

financial

statements & notes

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financial statements & notes

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certification

Executive Order #37 (2006)
Certification of Annual Audit for Year Ending 2009

We are pleased to present this report containing a record of the significant actions taken by the Port Corporation in 2009; 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 2009.

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, 2009.

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 A. Abusi, Treasurer

independent auditor's
report

INDEPENDENT AUDITOR'S REPORT

Board of Directors of the South Jersey Port Corporation
County of Camden 2nd & Beckett Streets
Camden, New Jersey 08103

**Holman
& Frenia, P.C.**

We have audited the accompanying financial statements of the business-type activities of the South Jersey Port Corporation a component unit of the State of New Jersey, County of Camden, State of New Jersey, as of and for the year ended December 31, 2009 and 2008, 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our 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, a component unit of the State of New Jersey, County of Camden, State of New Jersey, as of December 31, 2009 and 2008, 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 February 16, 2010, 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 considered in assessing 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's 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. The accompanying supplemental schedules have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

Medford, New Jersey
February 16, 2010

HOLMAN & FRENIA, P. C.
Certified Public Accountants

report

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

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
County of Camden 2nd & Beckett Streets
Camden, New Jersey 08101

**Holman
& Frenia, P.C.**

We have audited the financial statements of the South Jersey Port Corporation, a component unit of the State of New Jersey, County of Camden, State of New Jersey, as of and for the fiscal year ended December 31, 2009, and have issued our report thereon dated February 16, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified a certain deficiency in internal control over financial reporting, described in the accompanying Management Letter as Finding 2009-01. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the South Jersey Port Corporation's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed one instance of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and audit requirements as prescribed by the Division of Local Government Services, Department of Community Affairs, State of New Jersey, and which is described in the accompanying Management Letter as Finding 2009-01. This report is intended solely for the information and use of the South Jersey Port Corporation's management and members, others within the entity, and the Division of Local Government Services, 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.

February 16, 2010
Medford, New Jersey

HOLMAN & FRENIA, P. C.
Certified Public Accountants

management's discussion & analysis

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 ending December 31, 2009.

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.

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 the Treasury.

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

The South Jersey Port Corporation is presently undertaking the development of a new marine terminal in Gloucester County, New Jersey. This project consists of

the establishment, acquisition, construction, rehabilitation, improvement, ownership, operation and maintenance of a Marine Terminal to be located in the Borough of Paulsboro.

Approximately 2.39 million tons of cargo passed through the Port Corporation's facilities in 2009. Promoting economic development, enhancing intermodal facilities, and partnering with private businesses are the roles the Port Corporation firmly embodies, as is its mission of job growth and port development.

The corporation board consists of 11 members: the State Treasurer, ex-officio, or the Treasurer's designated representative, who shall be a voting member of the corporation, and ten (10) public members, each of whom shall be a resident of the port district. The Port District is comprised of seven counties: Mercer, Burlington, Camden, Gloucester, Salem, Cape May and Cumberland. There are three sub-districts. Sub-district 1 Mercer and Burlington Counties shall be represented by three (3) public members with at least one (1) of whom shall be appointed from each county within this sub-district. Sub-district 2 is Camden and Gloucester Counties. They shall be represented by five (5) public members with at least three (3) public members appointed from Camden County of which one (1) of the appointed Camden County members shall be appointed from the City of Camden. At least one (1) of the public members of the sub-

district shall be appointed from the Borough of Paulsboro. Sub-district 3 is Salem, Cape May and Cumberland Counties and shall be represented by two (2) public members. The requisite qualification is that each member must have resided within the port district they are appointed to represent for at least three (3) years preceding his appointment. Public members serve a term of five (5) years and shall serve until their successor is appointed and qualified. Each member of the corporation before entering upon their duties shall take and subscribe an oath to perform the duties of their office faithfully, impartially and justly to the best of their ability. A record of such oath shall be filed in the office of the Secretary of State. Any vacancies in the appointed membership of the corporation occurring other than by expiration of term shall be filled in the same manner as the original appointment, but for the unexpired term only.

FINANCIAL HIGHLIGHTS

The assets of the Port exceeded its liabilities at December 31, 2009 by \$ 49,337,672. Included in this amount are \$ 7,958,768 invested in capital assets, net of related debt. Also included are \$ 25,728,619 reserved for debt service payment, reserve for supply of inventories on hand of \$ 1,394,808, and unreserved retained earnings of \$ 14,255,477.

On December 1, 2002 the Port restructured its long term debt by refunding its Marine Terminal Revenue Bonds. It issued two new Series of Bonds totaling \$ 121,325,000. 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. On November 20, 2007 the Port issued \$ 11,235,000 in Marine Terminal Bonds for the purpose of implementing certain capital projects of the Corporation. A majority of these funds would be funding the Paulsboro Marine Terminal. Cathodic Protection and Warehouse Replacement were also part of that issue. The net proceeds from the sale of the 2007 Series N Bonds were \$ 11,122,650. On January 22, 2009, The Port Issued \$ 25,885,000 in Marine Terminal Revenue Bonds, 2009 Series O Bonds. The majority of these funds would be for funding the site work for the Paulsboro Marine Terminal. The balance of the funds the Corporation would be doing other capital improvements for the Port and as well as land acquisition. The net proceeds from the sale of the 2009 Series O Bonds issue were \$ 23,423,461. On December 30, 2009, the Port Issued \$ 157,880,000 in Marine Terminal Revenue Bonds in the Series P Bond issue. The funding for this project

is for the construction of Phase I of the Paulsboro Marine Terminal. More than \$ 134.4 million dollars of the Series P Bond proceeds will be available for the marine terminal project; this will provide sufficient funds for the construction of two deep water berths and integrated infrastructure. The balance of the Bond proceeds will be used to fund the required Debt Service Reserve, the capitalized interest through January 1, 2011 and the cost of issuance.

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 incurred 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 have a full understanding of the data provided in the financial statements.

FINANCIAL ANALYSIS

Port assets exceeded Port liabilities by \$ 49,337,672 and \$ 46,139,004 at December 31, 2009 and 2008, respectively.

PORT'S NET ASSETS

ASSETS	2009	2008
Current & Other Assets	\$218,735,171	\$40,426,577
Capital Assets (Net)	<u>151,811,923</u>	<u>141,560,311</u>
Total Assets	<u>370,547,094</u>	<u>181,986,888</u>
LIABILITIES		
Current Liabilities	20,749,990	15,276,885
Long-Term Liabilities	<u>300,459,432</u>	<u>120,570,999</u>
Total Liabilities	<u>321,209,422</u>	<u>135,847,884</u>
NET ASSETS		
Invested in Capital Assets, Net of Related Debt	7,958,768	21,852,700
Restricted for:		
Reserve for Payment of Debt Service	25,728,619	10,989,744
Reserve for Inventory Supplies	1,394,808	1,421,844
Unrestricted:		
Unreserved	<u>14,255,477</u>	<u>11,874,716</u>
Total Net Assets	<u>\$49,337,672</u>	<u>\$46,139,004</u>

A 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 remain outstanding. Currently the amount of \$ 7,958,768 reflects the current capital assets net of related debt.

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 activity for 2009 and 2008 resulting in operating income before depreciation and amortization is \$1,236,824 and \$4,058,239, respectively.

PORT CHANGES IN NET ASSETS

	<u>2009</u>	<u>2008</u>
OPERATING REVENUES:		
Handling	\$ 2,633,344	\$ 5,157,194
Leasing	7,878,968	7,818,914
Dockage & Wharfage	4,474,413	4,966,341
Storage	1,043,660	1,907,412
Crane	1,259,581	1,608,873
Other	405,288	1,355,145
Total Operating Revenues	<u>\$17,695,254</u>	<u>\$22,813,879</u>
OPERATING EXPENSES:		
General Operating	\$9,963,468	\$11,827,644
Repair & Maintenance	774,886	886,980
General & Administrative	5,720,076	6,041,016
Total Operating Expenses	<u>16,458,430</u>	<u>18,755,640</u>
Operating Income Before Other Operating Expenses	1,236,824	4,058,239
Other Operating Expenses:		
Depreciation	5,230,679	4,838,146
Operating Gain/(Loss)	<u>(3,993,855)</u>	<u>(779,907)</u>

PORT CHANGES IN NET ASSETS (continued)

	<u>2009</u>	<u>2008</u>
Non-operating Revenues/(Expenses)		
Interest on Investments	166,535	356,321
Insurance Proceeds		
Grant Revenue	2,078,575	98,095
Unrealized Gain/(Loss) on Investment	312,148	209,179
Loss on Disposal of Assets		
Bond Interest	(7,003,622)	(5,904,367)
Net Non-operating Expenses	<u>(4,446,364)</u>	<u>(5,240,772)</u>
Net Loss Before Transfer of Depreciation to Contributed Capital	(8,440,219)	(6,020,679)
Transfer of Depreciation to Contributed Capital	<u>219,436</u>	<u>204,635</u>
Net Loss Before Operating Transfers	<u>(8,220,783)</u>	<u>(5,816,044)</u>
Operating Transfers To/From State of New Jersey/Other:		
Debt Service Aid	11,529,423	7,459,998
City of Camden PILOT Revenues	4,000,000	4,000,000
City of Camden PILOT Expenditures	(4,000,000)	(4,000,000)
County of Camden PILOT Revenues	419,000	419,000
County of Camden PILOT Expenditures	(419,000)	(419,000)
City of Salem PILOT Revenues	31,225	28,206
City of Salem PILOT Expenditures	(31,225)	(28,206)
Borough of Paulsboro PILOT Revenue	500,000	500,000
Borough of Paulsboro PILOT Expenditures	(500,000)	(500,000)
County of Gloucester PILOT Revenue	150,000	150,000
County of Gloucester PILOT Expenditures	(150,000)	(150,000)
Change in Inventory of Supplies	<u>(27,036)</u>	<u>744</u>
Total Operating Transfers	<u>11,502,387</u>	<u>7,460,742</u>

PORT CHANGES IN NET ASSETS (continued)

	<u>2009</u>	<u>2008</u>
Net Income/(Loss)	3,281,604	1,644,698
Net Assets/(Deficit) - January 1	<u>45,169,697</u>	<u>43,524,999</u>
Net Assets/(Deficit) - December 31	<u>48,451,301</u>	<u>45,169,697</u>
Contributed Capital, January 1	969,307	1,173,942
Contributions	136,500	
Depreciation	<u>(219,436)</u>	<u>(204,635)</u>
Contributed Capital, December 31	<u>886,371</u>	<u>969,307</u>
Net Assets - December 31	<u><u>\$49,337,672</u></u>	<u><u>\$46,139,004</u></u>

PORT CHANGES IN NET ASSETS (continued)

CARGO TONNAGE

The South Jersey Port Corporation cargo activity for 2009 totaled 2,385,983 tons. This is a decrease of (15%) as compared to 2008.

BREAK-BULK

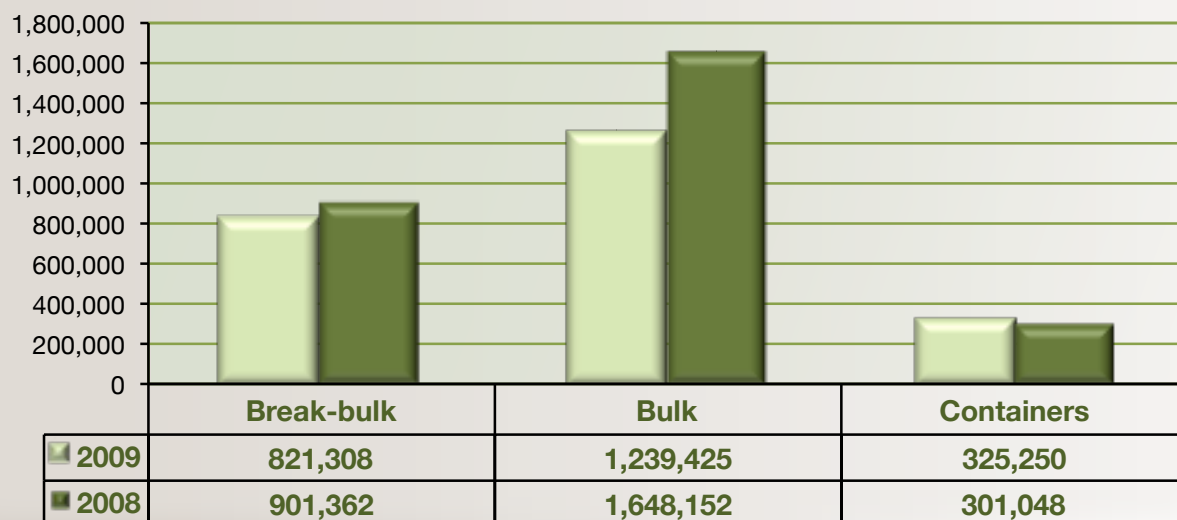
Break-bulk activity for 2009 finished (9%) or (80,054) tons lower when compared to 2008 Port totals. This was due primarily to the decrease in steel (19%) or (48,138) tons, wood products decreased by (46%) or (76,288) tons and general cargo decreased by (48%) or (10,168) tons. Rubber activity increased by 43% or 2,024 tons, cocoa beans increased by 22% or 30,130 tons and fruit increased by 7% or 22,386 tons.

BULK

Overall bulk activity decreased by (25%) or (408,727) in 2009 when compared to 2008 totals. For the year 2009, import of cement decreased by (243,368) tons or (55%). Scrap metals exports decreased by (6%) in 2009 over 2008. The 902,259 tons of exported scrap metals in 2009 represents a (56,748) ton or (6%) decrease over 2008. Scrap metal activity represents a significant percentage of the Port'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. Granchem decreased by (59,511) or (51%) compared to 2008. Salt imports increased by 44,832 tons or 183% from 2008 totals. Urea imports increased by 11,546 tons or 100% from 2008 totals. There were no tonnages for sand, potash, magnesite ore, and iron ore in 2009 compared to 2008 tonnages for (80,000), (7,761), (3,254) and (14,463) tons respectively.

CARGO VOLUME BY GROUPS



CONTAINERS

Container activity increased by 8% or 24,202 tons in 2009 as compared to 2008.

THE PORT OF SALEM

The Port of Salem did not move any material during 2009 due to their litigation appealing a Planning Board denial of their mining site. In December 2009 the State of New Jersey Superior Court ruled in their favor which allows them to continue and expand their operation. The Port of Salem should be continuing their operations in 2010.

OTHER ACTIVITY

Ship calls totaled 206 for the year ended 2009, (37) less or (14%) less than 2008. Ship days in 2009 totaled 611, a 1% increase or 8 days more than the same period in 2008.

OPERATING REVENUES

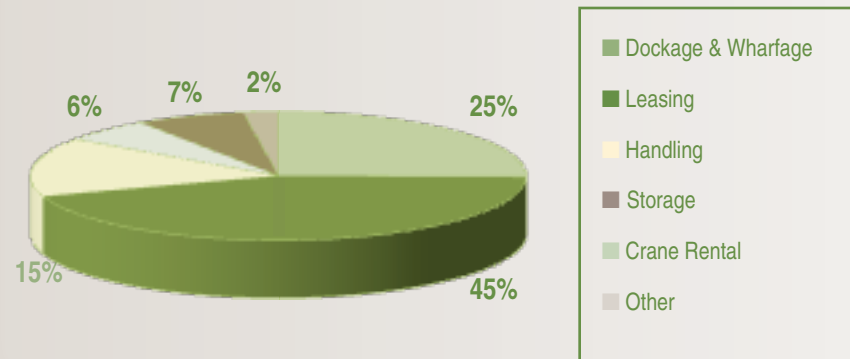
The Port Corporation generated \$ 17,695,254 total in operating revenues in 2009. This represents an overall decrease of (\$ 5,118,625) or (23%) under 2008 totals.

In 2009, lease revenues increased by \$ 60,054 or 0.8% increase over 2008 totals. There was minimal increase in the CPI for the months of January and February when compared to the same months in 2008. In the months of November and December there was an approximate increase of 2.3% when compared to the same period in 2008. The remaining 8 months had a negative CPI when compared to the same months in 2008. The overall CPI for 2009 was a negative (0.3%).

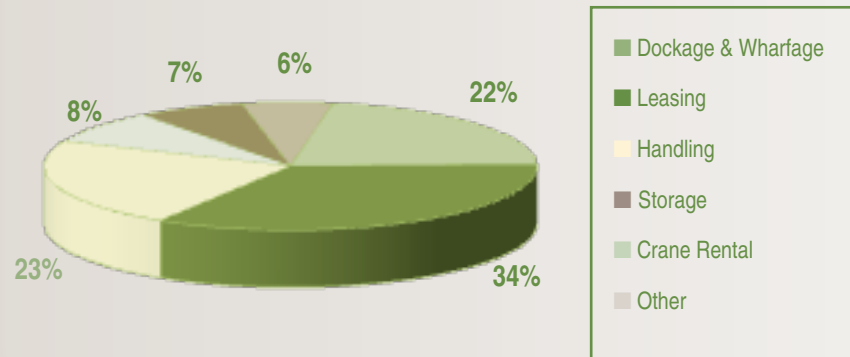
Dockage and Wharfage revenue decreased by (\$ 491,928) or (10%) in 2009 compared to 2008 which was due to the decline in cargo and ship calls.

Handling revenue also decreased in 2009 by (\$ 2,523,850) or (49%) because of the decrease in total tonnage. Storage revenue decreased by (\$ 863,752) or (45%) when compared to 2008 totals this was due to the decline in cargo delivered to the Port. Crane rental revenues decreased by (\$ 349,292) or (22%) when compared to 2008 this was due to tonnage being down from 2008. Other income decreased by (\$ 949,857) or (70%) due to business conditions and investment rates declining.

2009 REVENUES BY SOURCE



2008 REVENUES BY SOURCE



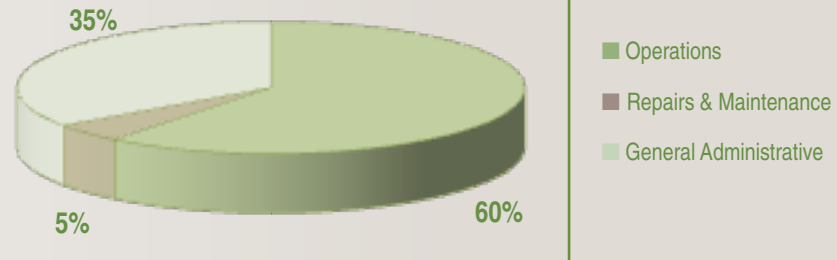
OPERATING EXPENSES

Total Corporation operating expenses were \$ 16,458,430 in 2009, a decrease of (\$ 2,297,210), or (12%), over 2008 due to a decrease in cargo at the Port.

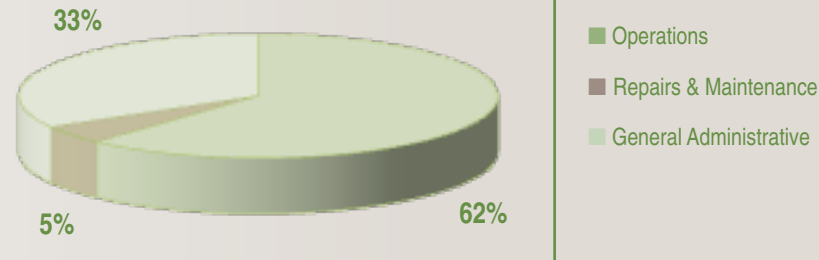
Total Port Operation expense was reduced by (\$ 1,759,304) or (19%) over 2008. Operating labor declined by (\$ 498,841) or (13%) when compared to 2008. Operational employee benefits expense increased by \$ 88,751 or 4% over 2008 totals. The majority of this increase was due to an increase in hospitalization of \$ 117,592 or 10% and vacation and sick pay increased by \$ 32,998 or 7% over 2008. Gas and oil expense for crane rental was decreased in 2009 by (\$ 60,337) or (47%) when compared to 2008. Handling Expense decreased by (\$ 777,799) or (42%) when compared to 2008. Trash removal decreased by (\$ 48,024) or (42%) when compared to 2008 totals. Lease agreement expense decreased by (\$ 445,833) or (83%). A 10 year lease with the Ports of Philadelphia and Camden expired in March 2009. (See Refrigerated Warehouse Lease Note). Security expenses decreased in 2009 by (\$ 18,262) or (42%) when compared to 2009. The Port of Salem expenses increased by \$ 882 or 2%. Rental of equipment increased by \$ 159 or 2% when compared to 2008. The majority of these reductions were due to the current business conditions and reductions in staff.

Total Repairs and Maintenance expenses decreased by (\$ 112,094) or (13%) in 2009 over 2008. Building and grounds repair and maintenance were increased by \$ 62,684 or 18% over 2008 totals. This increase was due to unexpected expenses for Pier 5 bulkhead repairs, asbestos removal and Berth 5 debris removal due to the Pier collapse. The Berth 5

2009 OPERATING EXPENSES



2008 OPERATING EXPENSES



debris removal expense should be reimbursed as part of an insurance claim from the shipping company. Crane repair and maintenance was reduced by (\$ 74,908) or (29%) over 2008 totals. Mobile machinery and equipment repairs and maintenance was reduced by (\$ 99,870) or (35%) over 2008 totals. The majority of these reductions were due to the current business conditions.

Overall, general and administrative expenses in 2009 decreased by (\$ 335,915) or (6%) compared to 2008. Pension expense increased by \$ 144,307 or 33% when compared to 2008 totals. This was due to an increase in the unfunded accrued liability, non-contributory group life insurance costs and

the loss of the early retirement credit. General Insurance costs decreased by (\$ 243,221) or (13%). This was due to a decrease in various insurance policy premiums in 2009. The Port is self insured for Health care benefits up to \$ 40,000 per employee. After the target amount is reached health care re-insurance is triggered. The decreased cost in 2009 was due to a reduction in our workforce. Labor for office clerical decreased by (\$ 107,449) or (11)% compared to 2008. Administrative labor decreased by (\$ 46,003) or (7%) when compared to 2008. Payroll taxes were increased by \$ 6,366 or 5% when compared to 2008. This was due to the family medical leave insurance that was instituted in 2009. Workers compensation increased by \$ 353 or 8.3% when compared to 2008. Hospitalization

claims increased by \$ 68,691 or 11% when compared to 2008. Professional fees decreased by (\$ 72,698) or (9%) when compared to 2008. Miscellaneous expenses were reduced by (\$ 67,144) or (16%). Telephone expense was increased by \$ 5,884 or 11% due to usage. Bad debt expense was reduced by (\$ 25,000) in 2009 compared to 2008.

Overall utility expense for ports operations and general and administrative expenses decreased by (\$ 89,897) or (3%) when compared to 2008 totals.

management's discussion & analysis

CAPITAL ASSETS

The Ports investment in Capital assets as of December 31, 2009 is \$ 151,811,923 or 7% increase (net of accumulated depreciation) over 2008 totals.

The investment in capital assets include land, buildings, piers and berth's, and machinery and equipment. Net capital assets increased by \$ 10,251,612 in 2009 over 2008. Annual depreciation and amortization reduced net property, plant and equipment.

	<u>2009</u>	<u>2008</u>
Land	\$ 18,235,317	\$ 18,235,317
Building & Improvements	43,882,683	40,011,939
Land Improvements	105,813,967	105,683,848
Equipment	24,015,296	23,361,461
Engineering & Other	7,135,677	7,031,050
Financing Costs	<u>9,159,938</u>	<u>9,159,938</u>
Subtotal	<u>\$ 208,242,878</u>	<u>\$ 203,483,553</u>
Less: Accumulated Depreciation & Amortization	<u>89,091,084</u>	<u>83,859,382</u>
Subtotal	119,151,794	119,624,171
Construction in Progress	16,720,754	7,831,288
Bond Discount & Finance	<u>15,939,375</u>	<u>14,104,852</u>
Total	<u>\$ 151,811,923</u>	<u>\$ 141,560,311</u>

CONSTRUCTION IN PROGRESS

The Corporation's construction in progress consists of the following: Cathodic Protection in the amount of \$ 3,500,000, Paulsboro Marine Terminal Project for Bond Series N in the amount of \$ 2,930,000, the Paulsboro Marine Terminal Project for Bond Series O-1 in the amount of \$ 6,546,168, Dredging for Bond Series O-1 in the amount of \$ 85,405, Gantry Crane Refinishing for Bond Series O-1 in the amount of \$ 689,728, IT and Security for Bond Series O-1 in the amount of \$ 156,703, and Cathodic Protection For Bond Series O-1 in the amount of \$ 102,957. Also, in 2009 the SJPC received a grant from the Department of Transportation for the Railroad Rehabilitation and Upgrade of the Broadway Terminal Railroad Track in the amount of \$ 1,988,995. Demolition of G Building totaling \$ 720,798. Total construction in progress amounted to \$ 16,720,754.

LONG-TERM DEBT

As of December 31, 2009 the Port had accumulated long-term debt of \$ 300,459,432. This consists of revenue bonds \$ 296,245,000, a capital lease of \$ 1,200,000, unamortized bond premium of \$ 1,630,022 an early retirement incentive of \$ 271,000 and a post retirement benefit of \$ 1,113,410.

LONG-TERM DEBT

	<u>2009</u>	<u>2008</u>
Revenue Bonds	\$ 296,245,000	\$ 117,905,000
Capital Lease	1,200,000	1,300,000
Unamortized Bond Premium	1,630,022	
Post Retirement Benefits	271,000	271,000
Early Retirement	<u>1,113,410</u>	<u>1,094,999</u>
Total	<u>\$ 300,459,432</u>	<u>\$ 120,570,999</u>

On December 1, 2002 the Port issued Series K \$ 79,295,000 and Series L \$ 42,030,000 Marine Terminal and Revenue Refunding Bonds, and on October 16, 2003 the Port issued Series M \$ 11,305,000 Marine Terminal Revenue Bonds and on November 21, 2007 the Port issued Series N \$ 11,235,000 Marine Terminal Revenue Bonds. On January 22, 2009, the Port Issued \$ 25,885,000 in Marine Terminal Bonds, 2009 Series O Bonds. On December 30, 2009 the Port Issued \$ 157,880,000 in Marine Terminal Revenue Bonds, 2009 Series P Bonds.

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 call for the lease to be repaid over 20 years at 0% interest. As of December 31, 2009 the Port has not yet commenced any payment on the Capital Lease.

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 year's payment would increase by 4.00%. The payment schedule incorporates an annual rate of interest equaling 8.25%.

Post retirement benefits are non-pension benefits that a governmental unit has contractually or otherwise agreed to provide employees once they have retired. An actuarially calculated amount is based on demographics of potential retirees, inflation and other factors that are part of determining pension liability. This calculation was done on a 30-year amortization schedule.

COMPARATIVE STATEMENT OF NET ASSETS

December 31, 2009 and 2008

	<u>2009</u>	<u>2008</u>
ASSETS		
Current Assets:		
Unrestricted Assets:		
Cash & Cash Equivalents	\$ 6,756,497	\$ 7,682,264
Accounts Receivable (Net of Allowance for Doubtful Accounts - \$302,063 in 2009 & \$322,488 in 2008)	1,682,943	2,096,299
Other Accounts Receivable	478,747	290,768
Notes Receivable	3,754	11,254
Prepaid Expenses	1,301,335	449,983
Inventory of Supplies	1,394,808	1,421,844
	<u>11,618,084</u>	<u>11,952,412</u>
Restricted Assets:		
Cash & Cash Equivalents	189,037,158	8,818,629
Investments	8,246,769	8,999,740
Grants Receivable	1,361,414	
Due from State of New Jersey	8,471,746	10,655,796
	<u>207,117,087</u>	<u>28,474,165</u>
Property, Plant & Equipment (Note 3):		
Completed	208,242,878	203,483,553
Construction in Progress	16,720,754	7,831,288
Bond Discount & Financing Costs	15,939,375	14,104,852
	<u>240,903,007</u>	<u>225,419,693</u>
Total Property, Plant & Equipment	240,903,007	225,419,693
Less: Accumulated Depreciation & Amortization	89,091,084	83,859,382
	<u>151,811,923</u>	<u>141,560,311</u>
Net Property, Plant & Equipment	151,811,923	141,560,311
Total Assets	<u>\$370,547,094</u>	<u>\$ 181,986,888</u>

COMPARATIVE STATEMENT OF NET ASSETS (continued)

LIABILITIES	2009	2008
Current Liabilities Payable From Unrestricted Assets:		
Accounts Payable	\$ 104,823	\$ 19,676
Accrued Expenses	724,364	597,494
Payroll Taxes Payable	32,203	37,881
Accrued Vacation Payable	246,286	223,935
Deferred Income	418,652	379,390
Lease Security & Escrow Deposits	143,527	142,865
	<hr/>	<hr/>
Total Current Liabilities Payable From Unrestricted Assets	1,669,855	1,401,241
Current Liabilities Payable From Restricted Assets:		
Accounts Payable	204,095	
Pilot Payments Due		4,028,206
Accrued Interest Payable	3,555,966	2,960,053
Contracts Payable	9,035,015	917,385
Deferred Income	60,059	100,000
Revenue Bonds (Short-Term Portion)	5,425,000	5,170,000
Capital Lease Payable	800,000	700,000
	<hr/>	<hr/>
Total Current Liabilities Payable From Restricted Assets	19,080,135	13,875,644
Long-Term Liabilities:		
Long-Term Liabilities Payable From Unrestricted Assets:		
Early Retirement Payable	1,113,410	1,094,999
Post-Retirement Benefits Payable	271,000	271,000
	<hr/>	<hr/>
Total Long-Term Liabilities Payable From Unrestricted Assets	1,384,410	1,365,999
Long-Term Liabilities Payable From Restricted Assets:		
Revenue Bonds (Long-Term Portion)	296,245,000	117,905,000
Capital Lease Payable	1,200,000	1,300,000
Unamortized Bond Premiums	1,630,022	
	<hr/>	<hr/>
Total Long-Term Liabilities Payable From Restricted Assets	299,075,022	119,205,000
Total Liabilities	\$ 321,209,422	\$ 135,847,884

COMPARATIVE STATEMENT OF NET ASSETS (continued)

NET ASSETS	2009	2008
Invested in Capital Assets, Net of Related Debt:"	\$ 7,958,768	\$ 21,852,700
Restricted:		
Reserve for Payment of Debt Service	25,728,619	10,989,744
Reserve for Inventory of Supplies	1,394,808	1,421,844
Unrestricted:		
Unreserved	14,255,477	11,874,716
Total Net Assets	\$ 49,337,672	\$ 46,139,004

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

COMPARATIVE STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

For the years ended December 31, 2009 and 2008

	2009	2008
Operating Revenues:		
Marine Direct	\$14,679,896	\$ 18,829,086
Marine Related	2,716,633	2,754,721
Other	298,725	1,230,072
Total Operating Revenues	17,695,254	22,813,879
Operating Expenses:		
General Operating	9,963,468	11,827,644
Repairs & Maintenance	774,886	886,980
General & Administrative	5,720,076	6,041,016
Total Operating Expenses	16,458,430	18,755,640
Operating Income Before Other Operating Expenses	1,236,824	4,058,239
Other Operating Expenses:		
Depreciation	5,230,679	4,838,146
Total Other Operating Expenses	5,230,679	4,838,146
Operating Gain/(Loss)	(3,993,855)	(779,907)
Nonoperating Revenues/(Expenses):		
Interest on Investments	166,535	356,321
Grant Revenue	2,078,575	98,095
Unrealized Gain/(Loss) on Investment	312,148	209,179
Bond Interest	(7,003,622)	(5,904,367)
Net Nonoperating Expenses	(4,446,364)	(5,240,772)
Net Loss Before Transfer of Depreciation to Contributed Capital	(8,440,219)	(6,020,679)
Transfer of Depreciation to Contributed Capital	219,436	204,635
Net Loss Before Operating Transfers	(8,220,783)	(5,816,044)

COMPARATIVE STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS (continued)

	<u>2009</u>	<u>2008</u>
Operating Transfers To/ From the State of New Jersey/Other:		
Debt Service Aid	11,529,423	7,459,998
Camden City PILOT Revenues	4,000,000	4,000,000
Camden City PILOT Expenditures	(4,000,000)	(4,000,000)
Camden County PILOT Revenues	419,000	419,000
Camden County PILOT Expenditures	(419,000)	(419,000)
Salem PILOT Revenues	31,225	28,206
Salem PILOT Expenditures	(31,225)	(28,206)
Paulsboro PILOT Revenues	500,000	500,000
Paulsboro PILOT Expenditures	(500,000)	(500,000)
Gloucester County PILOT Revenues	150,000	150,000
Gloucester County PILOT Expenditures	(150,000)	(150,000)
Change in Inventory of Supplies	(27,036)	744
	<u>11,502,387</u>	<u>7,460,742</u>
Net Income/(Loss)	3,281,604	1,644,698
Net Assets/(Deficit) - January 1	<u>45,169,697</u>	<u>43,524,999</u>
Net Assets/(Deficit) - December 31	<u>48,451,301</u>	<u>45,169,697</u>
Contributed Capital, January 1	969,307	1,173,942
Contributions	136,500	
Depreciation	(219,436)	(204,635)
Contributed Capital, December 31	<u>886,371</u>	<u>969,307</u>
Net Assets - December 31	<u>\$49,337,672</u>	<u>46,139,004</u>

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

COMPARATIVE STATEMENT OF CASH FLOWS

For the years ended December 31, 2009 and 2008

	2009	2008
Cash Flows From Operating Activities:		
Receipts from Customers	\$ 16,910,622	\$ 22,945,571
Interest Receipts	166,157	308,612
Payments to Employees	(4,980,410)	(5,632,703)
Payments for Employee Benefits	(3,842,248)	(3,585,840)
Payments to Suppliers	(7,349,409)	(9,992,426)
	904,712	4,043,214
Cash Flows From Noncapital Financing Activities:		
Developers' Escrow Deposits	7,584	2,433
Developers' Escrow Refunds	(80)	(199)
	7,504	2,234
Cash Flows From Capital & Related Financing Activities:		
Acquisition & Construction of Capital Assets	(7,190,566)	(7,462,928)
State Aid for Construction Projects	283,654	100,000
Other Aid for Construction Projects	393,566	98,095
Bond Proceeds	185,396,045	
Bond Premiums	1,631,045	
Bond Insurance Costs	(1,472,410)	
Interest Paid on Revenue Bonds	(6,407,709)	(5,811,788)
Principal Paid on Revenue Bonds	(5,170,000)	(4,850,000)
State Aid for Debt Service	9,685,267	5,225,231
Camden City PILOT Revenues	8,000,000	
Camden City PILOT Payments	(8,000,000)	
Camden County PILOT Revenues	419,000	419,000
Camden County PILOT Payment	(419,000)	(419,000)
Paulsboro PILOT Revenues	500,000	500,000
Paulsboro PILOT Expenditures	(500,000)	(500,000)
Gloucester County PILOT Revenues	150,000	150,000
Gloucester County PILOT Payment	(150,000)	(150,000)
Salem PILOT Revenues	59,431	
Salem PILOT Payment	(59,431)	
	177,148,892	(12,701,390)
Net Cash Provided/(Used) by Capital & Related Financing Activities		

COMPARATIVE STATEMENT OF CASH FLOWS (continued)

	<u>2009</u>	<u>2008</u>
Cash Flows From Investing Activities:		
Unrealized Gain/(Loss) on Investment	\$ 312,148	\$ 209,179
Purchase of Repurchase Agreement/Discount Notes	752,971	(6,074,823)
Interest & Dividends	166,535	356,321
	<u>1,231,654</u>	<u>(5,509,323)</u>
Net Cash Provided/(Used) by Investing Activities		
Net Increase/(Decrease) in Cash & Cash Equivalents	179,292,762	(14,165,265)
Balances - Beginning of Year	16,500,893	30,666,158
Balances - End of Year	<u>\$195,793,655</u>	<u>16,500,893</u>
RECONCILIATION OF OPERATING INCOME/(LOSS) TO NET CASH PROVIDED/(USED) BY OPERATING ACTIVITIES:		
Operating Income/(Loss)	(\$3,993,855)	(779,907)
Adjustments to Reconcile Operating Income/(Loss) to Net Cash Provided/(Used) by Operating Activities:		
Operating Activities:		
Depreciation & Net Amortization	5,230,679	4,838,146
(Increase)/Decrease in Accounts Receivable, Net	225,377	414,437
(Increase)/Decrease in Notes Receivable, Net	7,500	7,500
(Increase)/Decrease in Prepaid Expenses	(851,352)	18,367
Increase/(Decrease) in Accounts Payable	206,339	(247,623)
Increase/(Decrease) in Accrued Liabilities	22,351	(22,990)
Increase/(Decrease) in Early Retirement Payable	18,411	19,563
Increase/(Decrease) in Deferred Revenue	39,262	(204,279)
	<u>4,898,567</u>	<u>4,823,121</u>
Total Adjustments		
Net Cash Provided/(Used) by Operating Activities	<u>\$ 904,712</u>	<u>\$ 4,043,214</u>

Notes

to financial statements

NOTES TO FINANCIAL STATEMENTS

For the year ended December 31, 2009

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*; Statement 38 – *Certain Financial Statement Note Disclosures*; Statement 40 – *Deposit and Investment Risk Disclosures* and Statement 43 & 45 – *Accounting and Financial Reporting for Post-Employment Benefit Plans Other than Pension Plans*.

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, 2009 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 South Jersey Port Corporation is a component unit of the State of New Jersey as described in Governmental Accounting Standards Board Statement No. 14 due to the existence of the above stated act, N.J.S.A.12: 11A. These

financial statements would be either blended or discreetly presented as part of the State of New Jersey’s financial statements if the State reported using generally accepted accounting principles applicable to governmental entities.

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 88 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.

notes to financial statements

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

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.

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 4, 1993, December 5, 2002, September 30, 2003, June 8, 2005, October 31, 2006, August 28, 2007, October 28, 2008 and July 28, 2009. 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;

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

- (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. 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 2009 included \$5,170,000 for principal and \$6,407,709 for interest. Funds were provided as follows:

Debt Service Reserve Fund	\$ 8,560,190
Operating Fund	1,500,000
Construction Fund	<u>1,517,519</u>
Total	<u>\$11,577,709</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 \$8,471,746.

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 \$25,728,619.

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

notes to financial statements

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

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 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 2009 the State of New Jersey paid to the Corporation \$419,000 for Camden County, \$8,000,000 for Camden City, \$500,000 for Paulsboro Township, \$150,000 for Gloucester County, \$59,431 for Salem City 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. In 2007 Series N Bonds were issued in the amount of \$11,235,000. During 2009 Series O Bonds in the amount of \$25,885,000 and Series P Bonds in the amount of \$157,880,000 were issued and these funds are also 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 October 31, 2008 for such required tax-exempt obligations and it has been determined that no liability is due to the federal government at this time.

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, 2009, and reported at fair value are as follows:

<u>TYPE</u>	<u>CARRYING VALUE</u>
Deposits:	
Demand Deposits	\$ 3,259,627
New Jersey Cash Management Fund	192,534,028
U.S. Government Taxable Bonds	<u>8,246,769</u>
Total Deposits & Investments	<u>\$204,040,424</u>
Reconciliation of Statement of Net Assets:	
Current:	
Unrestricted Assets:	
Cash & Cash Equivalents	\$ 6,756,497
Restricted Assets:	
Cash & Cash Equivalents	189,037,158
Investments	<u>8,246,769</u>
Total Reconciliation of Statement of Net Assets	<u>\$204,040,424</u>

Custodial Credit Risk – Deposits in financial institutions, reported as components of cash, cash equivalents and investments had a bank balance of \$ 203,934,449 at December 31, 2009. Of the bank balance \$ 600,508 was fully insured by the FDIC (Federal Deposit Insurance Corporation) and \$ 203,333,941 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.

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, 2009, 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, 2009, all of the Corporation's investments are with Wachovia and US banks.

Governmental Unit Deposit Protection Act (GUDPA) — The Corporation deposited cash in 2009 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

notes to financial statements

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

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 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, 2008	ADDITIONS	DELETIONS	BALANCE DECEMBER 31, 2009
Land	\$ 18,235,317			\$ 18,235,317
Buildings & Improvements	40,011,939	\$ 3,870,744		43,882,683
Land Improvements	105,683,848	130,119		105,813,967
Equipment	23,361,461	653,835		24,015,296
Engineering & Other	7,031,050	104,627		7,135,67
Financing Costs	9,159,938			9,159,938
Subtotal	203,483,553	4,759,325		208,242,878
Less: Accumulated Depreciation Amortization	83,859,383	5,231,701		89,091,084
Subtotal	119,624,170	847,624		119,151,794
Construction in Progress	7,831,288	9,372,283	\$(482,817)	16,720,754
Bond Discount & Financing	14,104,853	1,834,522		15,939,375
Total	<u>\$141,560,311</u>	<u>\$ 10,734,429</u>	<u>\$(482,817)</u>	<u>\$151,811,923</u>

notes to financial statements

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 5.5% of their annual covered salary; the South Jersey Port Corporation is required to contribute at an actuarially determined rate. The current rate represents approximately .0437% of annual covered payroll. The contribution requirements of plan members and the Corporation are 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, 2009, 2008 and 2007 were \$442,151, \$354,418 and \$195,158, 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 \$1,113,410 as of December 31, 2009. 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 2009 for \$71,926, which included principal and interest.

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

Year	Principal	Interest	Total
2010	\$ (17,053)	\$ 91,856	\$ 74,803
2011	(15,468)	93,263	77,795
2012	(13,632)	94,539	80,907
2013-2017	(29,951)	485,693	455,742
2018-2022	71,185	483,291	554,476
2023-2027	246,586	428,017	674,603
2028-2032	537,801	282,955	820,756
2033-2034	333,942	42,163	376,105
Total	<u>\$1,113,410</u>	<u>\$2,001,777</u>	<u>\$3,115,187</u>

Note 5. Long-Term Debt

The following is a summary of long-term debt at December 31, 2009:

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	4.000% 5.100%	\$79,295,000	\$ 68,840,000
Series 2002 L Marine Terminal Revenue & Revenue Refunding Bonds	12/01/02	01/01/24	4.000% 5.250%	42,030,000	27,785,000
Series 2003 M Marine Terminal Revenue Bonds	10/15/03	01/01/30	5.000%	11,305,000	10,170,000
Series 2007 N Marine Terminal Revenue Bonds	11/08/07	01/01/38	4.500% 5.250%	11,235,000	11,110,000
Series 2009 O Marine Terminal Revenue Bonds	01/29/09	01/01/39	4.000% 5.875%	25,885,000	25,885,000
Series 2009 P Marine Terminal Revenue Bonds	12/30/09	01/01/40	2.995% 7.365%	157,880,000	157,880,000
Total					301,670,000
Less: Current Maturities Included in Current Liabilities					<u>5,425,000</u>
Balance					<u>\$296,245,000</u>

notes to financial statements

Note 5. Long-Term Debt (continued)

The following table sets forth the amount required for payment of principal and interest due on Series K, L, M, N, O and P Bonds (whether at maturity or by sinking fund redemption):

Year	Principal	Interest	Total
2010	\$ 5,425,000	\$ 12,268,126	\$ 17,693,126
2011	5,675,000	17,244,232	22,919,232
2012	8,780,000	16,948,619	25,728,619
2013	9,120,000	16,579,808	25,699,808
2014	9,040,000	16,203,046	25,243,046
2015-2019	51,455,000	74,410,582	125,865,582
2020-2024	50,475,000	60,593,284	111,068,284
2025-2029	46,955,000	46,948,894	93,903,894
2030-2034	53,130,000	30,575,090	83,705,090
2035-2039	51,980,000	12,983,886	64,963,886
2040	96,356,000	354,809	9,989,809
Total	<u>\$301,670,000</u>	<u>\$305,110,376</u>	<u>\$606,780,376</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.

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.

- c) On November 8, 2007, the Corporation issued \$11,235,000 Marine Terminal Revenue Bonds, Series N. The Series N Bonds were issued to provide funds to (i) the implementation of certain capital projects of the Corporation (the "2007 Projects"); (ii) fund a deposit to the debt reserve fund established under the Bond Resolution and (iii) pay the costs of issuance of the Series 2007 Bonds.
- d) On January 29, 2009, the Corporation issued \$25,885,000 in aggregate Marine Terminal Revenue Bonds, Series O. The Series O Bonds consist of \$19,770,000 Marine Terminal Revenue Bonds, Series O-1 (the "Series 2009 O-1 Bonds"), \$915,000 Marine Terminal Revenue Bonds, Series 2009 O-2 (the "Series 2009 O-2 Bonds"), and \$5,200,000 Marine Terminal Revenue Bonds, Series O-3 (AMT) (the "Series 2009 O-3 Bonds" and, together with the Series 2009 O-1 Bonds and the Series 2009 O-2 Bonds, "Series 2009 Bonds"). The Series O Bonds were issued to provide funds to (i) fund the implementation of certain capital projects of the Corporation; (ii) fund a deposit to the Debt Reserve Fund established under the Bond Resolution; and (iii) pay the costs of issuance of the Series 2009 Bonds.
- e) On December 30, 2009, the Corporation issued \$157,880,000 in aggregate Marine Terminal Revenue Bonds, Series P. The Series P Bonds consist of \$4,925,000 Marine Terminal Revenue Bonds, Series 2009 P-1 (Federally Taxable), \$23,215,000 Marine Terminal Revenue Bonds, Series 2009 P-2 (Tax-Exempt Private Activity), and \$129,740,000 Marine Terminal Revenue bonds, Series 2009 P-3 (Federally Taxable). The Series P Bonds were issued to provide funds to (i) the 2009 Paulsboro Marine Terminal Project; (ii) fund a deposit to the Debt Reserve Fund; (iii) fund capitalized interest on the Series 2009 P Bonds through January 1, 2001; and (iv) pay the costs of issuance of the Series 2009 P Bonds.

Note 5. Long-Term Debt (continued)

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.....		.....SERIES N.....	
	Annual Principal	Interest Rate	Annual Principal	Interest Rate	Annual Principal	Interest Rate	Annual Principal	Interest Rate
2010	2,020,000	4.00	2,515,000	4.30	305,000	5.00	190,000	4.50
2011	2,100,000	4.10	2,620,000	4.40	315,000	5.00	195,000	4.50
2012	2,190,000	4.20	2,735,000	4.60	325,000	5.00	205,000	4.50
2013	2,270,000	4.40	2,870,000	5.25	340,000	5.00	210,000	4.50
2014	3,575,000	4.40	1,350,000	4.80	350,000	5.00	220,000	4.50
2015	3,750,000	4.50	1,410,000	4.80	365,000	5.00	230,000	4.50
2016	3,920,000	4.50	1,480,000	5.00	385,000	5.00	245,000	4.50
2017	4,090,000	4.50	1,560,000	5.00	400,000	5.00	250,000	4.50
2018	4,280,000	4.75	1,635,000	5.00	420,000	5.00	265,000	4.50
2019	4,485,000	4.85	-	-	440,000	5.00	280,000	4.50
2020	4,700,000	5.00	-	-	-	-	295,000	4.50
2021	-	-	-	-	-	-	-	-
2022	-	-	-	-	1,445,000	5.00	-	-
2023	8,645,000	5.00	8,620,000	5.20	-	-	960,000	4.50
2024	-	-	990,000	5.25	-	-	-	-
2025	-	-	-	-	1,670,000	5.00	-	-
2026	4,960,000	5.00	-	-	-	-	-	-
2027	-	-	-	-	-	-	-	-
2028	-	-	-	-	-	-	1,935,000	4.63
2029	-	-	-	-	-	-	440,000	4.75
2030	-	-	-	-	3,410,000	5.00	-	-
2031	-	-	-	-	-	-	-	-
2032	-	-	-	-	-	-	-	-
2033	17,855,000	5.10	-	-	-	-	-	-
2034	-	-	-	-	-	-	-	-
2035	-	-	-	-	-	-	-	-
2036	-	-	-	-	-	-	-	-
2037	-	-	-	-	-	-	-	-
2038	-	-	-	-	-	-	5,190,000	5.25
Total	<u>\$68,840,000</u>		<u>27,785,000</u>		<u>\$10,170,000</u>		<u>\$11,110,000</u>	

notes to financial statements

Note 5. Long-Term Debt (continued):

Issue Year	.....SERIES O-1.....		.....SERIES O-2.....		.....SERIES O-3.....		.....SERIES O.....
	Annual Principal	Interest Rate	Annual Principal	Interest Rate	Annual Principal	Interest Rate	Total Principal
2010	-		-		-		-
2011	-		-		-		-
2012	-		-		1,305,000	4.000	1,305,000
2013	-		-		-		-
2014	-		-		-		-
2015	-		-		1,510,000	4.500	1,510,000
2016	-		-		-		-
2017	-		-		-		-
2018	-		-		-		-
2019	-		-		2,385,000	5.500	2,385,000
2020	-		-		-		-
2021	-		-		-		-
2022	-		-		-		-
2023	2,525,000	4.625	-		-		2,525,000
2024	-		-		-		-
2025	-		-		-		-
2026	2,225,000	5.000	-		-		2,225,000
2027	-		-		-		-
2028	1,675,000	5.125	300,000	5.125	-		1,975,000
2029	-		-		-		-
2030	-		-		-		-
2031	-		-		-		-
2032	-		-		-		-
2033	-		-		-		-
2034	6,255,000	5.750	285,000	5.750	-		6,540,000
2035	-		-		-		-
2036	-		-		-		-
2037	-		-		-		-
2038	-		-		-		-
2039	<u>7,090,000</u>	5.875	<u>330,000</u>	5.875	<u>-</u>		<u>7,420,000</u>
Total	<u>\$19,770,000</u>		<u>\$915,000</u>		<u>\$5,200,000</u>		<u>\$25,885,000</u>

Issue Year	.....SERIES P-1.....		.....SERIES P-2.....		....SERIES P-3.....		SERIES "P"	Grand Total
	Annual Principal	Interest Rate	Annual Principal	Interest Rate	Annual Principal	Interest Rate	Total Principal	Total Principal
2010	-		-		-		-	5,030,000
2011	-		-		-		-	5,230,000
2012	2,860,000	2.995	-		-		2,860,000	9,620,000
2013	2,065,000	3.145	885,000	3.000	-		2,950,000	8,640,000
2014	-		3,040,000	3.000	-		3,040,000	8,535,000
2015	-		3,130,000	4.000	-		3,130,000	10,395,000
2016	-		3,255,000	4.000	-		3,255,000	9,285,000
2017	-		3,385,000	4.000	-		3,385,000	9,685,000
2018	-		4,115,000	5.750	3,520,000	5.912	7,635,000	14,235,000
2019	-		4,350,000	5.750	3,655,000	6.052	8,005,000	15,595,000
2020	-		1,055,000	5.750	3,800,000	6.152	4,855,000	9,850,000
2021	-		-		3,955,000	6.252	3,955,000	3,955,000
2022	-		-		-		-	1,445,000
2023	-		-		-		-	20,750,000
2024	-		-		-		-	990,000
2025	-		-		-		-	1,670,000
2026	-		-		-		-	7,185,000
2027	-		-		-		-	-
2028	-		-		-		-	3,910,000
2029	-		-		29,985,000	7.065	29,985,000	30,425,000
2030	-		-		-		-	3,410,000
2031	-		-		-		-	-
2032	-		-		-		-	-
2033	-		-		-		-	17,855,000
2034	-		-		-		-	6,540,000
2035	-		-		-		-	-
2036	-		-		-		-	-
2037	-		-		-		-	-
2038	-		-		-		-	5,190,000
2039	-		-		-		-	7,420,000
2040	-		-		84,825,000	7.365	84,825,000	84,825,000
Total	<u>\$4,925,000</u>		<u>\$23,215,000</u>		<u>\$129,740,000</u>		<u>\$157,880,000</u>	<u>\$301,670,000</u>

notes to financial statements

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	SERIES N
2019	\$ -	\$1,710,000	\$ -	\$ -
2020	-	1,805,000	460,000	-
2021	2,740,000	1,620,000	480,000	305,000
2022	2,880,000	1,700,000	505,000	320,000
2023	3,025,000	1,785,000	530,000	335,000
2024	895,000	990,000	555,000	350,000
2025	1,985,000	-	585,000	370,000
2026	2,080,000	-	615,000	385,000
2027	2,185,000	-	645,000	405,000
2028	2,300,000	-	680,000	425,000
2029	2,415,000	-	715,000	440,000
2030	2,540,000	-	755,000	475,000
2031	2,670,000	-	-	490,000
2032	2,800,000	-	-	515,000
2033	2,945,000	-	-	545,000
2034	-	-	-	575,000
2035	-	-	-	600,000
2036	-	-	-	630,000
2037	-	-	-	665,000
2038	-	-	-	695,000
Total	<u>\$31,460,000</u>	<u>\$9,610,000</u>	<u>\$6,525,000</u>	<u>\$8,525,000</u>

Note 5. Long-Term Debt (continued):

ISSUE YEAR	SERIES O-1	SERIES O-2	SERIES O-3	SERIES P-3	GRAND TOTAL
2010	-	-	\$ 395,000	-	\$ 395,000
2011	-	-	445,000	-	445,000
2012	-	-	465,000	-	465,000
2013	-	-	480,000	-	480,000
2014	-	-	505,000	-	505,000
2015	-	-	525,000	-	525,000
2016	-	-	550,000	-	550,000
2017	-	-	580,000	-	580,000
2018	-	-	610,000	-	610,000
2019	-	-	645,000	-	2,355,000
2020	590,000	25,000	-	-	2,880,000
2021	615,000	30,000	-	-	5,790,000
2022	645,000	30,000	-	-	6,080,000
2023	675,000	30,000	-	-	6,380,000
2024	705,000	35,000	-	3,545,000	7,075,000
2025	740,000	35,000	-	4,825,000	8,540,000
2026	780,000	35,000	-	5,045,000	8,940,000
2027	815,000	40,000	-	5,275,000	9,365,000
2028	860,000	40,000	-	5,520,000	9,825,000
2029	900,000	40,000	-	5,775,000	10,285,000
2030	955,000	45,000	-	6,040,000	10,810,000
2031	1,010,000	45,000	-	6,325,000	10,540,000
2032	1,065,000	50,000	-	6,630,000	11,060,000
2033	1,130,000	50,000	-	6,945,000	11,615,000
2034	1,195,000	55,000	-	7,280,000	9,105,000
2035	1,260,000	60,000	-	7,630,000	9,550,000
2036	1,335,000	60,000	-	7,995,000	10,020,000
2037	1,415,000	65,000	-	8,375,000	10,520,000
2038	1,495,000	70,000	-	8,775,000	11,035,000
2039	1,585,000	75,000	-	9,195,000	10,855,000
2040	-	-	-	9,635,000	9,635,000
Total	<u>\$19,770,000</u>	<u>\$ 915,000</u>	<u>\$5,200,000</u>	<u>\$114,810,000</u>	<u>\$196,815,000</u>

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Note 5. Long-Term Debt (continued):

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		<u>Bonds Maturing January 1, 2023</u>
<u>Year</u>		<u>Principal Amount</u>
2021		\$2,740,000
2022		2,880,000
2023		<u>3,025,000</u>
Total		<u>\$8,645,000</u>

Series K		<u>Bonds Maturing January 1, 2026</u>
<u>Year</u>		<u>Principal Amount</u>
2024		\$ 895,000
2025		1,985,000
2026		<u>2,080,000</u>
Total		<u>\$4,960,000</u>

Series K		<u>Bonds Maturing January 1, 2033</u>
<u>Year</u>		<u>Principal Amount</u>
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 L		<u>Bonds Maturing January 1, 2023</u>
<u>Year</u>		<u>Principal Amount</u>
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>

Series L		<u>Bonds Maturing January 1, 2024</u>
<u>Year</u>		<u>Principal Amount</u>
2024		<u>\$990,000</u>

Note 5. Long-Term Debt (continued):

Series M Bonds Maturing January 1, 2022

<u>Year</u>	<u>Principal Amount</u>
2020	\$ 460,000
2021	480,000
2022	<u>505,000</u>
Total	<u>\$1,445,000</u>

Series M Bonds Maturing January 1, 2030

<u>Year</u>	<u>Principal Amount</u>
2026	\$ 615,000
2027	645,000
2028	680,000
2029	715,000
2030	<u>755,000</u>
Total	<u>\$3,410,000</u>

Series N Bonds Maturing January 1, 2023

<u>Year</u>	<u>Principal Amount</u>
2021	\$305,000
2022	320,000
2023	<u>335,000</u>
Total	<u>\$960,000</u>

Series M Bonds Maturing January 1, 2025

<u>Year</u>	<u>Principal Amount</u>
2023	\$ 530,000
2024	555,000
2025	<u>585,000</u>
Total	<u>\$1,670,000</u>

Series N Bonds Maturing January 1, 2038

<u>Year</u>	<u>Principal Amount</u>
2030	\$475,000
2031	490,000
2032	515,000
2033	545,000
2034	575,000
2035	600,000
2036	630,000
2037	665,000
2038	<u>695,000</u>
Total	<u>\$5,190,000</u>

Series N Bonds Maturing January 1, 2028

<u>Year</u>	<u>Principal Amount</u>
2024	\$ 350,000
2025	370,000
2026	385,000
2027	405,000
2028	<u>425,000</u>
Total	<u>\$1,935,000</u>

notes to financial statements

Note 5. Long-Term Debt (continued):

Series N Bonds Maturing January 1, 2029

<u>Year</u>	<u>Principal Amount</u>
2029	<u>\$440,000</u>

Series O-1 Bonds Maturing January 1, 2026

<u>Year</u>	<u>Principal Amount</u>
2024	\$ 705,000
2025	740,000
2026	<u>780,000</u>
Total	<u>\$2,225,000</u>

Series O-1 Bonds Maturing January 1, 2034

<u>Year</u>	<u>Principal Amount</u>
2029	\$ 900,000
2030	955,000
2031	1,010,000
2032	1,065,000
2033	1,130,000
2034	<u>1,195,000</u>
Total	<u>\$6,225,000</u>

Series O-1 Bonds Maturing January 1, 2023

<u>Year</u>	<u>Principal Amount</u>
2020	\$ 590,000
2021	615,000
2022	645,000
2023	<u>675,000</u>
Total	<u>\$2,525,000</u>

Series O-1 Bonds Maturing January 1, 2028

<u>Year</u>	<u>Principal Amount</u>
2027	\$ 815,000
2028	<u>860,000</u>
Total	<u>\$1,675,000</u>

Series O-1 Bonds Maturing January 1, 2039

<u>Year</u>	<u>Principal Amount</u>
2035	\$1,260,000
2036	1,335,000
2037	1,415,000
2038	1,495,000
2039	<u>1,585,000</u>
Total	<u>\$7,090,000</u>

Series O-2 Bonds Maturing January 1, 2028

<u>Year</u>	<u>Principal Amount</u>
2020	\$ 25,000
2021	30,000
2022	30,000
2023	30,000
2024	35,000
2025	35,000
2026	35,000
2027	40,000
2028	<u>40,000</u>
Total	<u>\$300,000</u>

Note 5. Long-Term Debt (continued):

Series O-2 **Bonds Maturing January 1, 2034**

<u>Year</u>	<u>Principal Amount</u>
2029	\$ 40,000
2030	45,000
2031	45,000
2032	50,000
2033	50,000
2034	<u>55,000</u>
Total	<u>\$ 285,000</u>

Series O-3 **Bonds Maturing January 1, 2012**

<u>Year</u>	<u>Principal Amount</u>
2010	\$ 395,000
2011	445,000
2012	<u>465,000</u>
Total	<u>\$1,305,000</u>

Series O-3 **Bonds Maturing January 1, 2019**

<u>Year</u>	<u>Principal Amount</u>
2016	\$ 550,000
2017	580,000
2018	610,000
2019	<u>645,000</u>
Total	<u>\$2,385,000</u>

Series O-2 **Bonds Maturing January 1, 2039**

<u>Year</u>	<u>Principal Amount</u>
2035	\$ 60,000
2036	60,000
2037	65,000
2038	70,000
2039	<u>75,000</u>
Total	<u>\$330,000</u>

Series O-3 **Bonds Maturing January 1, 2015**

<u>Year</u>	<u>Principal Amount</u>
2013	\$ 480,000
2014	505,000
2015	<u>525,000</u>
Total	<u>\$1,510,000</u>

Series P-3 **Bonds Maturing January 1, 2029**

<u>Year</u>	<u>Principal Amount</u>
2024	\$ 3,545,000
2025	4,825,000
2026	5,045,000
2027	5,275,000
2028	5,520,000
2029	<u>5,775,000</u>
Total	<u>\$29,985,000</u>

Series O-3 **Bonds Maturing January 1, 2040**

<u>Year</u>	<u>Principal Amount</u>
2030	\$ 6,040,000
2031	6,325,000
2032	6,630,000
2033	6,945,000
2034	7,280,000
2035	7,630,000

Series P-3 **Bonds Maturing January 1, 2040**

<u>Year</u>	<u>Principal Amount</u>
2036	\$ 7,995,000
2037	8,375,000
2038	8,775,000
2039	9,195,000
2040	<u>9,635,000</u>
Total	<u>\$84,825,000</u>

notes to financial statements

Note 5. Long-Term Debt (continued):

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.

The Series 2007 Bonds maturing before January 1, 2018 are not subject to optional redemption prior to their stated maturities. The Series 2007 Bonds maturing on or after January 1, 2018 are subject to redemption prior to maturity, at the option of the Corporation, upon notice as described below, as a whole or in part at any time on or after January 1, 2017. The Series 2007 Bonds or portions thereof to be redeemed shall be selected by the Trustee in any order of maturity at the written election of the Corporation signed by an Authorized Officer, as set forth in said written election and within a maturity by lot in any other customary manner determined by the Trustee. Any such redemption shall be made at a Redemption Price of 100% of the principal amount of Series 2007 Bonds called for redemption, without premium, plus accrued interest to the date of redemption.

The Series 2009 O-1 Bonds and Series 2009 O-2 Bonds maturing on or after January 1, 2020 are subject to redemption

prior to maturity, at the option of the Corporation, upon notice as described below, as a whole or in part at any time on or after January 1, 2019. The Series 2009 O-1 Bonds and the Series 2009 O-2 Bonds or portions thereof to be redeemed shall be selected by the Trustee in any order of maturity and by either election, and within a maturity by lot in any other customary manner determined by the Trustee. Any such redemption shall be made at a Redemption Price of 100% of the principal amount of Series 2009 Bonds called for redemption, without premium, plus accrued interest to the date of redemption. The Series 2009 O-3 Bonds are not subject to optional redemption prior to their stated maturities.

The Series 2009 P-1 Taxable Bonds are not subject to redemption prior to their stated maturities. The Series 2009 P-2 Tax-Exempt Private Activity Bonds maturing on or after January 1, 2021 are subject to redemption prior to maturity, at the option of the Corporation, upon notice as described below, as a whole or in part at any time on or after January 1, 2020. The Series 2009 P-2 Tax-Exempt Private Activity Bonds or portions thereof to be redeemed shall be selected by the Trustee in any order of maturity at the written election of the Corporation signed by an Authorized Officer, as set forth in said written election, and within a maturity by lot in any other customary manner determined by the Trustee. Any such redemption shall be made at a Redemption Price of 100% of the principal amount of Series 2009 P-2 Tax-Exempt Private Activity Bonds called for redemption, without premium, plus accrued interest to the date of redemption. The Series 2009 P-3 Taxable Build America Bonds are not subject to optional redemption prior to their stated maturities.

The Series 2009 P-3 Taxable Build America Bonds are subject to redemption prior to maturity by written direction of the

Corporation, in whole or in part, at any time on any business day, at the "Make-Whole Redemption Price". The Make-Whole Redemption Price is the greater of (i) 100% of the principal amount of the Series 2009 P-3 Taxable Build America Bonds to be redeemed or (ii) the sum of the present value of the remaining scheduled payments of principal and interest to the maturity date of the Series 2009 P-3 Taxable Build America Bonds to be redeemed, not including any portion of those payments of interest accrued and unpaid as of the date on which the Series 2009 P-3 Taxable Build America Bonds are to be redeemed, discounted to the date on which the Series 2009B Taxable Bonds are to be redeemed on a semi-annual basis, assuming a 360-day year consisting of twelve 30-day months, at the adjusted "Treasury Rate" plus 25 basis points, plus, in each case, accrued and unpaid interest on the Series 2009 P-3 Taxable Build America Bonds to be redeemed to the redemption date.

The "Treasury Rate" is, as of any redemption date, the yield to maturity as of such redemption date of United States Treasury securities with a constant maturity (as compiled and published in the most recent Federal Reserve Statistical Release H.15 (519) that has become publicly available on a date that is selected by the Corporation that is not less than two (2) business days and not more than fifty (50) days prior to the redemption date (excluding inflation indexed securities) (or, if such Statistical Release is no longer published, any publicly available source of similar market data)) most nearly equal to the period from the redemption date to the maturity date of the Series 2009 P-3 Taxable Build America Bonds to be redeemed; provided, however, that if the period from the redemption date to such maturity date is less than one (1) year, the weekly average yield on actually traded United States Treasury securities adjusted to a constant maturity of one (1) year will be used.

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 \$40,000 for each individual and up to \$2,390,753 annually for all enrollees on an aggregate basis. For amounts in excess of individual and aggregate coverage, a commercial insurance policy has been obtained.

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.

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.

notes to financial statements

Note 9. PILOT Payments

County of Camden PILOT Payments—The Corporation has entered into a 2009 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 2009. An appropriation of \$419,000 will be required from the State to make payment to the 2009 County of Camden “PILOT Tax Agreement”.

City of Salem PILOT Payments—The Corporation has entered into a 2009 payment in lieu of tax agreement with the City of Salem requiring the Corporation to make payment of thirty one thousand two hundred and twenty five dollars \$31,225 in the calendar year 2009. An appropriation of \$31,225 will be required from the State to make payment to the 2009 City of Salem “PILOT Tax Agreement”.

City of Camden PILOT Payments—The Corporation entered into a 2009 payment in lieu of tax agreement with the City of Camden requiring the Corporation to make payment of eight million dollars (\$8,000,000). The City’s fiscal year for 2009 began in July 1, 2008 and ended June 30, 2009. The South Jersey Port Corporation reported a \$4,000,000 “PILOT” payment in 2008 and a \$4,000,000 “PILOT” payment in 2009. The State of New Jersey notified the South Jersey Port Corporation that they would not be funding the City of Camden “PILOT” for the City’s fiscal year 2010 that runs from July 1, 2009 and ends June 30, 2010. This notification was published in the Governor’s list of budget solutions document dated February 11, 2010. Pursuant to the 2010 “PILOT” agreement, the Corporation is not required to make the 2010 “PILOT” payment until such time as the payment has been appropriated by the State of New Jersey and the payment is received by the Corporation.

Borough of Paulsboro PILOT Payments—The Corporation has entered into a 2009 payment in lieu of tax agreement with the Borough requiring the Corporation to make annual payments of five hundred thousand (\$500,000) in the calendar year 2009. An appropriation of \$500,000 will be required from the State to make payment to the 2009 County of Gloucester “PILOT Tax Agreement”.

In December 2005, the Board of Directors of the South Jersey Port Corporation entered into a lease agreement with the Borough of Paulsboro for the lease of 190 acres for the Building of a Port Facility. In the lease agreement the South Jersey Port Corporation agreed to make a Payment in Lieu of Taxes (“PILOT”) to the Borough of Paulsboro of \$500,000 (five hundred thousand dollars) plus 2 % of the value of the Buildings and 1 % of the value of the land that will be subleased to private companies. The enabling legislation of the South Jersey Port Corporation requires that the State of New Jersey willfund/replenish the Property Tax Reserve Fund of the South Jersey Port Corporation for any such monies owed on PILOT agreements such as the PILOT agreement with the Borough of Paulsboro.

County of Gloucester PILOT Payments—The Corporation has entered into a 2009 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 payment to the 2009 County of Gloucester “PILOT Tax Agreement”.

All Pilot payments are 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)

Note 10. Pending Litigation

[Krebs vs. South Jersey Port Corporation](#)

A lawsuit was filed in the United States District Court for the District of New Jersey, Civil Action No. 1:07-cv-04561 and now pending in the Superior Court of New Jersey, Camden County, Law Division, Docket No. L-3923-08.

A wrongful termination claim by an ex-employee, against the Port and the Executive Director alleging violations of federal Civil Rights law, 42 USC Section 1983; the New Jersey Conscientious Employee Protection Act (“CEPA”); Libel, Slander and False Light; Spoliation of Evidence; and Intentional Infliction of Emotional Distress. The Complaint was filed in the United States District Court for the District of New Jersey on September 21, 2007. On November 2, 2007, the defendants filed a motion to dismiss the Complaint. On June 4, 2008, the court granted in part and denied in part the motion by entering an order dismissing the Port as a defendant and dismissing some but not all of the claims against the Executive Director. Since the federal court no longer had jurisdiction once the sole federal law claim was dismissed, the court on August 1, 2008 dismissed the remaining state law claims against the Executive Director for lack of jurisdiction. On August 4, 2008, the plaintiff filed a state law complaint against the Port and the Executive Director without any federal law claims raising similar allegations as to wrongful termination made in the dismissed federal complaint. On October 1, 2008, the defendants filed a motion to for partial dismissal of the state law complaint on the basis of the statute of limitations and/or res judicata/collateral estoppels as to the claims of CEPA retaliatory discharge and defamation and false light. On December 9, 2008, the court entered an order granting the dismissal of the CEPA and false light claims against the Port but denying the motion as to the Executive Director. Currently, the claim against the Port is for retaliatory discharge in violation of the New Jersey Law Against Discrimination (the “NJLAD”) and intentional infliction of

emotional distress. The claims against the Executive Director are retaliatory discharge under CEPA and the LAD, false light/defamation and intentional infliction of emotional distress. The parties have recently exchanged written discovery demands and no depositions have yet been taken in this matter. At this time it is unable to determine the likelihood of an unfavorable outcome or an estimate of the amount or range of potential loss.

[Elliott vs. South Jersey Port Corporation](#)

A lawsuit was filed in the Superior Court of New Jersey, Law Division, Essex County, Docket Number L-9149-07, transferred to Camden County on January 23, 2008, Docket No. L-642-08.

This action is settled. The Board of the Port on January 26, 2010 approved the insurance carrier’s request to settle the litigation. The approval of the Governor’s Authorities Unit is expected once it approves of the Board’s minutes.

[Rossi vs. South Jersey Port Corporation](#)

A lawsuit was filed with the State of New Jersey, Office of the Attorney General, Department of Law & Public Safety, Division on Civil Rights, Docket No. ED08WB-53825; EEOC Charge No. 17E 2008 0036.

On January 21, 2008, the Port received a Notice of Claim (“Notice”) under New Jersey’s Tort Claim Act setting forth a potential claim against the Port by an ex-employee, Lissette J. Rossi, alleging sexual harassment, retaliation and wrongful termination. On April 1, 2008, Rossi filed a Verified Complaint with the New Jersey Division on Civil Rights (the “DCR”) alleging discrimination on the basis of sex in violation of the New Jersey Law Against Discrimination (“LAD”). The Port, in accordance with the administrative procedures of the DCR, filed an Answer to the Verified Complaint. The DCR is still in

the investigative stage of the administrative proceedings. Once the DCR finishes its investigation, it will issue a determination of “probable cause” or “no probable cause.” A finding of probable cause will result in the transfer of the matter to the New Jersey Office of Administrative Law for a hearing to determine if unlawful discrimination in violation of the LAD has occurred. At this time it is unable to determine the likelihood of an unfavorable outcome or an estimate of the amount or range of potential loss.

PEOSH Proceeding (in the New Jersey Office of Administrative Law, OAL No. OSH 02062-2010S)

The New Jersey Department of Labor and Workforce Development (“DOL”) on June 18, 2008 issued a Notice of Order to Comply regarding a workplace accident on February 25, 2008, which resulted in the death of an employee.

On January 21, 2010, the matter was filed with the New Jersey Office of Administrative Law as a contested matter. The Port is contesting certain fines and penalties, which the DOL seeks to impose for alleged violations of New Jersey’s Public Employees Occupational Safety and Health Act. The fines and penalties sought total just under \$71,000.00.

Anthony Ferrer (in the federal Equal Employment Opportunity Commission, EEOC Charge No. 530-2009-01444)

On January 9, 2009, the Port received a letter from an attorney for an ex-employee claiming that the employee’s December 10, 2008 termination from employment constituted unlawful discrimination in violation of New Jersey Law Against Discrimination (“LAD”) on the basis of the employee’s handicap/physical disability. The Port through this firm responded on January 15, 2009 denying the allegations of

Note 10. Pending Litigation (continued)

a violation of the LAD and advising that there was no basis for a claim for discrimination. On January 23, 2009, the ex-employee's union withdrew the grievance filed under the collective bargaining agreement which had contested the termination and which had sought re-employment by the Port. Mr. Ferrer subsequently filed a Charge of Discrimination with the federal Equal Employment Opportunity Commission ("EEOC") and in which he alleges that he was wrongfully discharged. He alleges that following a work accident on February 19, 2008, he was wrongfully discharged when, on November 25, 2008, he reached maximum medical improvement with permanent restrictions. The Charge alleges that the discharge was based upon his real or perceived disability or due to his race (African-American). The Port has answered the Charge and has denied any improper conduct. The matter is pending before the EEOC and the Port is awaiting the results of the EEOC investigation. The Port at this time has no further information regarding the claim.

Note 11. Threatening Litigation

Holcim/St. Lawrence

Holcim, a tenant of SJPC has placed SJPC on notice of a potential claim for \$173,840 relating to damages they claim to have suffered for additional demurrage and trucking expenses relating to the SJPC crane failure. While SJPC has denied liability for such damages, SJPC has sued the manufacture and erectors of the crane for expenses related to the crane failure and for any damage of Holcim for which SJPC might ultimately be found responsible.

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:

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 currently leased by Del Monte. The Corporation will ground-lease the real property involved in this refrigerated warehouse lease agreement 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 until the \$10,000,000 loan is satisfied. The rents will accrue although there will be no interest payable on the non-paid rent.

The ten-year lease with the Ports of Philadelphia and Camden, Inc (PPC) expired in March 2009. This lease was for the repayment of the funds advanced to the SJPC for the construction of the new temperature controlled TS-2 warehouse.

Note 13. Capital Projects and Funding Sources

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's 2009 construction in progress consists of the following for Cathodic Protection in the amount of \$3,427,840, Paulsboro Marine Terminal Project in the amount of \$326,425 and the Broadway Warehouse in the amount of \$ 432 these projects were funded from the 2007 Series N Bond Issue.

In 2009 an additional \$5,483,066 were expended from the 2009 Series O-1 Bond Issue. The breakdown is as follows for the Paulsboro Project in the amount of \$4,433,773, Dredging in the amount of \$85,405, Gantry Crane Refinishing in the amount of \$689,728, IT and Security in the amount of \$156,703, Terminal Paying in the amount of \$14,500 and Cathodic Protection in the amount of \$102,957.

In 2009 the SJPC received a Grant from the Department of Transportation for Railroad Rehabilitation and Repairs in the amount of \$1,988,995.

The Corporation completed construction of the Broadway Warehouse, which is known as Z Building at the total cost of \$3,952,371 in 2009.

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. Paulsboro Marine Terminal Project and Financing

The Corporation and the Borough of Paulsboro entered into that certain “Redevelopment Agreement” with respect to the Development and Construction of a Marine Terminal within the Borough of Paulsboro, South Jersey Port District dated January 16, 2006 (as amended, the “Redevelopment agreement”). Under the Redevelopment Agreement, the Corporation was granted the right and obligation to develop the Paulsboro Marine Terminal located in Paulsboro, Gloucester County, in two phases, with (i) Phase I constituting a replacement for the loss of function of two berths and other related infrastructure and equipment resulting from a pier collapse at the Corporation’s Beckett Street Terminal and (ii) Phase II constituting an expansion of Phase I through the addition of another two piers adjacent to the two replacement berths (the “Paulsboro Marine Terminal Project”).

The Paulsboro Marine Terminal is located along the eastern bank of the Delaware River, across from the Philadelphia International Airport, just south of Mantua Creek in the Borough of Paulsboro, Gloucester County, New Jersey. The site consists of primarily two parcels, both of which are controlled by Paulsboro: (1) a 130-acre parcel that was previously operated by BP Oil Company (the “BP Site”) and (2) an adjacent 60-acre parcel that was operated by Essex Chemical, which is a wholly owned subsidiary of The Dow Chemical Company (the “Essex Site”).

The parameters of the development of the Paulsboro Marine Terminal Project were set forth in the Redevelopment Agreement, including without limitation:

A General Development Plan for the Paulsboro Marine Terminal Project approved by Paulsboro;

An estimate of the cost for Phase 1 of the Paulsboro Marine Terminal Project, the replacement phase of the Paulsboro Marine Terminal Project, depending on the design approved by appropriate governmental officials, in an amount up to approximately \$136 million; provided, however, that Section 4.1(1) of the Redevelopment Agreement expressly states that should the ultimate cost for Phase 1 exceed such amount, the Redevelopment Agreement shall not prohibit the Corporation from issuing Bonds in excess of such initial estimate; and The Corporation’s right and obligation to issue Additional Bonds pursuant to Section 206(c) of the Bond Resolution, or subordinate bonds permitted by the Bond Resolution, to finance Phase I of the Paulsboro Marine Terminal Project.

Pursuant to the Redevelopment Agreement, the Corporation entered into a series of agreements to commence the development of the Paulsboro Marine Terminal Project.

Site access was obtained through the combination of (i) a Sublease Agreement dated January 16, 2006, as amended, with Paulsboro, as sub-lessor, and the Corporation, as sub-lessee (the original lease is with BP Oil Company, as fee owner and lessor, and Paulsboro, as lessee) for the approximately 130-acre parcel that was previously operated by BP Oil Company, and (ii) a Lease Agreement dated August 6, 2009 between Paulsboro, as owner and lessor, and the Corporation, as lessee, for the adjacent 60-acre parcel that was operated by Essex Chemical, which is a wholly owned subsidiary of The Dow Chemical Company, and which site is now owned in fee by Paulsboro.

The tax payment requirements of the Act were satisfied through the execution and delivery of two payments in lieu of tax agreements on January 16, 2006, as amended, one with each of Paulsboro and Gloucester County. Both of these payments in lieu of tax agreements provide for the payment by the Corporation to such parties of a base amount, independent of Paulsboro Marine Terminal development. In addition, the Paulsboro agreement provides for Paulsboro to receive from or through the Corporation a second additional payment tied to a portion of such development.

These various agreements also provide that the Corporation can develop the Paulsboro Marine Terminal Project, so long as the uses of the port fit within the General Development Plan approved by Paulsboro under the Redevelopment Agreement, and further, so long as such uses do not disturb (i) the No Further Action letter and Deed Notice forwarded from the NJDEP to Essex Chemical in 2003 regarding the Essex site, and (ii) the multi-phased remedial investigation and action, which is expected to continue for many years, for the BP site.

The Corporation and the Gloucester County Improvement Authority (“GCIA”) have also entered into that certain “Paulsboro Port Project Development and Management Agreement” dated as of August 1, 2009 (the “Development and Management Agreement”). Pursuant to the Development and Management Agreement, the Corporation shall set forth the overall parameters for the design and development of the Paulsboro Marine Terminal, and the GCIA shall enter into the various contracts required to implement this development. Among other things, this arrangement allows the Corporation to focus on the future leasing of the Paulsboro Marine Terminal, to maximize its revenue potential. Further, in order to expedite the development of the Paulsboro Marine Terminal, this Development and Management Agreement,

in combination with the Thirteenth Supplemental Bond Resolution, provide for GCIA to access the Series 2009

Note 15. Paulsboro Marine Terminal Project and Financing (continued)

O Bond proceeds, the Series 2009 P Bond proceeds, along with future Additional Bond or subordinate bond proceeds for the development of the Paulsboro Marine Terminal Project, to pay necessary development costs such as planning, design and construction costs, without individual contract approval from the Corporation.

The GCIA has an account titled the Paulsboro Port Marine Terminal Account in which project funds will be deposited as needed. This account is an interest bearing account and any interest income earned on this account would be interest income to the South Jersey Port Corporation.

The Corporation retains the right to discontinue this arrangement with GCIA for the development of the Paulsboro Marine Terminal should the development materially deviate from a mutually agreed upon budget and schedule for the Paulsboro Marine Terminal.

The Corporation is in the process of negotiating operation contracts for that portion of the Paulsboro Marine Terminal that shall house private operations, which in turn is expected to generate revenues for the Corporation, in part, to repay debt service on the Series 2009 P Bonds. In particular, the Corporation is looking into certain renewable energy uses for the Paulsboro Marine Terminal, having executed a memorandum of understanding for the assemblage of offshore based wind turbine facilities, and is presently in negotiation for other similar facilities. While the Corporation remains optimistic in its pursuit of these operations, vendors, and fees, it made no representation to holders of the Series 2009 P Bonds that the Corporation shall enter into a sufficient number of these agreements, in

both number and dollar value, such that such agreements shall generate sufficient revenues to pay the principal of, and interest on the Series 2009 P Bonds in full and on time.

The Corporation has not yet funded, though it contemplates the possibility of funding, a third and fourth berth for the Paulsboro Marine Terminal Project. The costs for this Phase II of the Paulsboro Marine Terminal Project, and whether the Corporation would issue parity Bonds or subordinated debt to fund Phase II, has not yet been determined by the Corporation. Accordingly, the Corporation can make no representation whether Phase II shall be implemented. Further, the Corporation relied upon Section 206(c) of the Bond Resolution in authorizing the Series 2009 P Bonds, as the initial two berths Paulsboro Marine Terminal Project shall replace the two lost piers at the Corporation's Beckett Street Terminal. Absent a further loss to Corporation port facilities, this replacement provision of the Bond Resolution would not be available to fund Phase II, and accordingly the Corporation would need to rely on some other provision of the Bond Resolution in order to authorize parity Bonds to fund the Phase II Project.

Paulsboro Bonds

The Corporation issues 157,880,000 of its Marine Terminal Revenue Bonds, Series 2009 P, on December 30, 2009. Prior to the issuance of the Series 2009 P Bonds, the Corporation had issued a portion of the Series 2007 Bonds (\$3,285,000) pursuant to the Original Ninth Supplemental Resolution, and a portion of the Series 2009 O Bonds (\$15,572,986) pursuant to the Twelfth Supplemental Resolution (as defined below) (such earmarked portions, together with the Series 2009 P Bonds and any series of Additional Bonds issued for the Paulsboro Marine Terminal Project, the "Paulsboro Bonds"), for an aggregate of \$18,857,986 principal amount of Bonds that have been issued

for the Paulsboro Marine Terminal Project. The Series 2007 Bonds were issued pursuant to the Act and the General Bond Resolution, as further supplemented by the Corporation's Original Ninth Supplemental Resolution. The Series 2009 O Bonds were issued pursuant to the Act and the General Bond Resolution, as further supplemented by the Corporation's Twelfth Supplemental Marine Terminal Revenue Bond Resolution Authorizing Issuance of Marine Terminal Revenue Bonds; Series 2008 O adopted October 28, 2008 (the "Twelfth Supplemental Resolution").

Pursuant to the Ninth Supplemental Resolution and the Thirteenth Supplemental Resolution, the Corporation has authorized an additional \$188,715,000 for the Paulsboro Marine Terminal Project, against which all of the principal amount of the Series 2009 P Bonds shall be allocated. Accordingly, after the issuance of the Series 2009 P Bonds in the aggregate principal amount of \$157,880,000, (i) the aggregate amount of Bonds issued for the Paulsboro Marine Terminal Project will be \$176,737,986, and (ii) the aggregate amount of Bonds authorized by the Corporation, but remaining unissued, for the Paulsboro Marine Terminal Project is \$30,835,000.

Pursuant to Section 201(D) and Exhibit C of the Original Ninth Supplemental Resolution, authorized, but unissued Paulsboro Bonds (up to \$132,715,000 in aggregate principal amount) could not have been issued until the Sufficiency Test defined therein had been satisfied or waived in accordance with the terms thereof, which required the consent of the Corporation and the State Treasurer, but did not require Bondholder consent. The Amendment No. 2 to Ninth, and Thirteenth Supplemental Resolutions specifically waived and revoked the Sufficiency Test, with the adoption thereof providing the Corporation's consent to this waiver and revocation, and the State Treasurer's pre-adoption and post adoption approval of Amendment No. 2 to Ninth and Thirteenth Supplemental Resolutions providing the State Treasurer's consent to this waiver and revocation.

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Accordingly, satisfaction of the Sufficiency Test set forth in the Original Ninth Supplemental Resolution is not a condition precedent to the issuance of the Series 2009 P Bonds.

Note 15. Paulsboro Marine Terminal Project and Financing (continued)

2009 P Paulsboro Marine Terminal Project

A portion of the proceeds of the Series 2009 P Bonds will be used by the Corporation to fund the creation of the waterside and landside connections that will facilitate the inter-modal handling of cargoes from ship to truck and/or rail at the two-berth Paulsboro Marine Terminal, including the following costs of the Paulsboro Marine Terminal Project (collectively, the “2009 P Paulsboro Marine Terminal Project”):

- (i) Select demolition and renovation of residual structures;
- (ii) Hauling and receiving of fill material for upland (e.g. on-site) use;
- (iii) The placement, grading and compaction of fill material atop of the existing sub-grade to raise the proposed post-construction elevation above the 100-year flood plain;
- (iv) Deep soil compaction techniques and placement of surcharge material within areas of historic fill placement along the Delaware River shoreline;
- (v) Installation of the required storm water management collection, distribution and outfall system;
- (vi) Installation of the primary electrical power supply (feed) and high mast lighting system and other utility infrastructure such as potable water, fire

- water, sanitary sewer, telecommunications, and IT;
- (vii) Acquisition of additional real property to facilitate site access, complete the perimeter of the site and to enable off-site mitigation of unavoidable environmental impacts;
- (viii) Construction of two deep-water berths and integrated infrastructure to facilitate approximately 1,500 linear feet of wharfage along the Delaware River that interconnects with the existing shoreline;
- (ix) Dredging to approximately 42-foot depths from MLW;
- (x) Construction of in-terminal access roads, retaining walls and rail infrastructure;
- (xi) Construction of security gate and access control provisions;
- (xii) Acquisition and installation of rail mounted ship to shore crane;
- (xiii) Creation of a maintenance facility; and
- (xiv) Funding the management functions necessary to achieve the implementation and start-up of the Paulsboro Marine Terminal.

Key aspects of this development include the construction, commissioning, startup and operation of the Paulsboro Marine Terminal that consists of a pile-supported wharf structure combined with pile-supported access trestles and adjacent backland infrastructure. The backland infrastructure is planned to include a combination of transit sheds, warehouses, processing facilities, paved open storage areas, truck/rail loading and unloading areas, maintenance facilities and office space. In addition to the Paulsboro Marine Terminal, off-site components not being financed by the Corporation include the construction of a new vehicular access road and bridge, rehabilitation of mainline

rail infrastructure and utility service (e.g. power, sewer & potable water) upgrades.

The purpose of this development is to construct and operate the Paulsboro Marine Terminal at the Port of Paulsboro, which will consist of a marine terminal and processing/distribution center within a site that has been designated by Paulsboro as an area in need of redevelopment. The Corporation anticipates that the creation of the Port of Paulsboro will enable cost effective handling of more than 3.0 million tons of deep draft, internationally sourced, non-containerized cargo. The 2009 P Bonds were issued to finance the 2009 P Paulsboro Marine Terminal Project pursuant to the Act, Section 206(c) of the General Bond Resolution, which permits the Corporation to issue Additional Bonds for Projects consisting of the repair or the replacement of facilities (i.e., Beckett Street) that are deemed to be essential for the production of Revenues of the Corporation or for the elimination of conditions in the Corporation’s facilities that are deemed to be hazardous to persons or to property, the Ninth Supplemental Resolution and the Thirteenth Supplemental Resolution.

The balance of the proceeds of the Series 2009 P Bonds were used to fund the deposit to the Debt Reserve Fund, to capitalize interest on the Series 2009 P Bonds through January 1, 2011 and to pay the costs of issuance associated with the Series 2009 P Bonds.

The aggregate deposits to the Debt Reserve Fund from the proceeds of the Series 2009 P Bonds caused the balance in the Debt Reserve Fund to be at least equal to the Debt Reserve Requirement under the Bond Resolution.

Note 16. 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 \$1,394,808 as of December 31, 2009.

Note 17. 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. Retire with 25 or more years of service in the New Jersey State Retirement System regardless of age.
- B. Retire at age 60 or later with 15 or more 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 pays 100% of the medical and prescription cost after co-pays of single and dependent coverage for retirees hired prior to January 1, 1991. The Corporation pays 80% of the medical cost and 100% of the prescription cost after co-pays of single and dependent coverage for retirees hired on or after January 1, 1991. Retirees hired on or after December 1, 2000 pay \$25 per week toward their benefits.

The South Jersey Port Corporation's annual Other Post-Employment Benefit cost is calculated based on the Annual Required Contribution. The actuarial cost method used to determine the Plan's funding requirements is the "Projected Unit Credit" method. Under this method, an actuarial accrued liability is determined as the present value of the portion of projected benefits, which is allocated to service before the current plan year. In addition, a normal cost is determined as the actuarial present value of the portion of projected benefits, which is allocated to service in the current plan year for each active participant under the assumed retirement age. The normal cost amount is expected to increase annually at the discount rate, currently 5%. The Plan is currently unfunded. The unfunded actuarial liability is amortized over a period not to exceed 30 years. The following table shows the changes in the Corporation's annual Other Post-Employment Benefit cost for the year, the amount actually contributed to the Plan and changes in the Corporation's net Other Post-Employment Benefit obligation to the plan:

Annual Required Contribution	\$ <u>-.</u>
Interest on Net Other Post-Employment Benefit	
Adjustment to Annual Required Contribution	<u>-</u>
Annual Other Post-Employment Benefit Contributions Made	<u>-</u>
Increase in Net Other Post-Employment Benefit Obligation	
Net Other Post-Employment Benefit, Beginning of Year	<u>271,000</u>
Net Other Post-Employment Benefit, End of Year	<u>\$271,000</u>

The Corporation's annual Other Post-Employment Benefit cost, the percentage of annual Other Post Employment Benefit cost contributed to the Plan, and the net Other Post Employment Benefit obligation (OPEB) for the year ending December 31, 2009 is as follows:

YEAR ENDED	ANNUAL OPEB COST	PERCENTAGE CONTRIBUTED	NET OPEB OBLIGATION
12/31/09	\$ -	0%	\$ 271,000

Actuarial assumptions were used to value the post-retirement medical liabilities. Actuarial assumptions were based on the actual experience of the covered group, to the extent that creditable experience data was available, with an emphasis on expected long-term future trends rather than giving undue weight to recent past experience. The reasonableness of each actuarial assumption was considered independently based on its own merits, its consistency with each other assumption, and the combined impact of

notes to financial statements

Note 17. Post-Retirement Health Benefits (continued)

The GASB obligations, except where it was appropriate to use different assumptions.

Two economic assumptions used in the valuation are the discount rate and the health care cost trend rates. The economic assumptions are used to account for changes in the cost of benefits over time and to discount future benefit payments for the time value of money.

The investment return assumption (discount rate) should be the estimated long-term investment yield on the investments that are expected to be used to finance the payments of benefits. The investments expected to be used to finance the payments of benefits would be plan assets for funded plans, assets of the employer for pay-as-you-go plans, or a proportionate combination of the two for plans that being partially funded. A discount rate of 5.0 percent was assumed, for purposes of developing the liabilities and Annual Required Contribution on the basis that the Plan would not be funded.

The valuation projects to the cost to the South Jersey Port Corporation of providing medical benefits to employees who remain in the medical plan after retirement (post-employment coverage). South Jersey Port Corporation self-insures the health plan. The Corporation elected to use for this valuation claims costs based on the claims costs for the South Jersey Port Corporation health claims experience and demographics.

The Corporation developed medical and prescription drug per capita claims cost for retirees and spouses of \$504.75 per month and per capita claims cost for dental and vision benefits of \$41.00 per month for calendar year 2008. The stop-loss insurance cost for retirees and surviving spouses

was \$61.50 per month while the stop-loss insurance cost for dependent spouses was \$68.25 per month.

The Corporation assumed 100% of future retirees will participate in the post-employment welfare plans upon retirement. 90% of eligible retirees are assumed to have spousal coverage, with wives three years younger than husbands. The administrative costs for the plan were estimated at \$60 per retiree per month.

An actuarial study was conducted for the Corporation for the first time in calendar year 2007. As per GASB #45 the Corporation is not required to perform another actuarial study until 2010.

The Corporation currently has seven eligible retired employees receiving retirement benefits. The net Other Post-Employment Benefit obligation to the Corporation to provide benefits to the retirees for the year ended December 31, 2009, was \$ 271,000. Actual cost incurred for Early Retiree Benefits for the year ended December 31, 2009 totaled \$ 271,000.

Note 18. Arbitrage Rebate Calculation

The arbitrage rebate requirement imposed by section 148 of the Internal Revenue Code require that certain profits or arbitrage earned from investing proceeds of tax-exempt bonds be rebated to the Federal Government. The rebate amount due to the Federal Government is equal to the excess of the amount earned on all non-purpose investments purchased with gross proceeds of the bonds over the amount that would have been earned if such non-purpose investments were invested at a yield equal to the yield of the bonds.

This Arbitrage calculation has been performed through October 19, 2008 and the Corporation is in material compliance with the arbitrage rebate requirements.

Note 19. Air Product/Air Gas

During the lease term of Air Products/Air Gas, Air Products/Air Gas operations contaminated the premises. While the lease term has ended, the site is the subject of DEP oversight and remediation. Air Products/Air Gas continues to remediate the site in cooperation with SJPC and DEP. SJPC continues to carry on its books accruing rent from the termination of the lease to the present as anticipated damages for Air Products/Air Gas contamination of the site. The receivable is anticipated to be resolved in conjunction with the conclusion of the remediation process or by suit. As of December 31, 2009 lease rental billings for Air Products/Air Gas totaled \$ 111,103.60 of which \$ 8,632.00 was billed during 2009 and has been recorded as deferred revenue.

Note 20. Holcim/St Lawrence Lease

Pursuant to the Lease between SJPC and Holcim (Formerly St. Lawrence Cement), St. Lawrence Cement guaranteed an average minimum discharge of 675,000 tons per year and provided for penalties in the event the 675,000 annual tonnages was not met. As part of the agreement, SJPC acknowledged that Holcim is owed \$3,300,000 for its predecessor's construction of a barge berth and paid Holcim \$1,650,000. With respect to the remaining \$1,650,000, SJPC has agreed to issue credits to Holcim for a percentage of the revenues generated by the Port for (a) tonnage discharged in excess of the \$675,000 annual tonnage guarantee (tonnage credits) and (b) tonnage off-loaded at Pier 1A by persons or entities other than Holcim (pier usage credits).

The tonnage and pier usage credits are credited towards Holcim tonnage shortfalls under the 675,000 annual tonnage guarantee. If there is no shortfall in the annual tonnage guarantee the credits are due as payment to Holcim. It is SJPC's understanding that both the credits and any payments reduce the afore-described \$1.65 million plus interest equal to the 1 year London Interbank offer rate. Once such tonnage and pier usage credits equal \$1.65 million plus the LIBOR interest, Holcim is no longer entitled to any further credits. The remaining tonnage and usage credits to Holcim as of December 31, 2009 is \$1,472,294.

Note 21. Subsequent Events

The Corporation entered into a 2009 payment in lieu of tax agreement with the City of Camden requiring the Corporation to make payment of eight million dollars (\$8,000,000). The City's fiscal year for 2009 began in July 1, 2008 and ended June 30, 2009. The South Jersey Port Corporation reported a \$4,000,000 "PILOT" payment in 2008 and a \$4,000,000 "PILOT" payment in 2009. The State of New Jersey notified the South Jersey Port Corporation on February 18, 2010 by e-mail confirming that they would not be funding the City of Camden "PILOT" for the City's fiscal year 2010 that runs from July 1, 2009 and ends June 30, 2010. This notification was published in the Governor's list of budget solutions document dated February 11, 2010. Pursuant to the 2010 "PILOT" agreement, the Corporation is not required to make the 2010 "PILOT" payment until such time as the payment has been appropriated by the State of New Jersey and the payment is received by the Corporation.

COMPARATIVE SCHEDULE OF OPERATING REVENUES AND EXPENSES ACTUAL COMPARED TO BUDGET

For the year ended December 31, 2009 and 2008

	2009			2008		
	ORIGINAL BUDGET	MODIFIED BUDGET	ACTUAL	ORIGINAL BUDGET	MODIFIED BUDGET	ACTUAL
Operating Revenues:						
Marine Direct:						
Leases - Marine Direct	\$ 4,785,967	4,785,967	5,265,044	4,785,967	4,785,967	5,169,218
Crane Rental	2,059,433	2,059,433	1,259,581	2,059,433	2,059,433	1,608,873
Dockage	2,343,226	2,343,226	1,722,060	2,343,226	2,343,226	1,915,586
Handling	8,033,233	8,033,233	2,633,344	8,033,233	8,033,233	5,157,194
Storage	2,903,459	2,903,459	1,043,660	2,903,459	2,903,459	1,907,412
Wharfage	3,696,563	3,696,563	2,752,353	3,696,563	3,696,563	3,050,755
Stevedoring	2,100,000	2,100,000		2,100,000	2,100,000	
Demurrage	75,000	75,000	3,854	75,000	75,000	20,048
Total Marine Direct	25,996,881	25,996,881	14,679,896	25,996,881	25,996,881	18,829,086
Marine Related:						
Leases - Industrial	836,789	836,789	718,558	836,789	836,789	666,370
Utilities	1,425,395	1,425,395	1,805,366	1,425,395	1,425,395	1,892,326
Port of Salem Revenue	50,000	50,000	90,000	50,000	50,000	91,000
Miscellaneous	150,000	150,000	102,709	150,000	150,000	105,025
Total Marine Related	2,462,184	2,462,184	2,716,633	2,462,184	2,462,184	2,754,721
Other Income:						
Income on Investments	135,000	135,000	166,157	135,000	135,000	308,612
Miscellaneous	115,000	115,000	132,568	115,000	115,000	921,460
Total Other Income	250,000	250,000	298,725	250,000	250,000	1,230,072
Total Revenues	\$28,709,065	28,709,065	17,695,254	28,709,065	28,709,065	22,813,879

COMPARATIVE SCHEDULE OF OPERATING REVENUES AND EXPENSES ACTUAL COMPARED TO BUDGET (continued)

	2009			2008		
	ORIGINAL BUDGET	MODIFIED BUDGET	ACTUAL	ORIGINAL BUDGET	MODIFIED BUDGET	ACTUAL
Operating Expenses:						
Port Operations:						
Labor Expense:						
Labor Crane	\$366,820	366,820	215,559	\$366,820	366,820	236,404
Labor Handling	2,600,901	2,600,901	1,194,935	2,600,901	2,600,901	1,584,412
Labor Repairs & Maintenance	883,058	883,058	669,134	883,058	883,058	692,204
Security	591,770	591,770	667,158	591,770	591,770	618,964
Supervisors	814,281	814,281	714,677	814,281	814,281	828,320
Total Labor Expense	5,256,830	5,256,830	3,461,463	5,256,830	5,256,830	3,960,304
Payroll Taxes	536,585	536,585	344,877	536,585	536,585	359,268
Workers Compensation Insurance	646,000	646,000	480,792	646,000	646,000	528,240
Employee Benefits:						
Hospitalization	1,100,000	1,100,000	1,276,061	1,100,000	1,100,000	1,158,469
Vacation, Holiday, Sick, Pension	615,000	615,000	479,003	615,000	615,000	446,005
Total Employee Benefits	2,897,585	2,897,585	2,580,733	2,897,585	2,897,585	2,491,982
Crane Rental - Gas & Oil	175,000	175,000	67,556	175,000	175,000	127,893
Handling:						
Gas & Oil	400,000	400,000	160,128	400,000	400,000	263,424
Miscellaneous	125,000	125,000	45,188	125,000	125,000	65,356
Stevedoring	2,100,000	2,100,000		2,100,000	2,100,000	
Trucking Expenses	350,000	350,000	3,284	350,000	350,000	53,429
Clerking & Checking	2,650,000	2,650,000	863,362	2,650,000	2,650,000	1,467,552
Total Handling	5,625,000	5,625,000	1,071,962	5,625,000	5,625,000	1,849,761

COMPARATIVE SCHEDULE OF OPERATING REVENUES AND EXPENSES ACTUAL COMPARED TO BUDGET (continued)

	ORIGINAL BUDGET	2009 MODIFIED BUDGET	ACTUAL	ORIGINAL BUDGET	2008 MODIFIED BUDGET	ACTUAL
<i>Operating Expenses (Continued)</i>						
Rental of Equipment	125,000	125,000	7,948	125,000	125,000	7,789
Trash Removal	200,000	200,000	65,617	200,000	200,000	113,641
Lease Agreements	594,005	594,005	89,167	594,005	594,005	535,000
Security:						
Contracted Services	10,000	10,000	11,504	10,000	10,000	21,081
Other Expenses	35,000	35,000	13,517	35,000	35,000	22,202
Total Security	45,000	45,000	25,021	45,000	45,000	43,283
Port of Salem Operations	64,565	64,565	49,349	64,565	64,565	48,467
Utilities	2,200,000	2,200,000	2,544,652	2,200,000	2,200,000	2,649,524
Total Port Operations	17,182,985	17,182,985	9,963,468	17,182,985	17,182,985	11,827,644
Repairs & Maintenance:						
Buildings & Grounds:						
Contracted	300,000	300,000	265,093	300,000	300,000	140,852
Fees & Permits	150,000	150,000	31,437	150,000	150,000	2,948
Materials	225,000	225,000	111,301	225,000	225,000	201,347
Total Buildings & Grounds	675,000	675,000	407,831	675,000	675,000	345,147
Cranes:						
Contracted	120,000	120,000	121,908	120,000	120,000	152,013
Materials	80,000	80,000	61,870	80,000	80,000	106,673
Total Cranes	200,000	200,000	183,778	200,000	200,000	258,686
Mobile Machinery & Equipment:						
Contracted	75,000	75,000	16,453	75,000	75,000	45,550
Equipment	50,000	50,000	25,284	50,000	50,000	45,280
Materials	400,000	400,000	131,141	400,000	400,000	176,085
Small Tools	20,000	20,000	10,399	20,000	20,000	16,232
Total Mobile Machinery & Equipment	545,000	545,000	183,277	545,000	545,000	283,147
Total Repairs & Maintenance	1,420,000	1,420,000	774,886	1,420,000	1,420,000	886,980

COMPARATIVE SCHEDULE OF OPERATING REVENUES AND EXPENSES ACTUAL COMPARED TO BUDGET (continued)

	ORIGINAL BUDGET	2009 MODIFIED BUDGET	ACTUAL	ORIGINAL BUDGET	2008 MODIFIED BUDGET	ACTUAL
<i>Operating Expenses (Continued):</i>						
General & Administrative:						
Labor - Office Clerical & Related	1,006,598	1,006,598	884,680	1,006,598	1,006,598	992,129
Labor - Administrative	682,043	682,043	634,267	682,043	682,043	680,270
Payroll Taxes	141,862	141,862	133,591	141,862	141,862	127,225
Workmen's Compensation	3,600	3,600	4,589	3,600	3,600	4,236
Employee Benefits:						
Hospitalization	650,000	650,000	696,418	650,000	650,000	627,727
Pension	150,000	150,000	587,448	150,000	150,000	443,141
Insurance	1,800,000	1,800,000	1,584,657	1,800,000	1,800,000	1,827,879
Professional Fees	1,007,500	1,007,500	758,179	1,007,500	1,007,500	830,877
Miscellaneous	483,000	483,000	342,382	483,000	483,000	409,526
Telephone	75,000	75,000	61,365	75,000	75,000	55,481
Utilities	35,000	35,000	32,500	35,000	35,000	17,525
Bad Debt	100,000	100,000		100,000	100,000	25,000
Total General & Administrative	6,134,603	6,134,603	5,720,076	6,134,603	6,134,603	6,041,016
Total Operating Expenses	24,737,588	24,737,588	16,458,430	24,737,588	24,737,588	18,755,640
Operating Income Before Other						
Operating Expenses	\$ 3,971,477	3,971,477	1,236,824	3,971,477	3,971,477	4,058,239

SCHEDULE OF NET ASSETS

December 31, 2009

ASSETS	RESTRICTED		DEBT SERVICE RESERVE ACCOUNT	MAINTENANCE RESERVE ACCOUNT	CONSTRUCTION ACCOUNT	TAX RESERVE ACCOUNT	TOTAL
	UNRESTRICTED OPERATING ACCOUNTS	DEBT SERVICE ACCOUNT					
Current Assets:							
Cash & Cash Equivalents	\$6,756,497	\$ 1	1,526,970		187,510,187		195,793,655
Investments			8,016,792		229,977		8,246,769
Accounts Receivable (Net of Allowance for Doubtful Accounts of \$302,063)	1,682,943						1,682,943
Due from State			8,471,746				8,471,746
Grants Receivable					1,361,414		1,361,414
Other Accounts Receivable	478,747						478,747
Notes Receivable	3,754						3,754
Prepaid Expenses	1,301,335						1,301,335
Inventory of Supplies	1,394,808						1,394,808
Interfund Accounts Receivable	15,244,833	32,844,412	23,103,008	510,175	14,488,550		86,190,978
Total Current Assets	26,862,917	32,844,413	41,118,516	510,175	203,590,128		304,926,149
Property, Plant & Equipment (Note 3)					208,242,878		208,242,878
Construction in Progress					16,720,754		16,720,754
Bond Discount & Financing Cos					15,939,375		15,939,375
Subtotal					240,903,007		240,903,007
Accumulated Depreciation & Amortization					89,091,084		89,091,084
Total Property, Plant & Equipment & Construction in Progress					151,811,923		151,811,923
Total Assets	26,862,917	32,844,416	41,118,516	510,175	355,402,051		456,738,072

SCHEDULE OF NET ASSETS (continued)

LIABILITIES	RESTRICTED DEBT		SERVICE RESERVE ACCOUNT	MAINTENANCE RESERVE ACCOUNT	CONSTRUCTION ACCOUNT	TAX RESERVE ACCOUNT	TOTAL
	UNRESTRICTED OPERATING ACCOUNTS	DEBT SERVICE ACCOUNT					
Current Liabilities Payable from Assets:							
Accounts Payable	104,823				204,095		308,918
Contracts Payable					9,035,015		9,035,015
Capital Lease Payable					800,000		800,000
Accrued Expenses	660,017						660,017
Accrued Interest Payable		3,555,966					3,555,966
Accrued Vacation Payable	246,286						246,286
Accrued Payroll	64,347						64,347
Payroll Taxes Payable	32,203						32,203
Deferred Income	418,652				60,059		478,711
Lease Security & Escrow Deposits	143,527						143,527
Revenue Bonds - Short Term					5,425,000		5,425,000
Interfund Accounts Payable	8,158,367	29,288,447	15,389,897		33,354,267		86,190,978
Total Current Liabilities	9,828,222	32,844,413	15,389,897		48,878,436		106,940,968
Revenue Bonds (Long-Term Portion)					296,245,000		296,245,000
Early Retirement Payable	1,113,410						1,113,410
Post Retirement Benefits Payable	271,000						271,000
Capital Lease Payable					1,200,000		1,200,000
Unamortized Bond Premiums					1,630,022		1,630,022
Total Liabilities	11,212,632	32,844,413	15,389,897		347,953,458		407,400,400
NET ASSETS							
Investment in Capital Assets, Net of Related Debt				510,175	7,448,593		7,958,768
Reserve for Payment of Debt Service			25,728,619				25,728,619
Reserve for Inventory Supplies	1,394,808						1,394,808
Unreserved	14,255,477						14,255,477
Net Assets	\$15,650,285		25,728,619	510,175	7,448,593		49,337,672

SCHEDULE OF CHANGES IN NET ASSETS ALL ACCOUNTS

December 31, 2009

	OPERATING ACCOUNTS	DEBT SERVICE ACCOUNT	DEBT SERVICE RESERVE	MAINTENANCE RESERVE	CONSTRUCTION ACCOUNT	TAX RESERVE ACCOUNT	TOTAL
Net Assets	\$13,296,560		10,989,744	510,175	21,342,525		46,139,004
Add:							
Excess of Revenue Over Expenses	1,236,824						1,236,824
State of New Jersey:							
Debt Service Aid			11,529,423				11,529,423
PILOT Payments						5,100,225	5,100,225
Other Contributions					2,215,075		2,215,075
Depreciation on Contributed Capital					219,436		219,436
Unrealized Gain/(Loss) on Investment	312,148						312,148
Interest on Investments					166,535		166,535
Inventory of Supplies	(27,036)						(27,036)
Interfund Transfers	1,040,050	7,003,622	14,738,875		4,734,062		27,516,609
Total	15,858,546	7,003,622	37,258,042	510,175	28,677,633	5,100,225	94,408,243
Deduct:							
Bond Interest		7,003,622					7,003,622
Depreciation/ Amortization Expense					5,230,679		5,230,679
Transfer of Depreciation to Contributed Capital					219,436		219,436
Camden City PILOT Payment						4,000,000	4,000,000
Camden County PILOT Payment						419,000	419,000
Gloucester County PILOT Payment						150,000	150,000
Paulsboro PILOT Payment						500,000	500,000
Salem PILOT Payment						31,225	31,225
Interfund Transfers	208,261		11,529,423		15,778,925		27,516,609
Total	208,261	7,003,622	11,529,423		21,229,040	5,100,225	45,070,571
Net Assets December 31, 2009	<u>\$15,650,285</u>		<u>25,728,619</u>	<u>510,175</u>	<u>7,448,593</u>	<u>-</u>	<u>49,337,672</u>

single audit

Holman & Frenia, P.C.

REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133 AND NEW JERSEY OMB CIRCULAR 04-04

Board of Directors of the South Jersey Port Corporation
County of Camden
2nd & Beckett Streets
Camden, New Jersey 08103

COMPLIANCE

We have audited the compliance of the South Jersey Port Corporation, a component unit of the state of New Jersey, in the County of Camden, State of New Jersey, with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major state programs for the year ended December 31, 2009. The South Jersey Port Corporation's major state programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major state programs is the responsibility of the South Jersey Port Corporation's management. Our responsibility is to express an opinion of the South Jersey Port Corporation's compliance based on our audit.

We conducted our audit of compliance 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, OMB Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*; and New Jersey OMB's Circular 04-04, *Single Audit Policy for Recipients of State Grants and State Aid*. Those standards, OMB Circular A-133 and New Jersey OMB's Circular 04-04, require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major state program occurred. An audit includes examining, on a test basis, evidence about the South Jersey Port Corporation's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not prove a legal determination on the South Jersey Port Corporation's compliance with those requirements.

In our opinion, the South Jersey Port Corporation, County of Camden, State of New Jersey, complied, in all material respects, with the requirements referred to above that area applicable to each of its major state programs for the year ended December 31, 2009.

INTERNAL CONTROL OVER COMPLIANCE

The management of the South Jersey Port Corporation is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to major state programs. In planning and performing our audit, we considered South Jersey Port Corporation's internal control over compliance with requirements that could have a direct and material effect on a major state program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133 and New Jersey OMB's Circular 04-04, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the South Jersey Port Corporation's internal control over compliance.

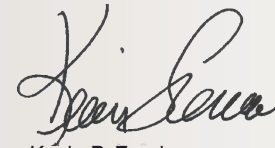
A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a state program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a state program will not be prevented, or detected and corrected, on a timely basis.

South Jersey Port Corporation's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit the South Jersey Port Corporation's response and, accordingly, we express no opinion on the response.

This report is intended solely for the information of the management of the South Jersey Port Corporation, State of New Jersey, other state awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,

HOLMAN & FRENIA, P.C.,



Kevin P. Frenia
Certified Public Accountant

Medford, New Jersey
February 16, 2010

SCHEDULE OF EXPENDITURES OF STATE FINANCIAL ASSISTANCE

For the year ended December 31, 2009

STATE GRANTOR/ PROGRAM TITLE	STATE PROJECT NUMBER	GRANT PERIOD	AWARD AMOUNT	DECEMBER 31, 2008 BALANCE ACCOUNTS RECEIVABLE/ (DEFERRED REVENUE)	FUNDS RECEIVED IN 2009	FUNDS EXPENDED IN 2009	DECEMBER 31, 2009 BALANCE ACCOUNTS RECEIVABLE/ (DEFERRED REVENUE)
STATE: Department of Transportation's Rail Freight Assistance Program	2204800	8/31/09-7/1/12	\$2,270,348		283,654	1,645,068	1,361,414
			Total	-	283,654	1,645,068	1,361,414

notes

to the schedule of expenditures

NOTES TO THE SCHEDULE OF EXPENDITURES OF FINANCIAL ASSISTANCE December 31, 2009

1. General

The accompanying schedule of expenditures of awards and financial assistance includes state activity of the South Jersey Port Corporation. The Corporation is defined in Note 1 to the Corporation's basic financial statements. All state financial assistance passed through other government agencies is included on the Schedule of Expenditures of Awards and Financial Assistance.

2. Basis of Accounting

The accompanying schedules of expenditures of awards and financial assistance are presented on the accrual basis of accounting. These basis of accounting are described in Note 1 to the Corporation's basic financial statements.

3. Relationship to State Financial Report

Amounts reported in the accompanying schedule agree with the amounts reported in the related financial reports.

<u>Proprietary Fund</u>	<u>State</u>
Total Financial Assistance	\$1,645,068

schedule

of findings & questioned costs

SCHEDULE OF FINDINGS & QUESTIONED COSTS For the Fiscal Year Ended December 31, 2009

Section I — Summary of Auditor's Results

Financial Statements

Type of auditor's report issued	<u>Unqualified</u>
Internal control over financial reporting:	
1) Material weakness(es) identified:	No
2) Significant Deficiencies identified that are not considered to be material weaknesses?	Yes
Noncompliance material to basic financial Statements noted?	No

State Awards

Dollar threshold used to distinguish between type A and type B programs:	<u>\$300,000</u>
Auditee qualified as low-risk auditee?	No
Type of auditor's report issued on compliance for major programs:	<u>Unqualified</u>
Internal Control over major programs:	
1) Material weakness (es) identified?	No
2) Significant deficiencies identified that are not considered to be material weaknesses?	No
Any audit findings disclosed that are required to be reported in accordance with OMB Circular A-133	No

Identification of major programs:

State Project Number(s)	Name of State Program
2204800	Department of Transportation's Rail Freight Assistance Program

**SCHEDULE OF FINDINGS & QUESTIONED COSTS
For the Fiscal Year Ended December 31, 2009**

Section II — Financial Statement Findings

Finding 2009-01

Criteria or Specific Requirement:

When utilizing a third party service organization that organization must comply with N.J.A.C. 5:30-17 and SAS 70.

Condition:

The Corporation is utilizing a third party payroll service provider that has not complied with N.J.A.C. 5:30-17 and SAS 70.

Context:

Internal control procedures of the services performed by the third party payroll service provider are not being audited as required by N.J.A.C. 5:30-17 and SAS 70.

Effect:

Noncompliance with N.J.A.C. 5:30-17 and SAS 70.

Cause:

Oversight of employee personnel.

Recommendation:

That the Corporation utilize a third party payroll service provider that is in compliance with N.J.A.C. 5:30-17 and SAS 70 or have the Corporation make payments to the taxing agencies directly.

Views of Responsible Officials and Planned Corrective Action:

The Corporation concurs and will start making payments to the taxing agencies directly starting July 1, 2010

Schedule of findings & questioned costs, continued

SCHEDULE OF FINDINGS & QUESTIONED COSTS For the Fiscal Year Ended December 31, 2009

Section III — State Awards Findings & Questions Costs

This section identifies audit findings required to be reported by section .510(a) of Circular A-133 and New Jersey OMB's Circular Letter 04-04.

None Noted

summary

schedule of findings & questioned costs

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS & QUESTIONED COSTS
AS PREPARED BY MANAGEMENT
For the Fiscal Year Ended December 31, 2009**

This section identifies the status of prior-year findings related to the basic financial statements and federal and state awards that are required to be reported in accordance with Chapter 6.12 of Government Auditing Standards, U.S. OMB Circular A-133 (section .315 (a)(b)) and New Jersey OMB's Circular Letter 04-04.

No Prior Year Findings



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