

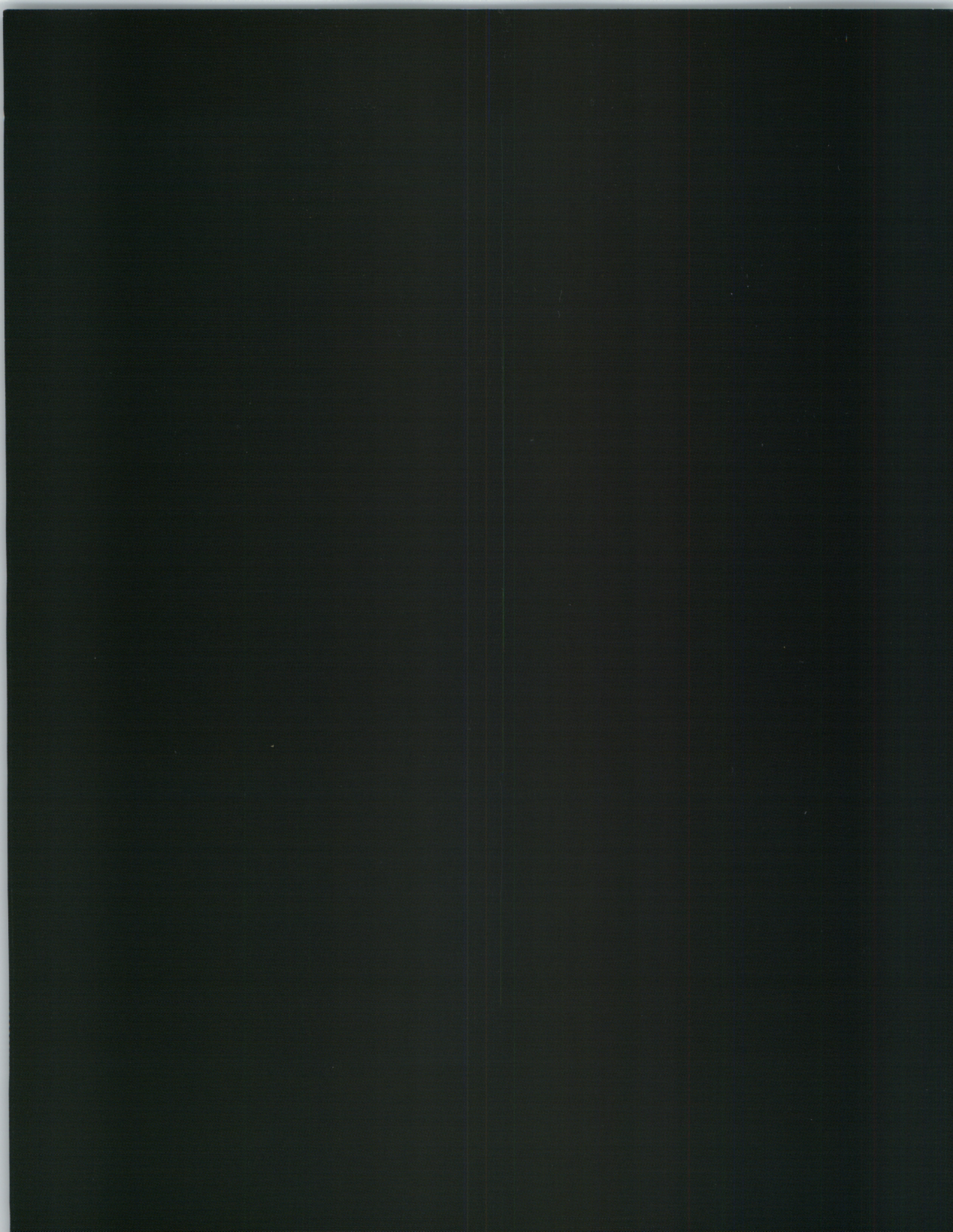
# 2006

A RECORD-BREAKING YEAR



**SOUTH JERSEY PORT CORPORATION**

**ANNUAL REPORT**

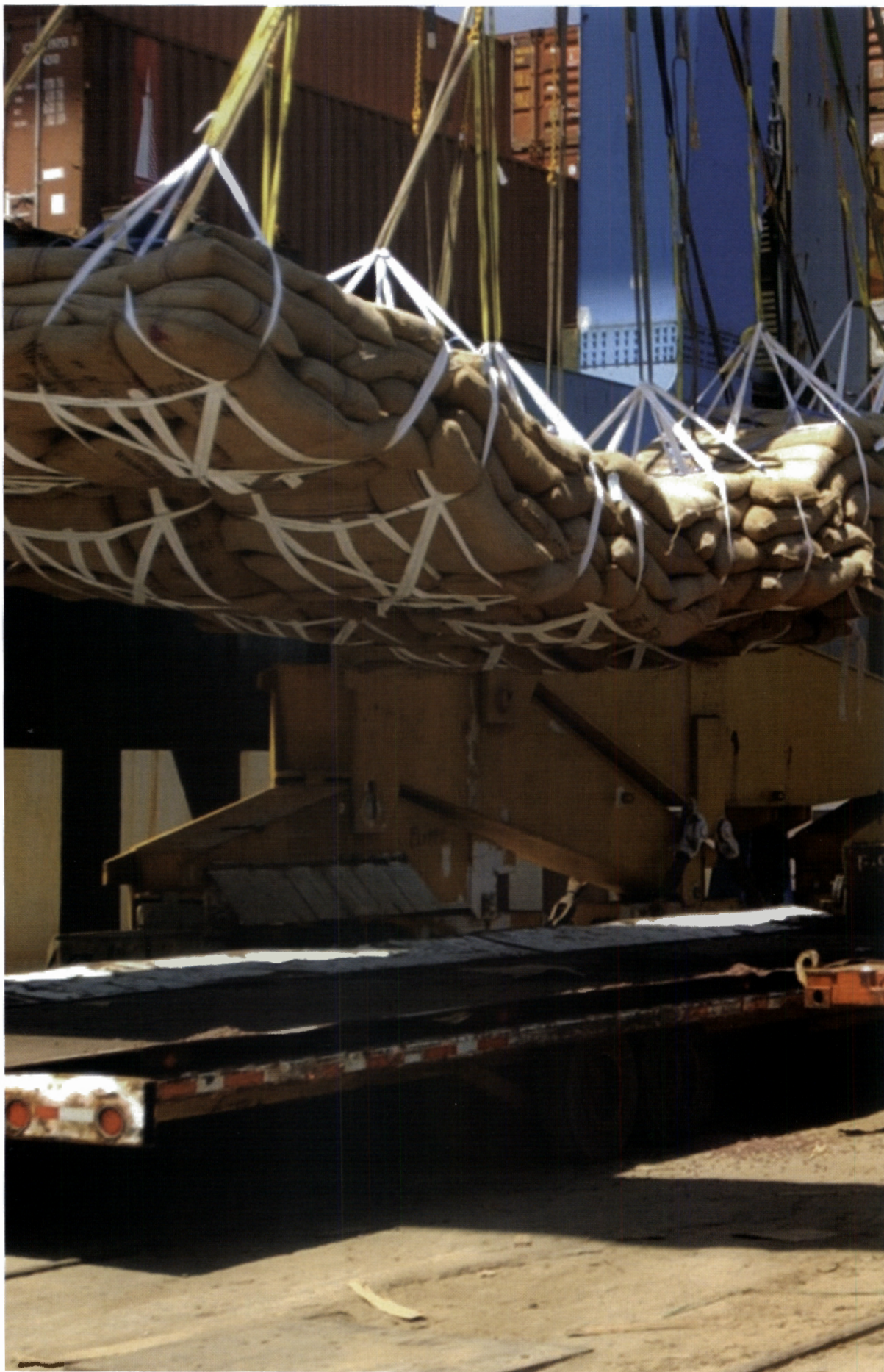


# 2006

A RECORD-BREAKING YEAR



**SOUTH JERSEY PORT CORPORATION**  
ANNUAL REPORT

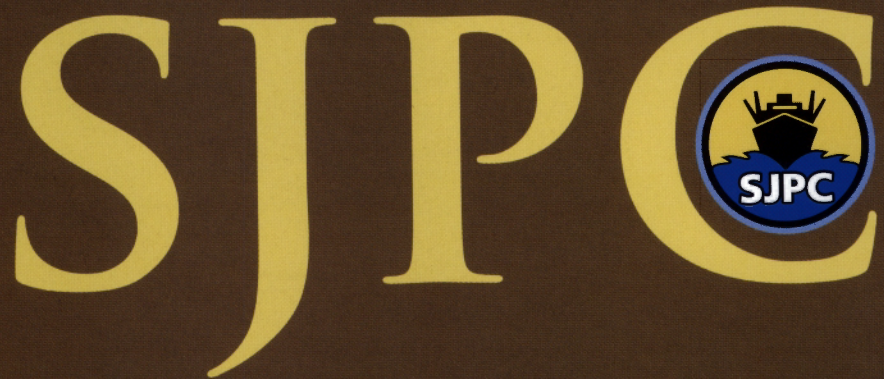


*In 2006, the South Jersey Port Corporation business volume grew significantly for the fourth year in a row which helps assure the continued expansion of maritime business facilities and related activity in South Jersey.*

# 2006

A record-breaking year

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*The Beckett Street Terminal, equipped with multi-purpose cranes, on-dock rail and extensive covered and open storage for a wide range of breakbulk, bulk and containerized cargoes, serves as the heart of the Port of Camden facilities. The port's activities support thousands of jobs and generate significant economic impacts for the Southern New Jersey region.*

# 2006

A record-breaking year

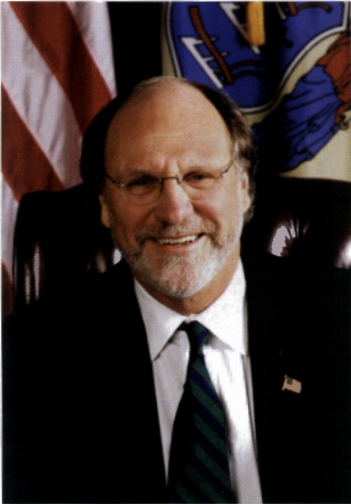
## A fourth consecutive record-breaking year

The Port of Camden continued during 2006 to be a prime engine in the economic life and rebirth of Camden, carrying forward the experience of three centuries of maritime commerce on the Delaware River and the city's riverfront.

In 2006, the port moved ahead as a hub not only for maritime commerce but also for manufacturing, industry and employment achieving expansion in its own business as it continued to set an example as a public/private model for economic activity and growth.

The hallmark of the South Jersey Port Corporation (SJPC) in 2006 was growth in annual business volume and actions to assure the continued expansion of maritime business and port facilities and activity in South Jersey.

## To the Governor



**Gov. Jon S. Corzine**

Honorable. Jon S. Corzine  
Governor of New Jersey  
Office of the Governor, State House  
Trenton, NJ, 08625

Dear Governor Corzine,

I am pleased to report that during 2006 the activities and development strategies of the South Jersey Port Corporation (SJPC) significantly enhanced key elements of the State of New Jersey Economic Growth Strategy, and our work adhered to standards and guidance for the governance, operation and management under Executive Order #37 (EO37).

The NJ Economic Growth Strategy set six priorities to market the New Jersey economy, develop its workforce, promote sustainable growth with an emphasis on renewing the State's cities, nurture the development of new technologies, encourage entrepreneurship and the growth of small, minority and woman-owned businesses and enhance the global competitiveness of New Jersey businesses. The achievements of the SJPC are consistent with those economic growth strategies. 2006 marked the fourth consecutive year of record total tonnage moving through the SJPC's port facilities, increasing employment opportunities and business investment. The SJPC's plans to develop a new marine terminal at Paulsboro, which advanced during 2006 as further described in this report, and the growing foreign trade through the Port of Camden demonstrate how SJPC business results for 2006 validate and mirror the State's economic policy emphasis on port and trade expansion.

In commenting on the need for infrastructure investment by the State to grow the New Jersey economy, the economic growth strategy observes that continued capital investment is required to ensure adequate infrastructure exists to support the existing and expanding businesses of New Jersey. Whether at Paulsboro, or in the form of new investments and improvements at the Port of Camden, the work of the SJPC during 2006 and the long-term planning undertaken by the agency to increase maritime trade and related business activity on the Delaware River support and will sustain the vision of the economic growth strategy directed by EO37.

On behalf of the board and executive management of the SJPC, I pledge that the work and achievements of South Jersey's port agency in 2006 will continue to serve the blueprint for progress in New Jersey set out in the economic growth strategy.

Sincerely,

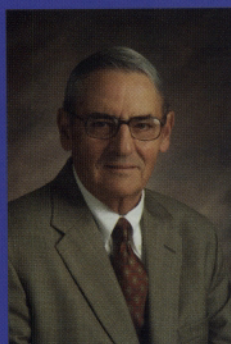
A handwritten signature in black ink, appearing to read "Richard A. Alaimo".

Richard A. Alaimo,  
Chairman  
South Jersey Port Corporation

2006

A record-breaking year

## SJPC Board of Directors



Chairman  
**RICHARD A. ALAIMO**  
President,  
Alaimo Group;  
appointed in  
1968,  
representing  
Burlington County



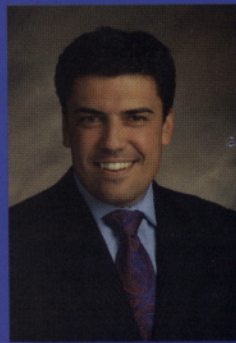
Director  
**CHAD M. BRUNER**  
Deputy  
Administrator,  
Gloucester County;  
appointed in 2002,  
representing  
Gloucester County



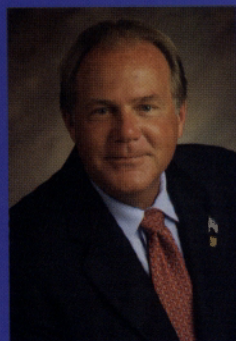
Director  
**JONATHAN S. GERSHEN**  
Vice President/General  
Counsel, The Gershen  
Group, LLC;  
appointed in 2002,  
representing  
Mercer County



Director  
**JOSEPH A. MARESSA, JR.**  
President, Title America  
Agency Corp.;  
appointed in 2004,  
representing  
Mercer County



Director  
**ERIC E. MARTINS**  
Managing Director,  
Duane Morris  
Government Affairs;  
appointed in 2004,  
representing  
Mercer County



Director  
**CRAIG F. REMINGTON**  
Principal,  
Remington &  
Vernick Engineers;  
appointed in 2001,  
representing  
Camden County



Director  
**BARBARA TOMALINO**  
President,  
Paramount Air Service;  
appointed in 1995,  
representing  
Cape May County

# SJPC



*Total cargoes at the Ports of Camden and Salem surged by more than 9 percent in 2006, marking the fourth consecutive year of growth for the SJPC led by the bustling Port of Camden.*

## Cargoes surge at the Port of Camden

Total cargoes at the Ports of Camden and Salem surged by more than 9 percent in 2006, marking the fourth consecutive year of growth for the SJPC led by the bustling Port of Camden, where more than 3.8 million tons of cargo moved into and out of the Beckett Street and Broadway Terminals. Meanwhile a reinvigorated Port of Salem moved more than 100,000 tons of cargo.

Looking to the future, the SJPC continued planning for improvements at both ports and moved forward with development of a new terminal to be built at Paulsboro, largely on the site of the former BP refinery in that Gloucester County municipality. By initiating the Paulsboro Marine Terminal project, the SJPC has established itself in three of the four South Jersey counties that border on the Delaware River.

Cocoa beans, steel and scrap metal led Port of Camden Cargo growth in 2006. Cocoa bean imports through the port reached 168,269 tons compared to 132,284 tons in 2005, a jump of more than 27 percent. The record cocoa bean tonnage put Camden into position to emerge in the years after 2006 as the largest cocoa bean port in the United States. Camden International Commodities Terminal, a leading SJPC tenant, imports cocoa bean cargoes through the port. In its first year of operation, the company brought 30,000 tons of cocoa beans through the port. In 2006 CICT generated more than five times that volume of cargo.

In addition to growth in steel and cocoa beans, there were also significant tonnage increases in wood products and scrap cargoes.

Underscoring the importance of the port to the importation of cocoa beans, the most important natural ingredient in the manufacture of chocolate and all chocolate products, was a visit to the port on April 11 by a delegation from the Ivory Coast, the source of 30 percent of cocoa beans imported through Camden. On that date the Ivorian delegation, led by Director General Desire Dallo of the Port of San Pedro in the West African nation, met with SJPC Executive Director Joseph A. Balzano to discuss a long-term partnership to share operational and technical information to enhance commerce between the two ports.



## Steel cargo tonnage grows by astounding 63 percent in one year

The port also saw a strong surge in steel cargoes, which rose to 701,304 tons in 2006 compared to 429,766 tons in 2005, a major year-to-year increase of 63 percent. Scrap cargoes pushed ahead by more than 18 percent to 740,180 tons in 2006 against 624,102 tons in 2005. While some cargo categories remained static or recorded reductions, fruit, wood products, cement and GranCem® continued to be important mainstays in port activity at Camden during the year. In fact during August, the port welcomed the largest plywood cargo ever delivered at Camden when the M/V Maroudio, a 653-foot ship sailing under Greek registry, delivered 18,278 crates of plywood bound for Liberty Woods International, a major plywood importer and one of the largest clients of the SJPC. The ship was in port for four days to unload its cargo of plywood from Malaysia and Indonesia.

### YEAR-TO-YEAR COMPARISONS FOR MAJOR CARGO TONNAGES

CARGO	2005	2006	CHANGE
Steel	429,766	701,304	+63.1%
Cocoa Beans	132,284	168,269	+27.2%
Cement	788,840	636,868	<19.2%>
Fruit	349,579	317,197	<9.2%>
Wood Products	428,437	448,609	+4.7%
GranCem®	298,852	257,022	<13.9%>
Scrap	624,102	740,180	+18.5%

Other commodities handled at the port during 2005 included iron ore, pyrite, rubber, salt and zinc.

In all, during 2006, the Port of Camden received 447 ships, an increase of 22 percent compared with 365 ship calls during 2005. Their calls at the Beckett Street and Broadway Terminals resulted in 1,074 ship days, a 17 percent jump over the 912 ship days tallied during 2005.

The M/V Ocean Lord got particular notice when it called at the port during May. The M/V Ocean Lord brought the largest cargo ever unloaded from one ship at the port. Making its maiden voyage, the M/V Ocean Lord docked at Pier 1A at the Broadway Terminal, where it had the advantage of the Kock's heavy lift crane installed by the SJPC in 2005. The ship delivered 70,000 tons of furnace slag bound for St. Lawrence Cement Co. LLC, another major SJPC tenant.



*On May 10, 2006, the M/V Ocean Lord delivered the largest cargo ever delivered by one ship at the Port of Camden. Unloading the 70,000 tons of furnace slag, destined for St. Lawrence Cement, one of the port's largest tenants, was facilitated using the new Pier 1A, Kocks crane and conveyor system installed at the Broadway Terminal in 2005. The photo shows the new crane's bucket in the ship's cargo hold ready for discharge.*

## Expanding the port for the future

Mindful of the need to maintain and improve the port to meet expanding business and cargo volume, during November the SJPC Board of Directors approved the issuance of \$4.85 million in bond financing. The bond issue included \$3 million for pier maintenance, notably installation of cathodic protection for piers at both the Beckett Street and Broadway Terminals to prevent corrosion and other damage to the piers and pier structures at the two Port of Camden facilities. The balance of the bond financing, \$1.85 million, was earmarked for engineering and site planning for the Paulsboro Marine Terminal. The Paulsboro project envisions development of a new port in the Gloucester County boro on a 190-acre site comprised principally of a former BP oil refinery. The SJPC board previously had approved total long-term Paulsboro Terminal investment up to \$135 million.

The Paulsboro plan took a major step forward on February 1 when representatives of the boro and the SJPC signed an agreement for development of the new terminal to be located about 12 miles south of the Port of Camden. The agreement provided that Paulsboro, which controls the site under a long-term lease from BP, will in turn lease it to the SJPC for development. Long-range projections anticipate the Paulsboro terminal will generate up to \$250 million in combined public and private investment and generate more than 2,000 jobs in both sectors of the economy.

At Salem, the introduction of an important new port tenant in 2005 continued to reap dividends in 2006. National Docks, a sand and gravel operation, contributed significantly to the movement of more than 100,000 tons of cargo through the Port of Salem. Also during 2006, maintenance dredging continued in the Salem River channel to maintain its authorized 16-foot depth to preserve the ability of the port to serve the ships that use it. The dredging maintenance project utilized a combination of federal and state funding. The Salem port depends on Salem River access to the Delaware River.



## Other Port Activities

### ***Key Appointment***

During September the SJPC board appointed Patrick A. Abusi of Haddon Township as treasurer, filling a significant vacancy in the agency's executive ranks. The treasurer oversees the fiscal and financial responsibilities of the agency including cash and investment management, debt issuance and compliance, budgeting and budget forecasting and credit enhancement, reporting to the board of directors and the executive director. Abusi joined the SJPC with 25 years of broad financial and management experience in both the public and private sectors including most recent service of 15 years with the Railroad Construction Co. of South Jersey, Inc. where he had responsibility for a broad range of executive duties including those of controller and treasurer. He is a certified municipal financial officer and received a B.A. in Business Administration from Philadelphia University.



### ***Environmental Action***

The SJPC made major achievements in the field of environmental protection during 2006. On July 25, the Board of Directors voted to accept construction of a greenway buffer to better separate the Port of Camden from nearby residential neighborhoods.

The Camden Economic Recovery Board funded the \$1.15 million project for development by Heart of Camden, a local non-profit Camden affordable housing organization. The project entails construction of a berm 900 feet long and 40 feet wide to be build on port property in the area of 4<sup>th</sup> and Jackson Streets known as the Gallagher site. Plans called for planting two or three rows of trees atop the berm to establish a greenway between the nearby residential community and commercial activity at the port.

In November, U.S. Environmental Protection Agency Regional Administrator Alan J. Steinberg visited the port to announce a \$250,000 EPA Community Action for a Renewed Environment (CARE) grant to Clean Air Communities (CAC), a non-profit subsidiary of Northeast States for Coordinated Air Use Management (NESCAUM). The grant was made to fund a comprehensive project to reduce pollution and environmental risks in Camden's Waterfront South neighborhood, including \$180,000 to retrofit SJPC diesel equipment to reduce emissions. The EPA chose the CAC project from a pool of 110 applicants throughout the nation in just the second year of the CARE program. Other organizations that participated in formulating the project included the New Jersey Department of Environmental Protection, the Camden County Municipal Utilities Authority and South Camden Citizens in Action.

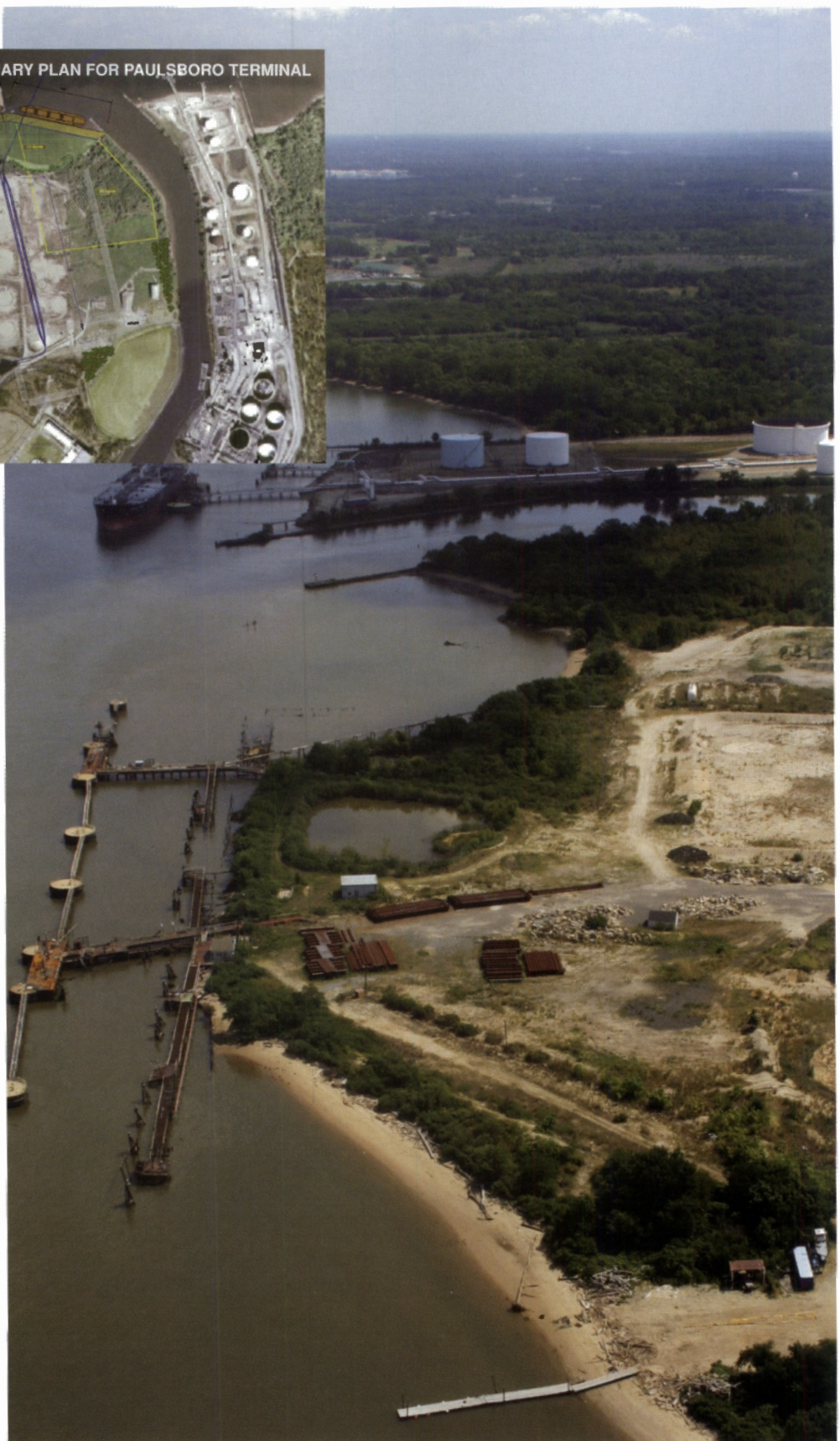


*Coming soon. . .*

## **Paulsboro Marine Terminal**

The SJPC, with cooperation and assistance from the Borough of Paulsboro and the County of Gloucester, took steps in 2006 toward realizing plans to redevelop a 190-acre former oil and chemical bulk storage facility into an integrated marine terminal and industrial/distribution center to accommodate the record growth in import and export trade fostered throughout SJPC's current facilities.

As depicted in these illustrations, the site is located along the eastern bank of the Delaware River just south of Mantua Creek in Paulsboro, NJ. The first phase development would include three berths with direct roadway access to I-295 as well as rail capability.



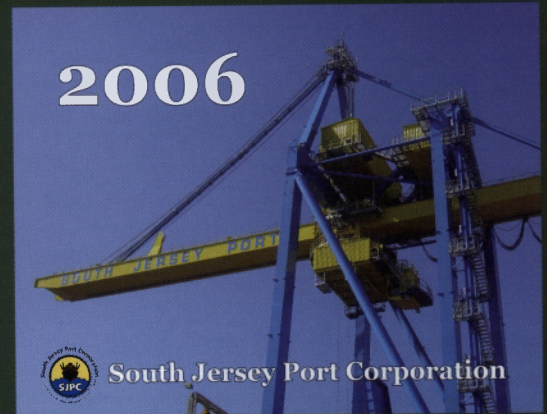
## **Calendar**

As 2006 got under way the SJPC introduced a new and popular marketing and information piece in the form of an annual calendar, with plans to make its addition a permanent feature in ensuing years. The 13-month calendar carries into and through the following January. The 2006 version featured information about the port as well as photos of the Ports of Camden and Salem to illustrate the calendar on each monthly page.

## **Educational outreach**

On May 22, to mark National Maritime Day, the SJPC hosted 36 4th grade students from Camden's Rafael Cordero Molina Elementary School for a tour of the Port of Camden and a classroom lesson about ports and how the port serves the Camden community. National Maritime Day is set aside each year to celebrate and honor the role that ports and maritime business and industries play in the economic well being of the nation.

The school field trip began with a welcome at the gate of the Beckett Street Terminal, where representatives of the SJPC joined the students on a bus for a guided tour of the port. The program concluded at the SJPC boardroom at the Broadway Terminal where students received instructional materials and keepsakes and a lesson about ports and the Port of Camden. The port provided chocolate and fruit products for the children to emphasize the role the port plays locally and for the region and nation.



BECKETT STREET TERMINAL



BROADWAY TERMINAL



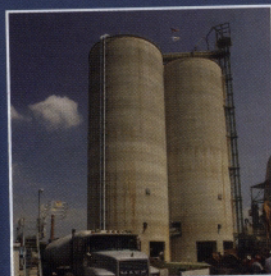
## BECKETT STREET TERMINAL

- Location: Beckett and Second Streets, Camden, NJ
- Cargoes: cocoa beans, wood, scrap steel and steel products, wood products, iron ore, pyrite, scrap metal and salt
- Area: 125 acres
- Berths: Four, total 2,655 linear feet (701 meters)
- Depth at MLW: 40 feet (12.2 meters)
- Storage capacity: 19 dry warehouses comprising 1,110,000 square feet (103,160 square meters)
- Heavy lift cranes: One multi-purpose bulk/crane, 95 tons (86.21 metric tons); one general purpose cargo-container crane, 35 tons (31.8 metric tons)
- Equipment: Various sized forklifts, top picks, earthmoving equipment, lo-boy trucks, special cargo handling trucks
- Direct transfer: Direct to truck, rail and vessel
- Truck gates: Beckett Street main gate and six storage area gates
- Highway access: Direct to I-676, I-76, US Rte.130 and I-295
- Rail connections: CSX, NS, and CP rail systems
- Other features: All-weather loading, temperature-controlled and food-grade warehousing, rail service for all storage warehouses and sheds, and custom cargo



## BROADWAY TERMINAL

- Location: Broadway at Morgan Boulevard, Camden, NJ
- Cargoes: Furnace slag, cement, steel products, wood products, dolomite, salt, cocoa beans and perishables
- Area: 180 acres
- Berths: Two, 2,000 linear feet (606 meters)
- Depth at MLW: Pier 1 — 35 feet (10.7 meters), Pier 2 — 40 feet (12.2 meters)
- Storage capacity: 29 dry warehouses providing 1.1 million square feet (102,600 square meters)
- Cranes: Multi-purpose electric — 75 tons (968 metric tons)
- Equipment: Shared with Beckett Street
- \* Direct transfer: Direct to truck, rail and vessel
- Truck gates: Three
- Highway access: Direct to I-676, I-76, US Rte. 130 and I-295
- Rail connections: CSX, NS, and CP rail systems
- Other features: Full service for all breakbulk and bulk cargoes, 30-acre open laydown space, bulk cargo storage with direct rail service



BROADWAY PRODUCE TERMINAL



PORT OF SALEM



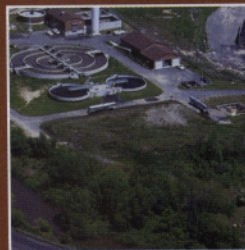
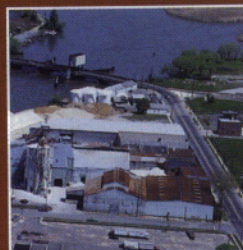
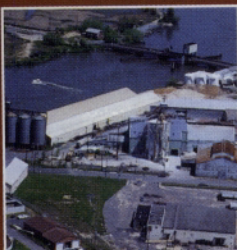
## BROADWAY PRODUCE TERMINAL

- Location: 2500 Broadway, Camden, NJ
- Operator: Del Monte Fresh Produce, N.A. Inc.
- Cargoes: Bananas, pineapples and other perishables
- Area: 28 acres
- Berths: One, 1,135 linear feet (345.9 meters)
- Depth at MLW: 35 feet (10.7 meters)
- Storage capacity: Three temperature-controlled warehouses of 60,000 square feet (5,574 square meters), 55,000 square feet (5,110 square meters), and 75,600 square feet (7,052 square meters)
- One dry warehouse of 25,000 square feet (2,322 square meters)
- Cranes: Mobile shore cranes available
- Equipment: Provided by Del Monte
- Loading docks: 36
- Direct transfer: Direct to truck and rail; LCL and FCL landing
- Truck gates: One
- Highway access: Direct to I-676, I-76, US Rte. 130 and I-295
- Rail connections: CSX, NS, and CP rail systems
- Other features: 2,000 feet of rail siding for intermodal COFC transfer



## PORT OF SALEM

- Location: Salem, NJ, at Exit 1 of the New Jersey Turnpike
- Cargoes: wearing apparel, finishing apparel, motor vehicles, food products, sand and gravel
- Area: 22 acres
- Berths: One, 350 linear feet (130 feet sheathed)
- Storage capacity: 80,000 square feet of shed and warehouse space
- Highway access: Direct access to NJ Rte. 49, NJ Rte. 45 with access to US Rte. 130, I-295 and the NJ Turnpike
- The Port of Salem is designated as a Foreign Trade Zone (#142 in combination with the nearby Millville (NJ) Airport)



## Port Management



**JOSEPH A. BALZANO**  
CEO &  
Executive Director



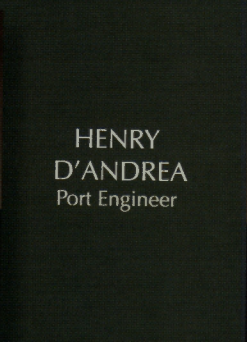
**KEVIN CASTAGNOLA**  
Assistant Executive  
Director/Director  
of Operations



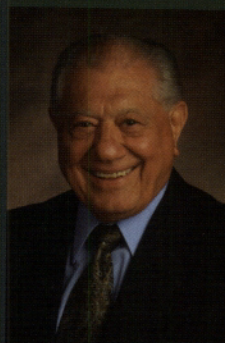
**JAY JONES**  
Deputy Executive  
Director/  
Administrative  
Services



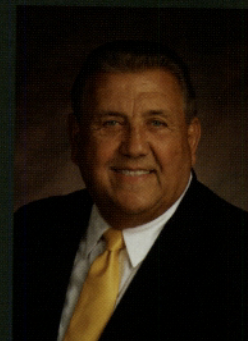
**PATRICK ABUSI**  
Director of Finance



**HENRY D'ANDREA**  
Port Engineer



**JOHN MAIER**  
Board Secretary



## Port Administrative Staff

STEVEN ANDERSON, Warehouse Coordinator  
RONALD BURCH, Guard  
MARIE CIPOLONE, Administrative Secretary  
MICHAEL COLAVITA, General Manager, Maintenance of  
Facilities & Mobile Equipment  
EDWARD CONVERY, Warehouse Clerk/Supervisor  
BROOKE COONEY, Warehouse Clerk  
ROBERT CURLL, Assistant Warehouse Superintendent  
MELVIN DENBY, Maintenance Foreman  
JOSEPH DIAMOND, Terminal Superintendent  
ANTHONY DOCIMO, Maintenance and Engineering  
Assistant  
ATHINA EFELIS, Billing Assistant  
MICHAEL ELLIOTT, Security Manager  
RAYMOND GALLAGHER, Data Entry Clerk  
OANH GLANZ, Accounts Payable/Receivable Coordinator  
STEVEN GRIFFIN, Assistant Terminal Superintendent  
ANNE HALL, Timekeeper/Senior Payroll Manager  
THOMAS JOHNSON, Marketing Manager/Operations  
Assistant  
KOUSTANTINOS KALOGEROS, Fleet Maintenance/Parts  
Clerk

WILLIAM KELLEY, Operations Supervisor  
GINA LYNN, Assistant Warehouse and Billing Manager  
ROBERT MANCINE, Operations Supervisor  
FRANCO MASTROGIORGIO, Maintenance Facilities  
Manager  
ROSEMARIE MCBRIDE, Senior Purchasing Agent  
TIMOTHY MCCARTHY, Broadway Terminal  
Superintendent  
MAUREEN MCHUGH, Executive Assistant  
BERNADETTE MEADS, Financial Clerk  
DOUGLAS MILLER, Senior Operations Supervisor  
JOHN MITCHELL, Warehouse Clerk/Supervisor  
LIEN NGUYEN, Logistics Administrator  
MARC ORSIMARSI, Director of Finance  
PILAR ROWLEY, Office Clerk  
DEBBI-ANNE SILVERMAN, Billing Manager  
MICHAEL SPENCER, Senior Accountant  
BRIDGETTE SULLIVAN, Personnel Administrator/  
Administrative Assistant  
MICHAEL SVIBEN, Administrative Assistant  
JAMES WOLF, Operations Supervisor  
JOHN YARNALL, Warehouse Manager

# 2006

A record-breaking year



Audit Report for the year 2006  
SOUTH JERSEY PORT CORPORATION

## SJPC FINANCIAL STATEMENTS AND NOTES



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## **SJPC FINANCIAL STATEMENTS AND NOTES**



### **EXECUTIVE ORDER #37 (2006) CERTIFICATION OF ANNUAL AUDIT FOR YEAR ENDING 2006**

We are pleased to present this report containing a record of the significant actions taken by the Port Corporation in 2006; those actions detail the success the Port Corporation has achieved in growing its business on behalf of the State of New Jersey and its citizens during the year.

In addition, in accordance with Executive Order #37 (2006), we certify that, to the best of our knowledge, the information provided to the auditor in connection with this annual audit and contained in the attached report is accurate, and to the best of our knowledge, fairly represents the financial condition of the South Jersey Port Corporation for the year ending December 31, 2006.

The following senior staff members hereby certify that during the preceding year the Corporation has, to the best of our knowledge, followed all of the Corporation's standards, procedures, and internal controls. Approval of this audit report has been made by the Board of Directors and an electronic version has been posted on the Corporation's website.

Joseph A. Balzano, CEO and Executive Director  
Patrick Abusi, Treasurer

# SJPC FINANCIAL STATEMENTS AND NOTES

## INDEPENDENT AUDITOR'S REPORT

Board of Directors of the South Jersey Port Corporation  
2<sup>nd</sup> & Beckett Streets  
Camden, New Jersey 08103

We have audited the accompanying financial statements of the business-type activities of the South Jersey Port Corporation, County of Camden, State of New Jersey, as of and for the year ended December 31, 2006, which collectively comprise the Corporation's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities, of the South Jersey Port Corporation, County of Camden, State of New Jersey, as of December 31, 2006, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 9, 2007, on our consideration of the South Jersey Port Corporation's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The Management's Discussion and Analysis information and budgetary comparison information as listed in the table of contents is not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the South Jersey Port Corporation basic financial statements. The accompanying supplementary schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements. The accompanying supplementary schedules listed in the table of contents have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.



HOLMAN & FRENIA, P.C.  
Certified Public Accountants

Medford, New Jersey  
March 9, 2007

## SJPC FINANCIAL STATEMENTS AND NOTES

### REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Board of Directors of the South Jersey Port Corporation  
2<sup>nd</sup> & Beckett Streets  
Camden, New Jersey 08101

We have audited the financial statements of the South Jersey Port Corporation, County of Camden, State of New Jersey, as of and for the fiscal year ended December 31, 2006, and have issued our report thereon dated March 9, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

#### **Compliance**

As part of obtaining reasonable assurance about whether the South Jersey Port Corporation's basic financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of basic financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*. We noted no immaterial instances of noncompliance that we have reported to the Management in a separate Management dated March 9, 2007.

#### **Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the South Jersey Port Corporation's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operations that we consider to be material weaknesses.

This report is intended for the information of management, other state and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

*Holman & Frenia, P.C.*

HOLMAN & FRENIA, P.C.  
Certified Public Accountants

Medford, New Jersey  
March 9, 2007

# SJPC FINANCIAL STATEMENTS AND NOTES

## MANAGEMENT'S DISCUSSION AND ANALYSIS

Pursuant to the requirements of Governmental Accounting Standards Board (GASB) 34, the management of the South Jersey Port Corporation (the Port) offers the readers of the Port's financial statements a narrative overview and analysis of the activities of the Port for the fiscal period ended December 31, 2006.

### *General Port Overview:*

The South Jersey Port Corporation was created by NJ State Chapter 11A Statutes 12:11A-1 to 12:11A-23 to operate marine shipping terminals in the South Jersey district consisting of the counties of Mercer, Burlington, Camden, Gloucester, Salem, Cumberland, and Cape May. A seven member Board of Director's governs the Port Corporation.

The Port Corporation operates the Beckett Street Terminal and Broadway Terminal facilities in the City of Camden and the Port of Salem in the City of Salem. The Port Corporation reports to the State of New Jersey through the Department of Treasury.

The South Jersey Port Corporation is the choice destination for shippers world-wide, and continues to grow as a leader in handling break-bulk and bulk cargoes, and as a model agency in developing public/private enterprise relationships.

Approximately 3.881 million tons of cargo passed through the Port Corporation's facilities in 2006. Promoting economic development, enhancing intermodal facilities, and partnering with private businesses are roles the Port Corporation firmly embodies, as is its mission of job growth and port development.

### *Financial Highlights*

The assets of the Port exceeded its liabilities at December 31, 2006 by \$43,561,258. Included in this amount are \$21,286,196 invested in capital assets, net of related debt. Also included are \$10,436,678 reserved for debt service payment, reserve for supply of inventories on hand of \$1,117,572, and unreserved retained earnings of \$10,720,812.

On December 1, 2002 the Port restructured its long term debt by refunding its Marine Terminal Revenues Bonds. It issued two new series of Bonds totaling \$121,325,000. Included in this amount is approximately \$38,000,000 in net proceeds for Port capital projects that will be completed in 2007. On October 16, 2003 the Port issued an additional \$11,305,000 in Marine Terminal Revenue Bonds. The net proceeds of \$11,218,000 were utilized for specific capital projects that have been completed.

### *Overview of the Financial Statements*

This discussion and analysis is intended to serve as an introduction to the Port's basic financial statements. The Port's basic financial statements comprise four components: 1) Statement of Net Assets, 2) Statement of Revenue and Expenses and Changes in Net Assets, 3) Statement of Cash Flows, and 4) Notes to the Financial Statements.

The statement of net assets presents information on all of the Port's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets, whether read in conjunction with other data, may serve as a useful indicator of whether the financial position of the Port is improving or deteriorating.

The statement of revenues and expenses and changes in net assets presents information showing how the Port's operations generated revenues and required expenses, regardless of the timing of related cash flows.

The statement of cash flows presents information showing the Port's cash receipts and payments during the fiscal period, classified by principal sources and uses, segregated into key elements.

The Notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the financial statements.

# SJPC FINANCIAL STATEMENTS AND NOTES

## MANAGEMENT'S DISCUSSION AND ANALYSIS

### FINANCIAL ANALYSIS

Port assets exceeded Port liabilities by \$43,561,258 and \$42,530,053 at December 31, 2006 and 2005, respectively.

<b>PORT'S NET ASSETS</b>		
<u>ASSETS</u>	<u>2006</u>	<u>2005</u>
Current & Other Assets	\$32,871,460	37,578,054
Capital Assets (Net)	<u>142,017,548</u>	<u>145,951,219</u>
Total Assets	<u>174,889,008</u>	<u>183,529,273</u>
 <u>LIABILITIES</u>		
Current Liabilities	12,082,844	17,020,642
Long-Term Liabilities	<u>119,244,906</u>	<u>123,978,578</u>
Total Liabilities	<u>131,327,750</u>	<u>140,999,220</u>
 <u>NET ASSETS</u>		
Invested in Capital Assets, Net of Related Debt	21,286,196	22,641,132
Restricted for:		
Reserve for Payment of Debt Service	10,436,678	10,436,778
Reserve for Inventory Supplies	1,117,572	1,017,213
Unrestricted:		
Unreserved	<u>10,720,812</u>	<u>8,434,930</u>
Total Net Assets	<u>\$43,561,258</u>	<u>\$42,530,053</u>

The largest portion of the Port's net assets reflects its investment in capital assets (e.g., land, buildings, improvements machinery and equipment), less any related debt to acquire those assets that are still outstanding. Currently the amount of \$21,286,196 reflects the current issuance of the three new bond series.

An additional portion of the Port's net assets represents resources that are subject to external restrictions on how they may be used. They are used for Capital projects, debt service payments, and city and county tax payments. Unrestricted net assets are available for any Port related use.

#### **Port activities:**

Port activities for 2006 and 2005 resulted in operating income before depreciation and amortization of \$4,737,879 and \$3,762,849, respectively.

<b>PORT CHANGES IN NET ASSETS</b>		
	<u>2006</u>	<u>2005</u>
Operating Revenues:		
Handling	\$9,206,261	\$7,352,513
Leasing	6,955,737	6,036,198
Dockage & Wharfage	7,523,077	5,803,530
Storage	2,117,092	2,741,145
Crane	1,930,873	1,824,755
Other	<u>1,539,973</u>	<u>546,182</u>
Total Operating Revenues	<u>29,273,013</u>	<u>24,304,323</u>

## SJPC FINANCIAL STATEMENTS AND NOTES

### MANAGEMENT'S DISCUSSION AND ANALYSIS

Port Changes in Net Assets (continued):

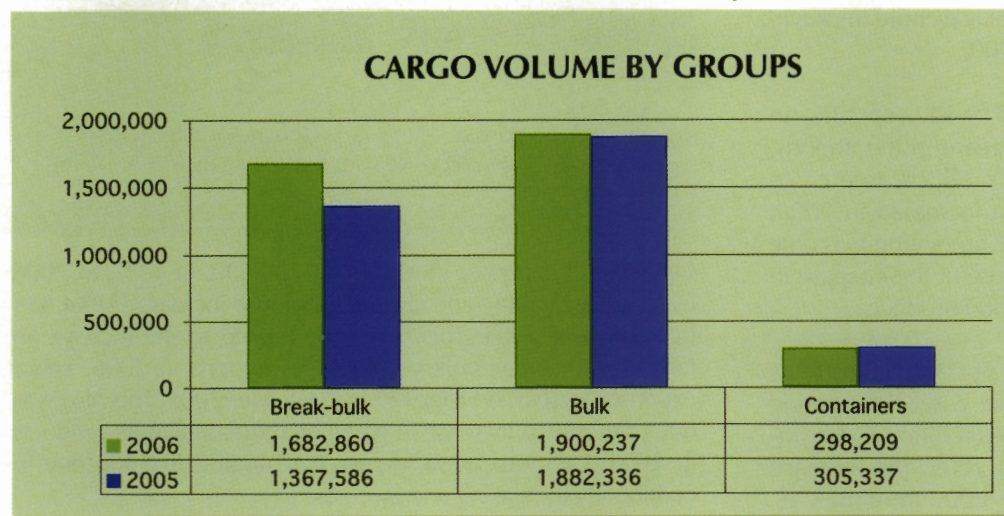
	<u>2006</u>	<u>2005</u>
Operating Expenses:		
General Operating	15,137,699	13,357,009
Repair & Maintenance	2,905,035	1,172,327
General & Administrative	6,492,400	6,012,138
Total Operating Expenses	<u>24,535,134</u>	<u>20,541,474</u>
Operating Income Before Other Operating Expenses	4,737,879	3,762,849
Other Operating Expenses:		
Depreciation	5,462,430	4,526,578
Operating Gain/(Loss)	<u>(724,551)</u>	<u>(763,729)</u>
Nonoperating Revenues/(Expenses)		
Interest on Investments	362,686	370,850
Insurance Proceeds		460,770
Grant Revenue	187,000	
Unrealized Gain/(Loss) on Investment	9,102	85,200
Bond Interest	(5,781,678)	(5,986,778)
Net Nonoperating Expenses	<u>(5,222,890)</u>	<u>(5,069,958)</u>
Net Loss Before Transfer of Depreciation to Contributed Capital	(5,947,441)	(5,833,687)
Transfer of Depreciation to Contributed Capital	255,869	171,369
Net Loss Before Operating Transfers	<u>(5,691,572)</u>	<u>(5,662,318)</u>
Operating Transfers To/ From State of New Jersey/Other:		
Debt Service Aid	6,878,287	6,455,167
On-Behalf PILOT Revenues	2,000,000	2,000,000
On-Behalf PILOT Expenditures	(2,000,000)	(2,000,000)
County PILOT Revenues	419,000	419,000
County PILOT Expenditures	(419,000)	(419,000)
Salem PILOT Revenues	25,410	23,490
Salem PILOT Expenditures	(25,410)	(23,490)
Change in Inventory of Supplies	100,359	1,017,213
Total Operating Transfers	<u>6,978,646</u>	<u>7,472,380</u>
Net Income/(Loss)	<u>1,287,074</u>	<u>1,810,062</u>
Net Assets/(Deficit) - January 1, Previously Reported	40,917,730	39,560,736
Adjustment of Long Term Debt -See Note 15		(453,068)
Net Assets/(Deficit) - January 1 as Restated	<u>40,917,730</u>	<u>39,107,668</u>
Net Assets/(Deficit) - December 31	<u>42,204,804</u>	<u>40,917,730</u>
Contributed Capital, January 1	1,612,323	827,169
Contributions	-	956,523
Depreciation	(255,869)	(171,369)
Contributed Capital, December 31	<u>1,356,454</u>	<u>1,612,323</u>
Net Assets - December 31	<u>\$43,561,258</u>	<u>\$42,530,053</u>

# SJPC FINANCIAL STATEMENTS AND NOTES

## MANAGEMENT'S DISCUSSION AND ANALYSIS

### CARGO TONNAGE

The South Jersey Port Corporation cargo activity for 2006 totalled 3,881,306 tons. This is an increase of 9 percent over 2005.



### BREAK-BULK

Break-bulk activity for 2006 finished 23% higher as compared to 2005 and accounted for 42% of the Port's total cargo mix. This was due primarily to an increase in steel imports. Steel tonnage in 2006 increased by 271,477 tons, or 63% over 2005. Wood product imports increased 5% ahead of 2005 with a new annual tonnage record of 448,610 tons.

Cocoa bean imports for 2006 were 168,269 tons. This exceeded 2005 record of 132,284 tons by 35,985 tons, or 27%. This growth over the past two years position the Corporation and its tenant and partner, Camden International Commodities Terminal (CICT), to becoming the number one Port in the U.S. for importing cocoa beans. The Corporation is in the process of adding an additional 200,000 sq. ft. of warehouse space dedicated to the cocoa bean trade.

Fresh fruit activity decreased 32,382 tons, or 9%, in 2006 over 2005.

### BULK

Overall Bulk activity remained relatively the same in 2006 when compared to 2005. For the year 2006, import cement decreased by 151,730 tons or 19%. Export GranCem® also decreased in 2006, by 41,830 tons or 14%. Both commodities are handled by St. Lawrence Cement, a Corporation tenant. Scrap metal exports improved by 19% in 2006 over 2005. The 740,180 tons of exported scrap metals in 2006 represents a 116,077 ton increase, or 19%, over 2005. Scrap metal activity represents a significant percentage of the Corporation's annual revenues and corresponding operating net income. Revenue is generated by port fees on cargo and ship activity such as dockage, wharfage, crane rental, in addition to lease rental. There are minimal port expenses such as labor, associated with scrap metal, and other bulk commodities.

The Port of Salem facility, with its new tenant National Docks, doubled its activity in 2006. The facility handled 180,000 tons of sand in 2006, compared to 90,000 tons in 2005.

### CONTAINER

Container activity decreased 2% to 298,209 tons, in 2006 as compared to 2005.

	BREAK-BULK	BULK	CONTAINERS
2006	1,682,860	1,900,237	298,209
2005	1,367,586	1,882,336	305,337

### OTHER ACTIVITY

Ship calls totalled 447 for the year ended 2006, 82 more than in 2005. Ship days in 2006 totalled 1,074, an 18% increase or 162 days versus the same period in 2005.

## SJPC FINANCIAL STATEMENTS AND NOTES

### MANAGEMENT'S DISCUSSION AND ANALYSIS

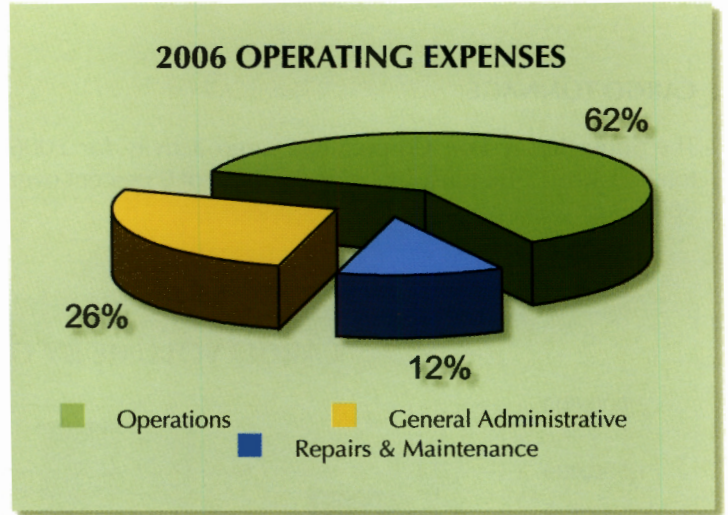
#### OPERATING REVENUES

The Port Corporation generated \$29,273,013 in operating revenues in 2006. This represents an increase of \$4,968,690, or 20%, over 2005.

In 2006, lease revenues increased \$919,539 over 2005. The 15% increase is due primarily to a full year of lease revenue, from St. Lawrence Cement Pier 1A at \$115,000 per month. In 2005, an early repayment of rent in lieu of leasehold improvements was paid in the amount of \$270,000.

Dockage and Wharfage increased \$1,719,547, or 30%, in 2006 over 2005. This was due to an increase in the imports, of steel, scrap, cocoa beans, and wood products, (see cargo activity) in 2006. Handling revenue also increased in 2006, by \$1,853,748, or 25%, over 2005. The Corporation was able to generate more handling revenue because of the increase in break-bulk products, such as steel and wood products.

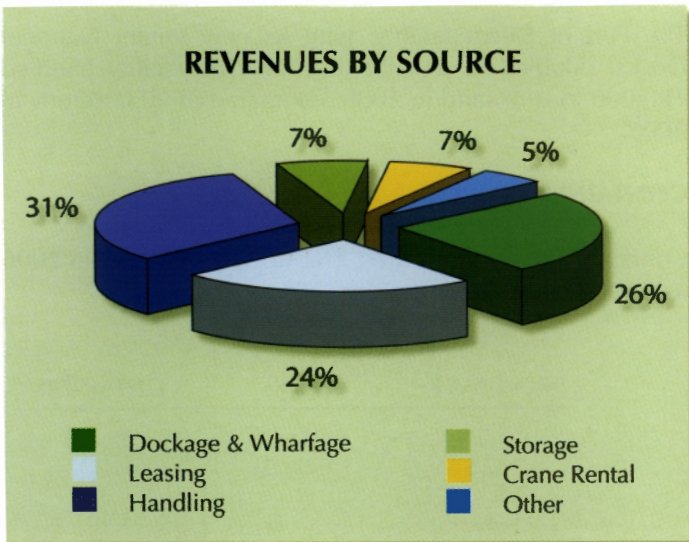
Storage revenues decreased \$624,053, or 23%, in 2006 as compared to 2005. Operationally, ship cargo was being moved before being placed in to storage facilities. Other income increased \$993,791 in 2006 over 2005. The increase was due to a grant in the amount of \$715,000 from the U.S. Army Corps of Engineers for dredging at the Corporations Salem Terminal.



Operational expenses increased \$1,780,690, or 13%, in 2006 over 2005. Clerking and checking expense increased \$934,883 in 2006 over 2005. This is directly related to the increase in tonnages for break-bulk commodities imports in 2006. Labor expenses increased \$518,325 in 2006 over 2005. This also was due primarily to increase in handling more breakbulk products in 2006. Utility expense increased \$148,208 in 2006 due to continually increasing energy costs.

Repairs and maintenance expenses increased \$1,735,708, or 148% in 2006, over 2005. Maintenance dredging expense of \$1,664,999 were incurred in 2006. Crane expenses increased \$106,302 in 2006 over 2005. This was due to the increase in purchases and contract labor for the new cargo crane and conveyor at the Broadway Terminal.

Overall, general and administrative expenses in 2006 increased \$480,262 or 8% over 2005. Health care costs increased \$102,475 in 2006 over 2005. The Port self insures its health care benefits up to \$35,000 per employee. After that target amount is reached, health care reinsurance is triggered. The increase is due to an increase in claims and rising health care costs. General insurance costs increased \$353,940 in 2006 over 2005. This was due to an increase in premiums, plus a settlement for workers compensation for prior years in the amount of \$186,161. Administrative payroll, including related taxes increased \$151,503 in 2006 over 2005. More labor was required in the operations billing department due to the increase in import break-bulk commodities in 2006 over 2005.



#### OPERATING EXPENSES

Total corporation operating expenses were \$24,538,134 in 2006, an increase of \$3,996,660, or 19%, over 2005.

## SJPC FINANCIAL STATEMENTS AND NOTES

### MANAGEMENT'S DISCUSSION AND ANALYSIS

#### CAPITAL ASSETS

The Port's investment in Capital assets as of December 31, 2006 is \$142,017,548 (net of accumulated depreciation). The investment in capital assets include land, building, piers and berth's, and machinery and equipment. Net capital assets decreased \$3,933,671 or 3% in 2006 over 2005. This is due primarily to projects from prior Corporation bond proceeds at near completion. Annual depreciation and amortization would therefore reduce net property, plant, and equipment.

Major capital asset projects during FY 2006 include the following:

In 2006, the Corporation completed construction of a 55,000 sq. ft. storage building at its Beckett Street Terminal. The building is needed to accommodate the increase in break-bulk imports. It cost \$4,791,415 to construct. A railroad crossing was completed at the Broadway Terminal in 2006 at a cost of \$259,224. Also, a project to add additional support to a pier seawall at the Broadway Terminal was completed. The cost was \$361,000.

All projects are funded from bond proceeds.

#### CAPITAL ASSETS

	2006	2005
Land	\$18,235,317	\$18,266,823
Building & Improvements	40,189,822	35,522,901
Land Improvements	105,412,941	86,003,803
Equipment	22,586,217	12,111,550
Engineering & Other	6,490,838	5,158,427
Financing Costs	9,159,938	9,159,938
Subtotal	<u>202,075,073</u>	<u>166,223,442</u>
Less: Accumulated Depreciation & Amortization	73,906,631	68,444,201
Subtotal	128,168,442	97,779,241
Construction in Progress		34,322,872
Bond Discount & Finance	13,849,106	13,849,106
Total	<u>\$142,017,548</u>	<u>\$145,951,219</u>

For additional information on capital assets see Note 3 in Notes to Financial Statements.

As of December 31, 2006 the Port had accumulated both short and long-term debt of \$124,399,906. This consisted of revenue bonds of \$121,345,000 and a capital lease of \$2,000,000, plus an early retirement incentive liability for \$1,054,906.

#### LONG-TERM DEBT

	2006	2005
Revenue Bonds	\$121,345,000	\$125,795,000
Capital Lease	2,000,000	2,000,000
Early Retirement	1,054,906	1,033,578
Total	<u>\$124,399,906</u>	<u>\$128,828,578</u>

On December 1, 2002, the Port issued Series K (\$79,295,000) and L (\$42,030,000) Marine Terminal and Revenue Refunding, and on October 16, 2003 the Port issued Series M (\$11,305,000) Marine Terminal Revenue Bonds for the same purpose to provide resources to purchase U.S. Government Securities that were placed in an irrevocable trust for the purpose of generating resources for all future debt service payments of the refunded debt which includes Marine Terminal Revenue Bonds. The net proceeds from the Bond issuance have been used to fund several pier infrastructure projects.

During 2001 the Port entered into a Capital Lease Agreement with the Delaware River Port Authority in the amount of \$2,000,000 for an electrical substation upgrade at the Broadway Terminal. The terms of the agreement calls for the lease to be repaid over 20 years at 0% interest. As of December 31, 2006 the Port has not yet commenced any payment on the Capital Lease (see Note 13).

The Board of Directors of the South Jersey Port Corporation adopted a resolution to allow its eligible employees to participate in the Early Retirement incentive program in 2003. Eight employees elected to participate in the ERI.

Payments for the liability will be spread over 30 years. Each consecutive years payment would increase by 4%.

The payment schedule incorporates an annual rate of interest equaling 8.25%.

Additional information is available in Note 5 of Notes to the Financial Statements.

## SJPC FINANCIAL STATEMENTS AND NOTES

### BASIC FINANCIAL STATEMENTS

#### COMPARATIVE STATEMENT OF NET ASSETS DECEMBER 31, 2006 AND 2005

ASSETS	2006	2005
Current Assets:		
Unrestricted Assets:		
Cash & Cash Equivalents	\$4,483,618	3,342,043
Accounts Receivable (Net of Allowance for Doubtful Accounts - \$385,178 in 2006 & \$367,357 in 2005)	3,079,362	3,247,131
Other Accounts Receivable	445,753	178,316
Notes Receivable	26,254	33,754
Prepaid Expenses	1,362,132	381,712
Inventory of Supplies	<u>1,117,572</u>	<u>1,017,213</u>
Total Unrestricted Current Assets	<u>10,514,691</u>	<u>8,200,169</u>
Restricted Assets:		
Cash & Cash Equivalents	15,150,832	16,233,998
Investments	-	6,611,463
Accrued Interest Receivable		77,257
Grants Receivable	327,650	-
Due from State of New Jersey	<u>6,878,287</u>	<u>6,455,167</u>
Total Restricted Current Assets	<u>22,356,769</u>	<u>29,377,885</u>
Property, Plant & Equipment (Note 3):		
Completed	202,075,073	166,223,442
Construction in Progress		34,322,872
Bond Discount & Financing Costs	<u>13,849,106</u>	<u>13,849,106</u>
Total Property, Plant & Equipment	215,924,179	214,395,420
Less: Accumulated Depreciation & Amortization	<u>73,906,631</u>	<u>68,444,201</u>
Net Property, Plant & Equipment	<u>142,017,548</u>	<u>145,951,219</u>
Total Assets	<u>174,889,008</u>	<u>183,529,273</u>

*The accompanying Notes to the Financial Statements are an integral part of this Statement.*

# SJPC FINANCIAL STATEMENTS AND NOTES

## BASIC FINANCIAL STATEMENTS

### COMPARATIVE STATEMENT OF NET ASSETS DECEMBER 31, 2006 AND 2005

<b>LIABILITIES</b>	<b>2006</b>	<b>2005</b>
Current Liabilities Payable From Unrestricted Assets:		
Accounts Payable	166,262	203,535
Accrued Expenses	1,454,197	1,114,989
Payroll Taxes Payable	33,360	42,552
Accrued Vacation Payable	232,522	211,554
Deferred Income	637,889	620,205
Lease Security & Escrow Deposits	169,112	168,864
	<u>2,693,342</u>	<u>2,361,699</u>
Current Liabilities Payable From Restricted Assets:		
Accounts Payable		168,345
Accrued Interest Payable	2,890,839	2,993,389
Contracts Payable	1,343,663	6,647,209
Revenue Bonds (Short-Term Portion)	4,655,000	4,450,000
Capital Lease Payable	500,000	400,000
	<u>9,389,502</u>	<u>14,658,943</u>
Long-Term Liabilities:		
Long-Term Liabilities Payable From Unrestricted Assets:		
Early Retirement Payable	1,054,906	1,033,578
	<u>1,054,906</u>	<u>1,033,578</u>
Long-Term Liabilities Payable From Restricted Assets:		
Revenue Bonds (Long-Term Portion)	116,690,000	121,345,000
Capital Lease Payable	1,500,000	1,600,000
	<u>118,190,000</u>	<u>122,945,000</u>
Total Liabilities	<u>131,327,750</u>	<u>140,999,220</u>
<b>NET ASSETS</b>		
Invested in Capital Assets, Net of Related Debt:	21,286,196	22,641,133
Restricted:		
Reserve for Payment of Debt Service	10,436,678	10,436,778
Reserve for Inventory of Supplies	1,117,572	1,017,213
Unrestricted:		
Unreserved	10,720,812	8,434,930
Total Net Assets	<u>\$43,561,258</u>	<u>42,530,053</u>

*The accompanying Notes to the Financial Statements are an integral part of this Statement.*

# SJPC FINANCIAL STATEMENTS AND NOTES

## BASIC FINANCIAL STATEMENTS

### COMPARATIVE STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS FOR THE YEAR ENDED DECEMBER 31, 2006 AND 2005

	2006	2005
Operating Revenues:		
Marine Direct	\$ 25,635,649	21,383,912
Marine Related	2,315,437	2,589,231
Other	1,321,927	331,180
	29,273,013	24,304,323
Operating Expenses:		
General Operating	15,137,699	13,357,009
Repairs & Maintenance	2,905,035	1,172,327
General & Administrative	6,492,400	6,012,138
	24,535,134	20,541,474
Operating Income Before Other Operating Expenses	4,737,879	3,762,849
Other Operating Expenses:		
Depreciation	5,462,430	4,526,578
	5,462,430	4,526,578
Operating Gain/(Loss)	(724,551)	(763,729)
Nonoperating Revenues/(Expenses):		
Interest on Investments	362,686	370,850
Insurance Proceeds		460,770
Grant Revenue	187,000	
Unrealized Gain/(Loss) on Investment	9,102	85,200
Bond Interest	(5,781,678)	(5,986,778)
	(5,222,890)	(5,069,958)
Net Loss Before Transfer of Depreciation to Contributed Capital	(5,947,441)	(5,833,687)
Transfer of Depreciation to Contributed Capital	255,869	171,369
	(5,691,572)	(5,662,318)
Operating Transfers To/ From the State of New Jersey/Other:		
Debt Service Aid	6,878,287	6,455,167
City PILOT Revenues	2,000,000	2,000,000
City PILOT Expenditures	(2,000,000)	(2,000,000)
County PILOT Revenues	419,000	419,000
County PILOT Expenditures	(419,000)	(419,000)
Salem PILOT Revenues	25,410	23,490
Salem PILOT Expenditures	(25,410)	(23,490)
Change in Inventory of Supplies	100,359	1,017,213
	6,978,646	7,472,380
Net Income/(Loss)	1,287,074	1,810,062
Net Assets/(Deficit) - January 1, Previously Reported	40,917,730	39,560,736
Adjustment of General Long Term Debt - See Note 15		(453,068)
	40,917,730	39,107,668
Net Assets/(Deficit) - January 1, as Restated	40,917,730	39,107,668
Net Assets/(Deficit) - December 31,	42,204,804	40,917,730
Contributed Capital, January 1	1,612,323	827,169
Contributions		956,523
Depreciation	(255,869)	(171,369)
	1,356,454	1,612,323
Contributed Capital, December 31	1,356,454	1,612,323
Net Assets - December 31	\$ 43,561,258	42,530,053

*The accompanying Notes to the Financial Statements are an integral part of this Statement.*

# SJPC FINANCIAL STATEMENTS AND NOTES

## BASIC FINANCIAL STATEMENTS

### COMPARATIVE STATEMENT OF CASH FLOWS FOR THE YEARS ENDED DECEMBER 31, 2006 AND 2005

	2006	2005
Cash Flows From Operating Activities:		
Receipts from Customers	\$27,476,067	24,182,454
Interest Receipts	586,615	245,673
Payments to Employees	(6,820,952)	(6,349,538)
Payments for Employee Benefits	(3,949,750)	(3,422,490)
Payments to Suppliers	(13,411,709)	(10,095,204)
Net Cash Provided/(Used) by Operating Activities	3,880,271	4,560,895
Cash Flows From Noncapital Financing Activities:		
Developers' Escrow Deposits	820	489
Developers' Escrow Refunds	(546)	(2,831)
Net Cash Provided/(Used) by Noncapital Financing Activities	274	(2,342)
Cash Flows From Capital & Related Financing Activities:		
Acquisition & Construction of Capital Assets	(7,000,676)	(16,451,568)
Insurance Proceeds		460,770
State Aid for Construction Projects		1,095,000
Other Aid for Construction Projects	74,350	238,556
Interest Paid on Revenue Bonds	(5,884,228)	(6,072,590)
Principal Paid on Revenue Bonds	(4,450,000)	(4,000,000)
State Aid for Debt Service	6,455,167	6,962,739
City PILOT Revenues	2,000,000	2,000,000
City PILOT Payments	(2,000,000)	(2,000,000)
County PILOT Revenues	419,000	419,000
County PILOT Payment	(419,000)	(419,000)
Salem PILOT Revenues	25,410	23,490
Salem PILOT Payment	(25,410)	(23,490)
Net Cash Provided/(Used) by Capital & Related Financing Activities	(10,805,387)	(17,767,093)
Cash Flows From Investing Activities:		
Unrealized Gain/(Loss) on Investment	9,102	85,200
Sales of Repurchase Agreement/Discount Notes	6,611,463	14,424,471
Interest & Dividends	362,686	370,850
Net Cash Provided/(Used) by Investing Activities	6,983,251	14,880,521

*The accompanying Notes to the Financial Statements are an integral part of this Statement.*

## SJPC FINANCIAL STATEMENTS AND NOTES

### BASIC FINANCIAL STATEMENTS

#### COMPARATIVE STATEMENT OF CASH FLOWS FOR THE YEARS ENDED DECEMBER 31, 2006 AND 2005

	2006	2005
Net Increase/(Decrease) in Cash & Cash Equivalents	58,409	1,671,981
Balances - Beginning of Year	<u>19,576,041</u>	<u>17,904,060</u>
Balances - End of Year	<u>\$19,634,450</u>	<u>19,576,041</u>
Reconciliation of Operating Income/(Loss) to Net Cash Provided/(Used) by Operating Activities:		
Operating Income/(Loss)	(\$724,551)	(\$763,729)
Adjustments to Reconcile Operating Income/(Loss) to Net Cash Provided/(Used) by Operating Activities:		
Operating Activities:		
Depreciation & Net Amortization	5,462,430	4,526,578
(Increase)/Decrease in Accounts Receivable, Net	(99,668)	(503,331)
(Increase)/Decrease in Notes Receivable, Net	7,500	7,500
(Increase)/Decrease in Accrued Interest Receivable	77,257	26,282
(Increase)/Decrease in Grant Receivable	(215,000)	
(Increase)/Decrease in Prepaid Expenses	(980,420)	593,353
Increase/(Decrease) in Accounts Payable	292,743	342,033
Increase/(Decrease) in Accrued Liabilities	20,968	(6,125)
Increase/(Decrease) in Early Retirement Payable	21,328	17,289
Increase/(Decrease) in Deferred Revenue	<u>17,684</u>	<u>321,045</u>
Total Adjustments	<u>4,604,822</u>	<u>5,324,624</u>
Net Cash Provided/(Used) by Operating Activities	<u>\$3,880,271</u>	<u>4,560,895</u>

*The accompanying Notes to the Financial Statements are an integral part of this Statement.*

# SJPC FINANCIAL STATEMENTS AND NOTES

## NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2006

### NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying financial statements of the South Jersey Port Corporation have been prepared in conformity with generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board (GASB). In June 1999 the GASB issued Statement 34 *Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments*. This statement established new financial reporting requirements for state and local governmental entities throughout the United States. They require new information and restructure much of the information that governments have presented in the past. Comparability with reports issued in prior years is affected.

The Corporation has implemented these standards for the fiscal year ending December 31, 2002 and future periods. With the implementation of GASB Statement 34, the Corporation has prepared required supplementary information titled *Management’s Discussion and Analysis*, which precedes the basic financial statements.

Other GASB Statements are required to be implemented in conjunction with GASB Statement 34. Therefore, the Corporation has implemented the following GASB Statements in the current fiscal year: Statement 33 – *Accounting and Financial Reporting for Nonexchange Transactions*; Statement 36 – *Recipient Reporting for Certain Shared Nonexchange Revenues*; Statement 37 – *Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments: Omnibus* and Statement 38 – *Certain Financial Statement Note Disclosures*.

The accompanying financial statements present the financial position of the Corporation, the results of operations of the Corporation and the various funds and fund types, and the cash flows of the proprietary funds. The financial statements are presented as of December 31, 2006 for the year then ended.

#### A. Reporting Entity:

The South Jersey Port Corporation was created by the “South Jersey Port Corporation Act, N.J.S.A. 12:11A, as an instrumentality of the State of New Jersey. The Act conferred upon the Corporation the powers to establish, acquire, construct, rehabilitate, improve, operate and maintain marine terminals in the South Jersey Port district, which includes

Mercer, Burlington, Camden, Gloucester, Salem, Cumberland and Cape May counties.

The operations of the Port are under the directorship of a seven-member board. The Governor of the State appoints members for a term of five years. The day-to-day operations of the Port are under the administration of the Executive Director with approximately 140 employees.

The primary criterion for including activities within the Corporation’s reporting entity, as set forth in Section 2100 of the *GASB Codification of Governmental Accounting and Financial Reporting Standards*, is whether:

- the organization is legally separate (can sue or be sued in their own name);
- the Corporation holds the corporate powers of the organization;
- the Governor appoints a voting majority of the organization’s board;
- the Corporation is able to impose its will on the organization;
- the organization has the potential to impose a financial benefit/burden on the Corporation;
- there is a fiscal dependency by the organization on the Corporation.

Based on the aforementioned criteria, the Corporation has no component units.

#### B. Accounting Policies and Basis of Presentation

- a) **Basis of Accounting** - The basic financial statements of the South Jersey Port Corporation have been prepared on the accrual basis of accounting and in accordance with generally accepted accounting principles.
- b) **Cash Equivalents** - For purposes of the statement of cash flows, the Corporation considers all highly liquid debt instruments purchased with maturity of one year or less to be cash equivalents.
- c) **Investment in Property, Plant and Equipment** – Investment in Property, Plant and Equipment is stated at cost, which generally includes net capitalized interest expense (See Note 3) as well as professional fees incurred during the construction period.

## SJPC FINANCIAL STATEMENTS AND NOTES

### NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2006

Note 1. Summary of Significant Accounting Policies (continued):

Replacements of Property, Plant and Equipment are recorded at cost. Related costs and accumulated depreciation are removed from the accounts and any gain or loss on disposition is either credited or charged to nonoperating revenues or expenses.

Depreciation and amortization are provided using the straight-line method over the estimated useful lives of the related assets (See Note 3).

Debt issuance costs and bond discount arising from the issue of revenue bonds are amortized by the straight-line method over the bond life.

d) **Marine Terminal Revenue Bond Resolution -**

The Corporation is subject to the provisions and restrictions of the Marine Terminal Revenue Bond Resolution adopted June 5, 1985 as supplemented March 12, 1987, January 31, 1989, October 31, 1989, March 11, 1993, December 1, 2002 and October 15, 2003. The revenues generated by operations are to be distributed monthly based upon the following priorities:

- (a) Operating Account - 1/12 of the total appropriated for operating expenses in the annual budget for the current calendar year.
- (b) Debt Service Account - such amount necessary to increase the retained earnings to equal the Aggregate Debt Service Requirement. (Interest and principal on the bonds to accrue to the next interest payment date).
- (c) Debt Reserve Account - such amount necessary to increase the retained earnings to equal the Debt Reserve Requirement.
- (d) Maintenance Reserve Account - such amount necessary to increase the retained earnings to equal the Maintenance Reserve Fund Requirement, which is the amount, budgeted for major renewals, repairs or replacement.
- (e) Tax Reserve Account - such amount to increase the balance in the Payment Account

to equal the Property Tax Reserve and then such amount to increase the balance in the Reserve Account to equal the tax payments for the current year.

- (f) General Reserve Account - such amount that remains after all previously mentioned requirements.

The following is a summary of the functions and activities of each account created by the Bond Resolution:

#### Operating Account

Purpose - to account for all operating revenues and expenditures of the Corporation.

Section 711 of the Bond Resolution states that on or before November 15 in each year, the Corporation shall complete a review of its financial condition for the purpose of estimating whether the rates, rents, fees, charges and other income and receipts from operating the Marine Terminals including investment income will be sufficient to provide for all of the payments and to meet all of the following requirements:

- (a) Operating Expenses during the calendar year, including reserves therefore, provided for in the Annual Budget for such year;
- (b) An amount equal to the Aggregate Debt Service for such calendar year;
- (c) The amount, if any, to be paid during such calendar year into the Debt Reserve Account.
- (d) The amount to be paid during such calendar year into the Maintenance Reserve Account to the extent funds are available; and
- (e) All other charges or liens whatsoever to be paid out of revenues during such calendar year and, to the extent not otherwise provided for, all amounts payable on Subordinated Debt.

Provided, however, in no event shall such rates, rents, fees and charges in any calendar year be less than those sufficient to provide Net Revenues in such year at least equal to 1.10 times the Aggregate Debt Service for such year.

# SJPC FINANCIAL STATEMENTS AND NOTES

## NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2006

Note 1. Summary of Significant Accounting Policies (continued):

The Bond Resolution further states that if the Corporation determines that such revenues may not be sufficient to provide such payments plus principal and interest due or accrued on subordinated debt and meet such other requirements, it shall forthwith conduct a study or cause the Consulting Engineers to make a study for the purpose of recommending a schedule of rates, fees and charges for the Marine Terminals which, in the opinion of the Corporation or the Consulting Engineers, will cause sufficient revenues to be collected in the following calendar year to provide funds for all such payments and will cause additional revenues to be collected in such following and later calendar years sufficient to restore the amount of such deficiency at the earliest practicable time.

### Debt Service Account

Purpose - payment of principal and interest on Marine Terminal Revenue Bonds.

Debt Service charges for 2006 included \$4,450,000 for principal and \$5,781,678 for interest. Funds were provided as follows:

Construction Fund	\$ 3,241,020
Debt Service Reserve Fund	6,990,658
Total	<u>\$10,231,678</u>

### Debt Reserve Account

Purpose - to provide necessary funds to meet debt service obligations should revenues be insufficient.

*N.J.S.A. 12:11A-14* provides the following:

"In order to assure the maintenance of the maximum Debt Service Reserve in the South Jersey Port Corporation Reserve Fund, there shall be annually appropriated and paid to the Corporation for deposit in said fund, such sum, if any, as shall be certified by the Chairman of the Corporation to the Governor as necessary to restore said fund to an amount equal to the maximum Debt Service Reserve. The Chairman shall annually, on or before December 1, make and deliver to the Governor his certificate stating the sum, if any, required to restore said fund to the amount aforesaid, and the sum or sums so certified shall be appropriated and paid to the Corporation during the then current State Fiscal Year".

The Chairman certified to the Governor that the Port Corporation anticipated it would require a State appropriation in this fund in the amount of \$6,878,287.

The Reserve Fund Requirement, as established under the terms of the Marine Terminal Bond Resolution dated June 5, 1985, is the highest amount of aggregate debt service payable in any succeeding year, which amount is \$10,436,678.

### Maintenance Reserve Account

Purpose - to provide funds for major renewals, repairs or replacements essential to restore or prevent physical damage to, or to prevent loss of revenues from the Marine Terminals.

Section 506 of the Bond Resolution, as amended by Section 302 of the Supplemental Bond Resolution, specified that operating revenues shall be deposited to the Maintenance Reserve Account only after meeting the necessary payments to the Operating Account, Debt Service Account, Debt Reserve Account and Rebate Account.

During the year no funds were provided from operating revenue.

### Property Reserve Account

Purpose is to accumulate proceeds from the sale of land or other property and to use such funds for projects involving the acquisition or real or personal property.

### Tax Reserve Account

Purpose - for the payments of amounts due to local governments in lieu of property taxes as required by *N.J.S. 12:11A-20*.

*N.J.S.A. 12:11A-20(b)* provides the following:

"To the end that counties and municipalities may not suffer undue loss of future tax revenue by reason of the acquisition of real property therein by the Corporation, the Corporation is hereby authorized, empowered and directed to enter into agreement or agreements (herein-after called 'tax agreements') with any county or municipality..... whereby it will undertake to pay a fair and reasonable sum or sums..... to compensate the said county or municipality for any loss of such tax revenue by reason of the acquisition of any such property by the Note 1.

## SJPC FINANCIAL STATEMENTS AND NOTES

### NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2006

Summary of Significant Accounting Policies (continued):

Corporation....". N.J.S.A.12:11A-20 provides the following:

"In order to assure provision of the property tax reserve in said fund, there shall be annually appropriated and paid to the Corporation for deposit in said fund, such sums, if any, as shall be certified by the Chairman of the Corporation to the Governor as then necessary to provide in said fund an amount equal to the property tax reserve. The Chairman shall annually on or before December 1 make and deliver to the Governor his certificate stating the sum if any needed to provide in said fund the amount of the property tax reserve as of said date, and the sum or sums so certified shall be appropriated and paid to the Corporation during the then current fiscal year".

During 2005 the State of New Jersey paid to the Corporation \$2 million dollars for the City of Camden, \$419,000 for Camden County and \$25,410 for the City of Salem to provide sufficient funds for tax payments.

#### General Reserve Account

Purpose - to accumulate excess revenues, which may subsequently be transferred to other funds to meet deficiencies, or for the repayment to the State, amounts paid in discharge of its obligations under the Act, or for any other lawful purpose in connection with the Marine Terminals.

To this date, operating revenues have not been sufficient to provide funds for the General Reserve Account.

#### Construction Account

Purpose - to account for the cost of facilities and maintain a record of the Marine Terminal Revenue Bonds.

The South Jersey Port Corporation has issued various bonds as outlined in Note 5 for the improvement of the port facilities, debt reserve funds and capitalized interest. Series K and L were issued in December 2002 and funds are still available for approved projects. During 2003 Series M Bonds were issued in the amount of \$11,305,000 and these funds are still available for approved projects.

With certain exceptions, existing arbitrate laws require a rebate to the federal government of all earnings on the investment of the proceeds of tax-exempt obligations, issued after September

1, 1986, in excess of the yield on such obligations and any income earned on such excess. A portion of past or future interest earnings may be subject to federal rebate. An arbitrage calculation analysis has been performed through December 31, 2002 for such required tax-exempt obligations and it has been determined that no liability is due to the federal government at this time. Another calculation will be performed on the 5-year reporting cycle as required by the IRS guidelines.

#### Note 2. Cash and Cash Equivalents and Investments

The Corporation is governed by the deposit and investment limitations of New Jersey state law. The Deposits and investments held at December 31, 2006, and reported at fair value are as follows:

TYPE	RATING	MATURITIES	CARRYING VALUE
Deposits:			
Demand Deposits			\$ 4,234,835
New Jersey Cash			
Management Fund			7,545,918
U.S. Government Discount			
Notes			7,853,697
Total Deposits & Investments			<u>\$19,634,450</u>
Reconciliation of Statement of Net Assets:			
Current:			
Unrestricted Assets:			
Cash & Cash Equivalents			\$ 4,483,618
Restricted Assets:			
Cash & Cash Equivalents			<u>15,150,832</u>
Total Reconciliation of Statement of Net Assets			<u>\$19,634,450</u>

**Custodial Credit Risk** – Deposits in financial institutions, reported as components of cash, cash equivalents and investments had a bank balance of \$21,354,462 at December 31, 2006. Of the bank balance \$296,756 was fully insured by the FDIC (Federal Deposit Insurance Corporation) and \$21,057,706 was secured by a collateral pool held by the bank, but not in the Corporation's name, as required by New Jersey's Governmental Unit Deposit Protection Act (GUDPA). The Governmental Unit Deposit Protection Act is more fully described below.

## SJPC FINANCIAL STATEMENTS AND NOTES

### NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2006

Note 2. Cash and Cash Equivalents and Investments (continued):

**Investment Interest Rate Risk** – The Corporation has no formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. Maturities of investment held at December 31, 2006, are provided in the above schedule.

**Investment Credit Risk** – The Corporation has no investment policy that limits its investment choices other than the limitation of state law as follows:

- Bonds or other obligations of the United States of America or obligations guaranteed by the United States of America;
- Government money market mutual funds;
- Any obligation that a federal agency or federal instrumentality has issued in accordance with an act of Congress, which security has a maturity date not greater than 397 days from the date of purchase, provided that such obligations bear a fixed rate of interest not dependent on any index or other external factor;
- Bonds or other obligations of the Corporation or bonds or other obligations of the local unit or units within which the Corporation is located;
- Bonds or other obligations, having a maturity date of not more than 397 days from the date of purchase, approved by the Division of Investment in the Department of Treasury for investment by the Corporation;
- Local Governments investment pools;
- Deposits with the State of New Jersey Cash Management Fund established pursuant to section 1 of P.L. 1977, c.281; or
- Agreements for the repurchase of fully collateralized securities.

**Concentration of Investment Credit Risk** – The Corporation places no limit on the amount it may invest in any one issuer. At December 31, 2006, all of the Corporation's investments are with Wachovia and US banks.

#### **Governmental Unit Deposit Protection Act (GUDPA)**

The Corporation deposited cash in 2006 with an approved public fund depository qualified under the provisions of the Government Unit Deposit Protection Act.

The Governmental Unit Deposit Protection Act P.L. 1970, Chapter 236, was passed to afford protection against bankruptcy or default by a depository. C.17:9-42 provides that no governmental unit shall deposit funds in a public depository unless such funds are secured in accordance with this act. C.17:9-42 provides that every public depository having public funds on deposit shall, as security for such deposits, maintain eligible collateral having a market value at least equal to either (1) 5% of the average daily balance of collected public funds on deposit during the 6 month period ending on the next preceding valuation date (June 30 or December 31) or (2) at the election of the depository, at least equal to 5% of the average balance of collected public funds on deposit on the first, eighth, fifteenth, and twenty-second days of each month in the 6 month period ending on the next preceding valuation date (June 30 or December 31). No public depository shall be required to maintain any eligible collateral pursuant to this act as security for any deposit or deposits of any governmental unit to the extent such deposits are insured by F.D.I.C. or any other U.S. agency which insures public depository funds.

No public depository shall at any time receive and hold on deposit for any period in excess of 15 days public funds of a governmental unit(s) which, in the aggregate, exceed 75% of the capital funds of the depository, unless such depository shall, in addition to the security required to be maintained under the paragraph above, secure such excess by eligible collateral with a market value at least equal to 100% of such excess.

In the event of a default, the Commissioner of Banking within 20 days after the default occurrence shall ascertain the amount of public funds on deposit in the defaulting depository and the amounts covered by federal deposit insurance and certify the amounts to each affected governmental unit. Within 10 days after receipt of this certification, each unit shall furnish to the Commissioner verified statements of its public deposits. The Commissioner shall ascertain the amount derived or to be derived from the liquidation of the collateral maintained by the defaulting depository and shall distribute such proceeds pro rata among the governmental units to satisfy the net deposit liabilities to such units.

If the proceeds of the sale of the collateral are insufficient to pay in full the liability to all affected governmental units, the Commissioner shall assess the deficiency against all other public depositories having public funds on deposit determined by a formula determined by law. All sums collected by the Commissioner shall be paid to the governmental units having

## SJPC FINANCIAL STATEMENTS AND NOTES

### NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2006

Note 2. Cash and Cash Equivalents and Investments (continued):

deposits in the defaulting depository in the proportion that the net deposit liability to each such governmental unit bears to the aggregate of the net deposit liabilities to all such governmental units.

All public depositories are required to furnish information and reports dealing with public funds on deposit every six months, June 30th and December 31st, with the Commissioner of Banking. Any public depository which refuses or neglects to give any information so requested may be excluded by the

Commissioner from the right to receive public funds for deposit until such time as the Commissioner shall acknowledge that such depository has furnished the information requested.

Upon review and approval of the Certification Statement that the public depository complies with statutory requirements, the Commissioner issues forms approving the bank as a municipal depository. The Corporation should request copies of these approval forms semiannually to assure that all depositories are complying with requirements.

### Note 3. Property, Plant and Equipment

The following is a summary of property, plant and equipment at cost, less accumulated depreciation and amortization:

	BALANCE DECEMBER 31, 2005	ADDITIONS	DELETIONS/ ADJUSTMENTS	BALANCE DECEMBER 31, 2006
Land	\$ 18,266,823		\$31,506	\$ 18,235,317
Buildings & Improvements	35,522,901	\$ 4,666,921		40,189,822
Land Improvements	86,003,803	19,606,803	197,665	105,412,941
Equipment	12,111,550	10,474,667		22,586,217
Engineering & Other	5,158,427	1,332,411		6,490,838
Financing Costs	9,159,938			9,159,938
Subtotal	166,223,442	36,080,802	229,171	202,075,073
Less: Accumulated Depreciation and Amortization	68,444,201	5,462,430		73,906,631
Subtotal	97,779,241	30,628,371	229,171	128,168,442
Construction in Progress	34,322,872	1,756,161	36,079,033	-
Bond Discount and Financing	13,849,106			13,849,106
Total	\$145,951,219	\$32,374,533	\$36,308,204	\$142,017,548

## SJPC FINANCIAL STATEMENTS AND NOTES

### NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2006

#### NOTE 4. PENSION

##### A. Plan Description

The South Jersey Port Corporation's contributes to a cost-sharing multiple-employer defined benefit pension plan, Public Employees' Retirement System (P.E.R.S.), administered by the State of New Jersey, Division of Pensions and Benefits. It provides retirement, disability, medical and death benefits to plan members and beneficiaries. The State of New Jersey P.E.R.S. program was established as of January 1, 1955. The program was established under the provisions of *N.J.S.A.43:15A*, which assigns authority to establish and amend, benefit provisions to the plan's board of trustees. P.E.R.S. issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to: State of New Jersey, Department of the Treasury, Division of Pensions and Benefits, P.O. Box 295, Trenton, NJ 08625, or calling (609) 292-7524.

##### B. Funding Policy

The System's designated purpose is to provide retirement, death, disability and medical benefits to certain qualified members. Membership in the System is mandatory for substantially all full-time employees of the State of New Jersey or any county, municipality, school district or public agency, provided the employee is not required to be a member of another state-administered retirement system or other state or local jurisdiction. The System's Board of Trustees is primarily responsible for the administration of the System.

According to the State of New Jersey administrative code, all obligations of the System will be assumed by the State of New Jersey should the System terminate.

Plan members are required to contribute 5.0% of their annual covered salary, the South Jersey Port Corporation is required to contribute at an actuarially determined rate. The current rate represents approximately .0007% of annual covered payroll. The contribution requirements of plan members and the Corporation is established and may be amended by the plan's board of trustees. The South Jersey Port Corporation's contributions to P.E.R.S. for the years ending December 31, 2006, 2005 and 2004 were \$97,185, \$35,240 and \$ -0-, respectively, equal to the required contributions for each year.

##### C. Early Retirement Incentive Plan

In 2003 the State of New Jersey signed into Law the State Early Retirement Incentive (ERI) program as Chapter 23, PL. 2002. The ERI has a provision that allows optional participation in the program by certain State Autonomous Authorities. Participation is optional, as these organizations will have to bear the cost of the incentives provided to their employees who retire. The Board of Directors of the South Jersey Port Corporation adopted a resolution to allow its eligible employees to participate in the ERI program. In 2002 four employees elected to participate in the ERI. In 2003 an additional four employees elected to participate in the ERI. The liability to the Corporation is \$1,054,906 as of December 31, 2006. Payments for the liability will be spread over 30 years. Each consecutive year's payment would increase by 4.00%. All the payment schedules incorporate an annual percentage rate of interest equaling 8.25%. The Port made its payment towards the ERI Program in 2006 for \$63,942, which included principal and interest. A prior period adjustment was necessary to properly reflect the liability to the Corporation. (see Note 14)

The following is a summary of the Early Retirement Incentive Plan required payments for interest and principal:

YEAR	PRINCIPAL	INTEREST	TOTAL
2007	\$ (20,530)	\$ 87,030	\$ 66,500
2008	(19,563)	88,723	69,160
2009	(18,411)	90,337	71,926
2010	(17,053)	91,856	74,803
2011-2015	(56,085)	477,447	421,362
2016-2020	23,606	489,038	512,644
2021-2025	165,243	458,466	623,709
2026-2030	403,973	354,863	758,836
2031-2034	<u>593,726</u>	<u>130,107</u>	<u>723,833</u>
Total	<u>\$1,054,906</u>	<u>\$2,267,867</u>	<u>\$3,322,773</u>

## SJPC FINANCIAL STATEMENTS AND NOTES

### NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2006

#### NOTE 5. LONG-TERM DEBT

The following is a summary of long-term debt at December 31, 2006.

ISSUE	INITIAL DATE OF ISSUE	DATE OF FINAL MATURITY	INTEREST RATES	ORIGINAL ISSUE AMOUNT	PRINCIPAL BALANCE OUTSTANDING
Series 2002 K Marine Terminal Revenue & Revenue Refunding Bonds	12/01/02	01/01/33	4.00% 5.10%	\$79,295,000	\$ 74,470,000
Series 2002 L Marine Terminal Revenue & Revenue Refunding Bonds	12/01/02	01/01/24	4.00% 5.25%	42,030,000	35,845,000
Series 2003 M Marine Terminal Revenue Bonds	10/15/03	01/01/30	5.00%	11,305,000	<u>11,030,000</u>
Total					121,345,000
Less: Current Maturities Included in Current Liabilities					<u>4,655,000</u>
Balance					<u>\$116,690,000</u>

The following table sets forth the amount required for payment of principal and interest due on Series K, L, and M Bonds

(whether at maturity or by sinking fund redemption):

YEAR	PRINCIPAL	INTEREST	TOTAL
2007	\$ 4,655,000	\$ 5,781,678	\$ 10,436,678
2008	4,850,000	5,581,688	10,431,688
2009	5,045,000	5,372,088	10,417,088
2010	4,840,000	5,176,988	10,016,988
2011	5,035,000	4,972,793	10,007,793
2012-2016	27,315,000	21,305,610	48,620,610
2017-2021	30,825,000	14,395,594	45,220,594
2022-2026	18,130,000	7,659,430	25,789,430
2027-2031	14,905,000	3,755,941	18,660,941
Thereafter	<u>5,745,000</u>	<u>443,190</u>	<u>6,188,190</u>
Total	<u>\$121,345,000</u>	<u>\$74,445,000</u>	<u>\$195,790,000</u>

a) On December 1, 2002, the South Jersey Port Corporation performed current refunding of Marine Terminal Revenue Bonds Series E, F, G, H and J. The Corporation issued Series K (\$79,295,000) and L Series (\$42,030,000) Marine Terminal Revenue and Revenue Refunding Bonds to provide resources to purchase U.S. Government Securities that were placed in an irrevocable trust for the purpose of generating resources for all future debt service payments of the refunded debt. As a result,

the refunded bonds are considered to be defeased and the liability has been removed from the Corporation's outstanding obligations. This current refunding was undertaken to increase total debt service payments over the next 20 years by \$433,564 and to obtain an economic gain (difference between the present value of the debt service payments of the Refunded and Refunding Bonds) of \$1,822,182.

## SJPC FINANCIAL STATEMENTS AND NOTES

### NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2006

Note 5. Long-Term Debt (continued):

The net proceeds of the Series 2002 Bonds, together with other funds, are being used to pay the costs of a project (the "2002 Project") of the Corporation consisting generally of : (i) the current refunding of five separate series of revenue bonds previously issued by the Corporation in 1989, 1993 and 1999; (ii) financing the costs of certain capital projects of the Corporation; (iii) funding interest on a portion of the Series 2002 Bonds during the estimated construction period of the capital projects; (iv) funding a deposit to the Debt Reserve Fund and the Tax Reserve Fund established under the Bond Resolution; and (v) paying the costs of issuance of the Series 2002 Bonds.

b) On October 15, 2003 the Corporation issued \$11,305,000 Marine Terminal Revenue Bonds, Series M. The Series M Bonds were issued to provide funds to (i) fund the implementation of certain capital projects; (ii) fund interest on the 2003 Bonds through the estimated construction period of the 2003 capital project; (iii) fund a deposit to the Debt Reserve Fund, and (iv) pay the cost of issuing of the Series 2003 Bonds.

The following is a summary detailing the schedule of outstanding bonds by year, series and the annual debt principal requirements for each:

ISSUE YEAR	.....SERIES K.....		.....SERIES L.....		.....SERIES M.....		TOTAL PRINCIPAL
	ANNUAL PRINCIPAL	INTEREST RATE	ANNUAL PRINCIPAL	INTEREST RATE	ANNUAL PRINCIPAL	INTEREST RATE	
2007	\$ 1,820,000	3.20	2,555,000	5.00	280,000	5.00	4,655,000
2008	1,880,000	3.25	2,685,000	5.00	285,000	5.00	4,850,000
2009	1,930,000	3.50	2,820,000	4.00	295,000	5.00	5,045,000
2010	2,020,000	4.00	2,515,000	4.30	305,000	5.00	4,840,000
2011	2,100,000	4.10	2,620,000	4.40	315,000	5.00	5,035,000
2012	2,190,000	4.20	2,735,000	4.60	325,000	5.00	5,250,000
2013	2,270,000	4.40	2,870,000	5.25	340,000	5.00	5,480,000
2014	3,575,000	4.40	1,350,000	4.80	350,000	5.00	5,275,000
2015	3,750,000	4.50	1,410,000	4.80	365,000	5.00	5,525,000
2016	3,920,000	4.50	1,480,000	5.00	385,000	5.00	5,785,000
2017	4,090,000	4.50	1,560,000	5.00	400,000	5.00	6,050,000
2018	4,280,000	4.75	1,635,000	5.00	420,000	5.00	6,335,000
2019	4,485,000	4.85	-	-	440,000	5.00	4,925,000
2020	4,700,000	5.00	-	-	-	-	4,700,000
2021	-	-	-	-	-	-	-
2022	-	-	-	-	1,445,000	5.00	1,445,000
2023	8,645,000	5.00	8,620,000	5.20	-	-	17,265,000
2024	-	-	990,000	5.25	-	-	990,000
2025	-	-	-	-	1,670,000	5.00	1,670,000
2026	4,960,000	5.00	-	-	-	-	4,960,000
2027	-	-	-	-	-	-	-
2028	-	-	-	-	-	-	-
2029	-	-	-	-	-	-	-
2030	-	-	-	-	3,410,000	5.00	3,410,000
2031	-	-	-	-	-	-	-
2032	-	-	-	-	-	-	-
2033	<u>17,855,000</u>	5.10	<u>-</u>	-	<u>-</u>	-	<u>17,855,000</u>
Total	<u>\$74,470,000</u>		<u>\$35,845,000</u>		<u>\$11,030,000</u>		<u>\$121,345,000</u>

## SJPC FINANCIAL STATEMENTS AND NOTES

### NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2006

Note 5. Long-Term Debt (continued):

The following is a summary detailing the schedules of annual sinking fund payment requirements by year and series:

ISSUE YEAR	SERIES K	SERIES L	SERIES M	TOTAL
2019	\$ -	\$1,710,000	\$ -	\$ 1,710,000
2020	-	1,805,000	460,000	2,265,000
2021	2,740,000	1,620,000	480,000	4,840,000
2022	2,880,000	1,700,000	505,000	5,085,000
2023	3,025,000	1,785,000	530,000	5,340,000
2024	895,000	990,000	555,000	2,440,000
2025	1,985,000	-	585,000	2,570,000
2026	2,080,000	-	615,000	2,695,000
2027	2,185,000	-	645,000	2,830,000
2028	2,300,000	-	680,000	2,980,000
2029	2,415,000	-	715,000	3,130,000
2030	2,540,000	-	755,000	3,295,000
2031	2,670,000	-	-	2,670,000
2032	2,800,000	-	-	2,800,000
2033	<u>2,945,000</u>	<u>-</u>	<u>-</u>	<u>2,945,000</u>
Total	<u>\$31,460,000</u>	<u>\$9,610,000</u>	<u>\$6,525,000</u>	<u>\$47,595,000</u>

The following Term Bonds are subject to mandatory sinking fund redemption prior to maturity on January 1 of each of the years and in the respective principle amounts set forth below at a redemption price of 100% of the principle amount plus accrued interest to the date of redemption:

#### Series K - Bonds Maturing January 1, 2023

YEAR	PRINCIPAL AMOUNT
2021	\$2,740,000
2022	2,880,000
2023	<u>3,025,000</u>
Total	<u>\$8,645,000</u>

#### Series K - Bonds Maturing January 1, 2033

YEAR	PRINCIPAL AMOUNT
2027	\$2,185,000
2028	2,300,000
2029	2,415,000
2030	2,540,000
2031	2,670,000
2032	2,800,000
2033	<u>2,945,000</u>
Total	<u>\$17,855,000</u>

#### Series K - Bonds Maturing January 1, 2026

YEAR	PRINCIPAL AMOUNT
2024	\$ 895,000
2025	1,985,000
2026	<u>2,080,000</u>
Total	<u>\$4,960,000</u>

#### Series L - Bonds Maturing January 1, 2023

YEAR	PRINCIPAL AMOUNT
2019	\$1,710,000
2020	1,805,000
2021	1,620,000
2022	1,700,000
2023	<u>1,785,000</u>
Total	<u>\$8,620,000</u>

## SJPC FINANCIAL STATEMENTS AND NOTES

### NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2006

Note 5. Long-Term Debt (continued):

Series L - <u>Bonds Maturing January 1, 2024</u>		Series M - <u>Bonds Maturing January 1, 2025</u>	
YEAR	PRINCIPAL AMOUNT	YEAR	PRINCIPAL AMOUNT
2024	<u>\$990,000</u>	2023	\$ 530,000
		2024	555,000
		2025	<u>585,000</u>
		Total	<u>\$1,670,000</u>
Series M - <u>Bonds Maturing January 1, 2022</u>		Series M - <u>Bonds Maturing January 1, 2030</u>	
YEAR	PRINCIPAL AMOUNT	YEAR	PRINCIPAL AMOUNT
2020	\$ 460,000	2026	\$ 615,000
2021	480,000	2027	645,000
2022	<u>505,000</u>	2028	680,000
		2029	715,000
Total	<u>\$1,445,000</u>	2030	<u>755,000</u>
		Total	<u>\$3,410,000</u>

The Series 2002 Bonds maturing before January 1, 2014 are not subject to optional redemption prior to their stated maturities. The Series 2002 Bonds maturing on or after January 1, 2014 are subject to redemption prior to maturity, at the option of the Corporation, as a whole or in part at anytime on or after January 1, 2013. Any such redemption shall be made at a redemption price of 100% of the principle amount plus accrued interest.

The Series 2003 Bonds maturing before January 1, 2015 are not subject to optional redemption prior to their stated maturities. The Series 2003 Bonds maturing on or after January 1, 2015 are subject to redemption prior to maturity, at the option of the Corporation, as a whole or in part at any time on or after January 1, 2014. Any such redemption shall be made at a redemption price of 100% of the principle amount plus accrued interest.

#### **Note 6. Self-Insurance Fund**

The Port Corporation is self insured for health care benefits under third party "administrative services only" plan arrangement. Claims are paid on a claims basis. The Port Corporation assumes liability for health claims up to \$35,000 for each individual, except for one employee at \$75,000, on an annual basis and up to \$1,900,120 annually for all enrollees on an aggregate basis. For amounts in excess of individual and aggregate coverage, a commercial insurance policy has been obtained. In 2007, the Port Corporation will assume liability for health claims up to \$40,000 for each individual on an annual basis.

#### **Note 7. Economic Dependency**

The South Jersey Port Corporation depends upon the State of New Jersey for economic assistance. Under the provisions of the South Jersey Port Corporation Act, the Board Chairman of the Corporation annually certifies to the State of New Jersey the amounts required to maintain certain reserve balances in the debt service and debt service reserve accounts and also in the tax maintenance reserve account.

## SJPC FINANCIAL STATEMENTS AND NOTES

### NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2006

#### Note 8. Deferred Compensation Plan

Employees of the South Jersey Port Corporation may participate in the New Jersey State Employees' Deferred Compensation Plan. The Plan was established by New Jersey Public Law 1978, Chapter 39 and is subject to compliance with Section 457 of the Internal Revenue Code. The New Jersey State Employees' Deferred Compensation Board is the governing body of the Plan.

#### Note 9. PILOT Payments

**County PILOT Payments** - The Corporation has entered into a 2006 payment in lieu of tax agreement with the County requiring the Corporation to make payment of four hundred nineteen thousand dollars (\$419,000) in the calendar year 2006. An appropriation of \$419,000 will be required from the State to make payment to the 2006 County of Camden "PILOT Tax Agreement".

Pursuant to *N.J.S.A.12:11A20* the amounts are credited to the "South Jersey Port Corporation Tax Reserve Fund". (See Schedule in Supplementary Schedules)

**City of Salem PILOT Payments** - The Corporation has entered into a 2006 payment in lieu of tax agreement with the City of Salem requiring the Corporation to make payment of twenty-two thousand four hundred thirteen dollars (\$25,410) in the in the calendar year 2006. An appropriation of \$25,410 will be required from the State to make payment to the 2006 City of Salem "PILOT Tax Agreement".

Pursuant to *N.J.S.A.12:11A20* the amounts are credited to the "South Jersey Port Corporation Tax Reserve Fund". (See Schedule in Supplementary Schedules)

**Borough of Paulsboro PILOT Payments** - The Corporation has entered into a 2006 payment in lieu of tax agreement with the Borough requiring the Corporation to make annual payments of five hundred thousand dollars (\$500,000) plus 2% of the value of the Building and 1% of the value of the Land that will be subleased to private companies. As of December 31, 2006 Paulsboro had not acquired the full site to sublease to South Jersey Port Corporation. Negotiations are ongoing over the amount of the PILOT, if any, that will be paid to the Borough of Paulsboro for 2006. The enabling legislation of the South Jersey Port Corporation requires that the State of New Jersey will fund/ replenish the Property Tax Reserve Fund of the Corporation for

any such monies owed on PILOT agreements such as the PILOT agreement with the Borough of Paulsboro. No payments have been made to date. See Note 16.

**City of Camden PILOT Payments** - The Corporation has entered into a 2006 payment in lieu of tax agreement with the City of Camden requiring the Corporation to make payment of two million dollars (\$2,000,000) in the in the calendar year 2006. An appropriation of \$2,000,000 will be required from the State to make payment to the 2006 City of Camden "PILOT Tax Agreement". In December 2005, the Board of Directors of the Corporation also approved a Resolution extending the 2% and 1% formula to the City of Camden. The 2% and 1% formula was not included in the 2006 PILOT agreement.

**County of Gloucester PILOT Payments** - The Corporation has entered into a 2006 payment in lieu of tax agreement with the County requiring the Corporation to make annual payments of one hundred fifty thousand dollars (\$150,000). An appropriation of \$150,000 will be required from the State to make any future payments. No payments have been made to date. See Note 16.

#### Note 10. Litigation - Complaint With Weeks Marine, Inc.

The South Jersey Port Corporation has filed a declaratory judgment and breach of contract action against its insurer Lexington/AIG for losses it sustained when Pier 1 and Pier 2 at Beckett Street Terminal collapsed on August 18, 2001, August 22, 2001 and December 5, 2001.

Under the terms of the policy of insurance issued by Lexington, defendants agreed to insure plaintiff's real and personal property, contractors' equipment, pier and loss of income at the Broadway and Beckett Street Terminals, Camden, New Jersey. The South Jersey Port Corporation provided formal, written notice of the claim November 14, 2001 and on November 30, 2001, SJPC presented defendant with full and complete written proof of the insured loss on the property, which was supplemented on December 11, 2001, stating the interest of plaintiff and others in the property, the amount of loss, and giving all other particulars requested by defendants.

By letter dated December 13, 2001, defendants acknowledged coverage for a portion of the claim and Proof of Loss in the amount of \$1,815,926.74 and rejected the remainder of the claim and Proof of Loss. As a result of defendants' failure and

## SJPC FINANCIAL STATEMENTS AND NOTES

### NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2006

Note 10. Litigation -  
Complaint with Weeks Marine, Inc. (continued):

refusal to provide full and complete coverage for the losses, the South Jersey Port Corporation filed suit to recover damages in excess of \$13,500,000.

Claims were filed by SJPC against Weeks Marine for losses sustained as a result of the collapse of Berths 1 and 2. Cross-claims were also filed against S.T. Hudson Engineers, Inc. and Hill International, Inc., which also filed claims against Weeks Marine. SJPC alleges that Weeks, Hudson and Hill were negligent in the design and construction of the Battleship Memorial Pier which is located adjacent to Berths 1 and 2 of the Beckett Street Marine Terminal and that the pile driving during construction of the Memorial Pier caused to collapse of Berths 1 and 2.

On February 19, 2004, the Corporation settled its insurance claim with Lexington/AIG for a total cash payment in the amount of \$7,300,000 (\$5,500,000 plus the \$1,800,000 previously paid). An insurance receivable of \$5,500,000 is recorded in the Corporation's 2003 financial statements. The \$5,500,000 was received in its entirety in 2004.

The Corporation was granted the waiver and assignment of Lexington/AIG's subrogation rights in any claim against the direct tortfeasor(s). This allowed SJPC to proceed with its direct action against these parties and any settlement or judgment would not be subject to reduction on the basis of Lexington/AIG's subrogation right.

In 2006 the Federal District Court precluded the Corporation from recovering under their claim concluding it would be double recovery as the Corporation had already recovered in excess of the depreciated value of the Piers. The corporation has appealed the Federal Court decision and filed a notice of appeal before the Third Circuit Court of Appeals. The Corporation asserts that there is no double recovery as it has not recovered the replacement value of the Piers to which it was entitled under the insurance policy.

#### **Note 11. Threatened Litigation**

The Corporation is a defendant in several lawsuits pertaining to the liability of the Corporation, each of which is covered by the liability insurance coverage carried by the Corporation.

#### **Note 12. Refrigerated Warehouse Leases**

The Corporation entered into a lease between the Corporation, the Delaware Port Authority (DRPA) and the Del Monte Corporation. The lease is structured in the following manner:  
Note 12. Refrigerated Warehouse Leases (continued):

South Jersey Port Corporation owns real property, which was ground-leased to DRPA. DRPA has constructed a building thereon to be used by Del Monte. Del Monte will lease the building from the Corporation pursuant to the terms of a sublease, and the Corporation will in turn lease the building from DRPA pursuant to a lease. The term of the lease and ground-lease will be approximately twenty (20) years. The sublease of Del Monte is a ten (10)-year lease with two (2) five (5)-year renewals exercisable at the option of Del Monte. Del Monte will pay approximately \$1,200,000 per year, \$500,000 of which will be paid to DRPA/PPC to satisfy SJPC's lease obligation and \$700,000 will be paid to SJPC to pay for the ground portion as well as other facilities owned by the Corporation. The Corporation will ground-lease the real property to DRPA for \$1.00 per year. The lease between DRPA and the Corporation will provide that the obligation to pay rent on the part of the Corporation shall be a special obligation payable solely from the proceeds of the Del Monte lease payments or in the event Del Monte does not exercise, other tenants who may use the facility. Although the DRPA/PPC - SJPC lease will have a nominal twenty (20) year period, the term of the lease shall extend until entire rent stream has been paid, i.e. \$500,000 per year x 20 years or \$10,000,000. Therefore, if there is no tenant or Del Monte is not making payments, the lease payments are still due and owing by the Corporation. The rents will accrue although there will be no interest payable on the non-paid rent.

## SJPC FINANCIAL STATEMENTS AND NOTES

### NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2006

#### **Note 13. Capital Projects and Funding Sources**

The South Jersey Port Corporation has several on going capital projects as of December 31, 2006. The following is a summary of these projects and funding:

During 2001 South Jersey Port Corporation entered into a Capital Lease with the Delaware River Port Authority in the amount of \$2,000,000 for electrical substation upgrades at the Broadway terminal. The lease term is twenty years at no interest rate. As of the date of this report no payments have been made on the lease.

The Corporation completed construction of a 55,000 square foot refrigerated warehouse at its Broadway Terminal in 2005. The refrigerated building was constructed from prior Corporation bond proceeds and is leased to the Del Monte Tropical Fruit Company. The cost was \$6,099,371 to construct.

Also in 2005, the Corporation completed the replacement of its outdated fire water system at the Broadway Terminal. The \$753,296 cost of the new system was funded through prior Corporation bond proceeds.

In 2006, the Corporation completed construction of a 55,000 square foot storage building at its Beckett Street Terminal. The building is needed to accommodate the growing steel and woods product imports. It cost \$4,791,416 to construct. A railroad upgrade crossing project was completed at the Broadway terminal in 2006 at a cost of \$259,224. Also in 2006, a project to add additional support to a pier seawall at the Broadway Terminal was completed. The cost was \$361,000. All of these 2006 projects were funded through prior Corporation bond issues.

During 2007, the Corporation will commence demolition of an unused administration building at its Broadway Terminal. Estimated cost including engineering will be approximately \$900,000. The project will be funded through prior Corporation bond issues.

#### **Note 14. Port of Salem**

On February 12, 2003 Salem Terminals Limited, LLC informed the Port Corporation that it was vacating on September 1, 2004, the Port leased the Salem Terminal facilities to National Docks. The term of the lease is for ten years with two 5 year options.

The premises will be used, maintained and operated as an active marine shipping terminal for the handling, on and off the water, of bulk materials, such as sand, gravel and stone or any other commodity typical to water and truck borne transport. The premises shall also be used in the transport of commercial products to locations in Delaware, New Jersey, Pennsylvania and Maryland, via barge, and in the building for commercial processing and bagging operations for value added products.

The base rent for the first 5 years is \$5,000 per month. This rental rate of \$5,000 per month is discounted by 50% or \$2,500 per month. The rent abatement for 60 months is to rebate the tenant up to \$150,000 for site repairs and upgrading.

The rental rate for the second 5 years is \$5,000 per month in addition to a surcharge of \$.20 per ton shipped by National Docks thru the Port of Salem by water.

#### **Note 15. Beginning Net Assets Adjustment (Change in Accounting Estimate)**

The following schedule reconciles January 1, 2005, net assets as previously reported, to beginning net assets, as restated, to include a change in accounting estimate:

January 1, 2005 Net Assets as Previously Stated	\$39,560,736
Change in Accounting Estimate:	
General Long-Term Debt – Early Retirement Payable	(453,068)
January 1 Retained Earnings/ Net Assets Restated (Exhibit A-2)	<u>\$39,107,668</u>

During 2005 the New Jersey Division of Pension recomputed the Corporation's liability under the Early Retirement Incentive Program. The previous liability calculated by the Division of Pension for \$563,221 was erroneous. The corrected liability amounts to \$1,033,578 a prior period adjustment of \$453,068 was required to properly record this liability.

#### **Note 16. Paulsboro Port Agreement**

The South Jersey Port Corporation is authorized by Chapter 60 of the Pamphlet Laws of 1968, *N.J.S.A. 12:11A-1* et seq. (the "Act") to build and operate Port facilities in the South Jersey Port District

## SJPC FINANCIAL STATEMENTS AND NOTES

### NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2006

Note 16. Paulsboro Port Agreement (continued):

("Port District"), which includes Gloucester County. The Corporation must replace essential port facilities at Beckett Street terminal lost in a pier collapse and has explored the possibilities for doing so in the Port District.

On February 1, 2006, representatives of the Borough of Paulsboro, County of Gloucester and the South Jersey Port Corporation (SJPC) signed agreements under which the SJPC will develop a major port facility in Paulsboro on a 190-acre site on the Delaware River. The new port will expand the facilities and operations of the SJPC, which will continue to operate Ports of Camden and Salem.

The Port of Paulsboro will be developed by the SJPC on a 190-acre site comprised of the former British Petroleum Oil Refinery in Paulsboro and the adjacent 60-acre Essex Chemical site of the Dow Corporation.

The major highlights of the agreement and about the planned Port of Paulsboro are as follows:

- Paulsboro controls the site by virtue of its long-term lease to the Borough by British Petroleum and will in turn lease it to the SJPC for port development.
- The SJPC will be responsible for planning, designing and constructing the port and its facilities.
- The SJPC will undertake all environmental permit applications and port facilities will conform to any environmental permitting requirements. British Petroleum is the responsible party for the environmental cleanup of the refinery site.
- The SJPC expects the first phase of port development to call for an investment of \$100 million to \$135 million with full build out of the port anticipated to generate total public and private investment of \$250 million.
- The port will be built and will operate as a companion port to the SJPC Ports of Camden and Salem, which will continue current vibrant operations.
- Gloucester County will construct a \$16 million overpass to connect Interstate 295 with the port, to assure that port traffic does not travel through Paulsboro on local streets.

- Gloucester County will be reimbursed for the bypass costs by the New Jersey Department of Transportation

#### **Note 17. Reserve for Inventory of Supplies**

Inventories are valued at historical cost. The costs of inventories in Business-Type Activities are recorded as expenditures when purchased. The Corporation established their inventory of supplies in 2005, currently valued at \$1,117,572 as of December 31, 2006.

#### **Note 18. Post-Retirement Health Benefits**

The Port Corporation provides health care benefits to its eligible retired employees. In order for a retiree to be eligible to receive retirement benefits from the Corporation the following conditions must be met:

- A. Employees must have been actively employed for the Corporation on or after October 1, 1986.
- B. If an Employee retires under age 60, he/she must be eligible to collect a State Pension.
- C. If an Employee retires over age 60, the Employee must have fifteen years of service.

Eligible retirees meeting the above requirements cannot have hospitalization insurance from another source. In addition, the retired Employee, his/her spouse and dependants, as defined in the plan, will be covered until said Employee reaches age 65. Should the Employee not reach age 65, his/her spouse and dependants will nevertheless be covered during the period up to the time the Employee would have reached the age of 65.

The Corporation currently has eight eligible retired employees receiving retirement benefits. Aggregate costs to the Corporation to provide benefits to the retirees for the year ended December 31, 2006, was \$256,297.

#### **Note 19. Subsequent Events**

The South Jersey Port Corporation is currently in the process of drafting disclosure documents in order to sell Marine Terminal Revenue Bonds, up to approximately twelve million one hundred thousand dollars (\$12,100,000).

## SJPC FINANCIAL STATEMENTS AND NOTES

### NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2006

#### Note 19. Subsequent Events (continued):

The 2007 Bonds are being issued pursuant to the Act and the Marine Terminal Revenue Bond Resolution of the Corporation adopted on June 5, 1985, as amended and supplemented (as so amended and supplemented, the "General Bond Resolution"), as further supplemented by the Ninth Supplemental Marine Terminal Revenue Bond Resolution of the Corporation adopted June 8, 2005 (the "Ninth Supplemental Resolution"), the Tenth Supplemental Marine Terminal Revenue Bond Resolution of the Corporation adopted October 31, 2006 (the "Tenth Supplemental Resolution"), and the Eleventh Supplemental Marine Terminal Revenue Bond Resolution of the Corporation adopted January 18, 2007 (the "Eleventh Supplemental Resolution", and, collectively with the Ninth Supplemental Resolution, the Tenth Supplemental Resolution and the General Bond Resolution, the "Bond Resolution").

The anticipated 2007 bond projects and related costs, net of issuance and debt service, are as follows; A cocoa bean warehouse project at the Broadway Terminal in the amount of approximately \$2,500,000. This is needed to support increased cocoa bean tonnage. A new warehouse, to be constructed at the Broadway Terminal, to support increased wood and steel tonnage, and also attract new business, at a cost of \$3,600,000. Cathodic protection is needed for the piers and berths at both the Beckett Street and Broadway Terminals. Cathodic protection is designed to stop corrosion of steel beams supporting the piers and berths. This project will cost approximately \$3,000,000. Site development is required for the Port of Paulsboro. The initial costs are approximately \$1,850,000.

## SJPC FINANCIAL STATEMENTS AND NOTES

### NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2006

#### COMPARATIVE STATEMENT OF OPERATING REVENUES AND EXPENSES ACTUAL COMPARED TO BUDGET FOR THE YEAR ENDED DECEMBER 31, 2006 AND 2005

	2006			2005		
	ORIGINAL BUDGET	MODIFIED BUDGET	ACTUAL	ORIGINAL BUDGET	MODIFIED BUDGET	ACTUAL
Operating Revenues:						
Marine Direct:						
Leases - Marine Direct	\$4,785,967	4,785,967	4,797,359	2,923,724	2,923,724	3,589,709
Crane Rental	2,059,433	2,059,433	1,930,873	1,429,740	1,429,740	1,824,755
Dockage	2,343,226	2,343,226	3,054,502	1,610,963	1,610,963	2,362,244
Handling	8,033,233	8,033,233	9,206,261	5,991,220	5,991,220	7,352,513
Storage	2,903,459	2,903,459	2,117,092	1,938,180	1,938,180	2,741,145
Wharfage	3,696,563	3,696,563	4,468,575	2,821,500	2,821,500	3,441,286
Stevedoring	2,100,000	2,100,000		775,000	775,000	
Demurrage	75,000	75,000	60,987	75,000	75,000	72,260
<b>Total Marine Direct</b>	<b>25,996,881</b>	<b>25,996,881</b>	<b>25,635,649</b>	<b>17,565,327</b>	<b>17,565,327</b>	<b>21,383,912</b>
Marine Related:						
Leases - Industrial	836,789	836,789	845,004	800,425	800,425	1,118,998
Utilities	1,425,395	1,425,395	1,248,374	950,000	950,000	1,282,491
Port of Salem Revenue		50,000	65,000			45,000
Miscellaneous	150,000	150,000	157,059	425,000	425,000	142,742
<b>Total Marine Related</b>	<b>2,412,184</b>	<b>2,462,184</b>	<b>2,315,437</b>	<b>2,175,425</b>	<b>2,175,425</b>	<b>2,589,231</b>
Other Income:						
Income on Investments	175,000	175,000	509,358	400,000	400,000	219,391
Grant Revenue			715,000			
Miscellaneous	75,000	75,000	97,569	150,000	150,000	111,789
<b>Total Other Income</b>	<b>250,000</b>	<b>250,000</b>	<b>1,321,927</b>	<b>550,000</b>	<b>550,000</b>	<b>331,180</b>
<b>Total Revenues</b>	<b>\$28,659,065</b>	<b>28,709,065</b>	<b>29,273,013</b>	<b>20,290,752</b>	<b>20,290,752</b>	<b>24,304,323</b>
Operating Expenses:						
Port Operations:						
Labor Expense:						
Labor Crane	\$366,820	366,820	302,005	153,933	153,933	282,561
Labor Handling	2,600,901	2,600,901	2,666,439	2,054,520	2,054,520	2,413,944
Labor Repairs & Maintenance	883,058	883,058	685,776	720,214	720,214	794,529
Security	591,770	591,770	566,773	550,790	550,790	558,150
Supervisors	814,281	814,281	918,532	756,435	756,435	750,696
<b>Total Labor Expense</b>	<b>5,256,830</b>	<b>5,256,830</b>	<b>5,139,525</b>	<b>4,235,892</b>	<b>4,235,892</b>	<b>4,799,880</b>
Payroll Taxes	536,585	536,585	503,125	406,031	406,031	475,210
Workers Compensation Insurance	646,000	646,000	642,418	450,000	450,000	522,921
Employee Benefits:						
Hospitalization	1,100,000	1,100,000	1,261,705	780,064	780,064	1,128,682
Vacation, Holiday, Sick, Pension	615,000	615,000	636,963	475,000	475,000	562,451
<b>Total Employee Benefits</b>	<b>2,897,585</b>	<b>2,897,585</b>	<b>3,044,211</b>	<b>2,111,095</b>	<b>2,111,095</b>	<b>2,689,264</b>
Crane Rental - Gas & Oil	175,000	175,000	98,038	45,000	45,000	103,648

## SJPC FINANCIAL STATEMENTS AND NOTES

### NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2006

#### COMPARATIVE STATEMENT OF OPERATING REVENUES AND EXPENSES ACTUAL COMPARED TO BUDGET FOR THE YEAR ENDED DECEMBER 31, 2006 AND 2005

	2006			2005		
	ORIGINAL BUDGET	MODIFIED BUDGET	ACTUAL	ORIGINAL BUDGET	MODIFIED BUDGET	ACTUAL
Operating Expenses (Continued):						
Handling:						
Gas & Oil	400,000	400,000	321,132	175,000	175,000	311,813
Miscellaneous	125,000	125,000	130,535	75,000	75,000	117,270
Stevedoring	2,100,000	2,100,000		750,000	750,000	
Trucking Expenses	350,000	350,000	253,985	100,000	100,000	285,886
Clerking & Checking	2,650,000	2,650,000	3,168,483	2,250,933	2,250,933	2,233,600
<b>Total Handling</b>	<b>5,625,000</b>	<b>5,625,000</b>	<b>3,874,135</b>	<b>3,350,933</b>	<b>3,350,933</b>	<b>2,948,569</b>
Rental of Equipment	125,000	125,000	127,430	50,000	50,000	85,018
Trash Removal	200,000	200,000	158,806	115,000	115,000	173,060
Lease Agreements	594,005	594,005	560,383	535,000	535,000	589,505
Security:						
Contracted Services	10,000	10,000	7,278	50,000	50,000	184
Other Expenses	35,000	35,000	20,888	10,000	10,000	16,404
<b>Total Security</b>	<b>45,000</b>	<b>45,000</b>	<b>28,166</b>	<b>60,000</b>	<b>60,000</b>	<b>16,588</b>
Port of Salem Operations	64,565	64,565	45,119	62,355	62,355	37,799
Utilities	2,200,000	2,200,000	2,061,886	1,625,000	1,625,000	1,913,678
<b>Total Port Operations</b>	<b>17,182,985</b>	<b>17,182,985</b>	<b>15,137,699</b>	<b>12,190,275</b>	<b>12,190,275</b>	<b>13,357,009</b>
Repairs & Maintenance:						
Buildings & Grounds:						
Contracted	300,000	300,000	1,926,916	150,000	150,000	245,005
Fees & Permits	150,000	150,000	17,726	200,000	200,000	139,999
Materials	225,000	225,000	197,737	7,500	7,500	200,762
<b>Total Buildings &amp; Grounds</b>	<b>675,000</b>	<b>675,000</b>	<b>2,142,379</b>	<b>357,500</b>	<b>357,500</b>	<b>585,766</b>
Cranes:						
Contracted	120,000	120,000	144,002	50,000	50,000	93,994
Materials	80,000	80,000	129,021	60,000	60,000	72,727
<b>Total Cranes</b>	<b>200,000</b>	<b>200,000</b>	<b>273,023</b>	<b>110,000</b>	<b>110,000</b>	<b>166,721</b>
Mobile Machinery & Equipment:						
Contracted	75,000	75,000	92,269	100,000	100,000	57,886
Equipment	50,000	50,000	65,548	100,000	100,000	35,356
Materials	400,000	400,000	291,149	350,000	350,000	310,324
Small Tools	20,000	20,000	40,667	15,000	15,000	16,274
<b>Total Mobile Machinery &amp; Equipment</b>	<b>545,000</b>	<b>545,000</b>	<b>489,633</b>	<b>565,000</b>	<b>565,000</b>	<b>419,840</b>
<b>Total Repairs &amp; Maintenance</b>	<b>1,420,000</b>	<b>1,420,000</b>	<b>2,905,035</b>	<b>1,032,500</b>	<b>1,032,500</b>	<b>1,172,327</b>

## SJPC FINANCIAL STATEMENTS AND NOTES

### NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2006

#### COMPARATIVE STATEMENT OF OPERATING REVENUES AND EXPENSES ACTUAL COMPARED TO BUDGET (continued) FOR THE YEAR ENDED DECEMBER 31, 2006 AND 2005

	2006			2005		
	ORIGINAL BUDGET	MODIFIED BUDGET	ACTUAL	ORIGINAL BUDGET	MODIFIED BUDGET	ACTUAL
Operating Expenses (Continued):						
General & Administrative:						
Labor - Office Clerical & Related	1,006,598	1,006,598	1,029,288	896,264	896,264	928,267
Labor - Administrative	682,043	682,043	652,139	518,780	518,780	621,391
Payroll Taxes	141,862	141,862	146,035	116,033	116,033	126,301
Workmen's Compensation	3,600	3,600	3,327	3,600	3,600	3,600
Employee Benefits:						
Hospitalization	650,000	650,000	745,317	395,136	395,136	642,842
Pension	150,000	150,000	181,190	25,000	25,000	84,259
Insurance	1,800,000	1,800,000	2,165,355	1,633,300	1,633,300	1,811,415
Professional Fees	1,007,500	1,007,500	914,383	816,000	816,000	935,326
Miscellaneous	483,000	483,000	490,350	395,000	395,000	414,554
Vessel Delay Expense						250,000
Telephone	75,000	75,000	66,610	84,000	84,000	67,687
Utilities	35,000	35,000	30,000	30,000	30,000	30,000
Bad Debt	100,000	100,000	68,406	40,000	40,000	96,496
<b>Total General &amp; Administrative</b>	<b>6,134,603</b>	<b>6,134,603</b>	<b>6,492,400</b>	<b>4,953,113</b>	<b>4,953,113</b>	<b>6,012,138</b>
<b>Total Operating Expenses</b>	<b>24,737,588</b>	<b>24,737,588</b>	<b>24,535,134</b>	<b>18,175,888</b>	<b>18,175,888</b>	<b>20,541,474</b>
<b>Operating Income Before Other Operating Expenses</b>	<b>\$3,921,477</b>	<b>3,971,477</b>	<b>4,737,879</b>	<b>2,114,864</b>	<b>2,114,864</b>	<b>3,762,849</b>

## SJPC FINANCIAL STATEMENTS AND NOTES

### NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2006

#### STATEMENT OF NET ASSETS DECEMBER 31, 2006

ASSETS	UNRESTRICTED OPERATING ACCOUNTS	RESTRICTED			CONSTRUCTION ACCOUNT	TAX RESERVE ACCOUNT	TOTAL
		DEBT SERVICE ACCOUNT	DEBT SERVICE RESERVE ACCOUNT	MAINTENANCE RESERVE ACCOUNT			
Current Assets:							
Cash & Cash Equivalents	\$4,483,618	3,251,137	7,323,692		4,576,003		19,634,450
Investments							
Accounts Receivable (Net of Allowance for Doubtful Accounts of \$385,178)	3,079,362						3,079,362
Due from State			6,878,287				6,878,287
Other Accounts Receivable	445,753				445,753		
Grant Receivable					327,650		327,650
Notes Receivable	26,254						26,254
Prepaid Expenses	1,362,132						1,362,132
Inventory of Supplies	1,117,572						1,117,572
Interfund Accounts Receivable	5,072,261	4,160,523	1,758,214	510,175	13,493,147		24,994,320
<b>Total Current Assets</b>	<b>15,586,952</b>	<b>7,411,660</b>	<b>15,960,193</b>	<b>510,175</b>	<b>18,396,800</b>		<b>57,865,780</b>
Property, Plant & Equipment (Note 3)					202,075,073		202,075,073
Construction in Progress					13,849,106		13,849,106
Bond Discount & Financing Costs							
<b>Subtotal</b>					<b>215,924,179</b>		<b>215,924,179</b>
Accumulated Depreciation & Amortization					73,906,631		73,906,631
<b>Total Property, Plant &amp; Equipment &amp; Construction in Progress</b>					<b>142,017,548</b>		<b>142,017,548</b>
<b>Total Assets</b>	<b>\$15,586,952</b>	<b>7,411,660</b>	<b>15,960,193</b>	<b>510,175</b>	<b>160,414,348</b>		<b>199,883,328</b>

## SJPC FINANCIAL STATEMENTS AND NOTES

### NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2006

#### STATEMENT OF NET ASSETS DECEMBER 31, 2006

LIABILITIES	RESTRICTED					TAX RESERVE ACCOUNT	TOTAL
	UNRESTRICTED OPERATING ACCOUNTS	DEBT SERVICE ACCOUNT	DEBT SERVICE RESERVE ACCOUNT	MAINTENANCE RESERVE ACCOUNT	CONSTRUCTION ACCOUNT		
Current Liabilities Payable from Assets:							
Accounts Payable	166,262						166,262
Contracts Payable					1,343,663		1,343,663
Capital Lease Payable					500,000		500,000
Accrued Expenses	1,286,912						1,286,912
Accrued Interest Payable		2,890,839					2,890,839
Accrued Vacation Payable	232,522						232,522
Accrued Payroll	167,285						167,285
Payroll Taxes Payable	33,360						33,360
Deferred Income	637,889						637,889
Lease Security & Escrow Deposits	169,112						169,112
Revenue Bonds - Short-Term					4,655,000		4,655,000
Interfund Accounts Payable	320	4,520,821	5,523,515		14,949,664		24,994,320
<b>Total Current Liabilities</b>	<b>2,693,662</b>	<b>7,411,660</b>	<b>5,523,515</b>		<b>21,448,327</b>		<b>37,077,164</b>
Revenue Bonds (Long-Term Portion)					116,690,000		116,690,000
Early Retirement Payable	1,054,906						1,054,906
Capital Lease Payable					1,500,000		1,500,000
<b>Total Liabilities</b>	<b>3,748,568</b>	<b>7,411,660</b>	<b>5,523,515</b>		<b>139,638,327</b>		<b>156,322,070</b>
<b>NET ASSETS</b>							
Investment in Capital Assets, Net of Related Debt				510,175	20,776,021		21,286,196
Reserve for Payment of Debt Service			10,436,678				10,436,678
Reserve for Inventory Supplies Unreserved	1,117,572						1,117,572
	10,720,812						10,720,812
<b>Net Assets</b>	<b>\$11,838,384</b>		<b>10,436,678</b>	<b>510,175</b>	<b>20,776,021</b>		<b>43,561,258</b>

## SJPC FINANCIAL STATEMENTS AND NOTES

### NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2006

#### STATEMENT OF CHANGES IN NET ASSETS ALL ACCOUNTS DECEMBER 31, 2006

	OPERATING ACCOUNTS	DEBT SERVICE ACCOUNT	SERVICE RESERVE 2005	DEBT MAINTENANCE RESERVE 2005	CONSTRUCTION ACCOUNT	TAX RESERVE ACCOUNT	TOTAL
Net Assets - January 1 Restated	\$20,484,096		10,436,778	510,175	11,099,004		42,530,053
Add:							
Excess of Revenue Over Expenses	4,737,879						4,737,879
State of New Jersey: Debt Service Aid			6,878,287				6,878,287
PILOT Payments						2,444,410	2,444,410
Other Contributions					187,000		187,000
Depreciation on Contributed Capital					255,869		255,869
Unrealized Gain/(Loss) on Investment	186	1,136	7,779				9,101
Interest on Investments					362,687		362,687
Inventory of Supplies	100,359						100,359
Interfund Transfers	1,025,941	2,890,839			20,371,438		24,288,218
<b>Total</b>	<b>26,348,461</b>	<b>2,891,975</b>	<b>17,322,844</b>	<b>510,175</b>	<b>32,275,998</b>	<b>2,444,410</b>	<b>81,793,863</b>
Deduct:							
Bond Interest					5,781,678		5,781,678
Depreciation/ Amortization Expense					5,462,430		5,462,430
Transfer of Depreciation to Contributed Capital					255,869		255,869
City PILOT Payment						2,000,000	2,000,000
County PILOT Payment						419,000	419,000
Salem PILOT Payment						25,410	25,410
Interfund Transfers	14,510,077	2,891,975	6,886,166				24,288,218
<b>Total</b>	<b>14,510,077</b>	<b>2,891,975</b>	<b>6,886,166</b>		<b>11,499,977</b>	<b>2,444,410</b>	<b>38,232,605</b>
Net Assets December 31, 2006	<b>\$11,838,384</b>		<b>10,436,678</b>	<b>510,175</b>	<b>20,776,021</b>		<b>43,561,258</b>



# 2006

SOUTH JERSEY PORT CORPORATION  
Annual Report



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