100.4%	67.5%	0%
Covered payroll (active plan members)	\$11,114,716	\$9,333,073	\$8,596,556
UAAL as a percentage of covered payroll	0%	45.2%	147.2%

## Note 15: Compensated Absences

In accordance with GASB Statement No. 16, *Accounting for Compensated Absences*, the Authority recorded current liabilities in the amount of \$713,250 and \$497,840 as of December 31, 2008 and 2007, respectively. The liability as of the balance sheet date, is the value of employee accrued vacation time and vested estimated 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 Authority policy; therefore, such non-vested benefits are not accrued.

## **II. Government Auditing Standards Section**

INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER  
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS  
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN  
ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Members of the Authority  
New Jersey Economic Development Authority

We have audited the financial statements of New Jersey Economic Development Authority (the "Authority"), a component unit of the State of New Jersey, as of and for the year ended December 31, 2008, and have issued our report thereon dated March 12, 2009. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Authority's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

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OVER 45 YEARS OF SERVICE TO THE COMMUNITY

INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL  
REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF  
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT  
AUDITING STANDARDS* (CONTINUED)

Internal Control Over Financial Reporting (Continued)

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as described above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Authority's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations and contracts, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the Members of the Authority, management, others within the Authority, and federal awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.

  
Certified Public Accountant

March 12, 2009