



March 30, 2007

In accordance with Executive Order No. 37 issued by Governor Jon S. Corzine on September 26, 2006, the New Jersey Economic Development Authority's 2006 Annual Report also serves as the comprehensive report of the Authority's operations. This report highlights the significant action of the Authority for the year, including the degree of success the EDA had in promoting the State's economic growth strategies and other policies.

The report of independent auditors, Ernst & Young LLP, dated, February 2, 2007, is attached and completes the EDA's requirements concerning the preparation of a comprehensive report required by Executive Order No. 37.

In addition, I certify that during 2006, the Authority has to the best of my knowledge, followed all of the Authority's standards, procedures and internal controls. Also attached is an overview of actions taken to enhance internal processes.

Sincerely,

A handwritten signature in black ink, appearing to read 'Caren S. Franzini', is written over a light gray rectangular area.

Caren S. Franzini
Chief Executive Officer

New Jersey Economic Development Authority
Annual Report 2006



EDA 2006 Results

EDA Results 2006	
<i>Projects Assisted</i>	423
<i>Total Assistance</i>	\$672.4 Million
<i>Public/Private Investments</i>	\$1.8 Billion
<i>Estimated New Permanent Jobs</i>	15,800
<i>Estimated Construction Jobs</i>	7,200

EDA Results 1974-2006	
<i>Projects Assisted</i>	9,220
<i>Total Assistance</i>	\$18.4 Billion
<i>Public/Private Investments</i>	\$38.4 Billion
<i>Estimated New Permanent Jobs</i>	278,400
<i>Estimated Construction Jobs</i>	268,500

EDA Assistance 2006 (in Millions)		
	EDA Assistance	Total Project Investments
<i>Loans/Guarantees</i>	\$ 66.5	\$ 188.2
<i>Bonds*</i>	349.1	487.6
<i>ERB Funding</i>	10.3	46.2
<i>BEIP</i>	173.6	1,108.1
<i>HDSRF/UST**</i>	13.2	16.5
<i>Technology Tax Credits</i>	60	

* Includes one Structured Financing project

**Does not include UST Residential projects

EDA Mission

The New Jersey Economic Development Authority (EDA) is an independent, self-supporting State entity dedicated to broadening New Jersey's economic base by building vibrant, diverse communities, creating and maintaining jobs, and providing businesses and nonprofits with the necessary financial and technical support to grow and succeed.

EDA Strategy

The EDA creates public/private partnerships to bridge financing gaps and to increase access to capital by the State's business community with an emphasis on small and mid-size businesses and nonprofit organizations. It supports entrepreneurial development through training and mentoring programs. It undertakes real estate development projects important to the State's economic growth that will create new jobs and business opportunities and support community development and revitalization.

Dear Friends:



Developing a focused, coordinated strategy for economic growth and the creation of high-quality jobs in New Jersey has been a central priority of my Administration. By establishing an Office of Economic Growth (OEG) to oversee a comprehensive strategy for integrating all our State's economic development resources and maximizing efficiencies, we are creating a strong, stable environment for businesses to grow, prosper and increase well-paying private-sector employment.

The New Jersey Economic Development Authority (EDA) has a long history of providing the financial, technical and real estate development tools to support business growth and stimulate investment in communities throughout the State. Today, it is playing an instrumental role in our efforts in collaboration with the OEG to strengthen and grow New Jersey's economy and create jobs.

This report details many of the innovative ways the EDA supported economic growth in New Jersey in 2006 and the steps it has taken to help us achieve the goals of our Economic Growth Strategy, including the establishment of the Edison Innovation Fund and the New Jersey Urban Fund. I encourage you to review it and the broad resources the EDA makes available to foster innovation and urban revitalization.

New Jersey has many key attributes that provide a foundation of competitive advantages for our State, like an educated and talented workforce, a location in the heart of a vibrant global marketplace, a high quality of life, and an existing base of innovative businesses. The programs and the people that make up the EDA are other critical state assets that have supported business growth and promoted investments in New Jersey's communities for more than three decades.

I welcome the opportunity to work along with the OEG and EDA as we continue to open new doors to economic opportunity and chart a course to make New Jersey the best place to live, work and raise a family.

Sincerely,

A handwritten signature in black ink, which appears to read "Jon Corzine". The signature is fluid and stylized, with a large loop at the end.

Jon S. Corzine
Governor

Advancing Governor Corzine's Economic Growth Strategy

The New Jersey Economic Development Authority (EDA) has been a catalyst for creating jobs and promoting economic growth for more than three decades. We continued to move forward on these fronts in 2006 while playing an influential role in assisting the Office of Economic Growth (OEG) in formulating Governor Jon. S. Corzine's Economic Growth Strategy.

In 2006, the EDA maintained its strong focus on the primary business sectors critical to the State's economy, like technology, the life sciences, manufacturing, logistics, warehousing and financial services, as we met the financial, technical assistance and real estate development needs of small and mid-size businesses and triggered investment in the State's urban communities. To advance the Governor's comprehensive strategic objectives, we established and made significant financial commitments to the creation of the Edison Innovation Fund and the New Jersey Urban Fund at the end of 2006, which will enable us to support technological innovation and neighborhood revitalization throughout New Jersey in 2007 and beyond.

The EDA partnered with the OEG on several other important Administration initiatives during the year as well. They included a new State business web portal and call center, smart growth strategies encompassing the development of portfields, and the expansion of opportunities for small, minority-owned and woman-owned businesses. The EDA was also an active partner in the Action Council on the Economy, which

was established by the OEG under the Economic Growth Strategy. The Council is composed of representatives of more than 20 state departments, commissions and authorities to respond proactively and in a coordinated manner to economic development issues and opportunities.

To encourage business growth and job creation, spur technological achievement and promote investment in New Jersey communities, the EDA finalized \$672.4 million in financing assistance, business incentives and tax credits in 2006. This assistance is supporting new public/private investment of more than \$1.8 billion in New Jersey's economy that is expected to result in the creation of over 15,800 new, full-time jobs and nearly 7,200 construction jobs. Banks, local economic development organizations, business associations and various State agencies all worked with the EDA during the year to stimulate New Jersey's economic growth.

The EDA closed \$428.6 million in bonds, loans, loan guarantees and environmental assistance grants with 213 projects in calendar year 2006 to support economic growth and job creation in New Jersey. Among the major businesses executing incentive grants in 2006 were Citigroup (1,200 jobs), Sanofi-Aventis (850 jobs), Unilever (450 jobs) and MetLife (400 jobs).

The 2006 results boost EDA's totals to \$18.4 billion since it was established in 1974. This assistance has leveraged more than \$38.4 billion in new business investment and supported the creation of nearly 278,400 new, full-time jobs and 268,500 construction jobs.

We also continued our prudent strategy for responding to customer needs by organizing our business development team by region and product focus. Organizationally, we prioritized our sales efforts by creating a new position of Vice President for Sales and Marketing and establishing a new Division of Marketing.

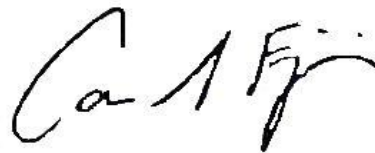
The following pages note many significant 2006 accomplishments and provide examples of how Authority resources and the EDA's knowledgeable and dedicated staff helped generate business growth and job creation throughout the year and set the foundation for achieving the goals of Governor Corzine's Economic Growth Strategy. Working with the Governor, the Office of Economic Growth, legislators and our many partners, the EDA will continue to build business and job growth and fuel New Jersey's economy in the coming year.

To learn more about opportunities for business growth throughout New Jersey, visit the State's business portal at www.nj.gov/njbusiness. To explore how the EDA can assist your company or development project in New Jersey, we invite you to visit us on the Internet at www.njeda.com or call our Customer Care hotline at (609) 777-4898.

"To advance the Governor's comprehensive strategic objectives, we established and made significant financial commitments to the Edison Innovation Fund and the New Jersey Urban Fund..."



Carl E. Van Horn, Ph.D., *Chairman*



Caren S. Franzini, *Chief Executive Officer*

Promoting New Business Growth and Expansion

The New Jersey Economic Development Authority (EDA) works in conjunction with Governor Corzine's Economic Growth Strategy to fuel business growth and promote job creation throughout the State by offering a range of low-cost financing, real estate development and entrepreneurial training resources. Although its programs and services benefit companies of all sizes, its core focus has traditionally targeted small and mid-size businesses.

In 2006, nearly 170 businesses took advantage of the financing and business incentive tools that the EDA makes available to encourage economic development and job growth. They used EDA funding for acquiring, constructing and renovating buildings, upgrading equipment and machinery to improve efficiencies and competitiveness, and for working capital to cover day-to-day operational costs.

EDA funding, coupled with grants executed under the Business Employment Incentive Program in 2006 to support business expansion and relocation, are expected to result in the creation of more than 15,000 new jobs in New Jersey and total public/private investment of more than \$1.8 billion.

The EDA channels much of its activities toward several key business sectors critical to the State's economy. They are: biotechnology and the life sciences; manufacturing; logistics, including warehousing,



Rose Vony and partners Cassandre Lamarre and Gisel Ortiz were three ETI graduates who received funding in order to open their own law practice in Newark. The firm primarily serves low- and middle-income clients.

distribution and port operations; financial services; and tourism, arts and culture.

More than 40 percent of the businesses availing themselves of EDA financing and business incentives in 2006 were manufacturers, 15 of which utilized the New Jersey Business Growth Fund, a lending partnership between the EDA and PNC Bank. This fund makes below market-rate bank loans, each backed by an EDA guarantee, to help small businesses committed to creating or maintaining jobs in the State.

Tony Pallet, Inc., of Newark, for example, one of the larger manufacturers and repairers of pallets in the Northeast, borrowed \$193,000 from PNC Bank with an EDA guarantee of 25 percent to purchase a new grinder to reduce the cost of scrap wood disposal and a new kiln to treat pallets used in export. The loan, made at a fixed interest rate of 5.1 percent for five years, will help owner Jean Russo, wife of the late company founder, Anthony Russo, add 10 new jobs.

The Statewide Loan Pool for Business program is another innovative partnership that brings together the financial resources of the EDA with scores of New Jersey banks. By participating in bank loans, the EDA helps limit the exposure of these financial institutions and makes it easier for them to lend money to support business growth. Corporate Duplication Solutions of Teterboro used this resource in 2006 to buy new manufacturing equipment to dramatically improve its capabilities and efficiency, which will mean the addition of 10 new jobs. The EDA provided a 25% participation in a \$750,000 Commerce Bank N.A. loan and a 25-percent participation in the bank's portion to make the purchase possible. The EDA loan was finalized at a fixed interest rate of 5.38 percent for the first five years of a seven-year term.

The EDA itself acts as a bank, lending money – generally at below conventional interest rates – or guaranteeing loans so small and mid-size companies can grow. Several loan and guarantee assistance resources are available. With lower interest rates and longer terms than are usually offered by other sources, EDA tax-exempt bond financing can be an affordable and effective tool to support the needs of qualifying New Jersey manufacturers, as well as other businesses and nonprofit organizations. Partial EDA guarantees of bond issues also help credit-worthy businesses needing additional credit enhancement to obtain private financing.

“With lower interest rates and longer terms than are usually offered by other sources, EDA tax-exempt bond financing can be an affordable and effective tool to support the needs of qualifying New Jersey manufacturers, as well as other businesses and nonprofit organizations.”

The EDA arranged for \$905,000 in tax-exempt bond financing for Stellar Building Products, Inc. at initial interest rates ranging from 5.01 percent to 5.24 percent with an EDA guarantee of \$125,000. Independence Community Bank directly purchased the bonds. These funds, along with a \$125,000 EDA loan made at an interest rate of 3.125 percent fixed for the first five years of a 10-year term, were used by this custom window fabricator and building products distributor to acquire and renovate a leased North Bergen building and purchase equipment.

Two manufacturers of interlocking concrete pavers and retaining wall products also collaborated to expand their presence in the State's southern region in 2006 with low-interest bond financing through the EDA. Concrete Stone & Tile Corp. (CST) of Branchville and joint-venture partners Tremron Corporation of Florida and its parent, Groupe Tremca of Quebec, teamed to form CST Products, LLC and Perkintown Road Associates, LLC, which arranged for \$9 million in EDA tax-exempt bond financing. The funds were used to buy 22 acres of land in Oldmans Township, construct a 46,000-square-foot manufacturing building on the site, and buy customized manufacturing machinery and equipment. It will mean 20 new jobs for Salem County. The 20-year, variable-rate bond, underwritten by BB&T Capital Markets and carrying a one-year Letter of Credit from the National Bank of Canada, closed at an initial weekly variable interest rate of 3.72 percent.

"With the amount of funding we needed, the EDA was able to provide the best interest rate we could get. It all was very easy to put together," said Nancy Casper, an official with CST. "From start to finish, everyone – the EDA, bankers, attorneys – worked wonderfully together. Things really came together very quickly."

The EDA's efforts to provide a continuum of financial support to foster the growth and success of small and mid-size businesses begins with its work to encourage entrepreneurship. Over 100 students explored the feasibility of their business ideas during spring and fall 2006 sessions of the

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EDA-supported Entrepreneurial Training Institute (ETI), and 41 individuals moved on to advanced training to develop a formal plan for their business venture. Training is offered at various locations throughout the State.

More than 100 program graduates received technical assistance from ETI-contracted mentoring agencies and 22 students received EDA and private funding totaling more than \$3.9 million to pursue their dreams in 2006. Rose-Vony Duroseau, Cassandre Lamarre and Gisell Ortiz were three of the ETI graduates who received funding. The lawyers, who attended ETI classes in Jersey City in 2006, have started their own practice in Newark to primarily serve low- and middle-income clients. The firm has grown quickly and, in July 2006, the trio received \$20,000 in financing from the UCEDC to advance the business.

Core Small and Mid-Size Businesses

2006 Accomplishments

The EDA:

- Provided more than \$415 million in financing assistance to small and mid-size businesses and nonprofit organizations planning to invest more than \$575 million in New Jersey's economy.
- Closed almost \$121 million in financing assistance and business incentives with 72 manufacturers planning to create nearly 4,300 new jobs and invest more than \$764 million in their projects.
- Completed the first full year of curriculum enhancements to its Entrepreneurial Training Institute for new and aspiring small-business owners and helped train more than 140 students who enrolled in the two-stage program at sites throughout the State to examine the feasibility of their business ideas and/or develop a formal business plan.

Advancing the Growth and Location of Technology Companies

The EDA delivered nearly \$140 million in financing assistance, business incentives and tax credits to technology and life sciences companies in 2006 and allocated the first \$45 million of its \$150-million commitment to the Edison Innovation Fund to create, sustain and grow these businesses as it moved forward with implementing Governor Corzine's Economic Growth Strategy.

The Edison Innovation Fund is a State effort managed by the EDA in consultation with the New Jersey Commission on Science and Technology and the New Jersey Commission on Higher Education that was established at the end of 2006 to support technology and life sciences companies principally focused on renewable energy, stem cell research, pharmaceutical, medical device technology, nanotechnology and communications through discovery, development and commercialization. The Fund is increasing access to early-stage capital and offering specialized assistance to existing mid-size and large technology and life sciences businesses as it builds the capacity of New Jersey's research colleges and universities in key areas that complement economic development.

In addition to providing a broad continuum of assistance through the Fund ranging from various forms of financing to modern, state-of-the-art laboratory and

office space, and Innovation Zones in Camden, Greater New Brunswick and Newark to spark increased collaboration between State universities and the business community, the EDA maintains strong and valuable alliances with key trade organizations. The Biotechnology Council of New Jersey, the New Jersey Technology Council, the HealthCare Institute of New Jersey and the Research & Development Council of New Jersey are all important EDA partners. Other State agencies, public research universities and organizations also collaborate with the EDA to meet the specialized needs of the technology and life sciences sectors.

Eight technology businesses planning to grow by nearly 250 total jobs received funding through the EDA in 2006. Archive Systems, Inc., a 5-year-old document storage service company in Fairfield, received a \$1-million Edison Fund investment to finance equipment needed to expand and create fully redundant operating and image storage systems. Trend Integration, LLC, founded in 2002 by a staffing company owner and a media technology business chief executive, received a \$750,000 investment to help develop a sales and support staff to implement an aggressive marketing campaign for its Interview Direct automated telephone interviewing system product to screen job applicants.

Provid Pharmaceuticals, Inc., which is located at the EDA's Technology Centre of New Jersey in North Brunswick, received a \$750,000 investment to expand its drug discovery services, advance its research and development efforts, and take the company to the next level of success. "The EDA resources [became] available at the optimal time to help us achieve a major transformation of the business," said Provid Chief Executive Officer Dr. Gary Olson.

In 2006, the EDA executed Business Employment Incentive Program (BEIP) grants worth an estimated \$71.5 million with 32 technology and life sciences companies planning to invest more than \$577 million in New Jersey projects and create more than 5,200 new jobs. It also provided \$60 million to 128 businesses approved to sell tax losses or research and development tax credits to raise cash to finance their growth and operations. The average tax transfer benefit increased to about \$470,000 in 2006, roughly \$200,000 more than the previous year.

On the real estate front, the EDA's Waterfront Technology Center at Camden became the first public project in the State to be certified under the Leadership in Energy and Environmental Design (LEED) Green Building Rating System. The LEED-CS designation for core and shell pilot gold-level certification was



Employees at Provid Pharmaceuticals at the EDA's Technology Centre of New Jersey, located within the North Brunswick Innovation Zone.

awarded by the U.S. Green Building Council, a Washington, D.C.-based nonprofit coalition of building industry leaders, which administers the national rating standards for high-performance, sustainable buildings.

The five-story, 100,000-square-foot building, designed to accommodate existing businesses in the biosciences, microelectronics, advanced materials, information technology and other high-technology and life sciences fields and the first of several buildings planned for the site along the Camden waterfront, also received its first tenants in 2006.

The first companies to occupy space at the facility are: Drexel University, for the Applied Communications and Information Networking (ACIN) program it operates in conjunction with the Sarnoff Corporation through ACIN's Camden Center for Entrepreneurship in Technology to advise high-technology startups focused on military security to homeland defense; Gestalt, LLC, an international firm providing consulting, technology and managed services to defense and energy and utilities industries, and the Rutgers Camden Technology Campus, Inc, which operates the Rutgers Camden Business Incubator to encourage entrepreneurs to locate their business in Camden and helps them secure low-cost office and conference support and mentoring services.

"The EDA resources [became] available at the optimal time to help us achieve a major transformation of the business," said Provid Chief Executive Officer Dr. Gary Olson.



Nearly 90 percent of the EDA's Waterfront Technology Center at Camden was leased in 2006.

Novo Nordisk, Inc., a world-leader in diabetes care, formally inaugurated the first hemostasis research facility in the United States at the Technology Centre of New Jersey in 2006. Researchers at the 30,000 square-foot modern building are investigating new therapies to prevent or stop critical bleeding, including the exploration of treatments for intracerebral hemorrhage, trauma, stroke and other bleeding disorders.

The Commercialization Center for Innovative Technologies, located within the Technology Centre and one of the more significant life sciences and technology facilities of its kind in the nation, added four tenants of its own in 2006. Aestus Therapeutics, Inc., a pharmaceutical company focused on nervous system disorders; ClinTech Research, a contract research organization; HMGene, which is targeting the genetics of obesity, and Rosetta Genomics, a leader in medical research and product development based on microRNA, all leased space in the Commercialization Center during the year.

Technology/Life Sciences

2006 Accomplishments

The EDA:

- Welcomed the first tenants to its Waterfront Technology Center at Camden, and received a Leadership in Energy and Environmental Design (LEED) core and shell gold-level certification from the U.S. Green Building Council for this modern technology facility—the first public project in the State to be certified under the Green Building Rating System.
- Leased space at its Technology Centre of New Jersey in North Brunswick to four new biotechnology/pharmaceutical businesses.
- Approved a \$2-million investment in the Edison VI Venture Fund and a \$400,000 investment in the NextStage Capital L.P. venture fund to support the growth of early-stage technology companies in New Jersey.
- Targeted the first \$45 million of its \$150-million commitment to advance the Edison Innovation Fund, a new State effort managed by the EDA under the Governor's Economic Growth Strategy to support technology and life sciences companies.

Encouraging Investments in Urban Communities

The EDA works with municipalities, developers and community organizations to encourage investments in the State's urban and other older communities by offering financing and real estate development expertise to spur the growth of businesses and nonprofit organizations, promote the investigation and cleanup of brownfield sites, and foster smart growth redevelopment.

Nearly half of the projects the EDA financed in 2006, representing more than \$252 million in EDA assistance and nearly 2,700 new, full-time jobs, were located in Urban Aid communities. The EDA also provided more than \$10 million in financing for 14 projects through its subsidiary, the Economic Recovery Board (ERB) for Camden, which is contributing to the city's revitalization and leading to the creation of almost 500 jobs.

Advancing Governor Corzine's Economic Growth Strategy to stimulate investment in New Jersey's urban communities, the EDA started the New Jersey Urban Fund in 2006, committing \$185 million to provide businesses and community development organizations with the financial and technical tools they need to grow and revitalize neighborhoods. EDA dollars will be leveraged with private funding to bring about economic growth through business creation and expansion and the physical improvement of New Jersey's distressed urban areas.

In 2006, the EDA, through its New

Jersey Community Development Entity, closed the first low-interest financings resulting from its \$125-million allocation under the federal New Markets Tax Credits program. A \$5.3-million loan to Matrix East Front Street Urban Renewal Associates, LLC, a unit of the Matrix Development Group, was part of the permanent financing used to purchase and complete a 66,500-square-foot building in downtown Trenton formerly known as Liberty Commons. The facility now serves as a regional headquarters for Wachovia Bank.

Goodmill, LLC also closed a \$10-million loan to acquire 55 acres of vacant property and begin construction of a shopping center within Millville's Redevelopment Area District that is targeted for major retailers, including Circuit City, Kohl's, PetsMart, Shop Rite and Staples. Combined, these two projects are expected to create 1,300 jobs. Both loans were made at a fixed interest rate of 3 percent with interest only due for the first seven years and nine years, respectively, of their 10-year terms.

EDA financing also helped Eduardo Trujillo and Benjamin Parra renovate and expand a shopping center in Trenton's West Ward. A \$1-million EDA loan, made at a fixed interest rate of 3 percent for 10 years, was part of a financing package that made the revitalization project and 27 new local jobs possible. Today, Westside Shopping Plaza, featuring a Supremo Food

Market and other stores, is open for business and serving the retail needs of the local community.

The EDA also makes available loans to micro lenders who support urban revitalization. It provided a 10-year \$500,000 loan to the Nonprofit Finance Fund at rates ranging from 3 percent to 5 percent with interest only due for the first five years to finance nonprofit organizations in targeted New Jersey municipalities. It also made a \$500,000 loan at 3 percent interest fixed for five years with quarterly interest-only payments to fund the expansion of ACCION New York, Inc. in New Jersey. ACCION provides small, fair-rate loans and business support to owners of small businesses.

Through the end of 2006, more than 50 ERB projects had been approved since the Municipal Rehabilitation and Economic Recovery Act was signed into law in 2002 creating the ERB and authorizing the EDA to sell \$175 million in bonds to fund revitalization projects in Camden. These projects have assisted neighborhood residential development, waterfront entertainment venues, infrastructure improvements, local businesses and nonprofit organizations, and the expansion of the city's educational and medical institutions, and have involved the commitment of more than \$120 million in ERB funding, which has leveraged private investment of more than \$550 million.

Among projects financed during the year, the YMCA of Camden County finalized a \$550-million ERB grant and \$1.45 million

“Through the end of 2006, more than 50 ERB projects had been approved since the Municipal Rehabilitation and Economic Recovery Act was signed into law in 2002. ”

In EDA-issued bonds to improve its facility on Third and Federal streets. The Settlement Music School received a \$1-million ERB grant to complete a new branch on Market Street, bringing its core program of instruction and activities in the arts to 700 Camden students.

The EDA also offers important resources to restore brownfield sites and return them to productive use. The Hazardous Discharge Site Remediation (HDSR) Loan and Grant Program, for example, enables municipalities and businesses to investigate and clean up contaminated and underutilized sites. It is administered by the EDA in conjunction with the New Jersey Department of Environment Protection.

HDSR monies were used by the Milltown-Ford Avenue Redevelopment Agency for remedial investigation activities associated with plans to redevelop a former Michelin Tire Company site in Milltown for mixed-use development. The project received over \$1.1 million for soil sampling and delineation, groundwater investigation and the installation of monitoring wells in 2006. The agency had received more than \$500,000 to perform a site investigation two years earlier.



Enrollment is up 75 percent at the Camden branch of Settlement Music School, and nearly 425 lessons are provided each week to the students it serves.

The EDA and the Port Authority of New York and New Jersey, in conjunction with other State agencies, also made progress on a Portfields Initiative to transform underutilized sites within the Port District of New Jersey into productive uses to drive the expansion and modernization of port-related warehousing and distribution functions and the creation of related jobs. Several projects moved forward in 2006.

ProLogis leased 270,000 square feet of the 360,000 square feet it is initially developing in Woodbridge and Carteret. Additionally, the first phase of a 1.2-million-square-foot Panattoni project also started construction in Carteret during the year.

The Morris Companies also began development of projects in Linden and Perth Amboy totaling 1.5 million square feet and J.G. Petrucci initiated construction of 570,000 square feet in Edison.

The EDA and the Port Authority continue to review and identify properties with redevelopment potential and market them to meet the growing commercial warehousing and distribution needs of businesses.

Community Redevelopment, Brownfields

2006 Accomplishments

The EDA:

- Finalized the first financings for significant development projects in Edison, Millville and Trenton resulting from a \$125-million federal allocation under the New Markets Tax Credits program to support investment and economic growth in low-income areas of the State.
- Continued to advance a Portfields Initiative with the Port Authority of New York and New Jersey and other State agencies to drive the expansion and modernization of warehousing and distribution functions in the Port District to help meet the growing commercial cargo and distributions center needs of businesses.
- Promoted the investigation and cleanup of brownfield properties and underground storage tanks by providing 75 projects with more than \$13.2 million in grants and low-interest loans.
- Expanded resources available to municipalities for advancing neighborhood revitalization by making available new funding to finance feasibility studies and other predevelopment costs associated with redevelopment projects, including planning and marketing expenses.
- Made a \$185-million commitment that will be leveraged with private funding to establish the New Jersey Urban Fund to spur investment in the State's urban communities.

EDA Members

Chairman

Carl E. Van Horn, Ph.D.

Director
Heldrich Center for Workforce Development and Professor of Public Policy,
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EDA Vice Chairman

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Director
Laborers Employers Cooperation and Education Trust

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Chief Executive Officer and Secretary
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Rodney Sadler

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Report of Independent Auditors

Members of the Authority
New Jersey Economic Development Authority

We have audited the accompanying basic financial statements of the New Jersey Economic Development Authority (the “Authority”), a component unit of the State of New Jersey, as of and for the years ended December 31, 2006 and 2005, 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 audits.

We conducted our audits 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 audits 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 audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the New Jersey Economic Development Authority as of December 31, 2006 and 2005, and the changes in its financial position and its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

As discussed in Note 13 to the financial statements, effective January 1, 2006, the Authority adopted the provisions of Government Accounting Standards Board Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*.

Management's discussion and analysis and the schedule of funding progress on pages 3 to 12 and page 42, respectively, are not a required part of the financial statements but are supplementary information required by the Government Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding methods of measurement and presentation of this required supplementary information. However, we did not audit the information and express no opinion on it.

Ernst & Young LLP

February 2, 2007

NEW JERSEY ECONOMIC DEVELOPMENT AUTHORITY
Management's Discussion and Analysis
Year Ended December 31, 2006 and 2005

This section of the New Jersey Economic Development Authority's ("Authority") annual financial report presents our discussion and analysis of the Authority's financial performance during the fiscal years ended on December 31, 2006 and 2005. Please read it in conjunction with the Authority's financial statements and accompanying notes.

2006 FINANCIAL HIGHLIGHTS

- The Authority's total net assets decreased \$111.1 million (or 12.1%) primarily due to grant disbursements for the Business Employment Incentive Program ("BEIP").
- Current liabilities increased \$1.8 million (or 5.4%).
- Bonds payable-net decreased \$36.2 million (or 22.4%) due to scheduled debt service payments.
- Capital assets-net decreased \$17.6 million (or 10.9%) primarily due to the sale of MSNBC leasehold improvements and the completion of leasehold improvements of Tech IV at the Technology Centre of New Jersey and at the Waterfront Technology Center at Camden ("WTCC").
- During 2006 the Authority adopted Governmental Accounting Standards Board Statement No. 45 "Accounting & Financial Reporting by Employers for Postemployment Benefits Other Than Pensions". This had a significant impact on operating expenses which increased \$14.5 million (or 31.8%) primarily due to the cost of other postemployment benefits.

2005 FINANCIAL HIGHLIGHTS

- The Authority's total net assets increased \$74.6 million (or 8.8%) primarily due to State appropriations received as support for the Business Employment Incentive Program ("BEIP"), the Hazardous Discharge Site Remediation Program ("Hazard"), and the Petroleum Underground Storage Tank Program ("PUST").
- Capital assets-net, increased \$8.0 million (or 5.2%) primarily due to the completion of a building at the Waterfront Technology Center at Camden ("WTCC"), and the completion of tenant improvements for the expansion of the Commercialization Center for Innovative Technologies at the New Brunswick Technology Centre ("CCIT").
- Effective January 1, 2005, the Authority changed its method of accounting and reporting for conduit debt. This resulted in significant changes to the following accounts:
 - Current liabilities decreased \$158.3 million (or 83.0%).
 - Bonds payable-net decreased \$1,100.7 million (or 86.1%).
 - Operating expenses decreased \$60.7 million (or 57.2%).

OVERVIEW OF THE FINANCIAL STATEMENTS

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

FINANCIAL ANALYSIS OF THE AUTHORITY

Net Assets. The following table summarizes the changes in Net Assets for the years ending December 31, 2006 and 2005:

	<u>2006</u>	<u>2005</u>	<u>2004</u>	<u>Current</u> <u>Year %</u> <u>increase/</u> <u>(decrease)</u>	<u>Prior</u> <u>Year %</u> <u>increase/</u> <u>(decrease)</u>
Current and Noncurrent Assets	\$883,221,154	\$992,344,042	\$2,110,088,982	(11.0)%	(53.0)%
Nondepreciable Capital Assets	23,873,206	24,032,954	29,244,428	(0.7)%	(17.8)%
Capital Assets, net	<u>120,124,450</u>	<u>137,589,897</u>	<u>153,583,568</u>	(12.7)%	(10.7)%
Total Assets	<u>1,027,218,810</u>	<u>1,153,966,893</u>	<u>2,263,672,550</u>	(11.0)%	(49.0)%
Long Term Debt	145,190,669	174,611,029	1,199,700,137	(16.8)%	(85.4)%
Other Liabilities	<u>74,440,705</u>	<u>60,664,438</u>	<u>219,897,476</u>	22.7%	(72.4)%
Total Liabilities	<u>219,631,374</u>	<u>235,275,467</u>	<u>1,419,597,613</u>	(6.6)%	(83.4)%
Net Assets:					
Invested in Capital Assets, Net of Related Debt	43,582,656	30,042,851	8,593,567	45.1%	249.6%
Restricted for School Loan Program	45,688,363	53,529,787	60,191,384	(14.6)%	(11.1)%
Unrestricted	<u>718,316,417</u>	<u>835,118,788</u>	<u>775,289,986</u>	(14.0)%	7.7%
Total Net Assets	<u>\$ 807,587,436</u>	<u>\$918,691,426</u>	<u>\$ 844,074,937</u>	(12.1)%	8.8%

During 2006, the Authority's combined net assets decreased \$111.1 million (or 12.1%) primarily due to \$98.5 million in BEIP grant award payments. In addition, other appropriations, Program Payments and Payments to/from the State amounted to (\$12.6 million) for the following purposes:

- \$3.1 million PUST grant award payments and loan disbursements
- \$2.5 million Hazard grant award payments and loan disbursements
- \$11.6 million Municipal Economic Recovery Initiative grant award payments
- \$8.3 million School Loan Program repayments returned to the State
- (\$9.6) million Increase in Interest Income from Investments
- (\$3.3) million Other Program Income

During 2005, the Authority's combined net assets increased \$74.6 million (or 8.8%) primarily due to the recognition of \$192.4 million State appropriations received as support for BEIP, Hazard, and PUST. In addition, other appropriations, Program Payments and Payments to/from the State amounted to (\$117.8 million) for the following purposes:

- \$3.0 million PUST grant award payments and loan disbursements
- \$4.9 million Hazard grant award payments and loan disbursements
- \$87.3 million BEIP grant award payments
- \$10.3 million Municipal Economic Recovery Initiative grant award payments
- \$8.5 million School Loan Program repayments returned to the State
- \$3.8 million Other Program Payments and Payments to the State

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

The following table summarizes the changes in operating and nonoperating activities between fiscal year 2006 and 2005:

	<u>2006</u>	<u>2005</u>	<u>2004</u>	<u>Current</u> <u>Year %</u> <u>increase/</u> <u>(decrease)</u>	<u>Prior</u> <u>Year %</u> <u>increase/</u> <u>(decrease)</u>
Operating Revenues					
Financing Fees	\$3,086,276	\$4,333,791	\$4,019,978	(28.8)%	7.8%
Interest Income-Notes	6,492,123	5,864,950	7,041,980	10.7%	(16.7)%
Interest Income-Intergovernmental	706,977	789,085	48,304,792	(10.4)%	(98.4)%
Lease Revenue	22,071,456	20,793,892	33,039,775	6.1%	(37.1)%
Other	<u>7,378,156</u>	<u>6,576,760</u>	<u>6,820,734</u>	12.2%	(3.6)%
Total Operating Revenues	<u>39,734,988</u>	<u>38,358,478</u>	<u>99,227,259</u>	3.6%	(61.3)%
Operating Expenses					
Administrative Expenses	27,560,919	13,531,795	14,542,755	103.7%	(7.0)%
Interest Expense	7,444,219	7,294,733	67,233,504	2.0%	(89.2)%
Depreciation	14,820,974	15,762,903	14,746,382	(6.0)%	6.9%
Loss Provisions-Net	2,981,250	2,144,213	2,966,651	39.0%	(27.7)%
Other	<u>7,100,622</u>	<u>6,714,134</u>	<u>6,627,262</u>	5.8%	1.3%
Total Operating Expenses	<u>59,907,984</u>	<u>45,447,778</u>	<u>106,116,554</u>	31.8%	(57.2)%
Operating Loss	<u>(20,172,996)</u>	<u>(7,089,300)</u>	<u>(6,889,295)</u>	184.6%	2.9%
Nonoperating Revenues and Expenses					
Interest Income-investments	29,302,049	19,638,113	12,303,838	49.2%	59.6%
State Appropriations and Transfers-Net	(123,451,504)	76,637,512	67,574,001	(261.1)%	13.4%
Other Revenue/(Expenses)	<u>3,218,461</u>	<u>(2,352,209)</u>	<u>(208,363)</u>	(236.8)%	1028.9%
Total Nonoperating	<u>(90,930,994)</u>	<u>93,923,416</u>	<u>79,669,476</u>	(196.8)%	17.9%
Change in Net Assets	<u>(111,103,990)</u>	<u>86,834,116</u>	<u>72,780,181</u>	(227.9)%	19.3%
Beginning Net Assets	<u>918,691,426</u>	<u>844,074,937</u>	<u>771,294,756</u>		
Cumulative effect of accounting change		<u>(12,217,627)</u>			
Beginning Net Assets as adjusted for accounting change		<u>831,857,310</u>			
Ending Net Assets	<u>\$807,587,436</u>	<u>\$918,691,426</u>	<u>\$844,074,937</u>		

Operating Revenues

During 2006, the Authority's operating revenues were materially impacted by the following:

- Agency fees increased by \$0.2 million.
- Financing fees decreased by \$1.2 million, primarily due to a decrease in Bond closing and refunding fees.
- Lease revenue for capital leases decreased by \$0.2 million.
- Sale of Assets increased by \$15.1 million.
- Program services revenue increased by \$1.0 million due to increased activity in the BEIP and Hazard programs.

During 2005, the Authority's operating revenues were materially impacted by the following:

- Agency fees decreased by \$0.9 million, primarily due to the termination of an agreement to provide administrative support services to the New Jersey Schools Construction Corporation in 2004.
- Financing fees increased by \$0.3 million, primarily due to an increase in Bond closing and refunding fees.
- Interest income from notes decreased by \$1.2 million, primarily due to scheduled paydowns in the loan portfolio.
- Lease revenue for capital leases decreased by \$13.4 million.
- Sale of Assets decreased by \$4.8 million.
- Interest income from intergovernmental obligations decreased by \$47.5 million, primarily due to the removal of certain conduit debt obligations from the Authority's Financial Statements.

Operating Expenses

In 2006, salaries and benefits expenses increased \$13.8 million, primarily due to the cost of other postemployment benefits, since the Authority adopted Governmental Accounting Standards Board Statement No. 45 "Accounting & Financial Reporting by Employers for Postemployment Benefits Other Than Pensions" in the current year.

In 2005, administrative expenses decreased \$1.0 million, primarily due to unfilled salaried positions and the administrative costs associated with those positions.

Nonoperating Revenues

In 2006, interest income from investments increased \$9.7 million, primarily due to an increase in average interest rates for both investment and cash management accounts.

In 2005, interest income from investments increased \$7.3 million, primarily due to the Authority maintaining funds in a higher-yielding investment portfolio, a higher average cash balance, and an increase in average interest rates for both investment and cash management accounts.

Allowance for Credit Losses

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

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

The following table summarizes the Loan Allowance activity for the end of the period from January 1, 2004 through December 31, 2006:

December 31, 2004

Allowance for loan losses	\$10,932,480	
Accrued guarantee losses	<u>4,684,296</u>	
Total allowance		\$15,616,776
Provision for credit losses-net	(295,976)	
Write-offs	<u>(2,436,000)</u>	<u>(2,731,976)</u>

December 31, 2005

Allowance for loan losses	9,277,849	
Accrued guarantee losses	<u>3,606,951</u>	
Total allowance		12,884,800
Provision for credit losses-net	3,174,869	
Write-offs	<u>(898,252)</u>	<u>2,276,617</u>

December 31, 2006

Allowance for loan losses	10,875,186	
Accrued guarantee losses	<u>4,286,240</u>	
Total allowance		<u>\$15,161,417</u>

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

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

Aggregate gross loan and guarantee exposure at December 31, 2006 was \$234,404,732, of which \$201,540,632 (or 86%) is rated Pass, and \$32,864,100 (or 14%) is adversely classified.

Total write-offs for the year ended December 31, 2006 were \$619,430 or 0.33% of the total loan portfolio. At December 31, 2006, the total allowance against Notes Receivable was \$10,875,186 or 5.73% of the loan portfolio.

Total write-offs for the year on guarantees honored were \$278,832 or 0.62% of total guarantee exposure. At December 31, 2006 the total allowance for guarantee exposure is \$4,286,240 or 9.59% of the total guarantee exposure of \$44,698,736.

Current year Loss Provisions - Net of \$3.0 million, are related to the following detailed information:

- \$3,177,000 Loan and Guarantee Program activity
- (\$24,000) Authority's share in the New Jersey Tech Council Venture Capital Fund
- \$6,000 Authority's share in the Edison Venture Capital Fund
- (\$191,000) Authority's share in the Garden State Life Sciences Venture Fund

CAPITAL ASSET AND DEBT ADMINISTRATION

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

for a fee and also may be leased to the State or State entities. For the majority of these leases, future minimum lease rental payments are equal to the debt service payments related to the bonds or notes issued for the applicable property.

The following table summarizes the change in Leases Receivable between fiscal year 2006 and 2005:

	<u>2006</u>	<u>2005</u>	<u>2004</u>	<u>Current</u> <u>Year %</u> <u>increase/</u> <u>(decrease)</u>	<u>Prior</u> <u>Year %</u> <u>increase/</u> <u>(decrease)</u>
Leases Receivable	<u>\$9,552,184</u>	<u>\$11,283,955</u>	<u>\$367,219,088</u>	(15.3)%	(96.9)%

The change in Leases Receivable in the current year is due to scheduled rental payments. In the prior year, the change is due to a change in accounting principle affecting the manner in which conduit debt obligations are reported and therefore certain offsetting lease payments receivable were removed from the Authority's financial statement.

The following table summarizes the change in other Capital Assets-Net between fiscal year 2006 and 2005:

	<u>2006</u>	<u>2005</u>	<u>2004</u>	<u>Current</u> <u>Year %</u> <u>increase/</u> <u>(decrease)</u>	<u>Prior</u> <u>Year %</u> <u>increase/</u> <u>(decrease)</u>
Land	\$23,873,206	\$23,873,206	\$23,873,206		
Construction in Progress	<u>-0-</u>	<u>159,748</u>	<u>5,368,222</u>	(100.0)%	(97.0)%
Total Nondepreciable Capital Assets	<u>23,873,206</u>	<u>24,032,954</u>	<u>29,241,428</u>		
Building	121,007,001	121,007,001	109,143,242		10.9%
Leasehold Improvements	18,657,010	42,966,440	37,966,440	(56.6)%	13.2%
Equipment	37,151,625	53,106,693	43,845,845	(30.0)%	21.2%
Other	<u>989,584</u>	<u>989,584</u>	<u>989,584</u>		
Total Depreciable Capital Assets	177,805,220	218,069,718	191,945,111		
Less Accumulated Depreciation	<u>(57,680,770)</u>	<u>(80,479,821)</u>	<u>(67,602,971)</u>	(28.3)%	19.0%
Capital Assets-Net	<u>\$143,997,656</u>	<u>\$161,622,851</u>	<u>\$153,583,568</u>	(10.9)%	5.2%

The change in Building in the prior year is due to the completion of the Waterfront Technology Center at Camden (WTCC).

The change in Leasehold Improvements in the current year represents the purchase of leasehold improvements by MSNBC and the completion of leasehold improvements at Tech IV-Novo and WTCC locations. In the prior year, the change represents completed tenant improvements for the expansion of the Commercialization Center for Innovative Technologies at the New Brunswick

Technology Centre.

The change in Equipment is due to the purchase and sale of production equipment to MSNBC. In the current year there were more purchases, whereas in the prior year there were more sales.

Capital Debt. At year end, the Authority had \$159,135,315 of gross bond and note principal outstanding; a net decrease of 16.3%, due to the paydown of scheduled debt. More detailed information about the Authority's capital debt is presented in Notes 8 and 9 to the financial statements.

The following table summarizes the changes in capital debt between fiscal year 2006 and 2005:

	<u>2006</u>	<u>2005</u>	<u>2004</u>	<u>Current</u> <u>Year %</u> <u>increase/</u> <u>(decrease)</u>	<u>Prior</u> <u>Year %</u> <u>increase/</u> <u>(decrease)</u>
Bonds Payable - Gross	\$137,390,000	\$175,230,000	\$1,341,445,000	(21.6)%	(86.9)%
Notes Payable	<u>21,745,315</u>	<u>14,977,086</u>	<u>16,548,462</u>	45.2%	(9.5)%
Total Bonds and Notes Payable	<u>\$159,135,315</u>	<u>\$190,207,086</u>	<u>\$1,357,993,462</u>	(16.3)%	(86.0)%

CONTACTING THE AUTHORITY'S FINANCIAL MANAGEMENT

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

NEW JERSEY ECONOMIC DEVELOPMENT AUTHORITY
CONSOLIDATED BALANCE SHEETS
December 31, 2006 and 2005

	2006	2005
Assets		
Current Assets		
Cash and cash equivalents	\$316,956,482	\$414,852,794
Investments	178,439,279	95,978,273
Receivables:		
Notes	13,521,638	13,360,838
Accrued interest on notes	846,752	832,359
Accrued interest on investments	2,321,495	1,824,108
Intergovernmental	2,722,222	2,559,722
Leases	1,445,315	1,731,771
Other receivables	2,707,361	1,033,032
	<u>23,564,783</u>	<u>21,341,830</u>
Prepays and deferred costs	1,127,716	677,560
	<u>520,088,260</u>	<u>532,850,457</u>
Noncurrent Assets		
Investments	183,354,338	255,442,639
Receivables:		
Notes	100,688,879	107,243,470
Notes-restricted	75,495,479	88,382,768
Accrued interest on notes	10,128	12,414
Accrued interest on notes-restricted	237,778	275,517
Guarantees		127,754
	<u>176,432,264</u>	<u>196,041,923</u>
Allowance for doubtful notes and guarantees	(10,875,186)	(9,277,849)
Net notes receivable	<u>165,557,078</u>	<u>186,764,074</u>
Intergovernmental restricted	9,161,109	11,370,831
Unamortized discount	(2,085,468)	(2,792,445)
Net intergovernmental receivables	<u>7,075,641</u>	<u>8,578,386</u>
Leases-restricted	8,106,869	9,552,184
Unamortized discount	(1,449,707)	(1,552,188)
Net leases receivable	<u>6,657,162</u>	<u>7,999,996</u>
Total receivables	<u>179,289,881</u>	<u>203,342,456</u>
Prepays and deferred costs	488,675	708,490
Nondepreciable capital assets	23,873,206	24,032,954
Depreciable capital assets, net	120,124,450	137,589,897
Total capital assets, net	<u>143,997,656</u>	<u>161,622,851</u>
	<u>507,130,550</u>	<u>621,116,436</u>
Total Assets	<u><u>\$1,027,218,810</u></u>	<u><u>\$1,153,966,893</u></u>

See accompanying notes.

NEW JERSEY ECONOMIC DEVELOPMENT AUTHORITY
CONSOLIDATED BALANCE SHEETS
December 31, 2006 and 2005

	2006	2005
Liabilities and Net Assets		
Current Liabilities:		
Accrued liabilities	\$9,484,496	\$3,991,243
Deferred lease revenues	1,335,692	1,657,766
Deposits	6,044,014	7,548,292
OPEB Obligation	259,215	
Bonds payable	13,845,000	16,140,000
Notes payable	1,887,175	1,881,419
Accrued interest payable	1,428,095	1,301,241
	<u>34,283,687</u>	<u>32,519,961</u>
Noncurrent Liabilities:		
Bonds payable-net	125,332,529	161,515,362
Notes payable	19,858,140	13,095,667
OPEB Obligation	12,397,101	
Deferred lease revenues	19,496,186	20,560,034
Accrued guarantee losses	4,286,240	3,606,952
Other	3,977,491	3,977,491
	<u>185,347,687</u>	<u>202,755,506</u>
Total Liabilities	<u>219,631,374</u>	<u>235,275,467</u>
Net Assets		
Invested in capital assets, net of related debt	43,582,656	30,042,851
Restricted for School Loan Program	45,688,363	53,529,787
Unrestricted	718,316,417	835,118,788
Total Net Assets	<u>807,587,436</u>	<u>918,691,426</u>
Total Liabilities and Net Assets	<u>\$1,027,218,810</u>	<u>\$1,153,966,893</u>

See accompanying notes.

NEW JERSEY ECONOMIC DEVELOPMENT AUTHORITY

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

Years ended December 31, 2006 and 2005

	2006	2005
Operating Revenues		
Financing fees	\$3,086,276	\$4,333,791
Interest income-intergovernmental obligations	706,977	789,085
Interest income-notes	6,492,123	5,864,950
	<u>7,199,100</u>	<u>6,654,035</u>
Financing lease revenue	346,835	516,397
Operating lease revenue	21,724,621	20,277,495
Agency fees	1,217,859	998,532
Program services	2,997,211	1,991,987
Real estate development	1,931,424	3,411,011
Grant revenue	1,000,000	
Other	231,662	175,230
	<u>39,734,988</u>	<u>38,358,478</u>
Operating Expenses		
Salaries and benefits	24,369,320	10,555,406
General and administrative	3,191,599	2,976,389
Interest	7,444,219	7,294,733
Issuance and servicing	1,012,589	1,085,868
Program costs	6,088,033	5,628,266
Depreciation	14,820,974	15,762,903
Loss provisions-net	2,981,250	2,144,213
	<u>59,907,984</u>	<u>45,447,778</u>
Operating Loss	<u>(20,172,996)</u>	<u>(7,089,300)</u>
Nonoperating Revenues and Expenses		
Interest income-investments	29,302,049	19,638,113
Unrealized gain/(loss) in investment securities	2,315,488	(2,809,300)
Gain on sale of assets-net	902,973	457,091
State Appropriations-Net	10,458,403	196,111,796
Program payments	(133,909,907)	(119,474,284)
Nonoperating Income	<u>(90,930,994)</u>	<u>93,923,416</u>
Change in Net Assets	<u>(111,103,990)</u>	<u>86,834,116</u>
Net Assets - Beginning of year as previously reported	918,691,426	844,074,937
Cumulative effect of accounting change		(12,217,627)
Net Assets - Beginning of year as adjusted for accounting change	918,691,426	831,857,310
Net Assets- End of Year	<u><u>\$807,587,436</u></u>	<u><u>\$918,691,426</u></u>

See accompanying notes.

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

Years ended December 31, 2006 and 2005

	2006	2005
Cash flows from operating activities:		
Financing fees	\$3,488,534	\$4,265,721
Interest from notes	8,641,130	7,764,264
Lease rents	22,300,562	20,076,002
Agency fees	1,218,159	1,070,066
Program services	3,095,348	2,086,828
Real estate development	2,001,416	3,124,977
General and administrative expenses paid	(16,408,784)	(13,274,149)
Program costs paid	(6,138,272)	(4,882,080)
Collection of notes receivable	29,329,642	34,022,125
Guarantee payments recovered	127,754	
Loan disbursements	(10,281,890)	(41,155,024)
Deposits received	8,711,475	142,708,487
Deposits released	(9,138,555)	(67,782,913)
Net cash provided by operating activities	36,946,519	88,024,304
Cash flows from capital and related financing activities:		
Proceeds from bonds payable and notes	8,400,000	
Payment of bonds and notes payable	(33,461,771)	(11,950,952)
Interest paid on bonds and notes payable	(5,858,137)	(5,789,042)
Purchase of capital assets	(12,546,344)	(24,397,947)
Sale of assets	16,067,394	964,654
Cost of assets sold	(85,583)	
Net cash used in capital and related financing activities	(27,484,441)	(41,173,287)
Cash flows from noncapital financing activities:		
Program funding received	2,047,222	2,070,833
Deposits received	2,015	
Deposits released		(45,995)
Redemption and refunding of bonds payable	(6,675,000)	(8,792,159)
Interest paid on revenue bonds	(4,220,436)	(4,642,693)
Obligations paid	(1,185,744)	(743,361)
Issuance and servicing costs paid	(738,111)	(756,482)
Appropriations received	10,458,403	40,128,853
Payments to State of New Jersey	(8,293,224)	(8,497,730)
Program payments	(119,854,298)	(23,709,469)
Net cash used in noncapital financing activities	(128,459,173)	(4,988,203)
Cash flows from investing activities:		
Interest from investments	28,829,765	17,369,523
Capital investments	(839,238)	(4,605,539)
Investments - Purchases	(55,568,735)	(65,426,851)
- Redemptions	48,678,991	43,531,326
Net cash provided by (used in) investing activities	21,100,783	(9,131,541)
Net Increase (decrease) in Cash and Cash Equivalents	(97,896,312)	32,731,273
Cash and Cash Equivalents - Beginning of Year	414,852,794	382,121,521
Cash and Cash Equivalents - End of Year	\$316,956,482	\$414,852,794

See accompanying notes.

NEW JERSEY ECONOMIC DEVELOPMENT AUTHORITY
CONSOLIDATED STATEMENTS OF CASH FLOWS
Years ended December 31, 2006 and 2005

	2006	2005
Reconciliation of Operating (Loss) to Net Cash		
Provided by Operating Activities		
Operating loss	(\$20,172,996)	(\$7,089,300)
Adjustments to reconcile operating loss to net cash provided by operating activities:		
Loss provisions	2,981,250	2,144,213
Depreciation	14,820,974	15,762,903
Amortization of discounts, premiums, deferred loss	(809,458)	(789,085)
Cash provided by nonoperating activities	11,481,685	11,818,956
Change in assets and liabilities:		
Notes receivable	19,048,099	(7,136,200)
Guarantee payments receivable	127,754	
Accrued interest receivable-notes	(94,241)	(378,741)
Accrued interest receivable-investments		(739)
Lease payments receivable	1,731,771	
Other receivables	(1,871,460)	66,177
Prepays and deferred costs	(73,320)	968,186
Capital investments	(118,873)	(72,089)
Notes payable	(665,000)	(630,000)
Accrued liabilities	13,839,979	26,756
Deferred lease revenues	(1,354,296)	(736,232)
Accrued interest payable	(391,106)	(858,947)
Deposits	(1,534,243)	74,928,446
Net cash provided by operating activities	\$36,946,519	\$88,024,304
Noncash investing activities:		
Unrealized (loss)/gain in investment securities	\$2,315,488	(\$2,423,884)

See accompanying notes.

New Jersey Economic Development Authority
Notes to Financial Statements
December 31, 2006 and 2005

Note 1: Nature of the Authority

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

The Authority primarily offers the following products and services:

(a) Bond Financing

The Authority issues tax-exempt private activity bonds and taxable bonds. The proceeds from these single issue or composite series bonds are used to provide long-term, below-market interest loans to commercial businesses, certain 501(c)(3) not-for-profit entities and to local, county and State governmental entities for real estate acquisition, equipment, machinery, building construction and renovations. All such bonds are special conduit debt obligations of the Authority, are payable solely from the revenues pledged with respect to the issue, and do not constitute an obligation against the general credit of the Authority. Since its inception, the Authority has issued conduit bonds which, in the aggregate total \$29,363,429,563, and \$28,521,518,737, as of December 31, 2006 and 2005, respectively.

(b) Direct Lending

The Authority directly provides loan financing to commercial enterprises and governmental entities for various purposes to include: the acquisition of fixed assets; building construction and renovation; financing of working capital; technological development; hazardous discharge site remediation; petroleum underground storage tank remediation; infrastructure improvements and working capital. The loans are generally collateralized by the assets of the companies and/or personal assets and personal guarantees. In addition, the Authority may provide additional security to credit-worthy businesses in the form of a guarantee of loans and of bonds issued under its various programs or through non-Authority financing.

(c) Real Estate Development

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

Component Units

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

The Authority’s financial statements do not include the accounts of the New Jersey Community Development Entity (“NJCDE”), a component unit. NJCDE is a legal entity whose primary mission is to provide investment capital for low-income communities, on behalf of the Authority, through the allocation of federal New Markets Tax Credits. The Authority does not deem the operations of the NJCDE to be significant to the operations of the Authority. As of December 31, 2006, total assets are \$1,318,477.

Note 2: Summary of Significant Accounting Policies

(a) Basis of Accounting and Presentation

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

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

(b) Revenue Recognition

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

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

(c) Cash Equivalents

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

(d) Investments

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

(e) Amortization of Discounts and Premiums

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

(f) Guarantees Receivable

Payments made by the Authority under its various guarantee programs are reported as Guarantees Receivable. These receivables are expected to be recovered either from the lender, as the lender continues to service the loan, or from the liquidation of the underlying collateral. Recoveries increase Worth [see Note 11].

(g) Allowance for Doubtful Notes and Accrued Guarantee Losses

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

(h) Operating and Non-Operating Revenues and Expenses

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

(i) Taxes

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

(j) Use of Estimates

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

(k) Capitalization Policy

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

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

(l) Depreciation Policy

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

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

(m) Reclassification of 2005 Balances

Certain 2005 balances have been reclassified to conform with current year presentation.

Note 3: Cash, Cash Equivalents and Investments

(a) Cash and Cash Equivalents

Operating cash is held in the form of Negotiable Order of Withdrawal ("NOW") accounts, money market accounts, and certificates of deposit. At December 31, 2006, the carrying amount of the Authority's deposits was \$47,439,618 and the bank balance was \$58,180,385. Of the bank balance, \$1,223,479 was insured with Federal Deposit Insurance.

Pursuant to GASB Statement No. 40 "Deposit and Investment Risk Disclosures" ("GASB 40"), the Authority's NOW accounts, as well as money market accounts and certificates of deposit, are profiled in order to determine exposure, if any, to Custodial Credit Risk (risk that in the event of failure of the counterparty the NJEDA would not be able to recover the value of its deposit or investment). Deposits are considered to be exposed to Custodial Credit Risk if they are: uncollateralized (securities are not pledged to the depositor), collateralized with securities held by the pledging financial institution, or collateralized with securities held by the pledging financial institution's trust department or agent but not in the government (NJEDA) name. At December 31, 2006, all of the Authority's deposits were collateralized by securities held in its name and, accordingly, not exposed to custodial credit risk.

Cash deposits at December 31, 2006 are as follows:

Deposit Type	Deposits
NOW Accounts	\$26,283,079
Money Market Accounts	15,156,539
Certificates of Deposit	<u>6,000,000</u>
Total Deposits	<u>\$47,439,618</u>

(b) Investments

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

As of December 31, 2006, the total investment is \$310,815,129. The Portfolio is comprised of short-to medium-term bonds and is managed by a financial institution, for the Authority, per a schedule of permitted investments. These investments include obligations guaranteed by the U.S. Government, Government Sponsored Enterprises, Money Market Funds, Mortgage Backed Pass Throughs rated AAA by Standard & Poors or Moody's, and Repurchase Agreements. The Portfolio

is managed with the investment objectives of: preserving capital, maintaining liquidity, achieving superior yields, and providing consistent returns over time. In order to limit interest rate risk, investments are laddered, with maturities ranging from several months to a maximum of four years.

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

The Authority is the managing member of the Technology Centre of New Jersey, L.L.C., a real estate joint venture formed in 1999 to spur the growth of high tech industries in the State. The Centre is situated on a 50-acre site and comprised of infrastructure improvements and buildings. As the managing member, the Authority earns an administrative fee based on 5% of gross rents received from the operation of the Centre. At December 31, 2006 and 2005, the value of the Authority's investment in the Centre is \$15,411,620 and \$15,385,115, respectively. On behalf of the venture, the Authority prepares an annual report, a copy of which may be obtained by contacting the Authority.

The Authority is also a limited partner in various venture funds formed with the primary purpose of providing venture capital to exceptionally talented entrepreneurs dedicated to the application of proprietary technologies or unique services in emerging markets and whose companies are in the expansion stage. At December 31, 2006 and 2005, the aggregate value of the Authority's investment in these funds is \$11,025,281 and \$9,884,314, respectively. As a limited partner, the Authority receives financial reports from the managing partner of the funds, copies of which may be obtained by contacting the Authority.

In order to maintain adequate liquidity, significant NJEDA funds are invested in the NJCMF, which typically earns returns that mirror short-term interest rates. Monies can be freely added or withdrawn from the NJCMF on a daily basis without penalty. At December 31, 2006 and 2005, the NJEDA balance is \$267,965,592 and \$365,649,982, respectively.

Custodial Credit Risk

Pursuant to GASB 40, the Authority's investments are profiled to determine if they are exposed to Custodial Credit Risk. Investment securities are exposed to custodial credit risk if the securities are uninsured, are not registered in the name of the government (NJEDA), and are held by either: the counterparty (institution that pledges collateral to government or that buys/sells investments for government) or counterparty's trust department or agent but not in the name of the government. Investment pools such as the NJCMF and open ended mutual funds including Mutual Bond Funds are deemed not to have custodial credit risk. As of December 31, 2006, \$308,703,920 in NJEDA investments, comprised of \$8,303,184 in U.S. Treasuries, and \$300,400,736 in U.S. Agencies, were not registered in the name of the NJEDA and were held by the counterparty.

Concentration of Credit Risk

The NJEDA places no limit on the amount the Authority may invest in any one issuer. At December 31, 2006, more than 5% of NJEDA investments are in Federal Farm Credit Bank, Federal Home Loan Bank and Federal National Mortgage Association (FNMA). These investments are 7.59% (\$47,898,965); 27.77% (\$175,308,873); and 10.51% (\$66,337,078), respectively, of the Authority's total investments. These three investments are included in the U.S. Government Agency category of investments. Investments issued by or guaranteed by the U.S. Government, mutual fund investments, and pooled investments are exempt from this requirement.

Credit Risk

The Authority does not have an investment policy regarding the management of Credit Risk, as outlined above. GASB 40 requires that disclosure be made as to the credit rating of all debt security investments except for obligations of the U.S. government or investments guaranteed by the U.S. government. All investments in Mutual Bond Funds and U.S. Agencies are rated Aaa by Moody's and AAA by Standard & Poors. The NJCMF is not rated.

Interest Rate Risk

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

As of December 31, 2006 and 2005, the NJEDA had the following investments and maturities:

Investment Type	Fair Value as of 12/31/06	Investments Less than 1 Year	Maturities 1-5 Years	Fair Value as of 12/31/05
Debt Securities:				
U.S. Treasuries	\$ 8,303,184	\$6,159,534	\$ 2,143,650	\$ 12,482,419
U.S. Agencies	300,400,736	145,626,949	154,773,787	276,332,517
Mutual Bond Funds	28,204,068	28,204,068		38,528,434
NJ Cash Management Fund	<u>267,965,592</u>	<u>267,965,592</u>	<u> </u>	<u>365,649,982</u>
Sub total, Total Debt Securities	<u>604,873,580</u>	<u>447,956,143</u>	<u>156,917,437</u>	<u>692,993,352</u>
Non Debt Securities				
Investment in Technology Center Joint Venture	15,411,620			15,385,115
Venture Fund Investments	<u>11,025,281</u>			<u>9,884,314</u>
Sub total	631,310,481			718,262,781
Less amounts reported as Cash Equivalents	<u>(269,516,864)</u>			<u>(366,841,869)</u>
Total Investments	<u>\$ 361,793,617</u>			<u>\$ 351,420,912</u>

Note 4: Notes Receivable

Notes Receivable consist of the following:	<u>2006</u>	<u>2005</u>
Economic Development Fund ("EDF") loan and guarantee programs; interest ranging up to 9%; maximum term 13 years	\$44,810,246	\$51,124,224
Economic Recovery Fund ("ERF") loan and guarantee programs; interest ranging up to 8%; maximum term of 6 years	56,421,474	55,392,539
Hazardous Discharge Site Remediation ("HDSR") loan program; interest ranging from 3% to 5.5%; maximum term of 10 years	5,946,301	7,036,758
Public School Facilities ("PSF") loan program; interest ranging from 1.5% to 5.288%; maximum term of 7 years	80,842,377	93,733,470
Municipal Economic Recovery Initiative ("MERI") loan program; interest ranging up to 3%; maximum term of 24 years	<u>1,685,598</u>	<u>1,700,085</u>
	<u>\$189,705,996</u>	<u>\$208,987,076</u>

Aggregate Notes Receivable activity for the year ended December 31, 2006 and 2005, was as follows:

	December 31, 2004	Loan Disbursements	Loan Receipts	Write-offs, Adjustments, Restructures- Net	December 31, 2005	Amounts Due Within One Year
EDF/ ERF	\$89,952,273	\$37,987,763	(\$19,282,733)	(\$2,140,540)	106,516,763	\$7,303,729
HDSR	7,011,826	1,467,177	(1,445,545)	3,300	7,036,758	691,919
PSF	106,397,316	-0-	(12,663,846)	-0-	93,733,470	12,898,563
MERI	<u>-0-</u>	<u>1,700,085</u>	<u>-0-</u>	<u>-0-</u>	<u>1,700,085</u>	<u>14,488</u>
	<u>\$203,361,415</u>	<u>\$41,155,025</u>	<u>(\$33,392,124)</u>	<u>(\$2,137,240)</u>	<u>\$208,987,076</u>	<u>\$20,908,699</u>

	December 31, 2005	Loan Disbursements	Loan Receipts	Write-offs, Adjustments, Restructures- Net	December 31, 2006	Amounts Due Within One Year
EDF/ ERF	\$106,516,763	\$7,939,731	(\$12,336,772)	(\$888,002)	101,231,720	\$6,448,784
HDSR	7,036,758	342,160	(1,432,268)	(349)	5,946,301	1,711,022
PSF	93,733,470	-0-	(12,894,759)	3,666	80,842,377	12,894,759
MERI	<u>1,700,085</u>	<u>2,000,000</u>	<u>(2,014,487)</u>	<u>-0-</u>	<u>1,685,598</u>	<u>14,934</u>
	<u>\$208,987,076</u>	<u>\$10,281,891</u>	<u>(\$28,678,286)</u>	<u>(\$884,685)</u>	<u>\$189,705,996</u>	<u>\$21,069,499</u>

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

Note 5: Intergovernmental Receivables

The Authority has various Agreements with the State and State entities relating to the issuance of Bonds. Pursuant to the underlying legislation and resolution, the bond proceeds finance various Authority programs and projects. Pursuant to the terms of the Agreements, the debt service on these bonds is payable solely from scheduled amounts receivable. The State's obligation to make contractual payments to the Authority is subject to, and dependent upon, yearly appropriations being made by the State Legislature for such purposes. The New Jersey State Legislature has no legal obligation to make such appropriations.

The Series 1996 Port bonds are secured solely by loan payments originally scheduled to be made to the Port Authority by various utilities authorities. The Port Authority has assigned the right to receive such loan payments to the Authority. The receivable is from the State of New Jersey.

At December 31, 2006 and 2005, Intergovernmental Receivables are comprised of the following:

	<u>2006</u>	<u>2005</u>
NJ Port District Utilities Authorities Contract	\$11,883,331	\$13,930,553
Unamortized Discount	<u>(2,085,468)</u>	<u>(2,792,445)</u>
Total Net Intergovernmental Receivable	<u>\$ 9,797,863</u>	<u>\$11,138,108</u>

Aggregate gross receipts from intergovernmental receivables due through 2011 and thereafter are as follows:

2007	\$2,722,222
2008	2,209,722
2009	2,209,722
2010	2,209,714
2011	904,168
2012-2015	<u>1,627,783</u>
	<u>\$ 11,883,331</u>

Intergovernmental Receivable activity for the year ended December 31, 2006 and 2005 was as follows:

	December 31, 2004	Reductions	December 31, 2005	Amount Receivable Within One Year
Gross Receivable	\$1,230,375,408	(\$1,216,444,855)	\$13,930,553	<u>\$2,559,722</u>
Discount	<u>(363,713,016)</u>	<u>360,920,571</u>	<u>(2,792,445)</u>	
Net Receivable	<u>\$ 866,662,392</u>	<u>(\$ 855,524,284)</u>	<u>\$ 11,138,108</u>	

	December 31, 2005	Reductions	December 31, 2006	Amount Receivable Within One Year
Gross Receivable	\$13,930,553	(\$2,047,222)	\$11,883,331	<u>\$2,722,222</u>
Discount	<u>(2,792,445)</u>	<u>706,977</u>	<u>(2,085,468)</u>	
Net Receivable	<u>\$ 11,138,108</u>	<u>(\$ 1,340,245)</u>	<u>\$ 9,797,863</u>	

Note 6: Leases

(a) Leases Receivable

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

The outstanding leases are as follows:

<u>Lease Description</u>	<u>2006</u>	<u>2005</u>
Automated Distribution Systems, Inc, through 9/1/07	\$1,345,315	\$2,977,086
NY Daily News, through 7/30/21	<u>8,206,869</u>	<u>8,306,869</u>
Aggregate Lease Payments Receivable-Gross	9,552,184	11,283,955
Unamortized Discount	<u>(1,449,707)</u>	<u>(1,552,188)</u>
Aggregate Lease Payments Receivable-Net	<u>\$ 8,102,477</u>	<u>\$ 9,731,767</u>

Aggregate gross lease receipts due through 2011 and thereafter are as follows:

2007	\$1,445,315
2008	100,000
2009	100,000
2010	100,000
2011	100,000
2012-2016	500,000
2017-2021	<u>7,206,869</u>
	<u>\$ 9,552,184</u>

Lease payments receivable activity for the year ended December 31, 2006 and 2005 was as follows:

	December 31, 2004	Reductions	December 31, 2005	Amount Receivable Within One Year
Gross Receivable	\$367,219,088	(\$355,935,133)	\$11,283,955	<u>\$1,731,771</u>
Discount	<u>(110,827,559)</u>	<u>109,275,371</u>	<u>(1,552,188)</u>	
Net Receivable	<u>\$256,391,529</u>	<u>(\$246,659,762)</u>	<u>\$ 9,731,767</u>	

	December 31, 2005	Reductions	December 31, 2006	Amount Receivable Within One Year
Gross Receivable	\$11,283,955	(\$1,731,771)	\$ 9,552,184	<u>\$1,445,315</u>
Discount	<u>(1,552,188)</u>	<u>102,481</u>	<u>(1,449,707)</u>	
Net Receivable	<u>\$9,731,767</u>	<u>(\$1,629,290)</u>	<u>\$ 8,102,477</u>	

(b) Operating Leases

(i) Authority as Lessor

At December 31, 2006, capital assets with a gross carrying value of \$186,579,200 and accumulated depreciation of \$53,156,800 are leased to commercial enterprises. These leases generally provide the tenant with renewal and purchase options. Aggregate minimum lease receipts are expected as follows:

2007	\$ 19,851,826
2008	12,356,971
2009	11,225,655
2010	11,020,732
2011	10,548,788
2012-2016	32,154,347
2017-2021	10,147,769
2022-2026	5,377,315
2027-2031	700,000
2032-2036	<u>775,000</u>
	<u>\$114,158,403</u>

(ii) Authority as Lessee

The Authority leases commercial property, buildings, office space and parking. The leased premises are either sublet to commercial enterprises or utilized by Authority staff. Aggregate rental expense for the current year on commercial property amounted to \$587,024; and for property used by the Authority, rental expense amounted to \$270,237. Aggregate future lease obligations are as follows:

2007	\$ 820,027
2008	742,285
2009	650,227
2010	647,978
2011	632,456
2012-2016	3,298,795
2017-2021	1,843,674
2022-2026	1,161,450
2027-2031	1,264,400
2032-2036	1,352,720
2037-2041	646,300
2042-2046	685,080
2047-2051	743,250
2052-2054	<u>445,950</u>
	<u><u>\$14,934,592</u></u>

Note 7: Capital Assets

Capital asset activity for the years ended December 31, 2006 and 2005 was as follows:

	December 31, 2004	Additions	Reductions	Adjustments to Reserve	December 31, 2005
Capital assets not being depreciated:					
Land	\$23,873,206	-0-	-0-	-0-	\$23,873,206
Construction in progress	5,368,222	\$11,655,285	(\$16,863,759)	-0-	159,748
Capital assets being depreciated:					
Building	109,143,242	11,863,759	-0-	-0-	121,007,001
Leasehold improvements	37,966,440	5,000,000	-0-	-0-	42,966,440
Production equipment	43,845,845	14,034,410	(3,850,708)	(\$922,854)	53,106,693
Other	<u>989,584</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>989,584</u>
Capital assets-gross	<u>221,186,539</u>	<u>42,553,454</u>	<u>(20,714,467)</u>	<u>(922,854)</u>	<u>242,102,672</u>
Less: accumulated depreciation	<u>67,602,971</u>	<u>16,059,779</u>	<u>(3,182,929)</u>	<u>-0-</u>	<u>80,479,821</u>
Capital assets-net	<u>\$153,583,568</u>	<u>\$26,493,675</u>	<u>(\$17,531,538)</u>	<u>(\$922,854)</u>	<u>\$161,622,811</u>

	December 31, 2005	Additions	Reductions	Adjustments to Reserve	December 31, 2006
Capital assets not being depreciated:					
Land	\$23,873,206	-0-	-0-	-0-	\$23,873,206
Construction in progress	159,748	4,661,462	(\$4,821,210)	-0-	-0-
Capital assets being depreciated:					
Building	121,007,001	-0-	-0-	-0-	121,007,001
Leasehold improvements	42,966,440	10,218,168	(34,527,598)	-0-	18,657,010
Production equipment	53,106,693	2,216,197	(20,053,570)	\$1,882,305	37,151,625
Other	<u>989,584</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>989,584</u>
Capital assets-gross	<u>242,102,672</u>	<u>17,095,827</u>	<u>(59,402,378)</u>	<u>1,882,305</u>	<u>201,678,426</u>
Less: accumulated depreciation	<u>80,479,821</u>	<u>14,820,974</u>	<u>(37,620,025)</u>	<u>-0-</u>	<u>57,680,770</u>
Capital assets-net	<u>\$161,622,851</u>	<u>\$2,274,853</u>	<u>(\$21,782,353)</u>	<u>\$1,882,305</u>	<u>\$143,997,656</u>

During 2006, the Authority completed two leasehold improvements totaling \$10,218,168; one at the Technology Centre of New Jersey (\$5,581,927) and the other at the Waterfront Technology Center at Camden (\$4,636,241). Completion of these improvements helps provide suitable office space for technology based companies and enables the Authority to assist more tenants at these sites.

Note 8: Bonds Payable

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

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

The outstanding issues are as follows:

	<u>2006</u>	<u>2005</u>
\$46,815,000 NJEDA Revenue Bonds (Public Schools Small Project Loan Program), 2004 Series, interest ranging from 3% to 5%; due 8/15/07 through 8/15/13. Series 1993 was refunded on 3/15/04.	\$33,275,000	\$38,775,000
\$43,000,000 Variable Rate Lease Revenue Bonds, 2003 Series A and B, (Camden Center Urban Renewal Limited Partnership Project); interest ranging from 3.89% to 5.909% due annually through 3/15/18	40,185,000	40,850,000
\$167,500,000 NJEDA Taxable Economic Development Bonds MSNBC/CNBC Project, 1997 Series A and B, adjustable rate not to exceed 15% annually, due through 10/1/21	34,000,000	62,900,000
\$31,700,000 NJEDA Adjustable Rate Lease Revenue (taxable) Bonds, 1995 Series A and B (Barnes & Noble, Inc. Distribution and Freight Consolidation Center Project) due 7/3/07 through 6/30/11	20,230,000	21,830,000
\$18,355,000 NJEDA Taxable Revenue Bonds, North Jersey Port District Utilities Authorities Loan Securitization Program ("Port"), Series 1996, interest ranging from 7.05% to 7.25%; due 2/15/07 through 2/15/12	<u>9,700,000</u>	<u>10,875,000</u>
Subtotal	137,390,000	175,230,000
Unamortized premium	<u>1,787,529</u>	<u>2,425,362</u>
	<u>\$139,177,529</u>	<u>\$177,655,362</u>

At December 31, 2006, the carrying value of all aggregate bonds payable approximates fair market value. Aggregate debt service requirements of bonds payable through 2011 and thereafter are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2007	\$13,845,000	\$6,469,776	\$20,314,776
2008	14,165,000	5,812,569	19,977,569
2009	11,845,000	5,241,591	17,086,591
2010	10,055,000	5,169,564	15,224,564
2011	19,280,000	4,524,521	23,804,521
2012-2016	18,710,000	16,231,229	34,941,229
2017-2021	<u>49,490,000</u>	<u>7,517,357</u>	<u>57,007,357</u>
	<u>\$137,390,000</u>	<u>\$50,966,607</u>	<u>\$188,356,607</u>

Bonds payable activity for the years ended December 31, 2006 and 2005 was as follows:

	December 31, 2004	Additions	Reductions	December 31, 2005	Amounts Due Within One Year
Bonds Payable- gross	\$1,341,445,000	-0-	(\$1,166,215,000)	\$175,230,000	<u>\$16,140,000</u>
Unamortized interest on capital appreciation bonds	(59,636,485)	\$59,636,485	-0-	-0-	
Unamortized premium	27,279,781	-0-	(24,854,419)	2,425,362	
Unamortized discount	(2,395,251)	2,395,251	-0-	-0-	
Deferred loss on refundings	<u>(28,299,994)</u>	<u>28,299,994</u>	<u>-0-</u>	<u>-0-</u>	
Total Bonds Payable-net	<u>\$1,278,393,051</u>	<u>\$90,331,730</u>	<u>(\$1,191,069,419)</u>	<u>\$177,655,362</u>	

	December 31, 2005	Additions	Reductions	December 31, 2006	Amounts Due Within One Year
Bonds Payable-gross	\$175,230,000	-0-	(\$37,840,000)	\$137,390,000	<u>\$13,845,000</u>
Unamortized premium	<u>2,425,362</u>	<u>-0-</u>	<u>(637,833)</u>	<u>1,787,529</u>	
Total Bonds Payable-net	<u>\$177,655,362</u>	<u>-0-</u>	<u>(\$38,477,833)</u>	<u>\$139,177,529</u>	

During 2005, the Authority changed its policy with respect to the manner in which Conduit Debt Obligations are reported for financial reporting purposes. Prior to 2005, the Authority's policy was to record such obligations as Bonds Outstanding in its financial statements.

Pursuant to GASB issued statement, "Disclosure of Conduit Debt Obligations" (GASBI-2), there is no requirement to record conduit debt that is simultaneously recorded by the entity that is responsible for its payment. The State of New Jersey records this debt on its financial statements. The Agencies record debt and the reciprocal assets pursuant to applicable generally accepted accounting principles.

During 2005, at the direction of the State, the Authority removed such conduit debt, and its corresponding assets, from its financial statements. In addition, it is the Authority's opinion that by removing the State backed conduit debt and Agency type transactions from its financial statements a more accurate assessment of its financial position and operations will exist.

Note 9: Notes Payable

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

The outstanding notes are as follows:	<u>2006</u>	<u>2005</u>
Automated Distribution Systems, LP; interest at 10.89%; principal & interest due monthly through maturity on 9/30/07	\$1,345,315	\$2,977,086
Community Development Investments, LLC; effective interest at 3.02%; principal & interest due monthly through 4/12/14 with final payment of \$1,576,918 at maturity on 5/12/14	2,000,000	2,000,000
City of Camden, NJ; interest at 6%; principal & interest due monthly through maturity on 2/5/16	4,000,000	4,000,000
Jersey Central Power & Light; interest at 4%; interest only due monthly through 11/12/10; principal due at maturity on 11/12/10	1,000,000	1,000,000
Public Service New Millennium Economic Development Fund, LLC; interest at 4%; interest only due monthly through 11/7/10; principal due at maturity on 11/7/10	5,000,000	5,000,000
Waterfront Technology Center Construction Loan; variable interest equal to 30-day LIBOR plus 120% per annum; principal and interest due monthly over 60-month period, through maturity on 1/31/12	<u>8,400,000</u>	<u> </u>
	<u>\$21,745,315</u>	<u>\$14,977,086</u>

At December 31, 2006, the carrying value of all notes payable approximates fair market value. Aggregate debt service requirements of notes payable through 2011 and thereafter are as follows:

	Principal	Interest	Total
2007	\$1,887,175	\$1,522,570	\$3,409,745
2008	725,223	1,019,590	1,744,813
2009	838,190	972,505	1,810,695
2010	6,897,335	884,809	7,782,144
2011	952,904	621,300	1,574,204
2012-2016	<u>10,444,488</u>	<u>411,588</u>	<u>10,856,076</u>
Total	<u>\$21,745,315</u>	<u>\$5,432,362</u>	<u>\$27,177,677</u>

Notes payable activity for the years ended December 31, 2006 and 2005 was as follows:

December 31, 2004	Additions	Reductions	December 31, 2005	Amounts Due Within One Year
<u>\$16,548,462</u>	<u>-0-</u>	<u>(\$1,571,376)</u>	<u>\$14,977,086</u>	<u>\$1,881,419</u>
December 31, 2005	Additions	Reductions	December 31, 2006	Amounts Due Within One Year
<u>\$14,977,086</u>	<u>\$8,400,000</u>	<u>(\$1,631,771)</u>	<u>\$21,745,315</u>	<u>\$1,887,175</u>

Note 10: Net Assets

The Authority's Net Assets are categorized as follows:

1. Invested in capital assets, net of related debt
2. Restricted
3. Unrestricted

Invested in Capital Assets, Net of Related Debt includes capital assets net of accumulated depreciation used in the Authority's operations as well as capital assets that result from the Authority's real estate development and operating lease activities. Restricted assets include net assets that have been restricted in use in accordance with State law, such as the Public School Facilities loan program, noted in Note 4. Unrestricted assets include all net assets not included above. The changes in Net Assets during 2006 and 2005 are as follows:

	Invested in Capital Assets Net of Debt	Restricted	Unrestricted	Totals
Net Assets December 31, 2004	\$8,593,567	\$60,191,384	\$775,289,986	\$844,074,937
Change in net assets	21,449,284	(6,661,597)	72,046,429	86,834,116
Cumulative effect of accounting change	<u> </u>	<u> </u>	<u>(12,217,627)</u>	<u>(12,217,627)</u>
Net Assets December 31, 2005	30,042,851	53,529,787	835,118,788	918,691,426
Change in net assets	<u>13,539,805</u>	<u>(7,841,424)</u>	<u>(116,802,317)</u>	<u>(111,103,990)</u>
Net Assets December 31, 2006	<u>\$43,582,656</u>	<u>\$45,688,363</u>	<u>\$718,316,417</u>	<u>\$807,587,436</u>

For the years ended December 31, 2006 and 2005, Nonoperating revenues and expenses includes State Appropriations-Net of \$10,458,403 and \$196,111,796, respectively, as well as other Program Transfers of (\$133,909,907) and (\$119,474,284), respectively.

Note 11: Commitments and Contingencies

(a) Loan and Bond Guarantee Programs

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

(1) Economic Development Fund

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

Principal payments on guaranteed loans and bonds reduce the Authority's exposure. At December 31, 2006, the Authority's Debt and Worth was composed of the following:

	Port District Program	Community Economic Development Program
Total Debt	\$1,525,539	\$33,637
Total Worth	\$22,797,614	\$10,182,162

(2) Economic Recovery Fund

The guarantee agreements restrict the Authority from approving any loan or bond guarantee if, at the time of approval, the Debt to Worth ratio is greater than 5 to 1. At any time, payment of the guarantee is limited to the amount of Worth within the guarantee program account. Principal payments on guaranteed loans and bonds reduce the Authority's exposure. At December 31, 2006, Debt was \$38,530,386 and Worth was \$81,591,212, with a ratio of 0.47 to 1.

(3) Economic Growth Composite Bond Program

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

To the extent guarantee payments of principal on the bonds cannot be recovered through collateral liquidation, loan restructure, etc., the Authority's aggregate composite exposure is permanently reduced. At December 31, 2006, aggregate exposure and the cash collateral balance are both \$2,994,748.

(4) New Jersey Business Growth Fund

The Authority guarantees between 25% and 50% of specific, low-interest loans to New Jersey companies, made by one of its preferred lenders, with a maximum aggregate exposure to the Authority not to exceed \$10 million and, at no time will the Authority pay more than \$10 million, net, of guarantee demands. At December 31, 2006, aggregate exposure and related worth within the Business Growth Fund account are both \$10,000,000.

(b) Loan Program Commitments and Project Financings

At December 31, 2006, the Authority has \$27,619,593 of loan commitments not yet closed or disbursed and \$41,571,124 of project financing commitments.

(c) New Markets Tax Credit Program

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

As part of the agreement, the corporation will claim the Federal tax credits in exchange for its investment. Claiming these credits carries the risk of recapture, whereby an event occurs that would negate the credit taken, causing it to be returned with interest. Based on the loan agreement between the Authority and the company, the Authority will provide a guaranty to the corporation against adverse consequences caused by a recapture event. As of December 31, 2006, the exposure to the Authority is \$12,624,100. The Authority has determined the likelihood of paying on the guaranty, at this time, is remote.

Note 12: Litigation

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

Note 13: Employee Benefits

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

The Authority's employees participate in the PERS, a cost-sharing, multiple-employer defined benefit plan administered by the State. The Authority's contribution is based upon an actuarial computation performed by the PERS. Pursuant to the Pension Security Legislation Act of 1997, the issuance of bonds permitted the pension benefit obligation to be fully funded from 1998 to 2004.

Beginning in 2005, the Authority was assessed a portion of its normal contribution, which will increase each year until 2009, when 100% of the normal contribution will be assessed, and for each year thereafter. For the years ending December 31, 2006 and 2005, the Authority was assessed \$171,835 and \$59,585, or 40% and 20% of its normal contribution, respectively. No contribution was required in 2004. Employees of the Authority are required to participate in the PERS and contribute 5% of their annual compensation. The payroll for employees covered by PERS for the years ending December 31, 2006 and 2005 was \$8,596,556 and \$8,448,682, respectively.

The general formula for annual retirement benefits is the final average salary divided by 55, times the employee's years of service. Pension benefits fully vest upon reaching 10 years of credited service. Members are eligible for retirement at age 60 with no minimum years of service required. Members who have 25 years or more of credited service may select early retirement without penalty at or after age 55 and receive full retirement benefits. The PERS also provides death and disability benefits. All benefits are established by State statute.

The State of New Jersey, Department of the Treasury, Division of Pension and Benefits, issues publicly available financial reports that include the financial statements and required supplementary information for the PERS. The financial reports may be obtained by writing to the State of New Jersey, Department of the Treasury, Division of Pension and Benefits, P.O. Box 295, Trenton, New Jersey, 08625-0295.

(b) Postemployment Health Care and Insurance Benefits

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

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

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

Annual required contribution (ARC)	\$12,851
Contributions made	<u>195</u>
Increase in net OPEB obligation	12,656
Net OPEB Obligation - beginning of year	<u>-</u>
Net OPEB Obligation - end of year	<u>\$12,656</u>

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

<u>Fiscal Year Ended</u>	<u>Annual OPEB Cost</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
12/31/06	\$12,851	1.5%	\$12,656

As of December 31, 2006, the actuarial accrued liability for benefits was \$12,656,316, all of which was unfunded. The covered payroll (annual payroll of active employees covered by the plan) was \$8,596,556, and the ratio of unfunded actuarial accrued liability to the covered payroll was 147.2%.

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

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

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

Note 14: Compensated Absences

In accordance with GASB Statement No. 16, *Accounting for Compensated Absences*, the Authority recorded current liabilities in the amount of \$557,845 and \$571,222 as of December 31, 2006 and 2005, respectively. The liability as of the balance sheet date, is the value of employee-accrued vacation time and vested estimated sick leave benefits that are probable of payment to employees upon retirement. The vested sick leave benefit to retirees for unused accumulated sick leave is calculated at the lesser of $\frac{1}{2}$ the value of earned time or \$15,000. The payment of sick leave benefits, prior to retirement, is dependent on the occurrence of sickness as defined by Authority policy; therefore, such non-vested benefits are not accrued.

New Jersey Economic Development Authority
Schedule of Funding Progress for the Retiree Healthcare Plan
December 31, 2006

Actuarial accrued liability (AAL)	\$12,656,316
Actuarial value of plan assets	<u>-0-</u>
Unfunded actuarial accrued liability(UAAL)	<u><u>\$12,656,316</u></u>
Funded ratio (actuarial value of plan assets/AAL)	0%
Covered payroll (active plan members)	\$8,596,556
UAAL as a percentage of covered payroll	147.2%

EO 37

2006 Corrective Action Report

In compliance with Executive order 37, the New Jersey Economic Development Authority (EDA) presents the following overview of corrective actions taken in 2006. These actions were taken as a follow-up to the EDA's discussions with our external auditors (Ernst & Young LLP) during their year-end review of our financial statements. It should be noted that none of these circumstances materially impacted the financial statements (condition) of the EDA.

Accrued Liability Process

During 2006, the EDA identified two isolated instances where a revenue source and expenditure were not appropriately accrued prior to the 2006 year-end financial close process.

Management has had a process in place to communicate to all staff the actions required for our year-end close. As a result of these two specific instances, management has enhanced the communication process to the EDA staff in order to avoid a future recurrence.

Loan Servicing – Risk Rating Process

A very unique structured loan that closed in 2006 was assigned a lower risk rating than its underlying loans. Management agrees that the risk rating for these loans should be consistent and has made the appropriate change. Management believes it has a good risk rating process in place to ensure for both interim and year-end reporting, that the aggregate loan portfolio is fairly valued and the guarantee portfolio has adequate provision. EDA's practice has always been to adjust risk ratings throughout the fiscal cycle, as required, and as loan conditions change.