



New Jersey Schools Development Authority



2008 Annual Report



Dear Friends:

The New Jersey Schools Development Authority (SDA) plays a vital role in stimulating the State's economy while building schools that will benefit our children for generations to come.

Working in partnership with the Department of Education, the Economic Development Authority and other state agencies, the SDA manages school construction and disburses funds while utilizing the stringent controls and efficiencies that were put in place by this Administration. I am proud that last summer we enacted \$3.9 billion in new funding – \$2.9 billion for SDA Districts and \$1 billion for grants to Regular Operating Districts – which is serving to benefit our children as well as stimulate the economy and create jobs.

This Annual Report highlights the SDA's accomplishments in 2008, including the completion of 17 schools and the creation of its New Funding Allocation and Capital Plan, which will result in 52 new or renovated schools. Furthermore, this report outlines plans to provide thousands of jobs in 2009 and beyond through the acceleration of projects. Including a share from local communities, the state in 2009 will commit an estimated \$1.7 billion toward modernizing our schools.

This Administration is focused squarely on stimulating the economy and mitigating the effects of this recession on the people of New Jersey. I look forward to continuing our efforts to build schools for our children while putting New Jerseyans back to work.

Sincerely,

A handwritten signature in black ink, appearing to read "Jon Corzine", written over a white background.

JON S. CORZINE

SDA Results 2008	
Schools Completed	17
Rehabilitation Projects Completed	14
New Seats	8,078
Jobs Saved/Created	7,897
Funds Expended	\$911,356,659

Our Mission:

The mission of the New Jersey Schools Development Authority (SDA) is to create a more promising future for the children of New Jersey by providing safe, healthy and sustainable schools that create a positive learning environment and strengthen the community.

We will accomplish this by:

- Developing environmentally safe and sustainable schools
- Effectively managing the fiscal resources provided by New Jersey's taxpayers
- Involving children, teachers, parents, school districts and communities in the development of schools
- Constructing schools that are multi-functional to address the needs of the entire community
- Incorporating design features and technology that enable teachers to teach in the most effective ways
- Setting nationwide best practices for the development of schools

Vision Statement

SDA will be a nationally recognized source of best practices in facilitating the design, development and construction of schools that support academic success in partnership with the communities we serve.

***On the cover (clockwise from top):** Governor Jon S. Corzine meets students at Jersey City Public School No. 20 on July 9, 2008, shortly before signing legislation authorizing new school construction funding; children sign a steel beam at ceremony at H.B. Wilson Elementary School in Camden; the new International High School in Paterson.*

Board Members

Public Members

Barry L. Zubrow
SDA Chairman
Chief Risk Officer, JP Morgan Chase & Company

Karim A. Hutson
Managing Member, Genesis Companies

Joseph McNamara
Director, LECET & Health & Safety

Preston D. Pinkett III
Vice President, Social Investment, Prudential Financial Inc.

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New Jersey Schools Development Authority

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About This Report

The 2008 Annual Report on the operations of the New Jersey Schools Development Authority (SDA) is presented pursuant to the provisions of Executive Order No. 37 (E.O. 37), issued on September 26, 2006 by Governor Jon S. Corzine. The report reviews the SDA's degree of success in promoting the State's economic growth strategies and provides a comprehensive overview of the Authority's operations, highlighting significant actions taken in 2008.

Also included are the Authority's 2008 financial statements and a discussion of its internal financial controls.

The SDA operates under the Educational Facilities Construction and Financing Act (EFCFA) of 2000 and subsequent August 2007 legislative amendments. EFCFA provided initial program funding of \$8.6 billion, and that funding was increased by \$3.9 billion on July 9, 2008 with Governor Corzine's approval of P.L. 2008, c. 39.

Since its inception, the program has been authorized to expend up to \$12.5 billion, comprising \$8.9 billion for SDA (formerly known as Abbott) Districts and \$3.6 billion for Regular Operating Districts (RODs). Of the ROD funding, \$150 million is set aside for vocational schools. Funding is provided through the issuance of bonds by the New Jersey Economic Development Authority (EDA).

For more information, please refer to the most recent Biannual Report on the School Construction Program (for the period April 1 through September 30, 2008). The Biannual Report is available at http://www.njsda.gov/RP/Biannual_Report/2008_2.PDF.



Construction of Elementary School #5 in East Orange, NJ

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Message from Leadership

The year 2008 was pivotal for the New Jersey Schools Development Authority (SDA). In July 2008, Governor Corzine signed legislation authorizing \$3.9 billion in new funding for the school construction program – \$2.9 billion for SDA Districts and \$1 billion in grants for Regular Operating Districts (RODs). Further, in collaboration with the Department of Education (DOE), the SDA developed its New Funding Allocation and Capital Plan (the Capital Plan), which equitably distributed the \$2.9 billion allocated by the legislation among the SDA Districts, identifying 52 projects based primarily on educational need. The SDA is committed to delivering these projects on schedule and within budget.

During 2008, the SDA continued to implement processes and controls designed to ensure that school construction projects will be done efficiently and affordably. The SDA continues to refine and improve upon these processes and controls to achieve greater savings for taxpayers. Meeting the Governor's mandate to accelerate schools as well as maintain strong controls requires close collaboration among state agencies. The SDA continues to work with DOE and other agencies to foster the integration of review processes while ensuring quality and efficiency.

The authorization of funding and the development of the Capital Plan established the framework for the SDA's action in late 2008 when, directed by the Governor to advance his Economic Recovery Plan, it moved to accelerate the repair and replacement of schools throughout the state. The objective is twofold – to stimulate economic growth while investing in the future of New Jersey's schoolchildren.

In 2009, the SDA is committing \$1.3 billion toward school construction projects in SDA Districts, which is estimated to save or create 11,000 jobs. An additional \$400 million, including a local share from RODs, is expected to be invested as well, saving or creating approximately 3,500 additional jobs.

The SDA is looking toward two new initiatives to help accelerate projects while improving efficiency. A pilot design-build program will be implemented, allowing for the overlap of construction during the final documentation of design to accelerate project delivery while enhancing oversight and budget controls. Another strategy being investigated is standardization of design components. Consistency of design elements will expedite moving to the construction phase while maintaining high quality standards.

While no program can be a panacea for global economic problems, it is critical for government to invest prudently and quickly to do everything in its power to put people back to work. It is what Governor Corzine has directed, and what this agency will do.



Barry Zubrow
SDA Chairman



Kris Kolluri
SDA Chief Executive Officer

Advancing Governor Corzine's Economic Growth Strategy

On July 9, 2008, Governor Corzine signed into law a \$3.9 billion funding authorization focused on repairing and modernizing the State's school infrastructure. At the time, the Governor spoke of the nation's economic downturn and the opportunity that the program presented to stimulate growth.

Within months, the recession deepened, job losses accelerated, and the need to stimulate the economy through investment in public infrastructure projects further crystallized.

On October 16, 2008, the Governor outlined an economic assistance and recovery plan for New Jersey, with investment in public infrastructure projects as its cornerstone. At his direction, the SDA developed a plan in December to accelerate the repair and replacement of schools throughout the state that would stimulate economic growth as well as invest in the future of New Jersey's schoolchildren.

Unemployment figures underscore the importance of the SDA's efforts. New Jersey lost 85,700 total jobs, including 14,600 construction jobs, from December 2007 through December 2008. Experts anticipate that the current recession, which started in December 2007, will last at least through the end of 2009, making it the longest and deepest recession since World War II.

To counter the economic downturn, New Jersey is using existing financial resources to create aggregate demand and employment opportunities for its residents while investing in the long-term viability of our infrastructure.

The SDA's New Funding Allocation and Capital Plan, adopted by the SDA Board in July 2008, served as the basis for responding to the Governor's October mandate to accelerate work. Developed in collaboration with the DOE, it equitably distributed the \$2.9 billion allocated by the legislation among the SDA Districts, identifying 52 projects. The remaining \$1 billion has been approved by legislation to fund the State share for projects in RODs, prioritized to address the most critical operational building needs, including health-and-safety concerns. With a share from local communities, the size of the total school construction program is \$5.4 billion.

The SDA produced a plan for 2009 to advance, into preliminary or full-scale construction, at least 22 of the 52 projects from the 2008 Capital Plan, along with five projects from the prior funding allocation. The remaining projects will advance in 2010 and shortly thereafter. The list for 2009 contains schools such as the Lorraine Place Elementary School in Keansburg. This \$43 million project is significant because, to cope with long-term overcrowding, trailers have been used to house students there since 1988. Today, 11 trailers remain on site. Additional accelerated projects will advance to replace the antiquated Oliver Street and South Street schools in Newark. Oliver Street Elementary School, built in 1869, is one of Newark's most crowded schools. Classes are conducted in substandard spaces, including hallways, the auditorium's balcony and closet-sized rooms.

The SDA's acceleration plan calls for committing \$1.3 billion for school projects in SDA Districts. It includes \$775 million in statewide project expenditures within the 2009 calendar year.

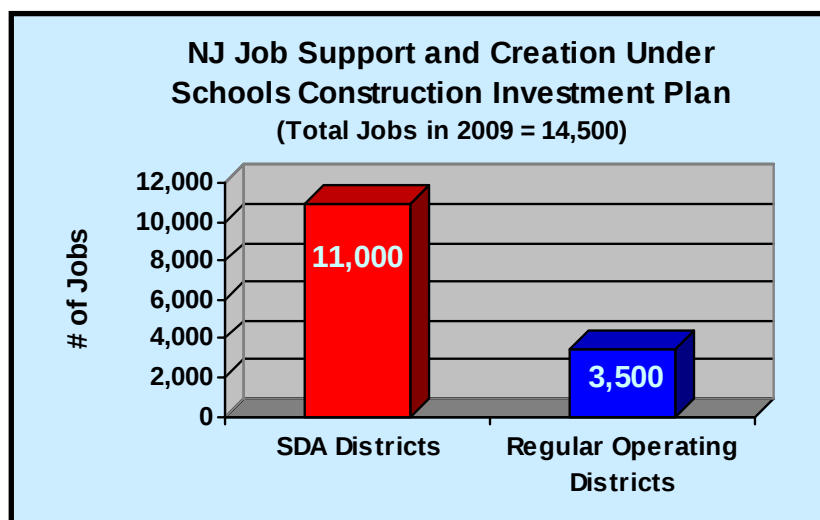
In addition, approximately \$400 million is expected to be invested in ROD school projects, including State grants and a share from local communities. Under this program, the State's share for ROD projects will be at least 40 percent, with the remaining 60 percent funded by local districts. In March 2009, grants totaling \$180 million were announced, with more awards to follow. Awards are contingent on either local budget approval or voter approval of the local share.

The school construction program's overall stimulus effects have been analyzed by Rutgers University. It found that investing \$5.4 billion in the state's schools could support or create more than 46,000 jobs.

The SDA will move prudently in expediting Authority-managed projects. The SDA and DOE collectively engaged in a design review process

beginning in 2008 to ensure taxpayer dollars are spent on appropriately sized schools and toward meeting current educational needs. The SDA continues to work with DOE and other agencies to foster the integration of governmental review processes while ensuring fiscal prudence and quality.

Planning for two key initiatives began in late 2008. A pilot design-build program will be implemented. The design-build process assures a single source of accountability for both design and construction, allowing for the overlap of construction during the final documentation of design. Another strategy being investigated for implementation is the standardization of design components. These strategies will expedite moving to the construction phase without sacrificing quality.



Significant SDA Actions in 2008

The SDA entered a new phase in December 2008 with Kris Kolluri taking over the position of Chief Executive Officer, succeeding Scott Weiner, who had guided the program since February 2006. While serving as Commissioner of the New Jersey Department of Transportation (NJDOT) and as Chairman of NJ TRANSIT, the New Jersey Turnpike Authority and the South Jersey Transportation Authority, Kolluri was responsible for overseeing 17,000 employees, more than \$3.6 billion in capital funds and over \$2 billion in operating funds.

The following is a summary of accomplishments and initiatives at the SDA:

Project Accomplishments

The year 2008 saw the completion of 17 schools, benefiting nearly 15,000 New Jersey students. The total included 11 schools in SDA Districts and six in Regular Operating Districts.

Overall, New Jersey's school construction program has completed 592 projects in SDA Districts since the program's inception in 2001 through December 31, 2008. These completed projects are categorized as follows: 46 new schools; 41 extensive additions, renovations and/or rehabilitations; 21 other rehabilitation projects; 354 health and safety projects; 127 Section 13 Grants for SDA District-managed projects under the former \$500,000 cap; and three demonstration projects. Demonstration projects, funded and overseen by the SDA but managed by a municipal redevelopment entity and redeveloper, are designed to serve as a cornerstone of local revitalization efforts. In addition, 19 ROD projects managed by the SDA have been completed, and Section 15 grants to RODs have provided funding for school facilities projects in 1,430 schools throughout New Jersey's 21 counties.



CEO Kris Kolluri joins officials at a ribbon-cutting ceremony for Camden's Early Childhood Development Center.

Among the 17 school completions in 2008 were nine new buildings (including one demonstration project) and eight extensive additions, renovations and/or rehabilitations. In addition, the SDA completed 14 other rehabilitation projects. All told, work on SDA projects is estimated to have created or supported approximately 8,000 jobs in 2008.

The SDA also had 17 projects in construction as of December 31, 2008, along with three demonstration projects. The SDA had an additional seven projects ongoing in RODs.

Furthermore, planning and preconstruction activity is underway for the 52 projects approved in the 2008 New Funding Allocation and Capital Plan.

In 2008, the SDA and DOE began implementing the next phase of a joint initiative to address projects requiring immediate repair in the state's special-needs districts. Though the DOE and SDA have approved and funded emergent projects previously, the need existed to implement a new process to ensure that SDA Districts could evaluate all their facilities and advance potential emergent projects. Concurrent with that effort was the establishment of a process to evaluate these requests and expedite funding as necessary.

2008 SDA Project Accomplishments			
SDA Districts			
		Total Costs	New Seats
New School	7 Projects	\$438,258,592	4,430
- Camden - Early Childhood Development Center #25 - Elizabeth - Dr. Antonio Pantoja School #27 - Elizabeth - Juan Pablo Duarte – José Julián Martí #28 - Neptune - Midtown Community Elementary School - Newark - Central High School - Paterson - International High School Academy - Plainfield - Emerson Elementary School			
New School – Demonstration Project	1 Project	\$40,782,264	1,400
Trenton - Daylight-Twilight Alternative High School			
Extensive Addition, Renovation and/or Rehab	3 Projects	\$107,194,795	679
- Burlington City – High School - East Orange – Mildred B. Garvin MicroSociety School - Paterson – No. 24 Elementary School			
Other Rehabilitation Project	1 Project	\$10,360,015	N/A
TOTAL	12 Projects	\$596,595,666	6,509
SDA-Managed ROD Projects			
New School	1 Project	\$24,620,247	526
Barnegat - Joseph T. Donahue Elementary School			
Extensive Addition, Renovation and/or Rehab	5 Projects	\$74,524,286	1,043
- Barnegat - Cecil S. Collins Elementary School - Barnegat - New High School addition - Barnegat - Russell O. Brackman Middle School - Cumberland Regional – High School - Greater Egg Harbor – Oakcrest High School			
Other Rehabilitation Project	0 Projects	\$0	N/A
TOTAL	6 Projects	\$99,144,533	1,569
SDA District Grant Projects			
Other Rehabilitation Project	13 Projects	\$4,764,432	N/A
GRAND TOTAL	31 Projects	\$700,504,631	8,078

There were 141 projects identified as needing immediate repair due to health-and-safety concerns in SDA Districts. About 30 percent of these emergent projects address roof repair or replacement. Other problems identified and being addressed include: deteriorating facades; water infiltration; heating and cooling system issues; and plumbing, electrical, mechanical and security systems.

Of the 141 projects identified, 45 grants for 51 conditions were immediately delegated to the districts for management. The SDA has made grant offers to districts for these projects and is working with the districts to obtain the necessary documentation to proceed with grant awards for the remaining projects.

The SDA currently has consultants, competitively hired through a task-order procurement, developing scopes of work for the remaining 96 emergent conditions, located in 82 schools in 23 districts. Upon completion of this scope analysis, additional projects are expected to be delegated to the districts.

Moving forward, the SDA Districts will submit potential emergent projects to the DOE for consideration as they arise. The SDA maintains a program reserve to address such emergent conditions and other unforeseen events.

The SDA expended \$911,356,659 in 2008. When leveraged with shares from local communities for ROD grant projects, the school construction program invested \$1,190,820,189 statewide and generated more than 10,000 jobs.

For 2009, the SDA is projecting the completion of 18 schools across New Jersey. The total includes 13 schools in SDA Districts, three schools in RODs and two demonstration projects.

2008 Investment in School Facilities Projects		
	Total Project Costs	Jobs Created/Saved
SDA-Managed Projects	\$520,619,626	4,511
SDA Demonstration Projects	\$198,489,560	1,720
SDA District Grant Projects	\$5,289,560	46
ROD Grant Projects		
SDA Grant Expenditures	\$186,958,253	1,620
District Local Share*	\$279,463,530	2,421
TOTAL	\$1,190,820,189	10,318
<i>*For ROD Grant projects, SDA funds up to 40% of the eligible costs. The District local share represents estimated expenditures to account for the other 60%.</i>		
<i>Note: Total jobs created/supported are calculated based on the multiplier provided in a study by Rutgers University's Edward J. Bloustein School of Planning and Public Policy titled "Economic Impact of Planned School Construction Projects in New Jersey." For the purposes on this calculation, "dollars invested" is defined as "expended."</i>		

Organizational Strategies and Initiatives

New Funding Allocation and Capital Plan

The SDA has worked in concert with DOE to create an equitable plan for distribution of new funding authorized in the July 2008 legislation, which allocated \$2.9 billion for projects in SDA Districts and \$1 billion in RODs. The New Funding Allocation and Capital Plan for SDA Districts identified 52 projects to be funded for construction, including 26 new school projects and 26 others that previously had been deferred due to a funding shortfall. The plan was necessary to identify which school projects could be built with proposed new dollars, and to establish reserves to ensure completion of each project. With the need in SDA Districts far exceeding the current availability of state funding, the State endeavored to address those schools with the most critical needs in a fair and equitable manner.

The 26 new school projects were derived from a statewide prioritization plan that was created by DOE and based on educational need. The department initiated its planning based on Long Range Facilities Plans (LRFPs) submitted by the 31 SDA Districts.

The DOE, in collaboration with the SDA and districts, worked to identify the top three to five priority projects in each district. In April 2008, DOE performed a statewide analysis of these top-priority projects, ranking the projects based on educational need. The SDA and DOE then performed a final ranking, incorporating additional factors in the analysis, including recognition of projects that had received a minimum of \$3 million of previous State investment.

The plan allocated \$970 million to complete the April 2007 deferred projects and \$1.7 billion for the 26 newly funded projects. A reserve of \$300 million was created for adjustments to planning estimates and to provide flexibility for addressing emergent projects and unforeseen events.

In the interest of equity, every district received at least one project (with the exception of Neptune, whose plan is completed). Generally, no district received more than four projects.

Design Review process

Upon adoption of the New Funding Allocation and Capital Plan, it became apparent that a review of adopted projects was necessary. Many projects had designs that were three years old or more. In that time, many districts had seen student population shifts and established new educational program priorities. A process was required to ensure taxpayer dollars were spent on appropriately sized schools and current educational need.

At meetings with superintendents in August 2008 involving the SDA and DOE, presentations were held describing the process to be implemented, including DOE's review of educational program alignment, the SDA's planning process, and SDA's review of designs to identify cost containment opportunities.

The SDA then scheduled meetings with DOE and every SDA District to discuss individual projects. During these meetings, the Districts were informed of the review status of each of their projects in the Capital Plan. The outcome of these meetings varied based upon district-specific issues, including changes to educational program, updates to the Districts' Long Range Facilities Plan and the use of findings from the design reviews.

Follow-up analysis is continuing in an effort to balance the need for these schools to be built quickly yet cost-effectively. Additional planning and project team meetings are ongoing to finalize design and program needs and advance the projects.

ROD Grant program

Recognizing that the need for safe and modern schools goes beyond the 31 SDA Districts, the Legislature included \$1 billion in the new funding legislation to resume the ROD grant program. As with the original program, which was fully spent or obligated as of 2005, the new program will provide grants of at least 40 percent of eligible costs. Grants will be disbursed by the SDA.



Governor Corzine announces \$180 million in grant funding for Regular Operating Districts

In contrast to the original grants, which were disbursed on a first-come, first-served basis, the legislation mandated a prioritization process similar to that used in SDA Districts. The DOE established the process and oversees the approval of projects for grants. In March 2009, grants totaling \$180 million were announced, with more awards to follow. Awards are contingent on either budget approval or voter approval of the local share.

Project charters

The Project Charter Initiative has improved accountability at the SDA. Project charters, developed by Project Teams, formally establish the budget, scope and schedule of a project. The project team concept ensures collaboration, including all stakeholders.

The Project Charter initiative enhances SDA Board oversight. Board members are apprised of costs and schedules at the outset and must approve them before design and construction can begin. Board approval is required on significant variances, as determined by the SDA Operating Authority. Board notification of all other changes is provided as well. Variance reports are made available to the public before being discussed by the SDA Board at a public meeting.

As of December 31, 2008, the SDA Board has approved 54 project charters for fully-funded projects in SDA Districts and 13 in RODs. The SDA Board receives monthly reports on variances to project budgets or schedules.

Delegation of projects to SDA Districts

Another SDA initiative has been the development of rules and regulations for the delegation of management of school facilities projects to SDA Districts, pursuant to the August 2007 legislation establishing the SDA. Regulations, to be coordinated with related DOE regulations, will be entering the public comment period shortly. Considerations that might influence the decision to allow an SDA District to manage a school facilities project were identified by an internal working group. There was consensus on three key assumptions:

- Facilitating the delegation of management responsibility from the SDA to the districts, to the greatest extent possible, would be a core goal.
- District capacity would be assessed through a two-tiered approach first considered as a whole, then on a project-by-project basis.
- Decisions to delegate authority would be based on formal applications from a district requesting such authority.

The SDA process will be applied to districts that are preliminarily deemed eligible by DOE for consideration to manage projects.

Also, the Authority is currently developing a variety of training programs designed to enhance a District's capacity for project management. The programs will use in-house expertise and potentially Web-based and formal seminars hosted by experts in various technical fields.

Other initiatives

The SDA is developing the SDA's Real Estate Practices Manual. The manual is being developed to clearly describe the steps and processes that the SDA follows before a school project moves into design and construction, focusing on the site planning, site selection, preconstruction and land acquisition phases.

The SDA's focus continues on building high-performance, sustainable schools through its 21st Century Schools Design Manual.

• ***“Just as a grade school can provide
• a solid foundation for a child’s
• lifelong love of learning, green
• design can serve as an essential
• framework for a new generation of
• school-construction projects.”***

• ***Former DEP Commissioner Lisa P. Jackson (current
• EPA Administrator) on the award of LEED Gold to
• Neptune’s Summerfield Elementary School.***

Stewardship of Public Dollars

Statutory initiatives on cost savings

The July 2008 new funding legislation requires the SDA to conduct studies on the potential cost savings in the school construction program (both SDA and non-SDA districts) through the use of standardized design elements, components and construction materials. Such study “shall include, but not be limited to, consideration of the opportunities to save design time, facilitate construction inspections, and ensure maintenance protocol ease through use of standardized design elements, supplier agreements and maintenance protocols.” The SDA is reporting its findings to the Governor, the Joint Budget Oversight Committee, the President of the Senate, the Speaker of the General Assembly, and the Commissioner of Education by April 2009 as required.

The Authority entered into a Memorandum of Agreement with Rutgers University to provide an analysis of the potential for savings and efficiencies through the use of supplier agreements. In retaining Rutgers, SDA has engaged the services of a major research institution with significant

experience and in-depth knowledge of supply chain dynamics.

The Authority competitively procured an architectural firm to analyze the value of using standardized design elements, components, and construction materials.

The SDA is currently researching numerous published studies of operations and maintenance cost analysis. This research, along with the 2008 New Jersey Institute of Technology Memorandum of Agreement for development of an Operations and Maintenance guidance document, will establish a foundation for a maintenance protocol.

Cost recovery actions

The SDA has continued to initiate cost recovery actions to protect the interests of New Jersey taxpayers. Cost recovery actions may be pursued where design errors and omissions have occurred, where delays are caused by contractors, and to recover environmental remediation costs. Also, change orders are screened for potential liability as a matter of standard operating procedure and referred to the Office of Chief Counsel, when appropriate, for possible cost recovery.

Significantly, SDA initiated legal action in June 2008 against the project management firm for Neptune's Midtown Community Elementary School for \$15 million arising from the growth and remediation of mold. The SDA recently settled an action initiated in 2007 and recovered over \$2 million for errors that occurred at the Mount Vernon Elementary School in Irvington.

Recovery of funds from responsible parties for the costs of environmental remediation of project sites remains an additional area of potential cost recovery for which the Authority is currently initiating actions. Over the past year, SDA has recovered damages in two matters totaling nearly \$1 million.

Small Business Enterprise/Minority initiatives

The SDA worked diligently to ensure that at least 25 percent of all contracts are awarded to Small Business Enterprises (SBEs). The SDA has consistently exceeded that target. Total SDA contracts for the reporting period equaled \$184,444,350. Total contract dollars awarded to SBE contractors for the period were \$81,160,139, representing 44 percent of the overall amount awarded.

As for Minority-owned Business Enterprises, contract dollars totaled \$3,388,820, representing 1.8 percent of the amount awarded program-wide to primary and subcontractors. There were 11 contracts totaling \$1,174,056 awarded to African-American-owned firms (0.6 percent of overall contract dollars). Also, seven contracts totaling \$1,640,595 were awarded to Hispanic-owned firms (0.9 percent), and nine contracts totaling \$574,169 went to Asian-owned firms (0.3 percent).

Small women-owned and minority women-owned businesses were awarded 36 contracts totaling \$5,626,241, or 3.1 percent of overall contract dollars.

Regarding efforts to enhance minority participation in the workforce on SDA projects, as an aggregate, the SDA exceeded targets for percentages of workforce hours performed by minority workers. Hours for minority workers were 26.2 percent of the total, compared to the average target of New Jersey's various counties, which is 21 percent. However, work hours for females on SDA projects fell below county goals. The SDA will continue to explore creative ways to attract minorities and women to participate on SDA projects.

Management's Report on Internal Financial Controls

Governance

Pursuant to P.L.2007, c.137, s.3 (N.J.S.A. 52:18A-237) and Executive Order 122 (2004), the New Jersey Schools Development Authority (the "Authority") is required to undergo an annual financial statement audit. The Authority's 2008 financial statements have been audited by Ernst & Young LLP, an independent accounting firm. In performing their audit, Ernst & Young considered the Authority's internal control structure in determining the extent of audit procedures to be applied. In addition, Ernst & Young was given unrestricted access to all financial records and related data of the Authority, including minutes of all Board and Audit Committee meetings. Ernst & Young has issued an unqualified opinion on the Authority's 2008 financial statements, which audit report, dated February 25, 2009, is presented on page 1 of the 2008 financial statements.

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

The Audit Committee assists the Board in fulfilling its oversight responsibilities for the integrity and quality of the Authority's financial statements, the financial reporting process, the system of internal controls, the external auditor's qualifications and independence, the performance of the Authority's internal audit function and external auditors, the audit process and the Authority's process for monitoring compliance with laws, regulations and ethical requirements. The Audit Committee periodically meets with management, as well as the SDA's independent accountant and internal auditor. Both the independent accountant and the internal auditor have unrestricted access to the Audit Committee. For a portion of at least two meetings a year, the Audit Committee meets separately with the independent accountant to discuss internal controls and other financial matters.

The Authority's Governance & Compliance Division administers the "Status of Audit Reports" and collects management responses to internal and external audit findings, which report is disseminated and reviewed with the Audit Committee bi-monthly. In addition, the internal auditors review these responses as part of a risk assessment to identify future audits. Management considers the internal and external auditors' recommendations concerning the Authority's internal controls and takes appropriate responsive action. Though corrective actions have been taken in response to certain internal control deficiencies, further management action is required to appropriately address other internal control areas. Management views these kinds of remedial actions as part of a long-term continuous process to improve internal controls and efficiencies.

Budgetary and Financial Controls

The Authority maintains a system of internal controls to provide reasonable assurance that transactions are executed in accordance with management's requirements and authority,

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

Budgetary controls

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

In addition, the Authority develops and maintains comprehensive project budgets for each of the school facilities projects that it manages. These project budgets include all financial aspects of a project and are reviewed and revised monthly, as necessary. The data obtained in the monthly reforecasting sessions is compared to the Board-approved Capital Plan and then summarized and presented to the Audit Committee in a monthly report. The Authority is further enhancing its project management capabilities through the development and implementation of Primavera Expedition, a project management software application. Among other things, this system will be used to manage project budgets and schedules.

Financial controls

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

To ensure the adequacy of the Authority's internal controls, policies and procedures are issued and periodically updated. These policies and procedures include a Code of Ethics to foster a strong ethical climate, and are communicated to the Authority's employees as deemed appropriate. The Authority has established a Policy Committee, comprised of executives and senior management, which is responsible for developing, reviewing and disseminating the Authority's policies and procedures. These policies and procedures provide a system of internal controls and accountability which is designed to safeguard the Authority's assets. The Authority's internal auditors periodically review the Authority's adherence to internal control policies and procedures.

The Authority has issued an *Operating Authority* policy approved by the Board that designates those persons who are required (either generally or in specific transactions) to approve contracts and/or to

execute documents legally binding on the Authority, or to sign checks and approve disbursements on behalf of the Authority. Several other policies and procedures (or other analogous documents, including, but not limited to: policy notices; bulletins; standard operating procedures; etc.) have been implemented in the areas of accounting, accounts payable, procurement and project management.

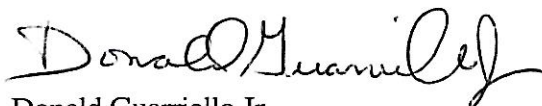
Audits of projects exceeding \$10 million

The program's new funding legislation (P.L. 2008, c. 39) directs the SDA, in consultation with the State Comptroller, "to cause an audit to be conducted of any school facilities project that has a State share that exceeds \$10 million."

This significant initiative is in the initial development stages. Collaboration with the Comptroller has been established on this initiative to ensure the legislation's intent is met. The SDA has and will continue to provide the necessary information to ensure that the statutory directive is met and that all projects exceeding \$10 million are appropriately subject to audit.

Certifications Pursuant To Section 22c Of E.O. 37

I certify that, to the best of my knowledge, the financial information provided to the Authority's independent auditors in connection with their audit of the 2008 financial statements is accurate, and that such information fairly presents the financial condition and operational results of the Authority as of December 31, 2008 and for the year then ended.



Donald Guarriello Jr.
Chief Financial Officer

I certify that, to the best of my knowledge, the financial information provided to the Authority's independent auditors in connection with their audit of the 2008 financial statements is accurate, and that such information fairly presents the financial condition and operational results of the Authority as of December 31, 2008 and for the year then ended.



Kris Kolluri
Chief Executive Officer

Certifications Pursuant To Section 2 Of E.O. 37

In accordance with Executive Order 37 issued by Governor Jon S. Corzine on September 26, 2006, please find enclosed the New Jersey Schools Development Authority's (the "Authority") 2008 comprehensive report of Authority operations (the "2008 Annual Report"). This report highlights the significant actions of the Authority for the year ending December 31, 2008, including the degree of success the Authority had in promoting the State's economic growth strategies and other policies during the year.

The report of independent auditors, issued by Ernst & Young LLP as of February 25, 2009, is included within the financial statements section of the 2008 Annual Report. The completion of the audit report fulfills the Authority's requirements under Executive Order 37 and the audit requirements of Executive Order 122 (2004).

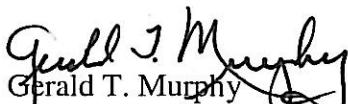
Executive Order 37 Section 2 Certifications:

I, Kris Kolluri, certify that from December 1, 2008, the start of my tenure as Chief Executive Officer of the New Jersey Schools Development Authority, to December 31, 2008, the Authority has, to the best of my knowledge, followed all of its standards, procedures and internal controls.



Kris Kolluri
Chief Executive Officer

I, Gerald T. Murphy, certify that from January 1, 2008 to November 30, 2008, the 2008 time period before Kris Kolluri joined the New Jersey Schools Development Authority as its Chief Executive Officer, the Authority has, to the best of my knowledge, followed all of its standards, procedures and internal controls.



Gerald T. Murphy
Vice President and Chief Operating Officer

Executive Staff and Authority Information

Kris Kolluri, Chief Executive Officer

Thomas J. DiGangi Jr., Chief of Staff

Regina M. Bleck, Vice President, Project Management

Donald R. Guarriello Jr., Vice President & Chief Financial Officer

Jane F. Kelly, Vice President, Corporate Governance & Compliance

Gerald T. Murphy, Vice President & Chief Operating Officer

Janesa Urbano, Vice President & Chief Counsel

Andrew D. Yosha, Vice President, Program Management & Planning

Schools Development Authority Offices

Headquarters

1 West State Street
Trenton, NJ 08625-0991
609.943.5955

Trenton Regional Office

32 East Front Street
Trenton, NJ 08625-0991
609.292.5788

Northern Regional Office

375 McCarter Highway
Newark, NJ 07114
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NEW JERSEY SCHOOLS DEVELOPMENT AUTHORITY
(a component unit of the State of New Jersey)

FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION
For the Year Ended December 31, 2008

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

Financial Statements and Supplementary Information

For the Year Ended December 31, 2008

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Ernst & Young LLP
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Report of Independent Auditor

Members of the Authority
New Jersey Schools Development Authority

We have audited the accompanying basic financial statements of the New Jersey Schools Development Authority (the Authority), a component unit of the State of New Jersey, as of December 31, 2008 and for the year then ended as listed in the table of contents. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. We were not engaged to perform an audit of the Authority's internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the New Jersey Schools Development Authority as of December 31, 2008, and the changes in its financial position for the year then ended in conformity with U.S. generally accepted accounting principles.

As discussed in Note 9, during 2008, the Authority adopted Governmental Accounting Standards Board Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*.

Management's discussion and analysis and the schedule of funding progress on pages 2 to 7 and page 31 are not a required part of the financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of this required supplementary information. However, we did not audit the information and express no opinion on it.

A handwritten signature in black ink that reads 'Ernst & Young LLP'.

February 25, 2009

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

Management's Discussion and Analysis

For the Year ended December 31, 2008

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, 2008. This management discussion and analysis should be read in conjunction with the Authority's financial statements and accompanying notes.

Background

The SDA was established on August 6, 2007 to replace the New Jersey Schools Construction Corporation ("SCC") pursuant to reform legislation (P.L.2007, c.137) enacted by Governor Jon S. Corzine. 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 School Construction Program, and transferred to the Authority. Of this amount, \$8.9 billion is allocated to 31 poor, urban school districts referred to as the "SDA Districts" (formerly the Abbott School Districts), \$3.45 billion is for non-SDA districts ("Regular Operating Districts"), and \$150 million is reserved for vocational schools.

Governor Corzine Signs Legislation Approving Funding for School Facilities Projects

On July 9, 2008, Governor Corzine signed legislation (P.L.2008, c.39) that provides an additional \$3.9 billion in State financing for school facilities projects across the state. The legislation designates \$2.9 billion for SDA District school facilities projects, \$950 million is set aside to finance the State share of Regular Operating District school facilities projects, and \$50 million is directed toward county vocational school projects.

As a result of the new funding authorization, the Authority's Board of Directors approved a capital plan (the "2008 Capital Plan") that allocates the \$2.9 billion in funding for SDA

District school facilities projects. The new plan identifies 52 schools that are funded through construction, including 26 new school projects and 26 projects deferred in April 2007.

School Construction Program Authorized Funding and Disbursements

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

In April 2007, the Board of Directors approved a Capital Plan (the “2007 Capital Plan”) that provides funding through construction of 32 school facilities projects in the SDA Districts. As discussed above, the Authority’s 2008 Capital Plan provides funding through construction of an additional 52 school facilities projects in the SDA Districts. Funds are also set aside for emergent projects and other unforeseen events.

Through December 31, 2008, the Authority has received \$7.371 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 57.3% of the current program funding, as follows:

	<u>Bonding Cap</u>	<u>Program Funding</u>¹	<u>Disbursements</u>	<u>% Paid</u>
SDA Districts	\$8,900,000,000	\$9,005,616,327	\$5,114,342,273	56.8%
Regular Operating Districts	3,450,000,000	3,492,671,491	2,052,338,946	58.8%
Vocational Schools	150,000,000	151,705,173	87,494,769	57.7%
Totals	<u>\$12,500,000,000</u>	<u>\$12,649,992,991</u>	<u>\$7,254,175,988</u>	57.3%

¹ Program funding includes the amounts authorized under the respective bonding caps in addition to the \$150 million of other income and miscellaneous revenue earned through December 31, 2008.

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

<u>County</u>	<u>School District</u>	<u>County</u>	<u>School District</u>
Atlantic	Pleasantville	Essex	Newark
Bergen	Garfield	Essex	Orange
Burlington	Burlington City	Hudson	Harrison
Burlington	Pemberton Township	Hudson	Hoboken
Camden	Camden	Hudson	Jersey City
Camden	Gloucester City	Hudson	Union City
Cumberland	Bridgeton	Hudson	West New York
Cumberland	Millville	Mercer	Trenton
Cumberland	Vineland	Middlesex	New Brunswick
Essex	East Orange	Middlesex	Perth Amboy
Essex	Irvington	Monmouth	Asbury Park

<u>County</u>	<u>School District</u>	<u>County</u>	<u>School District</u>
Monmouth	Keansburg	Salem	Salem City
Monmouth	Long Branch	Union	Elizabeth
Monmouth	Neptune Township	Union	Plainfield
Passaic	Passaic City	Warren	Phillipsburg
Passaic	Paterson		

In September 2008, the Authority opened 16 schools across the State of New Jersey. The total included 10 in the SDA Districts and six in the Regular Operating Districts. The 16 openings included seven new schools, eight extensive additions, renovations and/or rehabilitation projects and one smaller rehabilitation project. In all, nearly 15,000 students benefited from these openings.

From inception through December 31, 2008, the School Construction Program has completed 591 projects in the SDA Districts. The completed projects consist of: 45 new schools; 41 extensive additions, renovations and/or rehabilitations; 21 smaller rehabilitation projects; 354 health and safety projects; 127 Section 13 Grants for SDA District-managed projects under \$500,000; and three demonstration projects. Demonstration projects, funded and overseen by the Authority but managed by a municipal redevelopment entity and redeveloper, are designed to serve as a cornerstone of revitalization efforts. In addition, in the Regular Operating Districts the Authority has completed 19 projects that it managed for the districts, and state funding was provided through Section 15 Grants to 1,430 schools throughout the 21 counties of New Jersey.

As of December 31, 2008, the SDA has 17 active construction projects in the SDA Districts, three active demonstration projects and an additional seven projects ongoing in the Regular Operating Districts. In addition, preconstruction activity is under way for the 52 projects approved in the 2008 Capital Plan. Furthermore, an additional 141 emergent needs conditions were identified as requiring immediate repair in the SDA Districts. About 30 percent of these emergent projects require roof repair or replacement. Other problems being addressed include: deteriorating façades; water infiltration; heating and cooling system issues; and plumbing, electrical, mechanical and security systems. The Authority maintains a program reserve to address such emergent conditions and other unforeseen events.

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.

	<u>\$ In thousands</u>				
	<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>
EFCFA funding received from State	\$450,000	\$800,000	\$600,000	\$2,075,000	\$1,700,000
Investment earnings	12,060	25,697	39,702	17,473	8,098
Administrative and general expenses	41,021	35,750	31,717	29,127	27,950
Capital expenditures	526	1,027	349	194	844
School facilities project costs	922,824	925,665	1,061,962	1,466,536	1,374,637
Employee count at end of year	298	272	241	240	250

2008 Financial Highlights

- At year end there is a net deficit of \$32.4 million
- Cash and investments are \$330.3 million
- Revenues are \$462.3 million, \$450 million of which is from EFCFA funding received from the State (or 97.3%)
- Expenses are \$965.5 million, \$922.8 million of which is for school facilities project costs (or 95.6%)
- Excess of general fund expenditures over general fund revenues is \$517.3 million

Overview of the Financial Statements

The financial section of this annual report consists of three parts: Management's Discussion and Analysis (this section); the basic financial statements; and required supplementary information. The Authority's basic financial statements consist of three components: 1) government-wide financial statements; 2) governmental fund financial statements (these are also referred to as the "general fund" financial statements); and 3) notes to financial statements. Because the Authority operates a single governmental program, its government-wide and governmental fund financial statements have been combined using a columnar format that reconciles individual line items of general fund financial data to government-wide data in a separate column on the face of the financial statement.

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

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

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

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

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

Financial Analysis of the Authority

Net Assets - The Authority's net assets decreased to a net deficit of \$32.4 million at year-end, primarily due to 2008 expenditures for school facilities projects (\$922.8 million) exceeding 2008 State funding under the EFCFA (\$450 million). See Note 15, Subsequent Events, in the Notes to Financial Statements regarding the receipt of an additional \$175 million of bond proceeds in January 2009, and the prospects for additional bond proceeds in the short term. The following table summarizes the Authority's financial position at December 31, 2008 and 2007.

	\$ In thousands			
	2008	2007	\$ Increase/ (Decrease)	% Increase/ (Decrease)
Current assets	\$331,476	\$776,679	\$(445,203)	(57.3)%
Capital assets-net	4,998	6,144	(1,146)	(18.7)%
Total assets	336,474	782,823	(446,349)	(57.0)%
Current liabilities	361,005	281,974	79,031	28.0%
Non-current liabilities	7,907	23,141	(15,234)	(65.8)%
Total liabilities	368,912	305,115	63,797	20.9%
Net (deficit)/assets:				
Invested in capital assets	4,998	6,144	(1,146)	(18.7)%
Restricted for Qualified Zone Academies	-	2,829	(2,829)	(100.0)%
Restricted for Schools Construction				
Special Revenue Fund	(37,436)	468,735	(506,171)	(108.0)%
Total net (deficit)/assets	\$(32,438)	\$477,708	\$(510,146)	(106.8)%

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

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

The following table summarizes the change in net assets for the years ended December 31, 2008 and 2007.

	\$ In thousands			
	2008	2007	\$ Increase/ (Decrease)	% Increase/ (Decrease)
Revenues				
EFCFA funding received from State	\$450,000	\$800,000	\$(350,000)	(43.8)%
Bidding fees-plans and specs	33	44	(11)	(26.7)%
Investment earnings	12,060	25,697	(13,637)	(53.1)%
Rental property income	78	1,277	(1,199)	(93.9)%
Other revenue	112	10	102	1,053.2%
Total revenues	462,283	827,028	(364,745)	(44.1)%
Expenses				
Administrative and general expenses	41,021	35,750	5,271	14.7%
Depreciation	1,672	1,573	99	6.3%
School facilities project costs	922,824	925,665	(2,841)	(0.3)%
Total expenses	965,517	962,988	2,529	0.3%
Change in net assets	(503,234)	(135,960)	(367,274)	270.1%
Beginning net assets – as previously stated	477,708	613,668	(135,960)	(22.2)%
Adjustment to beginning net assets *	(6,912)	-	(6,912)	N/A
Beginning net assets – as restated	470,796	613,668	(142,872)	(23.3)%
Ending net (deficit)/assets	\$(32,438)	\$477,708	\$(510,146)	(106.8)%

* Restated for the effects of Governmental Accounting Standards Board Statement No. 49.

Contacting the Authority's Financial Management

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

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

Statement of Net Assets and General Fund Balance Sheet

December 31, 2008

	General Fund Total	Adjustments (Note 8)	Statement of Net Assets
Assets			
Cash and cash equivalents	\$330,260,566		\$330,260,566
Receivables	846,681		846,681
Prepaid expenses	368,627		368,627
Capital assets-net of accumulated depreciation of \$8,505,961		\$4,997,690	4,997,690
Total assets	<u>331,475,874</u>	<u>4,997,690</u>	<u>336,473,564</u>
Liabilities			
Accrued school facilities project costs	295,734,809		295,734,809
Other post-employment benefits obligation		2,858,504	2,858,504
Other accrued liabilities	1,755,707	5,048,383	6,804,090
Deposits	63,514,563		63,514,563
Total liabilities	<u>361,005,079</u>	<u>7,906,887</u>	<u>368,911,966</u>
Fund Balances and Net Assets			
Fund balances:			
Reserved for prepaid expenses	368,627	(368,627)	
Unreserved-designated for schools construction special revenue fund	(29,897,832)	29,897,832	
Total fund balances	<u>(29,529,205)</u>	<u>29,529,205</u>	
Total liabilities and fund balances	<u>\$331,475,874</u>		
Net (Deficit) Assets			
Invested in capital assets		4,997,690	4,997,690
Restricted for schools construction special revenue fund		(37,436,092)	(37,436,092)
Total net deficit		<u>\$(32,438,402)</u>	<u>\$(32,438,402)</u>

See accompanying notes.

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

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

For the Year Ended December 31, 2008

	General Fund Total	Adjustments (Note 8)	Statement of Activities
Revenues			
School Construction Program:			
EFCFA funding received from State	\$450,000,000		\$450,000,000
Bidding fees-plans and specs	32,650		32,650
General:			
Investment earnings	13,599,072	\$(1,539,113)	12,059,959
Rental property income	78,367		78,367
Other revenue	111,777		111,777
Total revenues	<u>463,821,866</u>	<u>(1,539,113)</u>	<u>462,282,753</u>
Expenditures/Expenses			
Administrative and General:			
Salaries and benefits	27,530,425	1,389,393	28,919,818
Other administrative and general	12,101,553		12,101,553
Capital expenditures	525,596	(525,596)	-
Capital depreciation		1,672,235	1,672,235
School facilities project costs	940,986,149	(18,162,689)	922,823,460
Total expenditures/expenses	<u>981,143,723</u>	<u>(15,626,657)</u>	<u>965,517,066</u>
Excess of expenditures over revenues	(517,321,857)	14,087,544	
Change in net assets			(503,234,313)
Fund Balance/Net (Deficit)/Assets			
Beginning of year – as previously stated	494,705,223	(16,996,741)	477,708,482
Adjustment to beginning balances *	<u>(6,912,571)</u>		<u>(6,912,571)</u>
Beginning of year – as restated	487,792,652	(16,996,741)	470,795,911
End of year, December 31, 2008	<u>\$(29,529,205)</u>	<u>\$(2,909,197)</u>	<u>\$(32,438,402)</u>

* Restated for the effects of Governmental Accounting Standards Board Statement No. 49 (Note 9).

See accompanying notes.

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

Notes to Financial Statements

1. Nature of the Authority

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

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

Recent Developments

On July 9, 2008, the Governor signed legislation (P.L.2008, c.39) that provides an additional \$3.9 billion in State financing for school facilities projects across the state. The legislation designates \$2.9 billion for SDA District school facilities projects, \$950 million is set aside to finance the State share of Regular Operating District school facilities projects, and \$50 million is directed toward county vocational school projects.

As a result of the new funding authorization, the Authority’s Board of Directors approved a capital plan (the “2008 Capital Plan”) that allocates the \$2.9 billion in funding for SDA District school facilities projects. The new plan identifies 52 schools that are funded through construction, including 26 new school projects and 26 projects deferred in April 2007.

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

Notes to Financial Statements (continued)

2. Summary of Significant Accounting Policies

(a) Government-Wide and Fund Financial Statements

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

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

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

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

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

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

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Notes to Financial Statements (continued)

(c) Revenue Recognition

The Authority charges a minimal fee during the bidding process for copies of the design plans and specifications as specified in the construction project advertisements. Rental revenue is received under a month-to-month lease occupancy 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) Rebatable Arbitrage

Rebatable arbitrage is defined by Internal Revenue Code (IRC) Section 148 as earnings on investment purchase with the gross proceeds of a bond issue in excess of the amount that would have been earned if the investments were invested at a yield equal to the yield on the bond issue. The amount of rebates due the federal government is determined and payable during each five-year period and upon final payment of the tax-exempt bonds.

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

Rebatable arbitrage calculations have been performed for all series of School Facilities Construction Bonds up through 2006 Series R and S. Based on these calculations, the Authority has recorded an arbitrage rebate liability of \$4,196,253, related to 2005 Series P-Q, on the statement of net assets as of December 31, 2008, with corresponding charges to investment earnings on the statement of activities of \$1,539,113 and \$2,657,140, respectively, for the years ended December 31, 2008 and 2007. This accumulated rebate liability is estimated to be payable to the federal government on September 1, 2010.

(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.

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Notes to Financial Statements (continued)

(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, 2008, the Authority's capital assets consist of leasehold improvements, equipment, computer software and furniture and fixtures. Depreciation is provided by the straight-line method over the shorter of the life of the lease or the useful life of the related asset.

(h) Taxes

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

(i) Use of Estimates

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

3. Cash, Cash Equivalents and Investments

(a) Cash Flows

Overall cash and cash equivalents decreased during the year by nearly \$445 million to \$330 million as follows:

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Notes to Financial Statements (continued)

Cash and cash equivalents, beginning of year	\$774,937,584
Changes in cash:	
EFCFA funding received from State	450,000,000
Investment and interest income	13,584,070
Miscellaneous revenue	837,796
School facilities project costs	(880,936,507)
Administrative and general expenses	(39,760,922)
Capital expenditures	(940,178)
Deposits	12,538,723
Cash and cash equivalents, end of year	<u>\$330,260,566</u>

(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, 2008, the carrying amount of operating cash is \$1,408,106 and the bank balance is \$2,032,526. 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” (“GASB 40”), NOW accounts are profiled in order to determine exposure, if any, to custodial credit risk (risk that in the event of failure of the counterparty the account owner would not be able to recover the value of its deposits or investment). Deposits are considered to be exposed to custodial credit risk if they are: uncollateralized (securities not pledged to the depositor); collateralized with securities held by the pledging financial institution; or collateralized with securities held by the financial institution’s trust department or agent but not in the government’s name. At December 31, 2008, all of the Authority’s deposits were collateralized by securities held in its name and, accordingly, not exposed to custodial credit risk. The Authority does not have a policy for custodial credit risk.

As of December 31, 2008, cash and cash equivalents include \$63,514,563 for local share deposits (see Note 5).

(c) Investments

In order to maximize liquidity, the Authority utilizes the NJCMF as its sole investment. The NJCMF invests pooled monies from various State and non-State agencies in primarily short-term investments. These investments include: U.S. Treasuries; short-term commercial paper; U.S. Agency Bonds; Corporate Bonds; and Certificates of Deposit. Agencies that participate in the NJCMF typically earn returns that mirror short-term investment rates. Monies can be

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Notes to Financial Statements (continued)

freely added or withdrawn from the NJCMF on a daily basis without penalty. At December 31, 2008, the Authority's investments in the NJCMF total \$328,852,159.

Custodial Credit Risk: Pursuant to GASB 40, the NJCMF, which is a pooled investment, is exempt from custodial credit risk disclosure. The Authority does not have a policy for custodial credit risk.

Credit Risk: The Authority does not have an investment policy regarding the management of credit risk. GASB 40 requires that disclosure be made as to the credit rating of all debt security investments except for obligations of the U.S. government or investments guaranteed by the U.S. government. The NJCMF is not rated by a rating agency.

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

4. Prepaid Expenses

As of December 31, 2008, the Authority's prepaid expenses are as follows:

Office rents	\$192,125
Security deposits	166,072
Other	<u>10,430</u>
Total prepaid expenses	<u><u>\$368,627</u></u>

5. Deposits

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

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Notes to Financial Statements (continued)

As of December 31, 2008, local share deposits held in SDA bank accounts, inclusive of interest earned but not refunded to the district, are as follows:

<u>School District</u>	
Greater Egg Harbor	\$23,058,374
Egg Harbor Township	11,108,920
Egg Harbor City	7,835,768
Buena Borough	7,775,813
City of Newark	4,355,748
Neptune Township	3,794,489
Barnegat Township	2,639,632
Clark Township	1,566,195
Harrison Township	499,438
City of Long Branch	289,498
Fairfield Township	248,192
Burlington City	189,899
Other	152,597
Total local share deposits	<u><u>\$63,514,563</u></u>

6. Rental of Office Space

The Authority rents commercial office space for its headquarters facility in Trenton, as well as rents office space to house its two regional offices located in Trenton and Newark. The remaining terms of these leases range from two months to over five years. Total rental expense for the year ended December 31, 2008 amounted to \$2,499,328.

Future rent commitments under operating leases are as follows:

2009	\$2,065,267
2010	2,009,258
2011	1,691,091
2012	1,698,459
2013	1,396,397
2014	134,167
Total future rent expense	<u><u>\$8,994,639</u></u>

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Notes to Financial Statements (continued)

7. Capital Assets

Capital asset activity for the year ended December 31, 2008 is as follows:

	Beginning Balance	Additions	Retirements	Ending Balance
Leasehold improvements	\$7,918,077	\$ -	\$(109,621)	\$7,808,456
Office furniture and equipment	4,542,908	75,888	-	4,618,796
Computer software	568,993		-	568,993
Automobiles	57,698	91,558	-	149,256
Construction in progress	-	358,150	-	358,150
Capital assets-gross	13,087,676	525,596	(109,621)	13,503,651
Less: accumulated depreciation	6,943,347	1,672,235	(109,621)	8,505,961
Capital assets-net	<u>\$6,144,329</u>	<u>\$(1,146,639)</u>	<u>\$ -</u>	<u>\$4,997,690</u>

Construction in progress consists of data storage equipment under development.

8. Reconciliation of Government-Wide and Fund Financial Statements

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

“Total fund balances” for the Authority’s general fund (a deficit of \$29,529,205) differs from the “net deficit” reported on the statement of net assets (a deficit of \$32,438,402). This difference results from the long-term economic focus of the statement of net assets versus the current financial resources focus of the fund balance sheet. When capital assets that are to be used in the Authority’s activities are constructed or acquired, the costs of those assets are reported as expenditures in the fund financial statements. However, the statement of net assets includes those capital assets among the assets of the Authority as a whole. In addition, expenses associated with depreciation, arbitrage rebate (shown as a reduction in investment earnings) and non-current other post-employment benefits and compensated absences are not recorded in the fund financial statements.

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Notes to Financial Statements (continued)

Fund balances	\$(29,529,205)
Capital assets, net of related depreciation of \$8,505,961	4,997,690
Accrued other post-employment benefits	(2,858,504)
Accrued arbitrage rebate	(4,196,253)
Accrued compensated absences	(852,130)
Net (deficit) assets	<u>\$(32,438,402)</u>

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

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

Excess of expenditures over revenues	\$(517,321,857)
Arbitrage rebate	(1,539,113)
Other post-employment benefits expense	(1,291,233)
Compensated absences expense	(98,160)
Capital asset acquisitions	525,596
Depreciation expense	(1,672,235)
School facilities project costs	18,162,689
Changes in net assets or deficit	<u>\$(503,234,313)</u>

9. Pollution Remediation Obligations

Effective January 1, 2008, the Authority implemented accrual accounting for its pollution remediation obligations (PRO) in accordance with Governmental Accounting Standards Board ("GASB") Statement No. 49, *"Accounting and Financial Reporting for Pollution Remediation Obligations."* As a result, the Authority has recorded in the statement of net assets and general fund balance sheet a PRO liability (net of environmental cost recoveries not yet realized) in the amount of \$30,114,410 as of December 31, 2008. Additionally, as of the same date the Authority has recorded in the statement of net assets and general fund balance sheet a receivable in the amount of \$583,260 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 and general fund revenues, expenditures

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and changes in fund balance, with \$22,618,579 charged to expense (net) in 2008. 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 these projects are fully funded through construction via the approval of various capital plans. As a result, the Authority believes it has obligated itself to commence clean-up activities. 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 outlays (estimated costs), payments and cost recoveries related to numerous SDA-owned properties associated with 36 school facilities projects in various stages of pre-development and construction.

Description	Estimated Cost	Payments to Date	PRO at 12-31-2008
Asbestos and lead based paint removal	\$16,146,270	\$10,281,079	\$5,865,191
Pre-cleanup activities	5,140,829	4,373,579	767,250
Site remediation work	55,028,542	30,482,325	24,546,217
Post-remediation monitoring	899,134	164,555	734,579
Sub-total	77,214,775	45,301,538	31,913,237
Less: Estimated environmental cost recoveries (ECR) not yet realized	1,798,827	-	1,798,827
Liability for pollution remediation obligations	<u>\$75,415,948</u>	<u>\$45,301,538</u>	<u>\$30,114,410</u>
Receivable for realized ECR	<u>\$583,260</u>	-	<u>\$583,260</u>

As required under GASB Statement No. 49, the Authority's net assets and fund balances were restated as of January 1, 2008 to reflect the measurement of the Authority's PRO liability at the beginning of the year. The following table summarizes the changes in the Authority's PRO liability during the year ended December 31, 2008:

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PRO at * 12-31-2007	2008 PRO Increases	2008 PRO Payments	2008 ECR Not Yet Realized	PRO at 12-31-2008
\$6,912,571	\$29,693,876	(\$4,778,733)	(\$1,713,304)	\$30,114,410

* Represents the amount in which beginning of year net assets and fund balances were restated.

10. Commitments and Contingencies

(a) Contractual Commitments

At December 31, 2008, the Authority has approximately \$857 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, 2008, the Authority's potential loss from these claims has been estimated to be approximately \$43.7 million, which represents a decrease of \$7.2 million from the prior year end accrual. Accordingly, as of December 31, 2008, an accrued liability of \$43.7 million is reflected in the statement of net assets and general fund balance sheet and, for the year then ended, \$7.2 million is credited against school facilities project costs on the statement of activities and general fund revenues, expenditures and changes in fund balances.

(c) Real Estate Matters

The Authority has either received Notices of Claims or is a named defendant in several lawsuits relating to its real estate activities including, among other things, disputes over relocation benefits, and various claims for damages. As of December 31, 2008, management believes its exposure related to these matters is reasonably estimated to be \$1.3 million, which amount represents a \$0.2 million decrease from the prior year end accrual. Accordingly, as of December 31, 2008, an accrued liability of \$1.3 million is reflected on the statement of net assets and general fund balance sheet and, for the year then ended, \$0.2 million is credited against school facilities project costs on the statement of activities and general fund revenues, expenditures and changes in fund balances.

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Notes to Financial Statements (continued)

(d) Insurance

The Authority maintains commercial insurance coverage for, among other things, workers' compensation, tort liability (including public liability and automobile) and property damage. Additionally, as discussed below, the Authority has implemented an owner-controlled insurance program (OCIP) related to its construction operations. As of December 31, 2008, management is not aware of any insurable claim that is expected to exceed its commercial insurance coverage. Also, the Authority is involved in several lawsuits not covered under its commercial insurance; however, in the opinion of management, none of the claims is expected to have a material effect on the Authority's financial statements.

The Authority has implemented an OCIP that allows multiple types of insurance coverage to be "wrapped up" into one program. The Authority initially implemented a three-year OCIP, effective December 31, 2003, to provide workers' compensation, general liability, umbrella/excess liability, and builder's risk coverage for all eligible contractors. Two firms were engaged to broker the program, as well as provide OCIP administration.

Upon expiration of the initial three-year OCIP, the Authority negotiated a two year extension, which was set to expire on December 31, 2008, except for the builder's risk policy, which is to expire on December 31, 2009. Given the complexity of the procurement process and time constraints, the Authority has negotiated a three-month extension of the construction commencement date for projects. Accordingly, the OCIP as currently extended covers all construction projects with a commencement date of prior to March 31, 2009, and having an estimated completion date of on or before December 31, 2010. The Authority has begun a competitive procurement process to obtain bids for continuing the OCIP.

The OCIP general liability and workers' compensation is subject to a \$250,000 deductible for any one loss, inclusive of allocated loss adjustment expenses. OCIP costs will be adjusted upon audited direct labor payroll after the completion of the enrolled construction projects. As of December 31, 2008, the projected construction labor costs enrolled in the OCIP is \$300 million.

In June 2004, the Authority executed a Funded Multi-Line Deductible Program Agreement with the insurer for general liability and workers' compensation claims. Among other things, the agreement stipulated that, in lieu of a letter of credit, the Authority would be required to provide a Deductible Reimbursement Fund (DRF) for expected losses and collateral security under the \$250,000 insurance deductible. 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

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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 balances.

As of December 31, 2008, the Authority has incurred general liability and workers' compensation claims totaling approximately \$9.5 million, of which \$5.3 million has been paid to date. All monies deposited in the DRF and not used to pay claims will be refunded to the Authority. Under the terms of the contract, the Authority has no claim or interest in the DRF until all obligations have been paid in full. A reasonable estimate of the refund is not yet known nor has a refund been agreed to by the insurer since many covered school facilities projects are in various stages of completion and therefore the Authority's ultimate obligation cannot be immediately determined.

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, multiple-employer defined benefit plan administered by the State. Employees currently contribute 5.5% of their annual compensation to the Plan. 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, 2008, 2007 and 2006, which approximates its covered payroll, was \$21,291,915, \$18,622,173 and \$17,385,246, respectively.

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

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which amounts were charged to salaries and benefits expense. The Authority's 2009 pension contribution, due on April 1, 2009, is expected to be in the amount of \$1,400,824.

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. Generally, except as described in the section below, 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. 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) 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, 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

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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.

As of December 31, 2008, the Authority has two employees enrolled in the DCRP. There were no employer matching contributions made during 2008 and 2007.

P.L.2007, c.103 also changes certain provisions with regard to early retirement for new employees who enrolled in the PERS on or after July 1, 2007. If a member who enrolled on or after July 1, 2007 retires with 25 or more years of service before reaching age 60, the retirement allowance is reduced 1% per year (1/12 of 1 percent per month) for each year the member is under age 60 but over age 55. As was the case under prior law, 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.

(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

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to the State of New Jersey, Department of the Treasury, Division of Pension and Benefits, P.O. Box 295, Trenton, New Jersey, 08625-0295.

Prior to January 1, 2007, the cost of OPEB was charged to expense as paid by the Authority. Effective January 1, 2007, the Authority prospectively implemented accrual accounting for its OPEB obligations in accordance with GASB Statement No. 45, "Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions." The Authority's OPEB cost is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The Authority's 2008 OPEB cost has been adjusted to reflect the fact that the previous year's ARC was not fully funded. 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 2008 and 2007 and the related information for the plan are as follows:

	<u>2008</u>	<u>2007</u>
Annual required contribution	\$1,354,100	\$1,596,100
Adjustment to annual required contribution *	12,100	-
Annual OPEB cost	1,366,200	1,596,100
Contributions made	(74,967)	(28,829)
Increase in net OPEB obligation	1,291,233	1,567,271
Net OPEB obligation – beginning of year	1,567,271	-
Net OPEB obligation – end of year	<u>\$2,858,504</u>	<u>\$1,567,271</u>

* The adjustment to the ARC includes interest on the net OPEB obligation of \$70,500, less amortization of the net OPEB obligation of \$58,400.

The annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2008 and 2007 is as follows:

<u>Year Ended</u>	<u>Annual OPEB Cost</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
12/31/2008	\$1,366,200	5.5%	\$2,858,504
12/31/2007	\$1,596,100	1.8%	\$1,567,271

As of the most recent valuation date (January 1, 2008), the Authority's actuarial accrued liability was \$8,975,500, all of which was unfunded as of December 31, 2008. The Authority is recognizing this liability over a 30-year period using 4% annual increasing amortization, which is representative of amortizing on a level percentage of payroll on an open basis. The covered payroll (annual payroll of active employees covered by the

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plan) as of the valuation date was \$20,275,000 and the ratio of the unfunded actuarial accrued liability to the covered payroll was 44.3%. Additionally, as of the valuation date five active and six 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 \$74,967 and \$28,829, respectively, in 2008 and 2007. Additionally, in 2007 the Authority paid the EDA \$44,280 for post-employment benefit costs related to three former employees who retired from the School Construction Program when it was under the EDA. Beginning in 2008, these retirees were transferred to the Authority in the PERS.

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

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

For the January 1, 2008 actuarial valuation the projected unit credit actuarial cost method was used with a 4.5% discount rate. Pursuant to this method, benefits are recognized from date of hire to the date the employee is first eligible for benefits. No investment return was assumed in the current valuation since there are no OPEB plan assets. The healthcare cost trend assumed in the actuarial valuation includes an initial annual cost rate increase of between 9.5% and 10.5% depending on the medical plan (i.e. NJ Direct or HMO), decreasing by .5% annually to a long-term trend rate of 5% annually commencing in 2019. The prescription drug cost trend assumed in the actuarial valuation includes an initial annual cost rate increase of 11.5%, decreasing by .5% annually to a long-term trend rate of 5% annually commencing in 2021. The Medicare Part B premium reimbursement cost trend assumed in the actuarial valuation includes an initial

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annual cost rate increase of 1.5%, increasing to 6.5% in 2009, then decreasing to a long-term trend rate of 5% annually commencing in 2010. As required in GASB Technical Memorandum 2006 1 on the accounting for the federal Retiree Drug Subsidy (RDS), the Authority's actuarial liabilities are shown without a reduction for the RDS even though the State Health Benefits Program has opted to receive the RDS.

12. Compensated Absences

In accordance with GASB Statement No. 16, "Accounting for Compensated Absences", the Authority recorded a liability in the amount \$852,130 as of December 31, 2008. The liability is the value of employee accrued vacation time as of the balance sheet date and vested sick leave benefits that are probable of payment to employees upon retirement. The vested sick leave benefit to retirees for unused accumulated sick leave is calculated at the lesser of ½ the value of earned time or \$15,000. The payment of sick leave benefits, prior to retirement, is dependent on the occurrence of sickness as defined by the Authority's policy; therefore, such unvested benefits are not accrued.

13. Long-Term Liabilities

During 2008, the following changes in long-term liabilities are reflected in the statement of net assets:

	Beginning Balance	Additions	Deductions	Ending Balance
Accrued school facilities project costs	\$18,162,689		\$(18,162,689)	\$ -
Other post-employment benefits obligation	1,567,271	\$1,366,200	(74,967)	2,858,504
Arbitrage rebate	2,657,140	1,539,113		4,196,253
Compensated absences	753,970	98,160		852,130
Total long-term liabilities	<u>\$23,141,070</u>	<u>\$3,003,473</u>	<u>\$(18,237,656)</u>	<u>\$7,906,887</u>

For further information, see Notes 2(d), 10(c), 11(c) and 12.

14. Net Assets

The Authority's net assets (or deficit) are categorized as either invested in capital assets, restricted for qualified zone academies or restricted for schools construction special revenue fund. At December 31, 2008, the Authority has a net deficit of \$32.4 million; however, as discussed in Note 15, the Authority received \$175 million of bond proceeds in January 2009, and expects to receive additional bond proceeds in April 2009.

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Invested in capital assets includes leasehold improvements, furniture and fixtures, equipment and computer software used in the Authority's operations, net of accumulated depreciation. Qualified zone restricted assets include net assets that have been restricted in use for construction projects that qualify under Section 1397E(e)(2) of the Internal Revenue Code as qualified zone academies. Schools construction restricted assets include all net assets not included in the other two categories. When both restricted and unrestricted resources are available for use, it is the Authority's policy to first use restricted resources then unrestricted resources as needed.

As shown below, the Authority's 2008 beginning of year net assets have been restated pursuant to GASB Statement No. 49 (see Note 9). The changes during 2007 and 2008 in net assets are as follows:

	Invested in Capital Assets	Restricted for Qualified Zone Academies	Restricted for Schools Construction Special Revenue Fund	Totals
Net assets,				
December 31, 2006	\$6,690,508	\$2,689,268	\$604,288,430	\$613,668,206
(Loss)/Excess before receipt of				
EFCFA funding and transfers	(1,573,235)		(8,721,127)	(10,294,362)
Capital assets acquired	1,027,056		(1,027,056)	-
EFCFA funding received				
from State			800,000,000	800,000,000
School facilities project costs		139,447	(925,804,809)	(925,665,362)
Net assets,				
December 31, 2007	6,144,329	2,828,715	468,735,438	477,708,482
Effects of GASB Statement				
No. 49 implementation on				
beginning of year net assets			(6,912,571)	(6,912,571)
Beginning net assets – as				
restated January 1, 2008	6,144,329	2,828,715	461,822,867	470,795,911
(Loss)/Excess before receipt of				
EFCFA funding and transfers	(1,672,235)		(28,738,618)	(30,410,853)
Capital assets acquired	525,596		(525,596)	-
EFCFA funding received				
from State			450,000,000	450,000,000
School facilities project costs		(2,828,715)	(919,994,745)	(922,823,460)
Net (deficit) assets,				
December 31, 2008	\$4,997,690	\$ -	\$(37,436,092)	\$(32,438,402)

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15. Subsequent Events

(a) Receipt of Additional Bond Proceeds

On January 29, 2009, the Authority received an additional \$175 million of bond proceeds from the sale of EDA School Facilities Construction Bonds. This raises the total amount of bond proceeds received since program inception to \$7.546 billion. The Authority expects to receive an additional \$400 million to \$500 million of bond proceeds in April 2009.

(b) Settlement Agreement

In January 2009, the Authority agreed to settle a long standing dispute with one of its general contractors involving an environmental issue. Pursuant to the settlement agreement, the contractor will pay the Authority \$4.8 million in February 2009.

(c) Obama Economic Stimulus Package

On February 17, 2009, President Barack Obama signed into law the American Recovery and Reinvestment Act of 2009 (the "Act") which, among other things, establishes a State Fiscal Stabilization Fund. Pursuant to the Act, the Governor shall use 18.2 percent of the State's allocation under section 14001 for public safety and other government services, which may include assistance for modernization, renovation, or repair of public school facilities. The amount of federal assistance to be made available to the Authority for eligible school construction work in New Jersey, if any, will be determined by Governor Corzine. The Authority is finalizing a list of currently unfunded health and safety projects that would be eligible for funding under the Act and could be completed expeditiously.

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REQUIRED SUPPLEMENTARY INFORMATION

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Schedule of Funding Progress - Post-Employment Healthcare Benefit Plan

\$ In thousands						
Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Level Dollar (b)	Unfunded AAL (UAAL) (b) - (a)	Funded Ratio (a) / (b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll (b) - (a) / (c)
1-1-2008	\$0	\$8,976	\$8,976	0%	\$20,275	44%
1-1-2007	\$0	\$8,922	\$8,922	0%	\$17,271	52%