New Jersey Schools Development Authority

Annual Report 2014

SDA Results Under the Christie Administration

5 Years of Accomplishments 2010-2014	
Capital Projects Approved for Advancement	40
Contracts Advertised for Capital Projects	Approximately $705 million
Contracts Awarded for Capital Projects	Approximately $664 million
Capital Projects Completed	16
Number of Students Impacted by Completed Capital Projects	More than 13,000
Emergent Projects Completed	56
Regular Operating District Grants Executed	1,842
Funds Recovered Through Cost Recovery Efforts	More than $1.6 million

About This Report

The 2014 Annual Report on the operations of the New Jersey Schools Development Authority (SDA) is presented pursuant to the provisions of Executive Order No. 37 (Corzine), issued on September 26, 2006. The report provides a comprehensive overview of the SDA's operations, highlighting significant actions taken in 2014.

The SDA operates under the Educational Facilities Construction and Financing Act (EFCFA) of 2000 and subsequent August 2007 legislative amendments. Since its inception, the school construction program has been authorized to expend up to $12.5 billion, comprising $8.9 billion for SDA Districts and $3.6 billion for Regular Operating Districts (RODs). Of the ROD funding, $150 million is set aside for vocational schools. Funding is provided through the issuance of bonds by the New Jersey Economic Development Authority (EDA).

For more information, please refer to the SDA website at www.njsda.gov or the most recent Biannual Report on the School Construction Program (for the period April 1 through September 30, 2014). The Biannual Report can be found at the following link: http://www.njsda.gov/RP/Biannual_Report/2014_2.PDF

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The Mission of the New Jersey Schools Development Authority is to deliver high-quality educational facilities that best meet the needs of the students of the State of New Jersey. While providing efficiently designed facilities that enhance the academic environment, we promote fiscal responsibility in the management of taxpayers' resources.

2014 SDA Year In Review

January

- SDA Board Approves Five Additional Capital Projects
- Charles B. McKenna's First Day as CEO of the New Jersey Schools Development Authority

April

- SDA Announces Start of Construction for Three New Schools in Newark
- 21 NJ Businesses Graduate from the SMWBE Contractor Training Program

May

- SDA Breaks Ground for the New Marshall Street Elementary School in Paterson

June

- SDA Officials Joined by Newark Students at Beam Signing Ceremony for New Elliott Street Elementary School

July

- SDA Officials Joined by Elizabeth Students at "Topping Off" Ceremony for the New Frank J. Cicarell Academic High School

August

- SDA Breaks Ground for Two New Addition/ Renovation Projects in Bridgeton
- SDA Officials Tour Ongoing Emergent Projects at PS 1 and PS 5 in West New York

September

- SDA Officials Tour the Swing Space for the Trenton Central High School Project
- Governor Christie Celebrates the Opening of the Catrambone Elementary School in Long Branch

October

- Acting Governor Guadagno Helps Break Ground for the New School 16 in Paterson

November

- SDA Joins Paterson Students at Beam Signing Event for the New Marshall Street Elementary School
- SDA Joins Newark Students at Beam Signing Event for the New Oliver Street Elementary School

December

- SDA Officials Tour Demolition Activities at Site of Future James Madison Elementary School No. 10 in Garfield
- SDA Breaks Ground for the News Caruso Elementary School in Keansburg

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CEO MESSAGE

This last year has proven a great experience for me to have led an organization of dedicated individuals who work each day to serve the students of New Jersey. I am proud of the accomplishments of the SDA over that time. In 2014 we have seen the completion of two new school buildings and the shift of approximately 1,200 Trenton Central High School students into commodious temporary educational facilities where they will remain until we complete a new High School that will serve them and the entire community for many years to come. We also broke ground on seven new schools and had "topping off" ceremonies for four others signifying true milestones to their completion. We awarded $166 million in new construction contracts ensuring that the new facilities pipeline will continue to provide new classrooms for students in need of state-of-the-art learning environments. The Authority also substantially completed 10 emergent projects and executed 816 grants in Regular Operating Districts thereby enhancing the learning of schoolchildren across the state.

This year was also highlighted by the advancement of projects that sat idle for many years. After relocating students to temporary facilities, we are moving forward with construction of a new Trenton Central High School. Students who are educated in dozens of trailers saw the long-awaited Phillipsburg High School break ground and steel erection commence. In Paterson, the Marshall Street Elementary School that had previously started and stopped is now well into construction with the steel erection complete.

The positive results of the new policies that were put into place at the start of the Christie Administration are being repeated across the state. The constructability review process is proving beneficial, with fewer change orders and delays on projects that were previously designed. The use of the Design-Build approach helped to deliver the A. Chester Redshaw Elementary School to New Brunswick students nine months ahead of original estimates. The work of SDA's in-house design studio is ensuring widespread use of the Kit-of-Parts and adherence to our Materials and Systems Standards.

The Authority has also made great strides in our efforts for transparency and open communication. SDA staff participated in dozens of stakeholder meetings and panels throughout the year to discuss the work of the Authority. The Board has taken its meetings "on the road" to Paterson and Union City in order to hear the voices of our constituents. Changes have been made to our website to provide current status updates on active projects and links to web cameras used by our contractors. We continued to issue an electronic newsletter to key stakeholders. I was also encouraged by the productive dialogue that occurred at my appearances before the Legislature, a partnership that can truly benefit the students of New Jersey.

As you read the accomplishments of this past year compiled in this report, please know that it is due to the fact that SDA has great people who work hard to deliver a quality product to the children of this

State. Our Board is an engaged group of professionals that take their positions seriously and have truly helped our mission in many important ways. I thank everyone on the Board and staff for their continued hard work and dedication. Each of my SDA colleagues adds to the overall success of our organization and each is valued in their own way. Finally, I would be remiss if I did not acknowledge the hard work of New Jersey's fine construction workers and contractors who labor each day to help us bring quality educational facilities to fruition. Thank you and I look forward to continuing our efforts.

Sincerely,

Charles B. McKenna
Chief Executive Officer

SDA IN CONSTRUCTION STATEWIDE

The magnitude of construction activity ongoing in the State throughout 2014 was significant. At the end of 2014, more than $699 million in total estimated project costs was underway on a dozen major capital projects across the state. In addition, SDA awarded more than $166 million in construction contracts in 2014. The impact of this construction work is being felt by communities throughout the state to the benefit of thousands of students.

SDA Capital Projects in Construction (As of December 31, 2014)			
District	**School**	**Project Type**	**Total Project Costs**
Bridgeton	Buckshutem E.S.	Addition/Renovation	$23.3 million
Bridgeton	Quarter Mile Lane E.S.	Addition/Renovation	$39 million
Elizabeth	Academic H.S.	New Construction	$64.1 million
Jersey City	E.S. #3	New Construction	$54 million
Jersey City	Public School #20 E.S.	New Construction	$48.2 million
Keansburg	Caruso E.S.	New Construction	$50.9 million
Newark	Oliver Street E.S.	New Construction	$73.6 million
Newark	Elliott Street E.S.	New Construction	$46.7 million
Passaic City	Henry Street E.S.	New Construction	$55 million
Paterson	Marshall Street E.S.	New Construction	$55.2 million
Paterson	P.S. 16	New Construction	$62.4 million
Phillipsburg	Phillipsburg H.S.	New Construction	$127.5 million
Total Project Costs			**$699.9 million**

September Openings

Almost two years to the day from his participation in the ceremonial ground breaking, Governor Chris Christie returned to Long Branch to celebrate the opening of the new George L. Catrambone Elementary School. This project has the distinction of being the first school to begin construction and open to students under the Christie Administration and it was completed on time, on budget and with a certificate of occupancy in hand.

Representing a new era of responsible, cost-effective and accountable school construction in New Jersey, this 109,000 square foot, $40 million school demonstrates all the best of what SDA does for communities. Approximately 800 students had the opportunity to begin their academic year in a new school facility that will afford them the best possible educational opportunities.

The students' excitement over their new building was on full display the day of the ribbon cutting. They crafted posters and signs, cheered loudly and were the stars of a video that highlighted their favorite features of the school including the science labs, cafeteria and library.

The start of the school year also brought new temporary facilities on line for 1,200 Trenton Central High School students. These temporary swing space locations will be utilized to house the student population during the demolition of the existing building and construction of the new school. Renovations and upgrades were completed in mere months at four buildings across the city at a total cost of nearly $3.3 million. The SDA also funded more than $1 million in communications and technology upgrades throughout the facilities.

Completing the necessary work to ready these temporary facilities in time for the students' occupancy in September was challenging. Thanks to an ongoing, productive partnership with the school district, all four buildings were ready to welcome each small learning community on the first day of school.

Shovels in the Ground

For community residents who have awaited the advancement of their school projects, the sight of machines digging and moving dirt marks the tangible realization of their commitment for a new quality school for their children. Celebrating a project's ground breaking is a joyous day for the SDA as well. This year, SDA broke ground for seven school projects throughout the state. Once complete, these projects, which represent a state investment of $351 million, will impact more than 5,000 students.

Of the seven projects that broke ground, six are being constructed using the Design-Build approach, allowing for the construction of footings and foundations while the design of the building is being completed.

In Bridgeton, two schools will receive extensive addition/renovations that will provide a total of 650 additional seats. In a district that continues to see increasing enrollment, this added capacity will prove to be crucial for educating all of

their children in proper facilities.

In Newark, two new schools broke ground, bringing the surrounding communities one step closer to facilities they have long needed. The new Elliott Street School will replace the building that previously had been destroyed by a fire caused by a lightning strike.

In Paterson, two new schools will help to alleviate the significant overcrowding that exists in the district. The Marshall Street Elementary School project will not only provide a new school, but also will provide a pedestrian bridge over the NJ Transit railroad tracks linking two separate communities to their new school. The new PS 16 will provide 700 seats for Paterson students.

Finally, the Caruso Elementary School in Keansburg broke ground, starting construction for a new school that will provide 730 students from kindergarten to the fourth grade with a first-class educational facility. The Caruso school will be the first new school built by SDA in Keansburg.

A New High School for the State's Capital City

The Trenton Central High School project has undergone many revisions over the past ten years. However, in 2014 an appropriate scope and solution were identified. In early 2014, CEO Charles McKenna visited Trenton Central High School and committed to finally bringing a new school to completion.

The plan began in early 2014 as an extensive addition and renovation project for the High School. Subsequently, SDA engaged an engineering consultant to perform a structural assessment towards the partial demolition of the building and to investigate the feasibility of retaining certain specific areas of the building. The final report detailed significant concerns with the current structure and questioned whether portions of the building could be retained for renovation. Therefore, in October the Trenton Board of Education voted to proceed with the complete demolition and construction of a new school.

With Trenton Central High School students no longer utilizing the current school building, abatement and demolition procurement activities at the former school have advanced and SDA looks forward to starting these activities in 2015.

Celebrating Construction Progress

As a community begins to see the formation of a new school building, excitement grows. A beam signing or "topping off" ceremony provides community members with an opportunity to sign their name to a piece of the building making a lasting mark on their new school.

The SDA joined in the excitement during four such events held at construction sites during 2014 – Academic High School in Elizabeth, Elliott Street School in Newark, Oliver Street School in Newark and Marshall Street Elementary School in Paterson. At these events, students and local officials signed their names to a piece of steel that was then hoisted into place as a permanent part of the new school. This ceremony occurs near the end of the steel erection process, allowing those present to see the structural framework of their new school.

Emergent Projects

Through the Emergent Project Program, the SDA provides assistance to SDA Districts that have school facilities in need of remediation or rehabilitation. Emergent projects that have been approved by the New Jersey Department of Education are advanced in one of two ways – either SDA manages the project in house or delegates the project to the SDA school district for management - depending on the project's scope and complexity. As of December 2014, 132 projects (both SDA Managed and District Delegated) have been completed since program inception.

SDA Districts are currently managing 39 delegated projects. The status of those projects at the end of 2014 was:

- 12 projects are in construction; and
- 27 projects are in design.

The SDA is currently managing 14 emergent projects. Their status at the end of 2014 is as follows:

- 7 projects are in construction;
- 6 projects are in design; and
- 1 project is in design procurement.

In August, SDA CEO Charles McKenna joined local and district officials in West New York to tour the progress of ongoing emergent projects at Public School Number 1 and Public School Number 5. Even though the buildings had been well maintained over the years, water infiltration was a problem at both of these schools which were built in the early 1900s. The work at Public School Number 1 involved the repair of damaged and degrading masonry walls along the south elevation and the cornice of the roofline of the north elevation. The work at Public School Number 5 involved the repair of damaged and degrading masonry walls along the west elevation. The projects totaled more than $3 million in combined costs.

Regular Operating Districts

This year saw significant activity for the SDA's Regular Operating District (ROD) Grant Program. The ROD Grant program funds at least 40 percent of eligible costs for projects in the 572 RODs. Grant projects allow school districts to make improvements to their schools that positively impact student learning, reduce long-term maintenance and often increase energy efficiency.

In 2014, SDA offered more than 1,600 grants for projects in 335 Regular Operating Districts. Following receipt of a grant offer, districts must submit required paperwork, including proof of the local share of funding, before the SDA can execute the grant. Grant execution signifies completion of the application process and the start of funding being issued to the school district.

In May 2014, SDA CEO Charles McKenna visited the Allendale School District to highlight the start of the execution of grants from this most recent allocation of ROD Grant funding. SDA and DOE officials had an opportunity to interact with students who will benefit from HVAC upgrades that will remedy air quality conditions at two elementary schools. As a result of the ongoing partnership between the SDA, DOE and local districts, projects like those in Allendale were able to advance during the summer of 2014 when students are not in the building.

In 2014, the SDA executed 866 grants representing a state investment of $216.3 million and total estimated project costs of $496 million. These projects will address health and safety issues and other critical needs in 223 school districts. Projects may include roof replacements, HVAC replacement, boiler replacement, security upgrades, and technology upgrades.

REGULAR OPERATING DISTRICT GRANTS			
2014 Grant Executions		**Grant Executions Since Inception**	
No. of Grants	866	No. of Grants Executed	4,841
State Share	$ 216.3M	State Share	$ 2.8B
Local Share	$ 279.7M	Local Share	$ 5.7B
Total Est. Costs	$ 496.0M	Total Est. Costs	$ 8.5B
No. of Districts	223	No. of Districts	519
No. of Counties	21	No. of Counties	21

DESIGN AND CONSTRUCTION APPROACHES

Design-Build Approach Success

In 2014, the SDA substantially completed the A. Chester Redshaw Elementary School in New Brunswick. This school was the first design-build project to advance under the SDA's new Capital Program. It was also the first project to utilize the SDA's Kit of Parts design approach as well as the first complete application of SDA's Materials and Systems Standards. As SDA begins to look at the "lessons learned" from this project, it is clear that we will look to replicate the successes here on projects across the state.

The new A. Chester Redshaw Elementary School was completed ahead of SDA's original projected delivery schedule of September 2015 and was completed on budget. The building was turned over to the school district in November 2014 and saw student occupancy in January 2015.

The design-build method differs from the traditional design-bid-build approach in that the owner (i.e., SDA) contracts with one firm, rather than multiple firms, which is solely responsible for both design and construction services. The design-build approach also allows for some design and construction activities to proceed concurrently through phased advancement. This process often lends itself to faster construction schedules and more predictable costs, as was the case on this project.

The SDA currently has seven projects in construction that are utilizing a design-build approach and another two projects are in the initial design phase of the design-build contract. While it is not appropriate for all projects, the SDA is excited to see this process achieving great success at its inception.

SDA In-House Design Studio

One of the more significant changes that has occurred under the Christie Administration is the creation of the SDA's in-house Design Studio. The Design Studio was created in response to the Administration's requirement that standardization be implemented in school facilities in order to achieve efficiencies and to ensure parity across the SDA Districts. As discussed above, the first project out of the gate to incorporate standardization was the successful A. Chester Redshaw Elementary School in New Brunswick, which was completed approximately two years from the date of the design-build contract notice to proceed and nine months ahead of schedule.

Design standardization at the SDA is guided by The Model Schools Program: “Materials and Systems Standards Manual” and “Construction Details Manual”, both of which were developed in-house. The development of the Kit of Parts has taken standardization to another level by creating model school components which can easily be rearranged to accommodate the various shapes and sizes of school sites and has been implemented across multiple current Capital Program projects, including five design-build projects in Jersey City, Newark, New Brunswick, Keansburg and Paterson.

In 2014, the Design Studio further developed and refined various Kit of Parts components as they were applied to school projects. Design Studio staff also completed bridging documents for two school facilities projects in Gloucester City and Elizabeth. The bridging documents provide schematic design documents that must be utilized by a design-build contractor who will then complete the final design and construction of the school.

OUTREACH TO NEW JERSEY

Committed to New Jersey's Small Businesses

New Jersey's small businesses are the backbone of New Jersey's economic success. That is why the SDA oversees and implements an effective and proactive Small Business Enterprise (SBE) program that abides by the current State set-aside law and Executive Order 71 (2003). The SDA continually exceeds the mandated 25 percent small business enterprise participation level based upon the total dollar value of publicly advertised contracts awarded by SDA. In 2014, SBE participation reached 76 percent. This represents $69 million in SDA contract values for SBE companies. This total is up significantly since 2013, which saw a participation total of 39 percent. The increased participation of small businesses is due to multiple factors including prime contractors that are classified as SBEs and the offering of multiple SBE set-aside projects.

At the end of 2014, the SDA had 1,845 firms prequalified to do business. Of those firms, 662 were certified by the NJ Department of the Treasury as SBE firms.

Workforce Compliance

SDA's Field Compliance Inspectors were active during 2014 as they conducted 400 Safety inspections each on SDA projects in addition to verifying contractor-reported data regarding the number of women and minority workers on SDA's construction sites. In 2014, approximately 25 percent of construction work was performed by minority and female workers and 15 percent of such work was performed by local county workers. Participation of a local workforce on SDA projects demonstrates the added value these projects bring to the local communities.

SMWBE Contractor Training Program

Increasing small, minority and women-owned business participation in the State's school construction program remains a goal of the SDA. Toward achieving that objective, the SDA offers a SMWBE Contractor Training program that provides participants with the information and tools required to participate in the state's school construction program.

In 2014, 21 firms successfully completed the program, including 15 who were already prequalified to do business with the SDA. The nine-week training program culminated with a graduation/networking event on April 30. The event afforded graduates the opportunity to speak with several of the State's large general contracting firms and representatives from other State contracting agencies that can benefit their businesses and provide the potential for growth.

One change implemented in the 2014 program was the use of an SDA staff attorney to instruct the Contract Law class. This proved beneficial to participants, giving them an opportunity to hear about SDA contract specifics from an SDA lawyer. The majority of the instructional sessions continue to be facilitated by SDA staff, affording participants firsthand knowledge of how to do business with the SDA while minimizing overhead costs. Participants continue to express overwhelming satisfaction with the SDA program.

NJ-GIVS

In partnership with the New Jersey Higher Education Student Assistance Authority (HESAA), the SDA funds the Governor's Industry Vocations Scholarship for Women and Minorities (NJ-GIVS). NJ-GIVS pays up to $2,000 per year to women and minority students who reside in New Jersey for the cost of enrollment in a NJ-GIVS eligible program at one of New Jersey's approved county colleges or vocational schools. The SDA is committed to ensuring that all New Jerseyans have an equal opportunity to succeed in the construction industry and participate in the most important work of rebuilding our schools. This program assists in that effort.

In 2014, HESAA awarded grants to 92 students totaling more than $85,000. The programs in which the recipients are enrolled include: HVAC, electrical trades, plumbing, welding, building construction, green technologies/sustainability, and computer electronics.

Communication Efforts

The SDA makes every effort to keep community members and key stakeholders engaged and informed. The distribution of the SDA's electronic newsletter, published three times in 2014, is one way to meet that goal.

SDA also made significant changes to the SDA website this year. Project status updates were added to the home page of the website. Here, visitors can see recent project construction pictures and read a "current status of construction" update. Additional information regarding funding, schedules and key parties is also included. The newest addition to the website is project webcams that certain SDA contractors have on specific construction sites. These are available for viewing by the public 24-7 and also in time lapse mode.

The SDA's Communications Department continued to staff a Customer Service Hotline which serves as a point of immediate access to assist the public with any questions related to SDA activities. In 2014, SDA staff responded to dozens of inquiries received via the hotline.

FINANCIAL INFORMATION

2014 PROJECT EXPENDITURES	
SDA District Capital Projects	$186.8 million
SDA District Emergent Projects	$20.5 million
• *SDA-managed emergent projects*	*$11.9 million*
• *District-managed emergent projects*	*$8.6 million*
ROD Grant Projects	$167.5 million
• *SDA grant expenditures*	*$67.0 million*
• *Estimated district local shares*	*$100.5 million*

Cost Recovery/Cost Avoidance

The SDA's active pursuit of cost recovery and cost avoidance whenever appropriate and responsible is a result of its commitment to safeguarding the limited resources available to the program. This is accomplished in various ways including litigation, settlements, and negotiations. In 2014, SDA was able to reinvest more than $1.6 million back into the school construction program as the result of these efforts.

2014 Recoveries

- A litigation settlement of $106,644 was recovered through an environmental cost recovery matter relating to the East Orange Demonstration Project.
- $205,500 was recovered for damages sustained on a project in Greater Egg Harbor resulting from negligent engineering services.
- $300,000 was recovered for flood damages sustained at the Harrison High School due to negligent design and engineering services.
- Nearly $1 million was recovered from a settlement related to the Camden Early Childhood Education Center.

SDA's close-out activities allow for cost avoidance of property liability insurance payments. In 2014, two land deeds were transferred to local districts, 12 Capital Projects were closed out and 16 emergent projects were closed out.

Finally, in 2014 the Division of Chief Counsel was able to resolve $16.5 million in contract claims asserted against the SDA through negotiated settlements totaling $5.3 million. These settlements equal roughly 32% of the original amounts claimed and reflect a cost avoidance of some $11.2 million for the Authority.

Bond Sales Support Influx of Construction Activity

School Facilities Construction Bonds issued by the New Jersey Economic Development Authority on behalf of the SDA provide SDA with requisite cash to sustain its active project portfolio and fund its operating expenses. Bond sales generally coincide with forecasted cash flow requirements for already-committed projects in SDA's portfolio, thus enabling SDA to promptly pay its vendors as the projects advance.

During 2014, the EDA approved bond sales to provide an additional $585 million to support the state's school construction program, $60 million in April 2014 and $525 million in September 2014.

Management's Report on Internal Financial Controls

Governance

Pursuant to P.L.2007, c.137, s.3 (N.J.S.A. 52:18A-237) and Executive Order 122 (2004), the New Jersey Schools Development Authority (the "Authority") is required to undergo an annual financial statement audit. The Authority's 2014 financial statements have been audited by Ernst & Young LLP, an independent auditing firm. In performing its audit, Ernst & Young LLP considered the Authority's internal control structure in determining the extent of audit procedures to be applied. In addition, Ernst & Young LLP was given unrestricted access to all financial records and related data of the Authority, including minutes of all Board and Audit Committee meetings. Ernst & Young LLP has issued an unmodified opinion on the Authority's 2014 financial statements, which audit report, dated March 11, 2015, is presented on pages 2 and 3 of the 2014 financial statements.

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

The Audit Committee assists the Board of Directors in fulfilling its oversight responsibilities for the integrity and quality of the Authority's financial statements, the financial reporting process, the system of internal controls, the external auditor's qualifications and independence, the performance of the Authority's internal audit function and external auditors, the audit process and the Authority's process for monitoring compliance with laws, regulations and ethical requirements. The Audit Committee periodically meets with management, as well as the SDA's independent auditors and internal auditors. Both the independent auditors and the internal auditors have unrestricted access to the Audit Committee. At least twice a year, the Audit Committee meets privately with the independent auditors without management present to discuss internal controls and other financial matters. The Audit Committee may request to meet with the Authority's management, internal auditor, or counsel, as necessary to fulfill its responsibilities.

Management considers the internal and external auditors' recommendations concerning the Authority's internal controls and takes appropriate responsive action. A report showing the status of open audit recommendations is reviewed with the Audit Committee to ensure that appropriate progress is being made to address all audit recommendations. Management has taken corrective action in response to internal control deficiencies identified in some audits and continues to implement other audit recommendations. Management views these types of remedial actions as part of a long-term continuous process to improve internal controls and efficiencies.

Budgetary and Financial Controls

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

Budgetary Controls

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

In addition, the Authority develops and maintains comprehensive project budgets and schedules for each of the school facilities projects that it manages. The Authority uses various Primavera software products to plan, record and monitor project budgets and schedules, and various other software products are used for cost estimating, analyses and reporting. Project budgets include all financial aspects of a project and are reviewed and revised monthly, as necessary. The data obtained from regular monthly re-forecasting sessions are used to track the current and anticipated status of projects relative to their approved budgets. The results are then summarized and presented to the Audit Committee in a monthly report.

Financial Controls

The Authority maintains financial controls through the use of an integrated accounting and budgeting system which enables the Authority to access, analyze and report financial data. Furthermore, the Authority uses financial reporting software to: (1) efficiently and effectively monitor its financial performance; (2) identify financial trends; and (3) generate accurate and timely financial data. These capabilities are continuously expanded upon as necessary to meet new reporting requirements.

In order to document and evaluate the appropriateness of the Authority's internal controls, policies and procedures are developed and periodically updated to ensure they remain current. These policies and procedures include a Code of Ethics to foster a strong ethical climate, and are communicated to the Authority's employees as deemed appropriate. These policies and procedures provide a system of internal controls and accountability designed to safeguard the Authority's assets. The Authority's internal auditors periodically review the Authority's adherence to internal control policies and procedures.

The Authority's Board of Directors periodically reviews and approves modifications to the SDA's Operating Authority policy. The Operating Authority is a key control document as it designates those persons who are required (either generally or in specific transactions) to approve contracts and/or to execute documents legally binding on the Authority, or to sign checks and approve disbursements on behalf of the Authority. Several other policies and procedures (or other analogous documents, including, but not limited to: policy notices, bulletins, standard operating procedures, etc.) have been implemented in the areas of accounting, accounts payable, procurement and program operations.

Certifications Pursuant to Section 22c of Executive Order 37 (2006)

I certify that, to the best of my knowledge, the financial information provided to the Authority's independent auditors in connection with their audit of the 2014 financial statements is accurate, and that such information fairly presents the financial condition and operational results of the Authority as of December 31, 2014 and for the year then ended.

Donald Guarriello, Jr.
Chief Financial Officer

I certify that, to the best of my knowledge, the financial information provided to the Authority's independent auditors in connection with their audit of the 2014 financial statements is accurate, and that such information fairly presents the financial condition and operational results of the Authority as of December 31, 2014 and for the year then ended.

Charles B. McKenna
Chief Executive Officer

Certification Pursuant to Section 2 of Executive Order 37 (2006)

In accordance with Executive Order 37 (2006), please find enclosed the New Jersey Schools Development Authority's (the "Authority") 2014 comprehensive report of Authority operations (the "2014 Annual Report"). This report highlights the significant actions of the Authority for the year ending December 31, 2014, including the degree of success the SDA had in promoting the State's economic growth strategies and other policies during the year.

The report of independent auditors, issued by Ernst and Young LLP on March 11, 2015, is included within the financial statements section of the 2014 Annual Report. The completion of the audit report fulfills the Authority's requirements under Executive Order 37 and the audit requirements of Executive Order 122 (2004).

Executive Order 37 Section 2 Certification:

I, Charles B. McKenna, certify that, from January 1, 2014, to December 31, 2014, the Authority has, to the best of my knowledge, followed all of its standards, procedures and internal controls.

Charles B. McKenna
Chief Executive Officer

SDA Board Members and Staff

Public Members

Edward Walsh
SDA Chairman
Principal and Managing Director,
Avison Young

Michael Capelli
Executive Secretary-Treasurer,
NJ Regional Council of Carpenters

Kevin Egan
Business Representative, I.B.E.W. Local 456

Lester Lewis-Powder
Executive Director, Let's Celebrate, Inc.

Loren P. Lemelle
Retired Executive, Johnson and Johnson

Michael Maloney
Business Manager/ Financial Secretary,
Plumbers & Pipefitters Local Union No. 9
President, Mercer County Central Labor Council

Joseph McNamara
Director, LECET & Health and Safety

Robert Nixon
Director of Government Affairs,
NJ State Policeman's Benevolent Assn.

Mario Vargas
Farmers Insurance

Ex-Officio Members

Melissa Orsen
Chief Executive Officer, New Jersey Economic Development Authority

David C. Hespe
Commissioner, New Jersey Department of Education

Charles A. Richman
Acting Commissioner, New Jersey Department of Community Affairs

Andrew P. Sidamon-Eristoff
State Treasurer, New Jersey Department of the Treasury

SDA Executive Staff

Charles B. McKenna
Chief Executive Officer

Jason E. Ballard
Chief of Staff

Andrew D. Yosha
Executive Vice President – Program Operations & Strategic Planning

Donald R. Guarriello
Vice President – Chief Financial Officer

Jane F. Kelly
Vice President – Corporate Governance and Operations

Raymond A. Arcario
Vice President – Construction Operations

NEW JERSEY SCHOOLS DEVELOPMENT AUTHORITY

(a component unit of the State of New Jersey)

Financial Statements and Required Supplementary Information

For the Year Ended December 31, 2014

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

Financial Statements and Required Supplementary Information

For the Year Ended December 31, 2014

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Report of Independent Auditors

Management and Members of the Authority
New Jersey Schools Development Authority

We have audited the accompanying financial statements of the New Jersey Schools Development Authority (the "Authority"), a component unit of the State of New Jersey, as of and for the year ended December 31, 2014, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in conformity with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free of material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Building a better
working world

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Authority as of December 31, 2014, and the changes in financial position for the year then ended in conformity with U.S. generally accepted accounting principles.

Required Supplementary Information

U.S. generally accepted accounting principles require that management's discussion and analysis and the schedule of funding progress, as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board which considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Ernst + Young LLP

March 11, 2015

This section of the New Jersey Schools Development Authority's (the "Authority" or "SDA") annual financial report presents our discussion and analysis of the Authority's financial performance during the fiscal year ended December 31, 2014. This management discussion and analysis should be read in conjunction with the Authority's financial statements and accompanying notes.

Nature of the Authority

The SDA was established on August 6, 2007 to replace the New Jersey Schools Construction Corporation ("SCC") pursuant to reform legislation (P.L.2007, c.137). As of the date of the legislation, the SCC was dissolved and all its functions, powers, duties and employees were transferred to the SDA. Organizationally, the Authority is situated in, but not of, the New Jersey Department of the Treasury.

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

School Construction Program Authorized Funding and Disbursements

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

Through December 31, 2014, the Authority has received $9.61 billion of the designated $12.5 billion principal amount of bond proceeds authorized for the School Construction Program. In addition, as of that date, the Authority has disbursed 72.7% of the currently authorized program funding, as follows:

	Bonding Cap	Program Funding[1]	Disbursements	% Paid
SDA Districts	$ 8,900,000,000	$ 9,007,311,022	$6,318,449,908	70.1%
Regular Operating Districts	3,450,000,000	3,492,862,183	2,774,849,563	79.4%
Vocational Schools	150,000,000	151,712,625	107,151,542	70.6%
Totals	$12,500,000,000	$12,651,885,830	$9,200,451,013	72.7%

[1] Program funding includes the amounts authorized under the respective bonding caps in addition to approximately $152 million of interest income and miscellaneous revenue earned through December 31, 2014.

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

County	School District	County	School District
Atlantic	Pleasantville	Hudson	Union City
Bergen	Garfield	Hudson	West New York
Burlington	Burlington City	Mercer	Trenton
Burlington	Pemberton Township	Middlesex	New Brunswick
Camden	Camden	Middlesex	Perth Amboy
Camden	Gloucester City	Monmouth	Asbury Park
Cumberland	Bridgeton	Monmouth	Keansburg
Cumberland	Millville	Monmouth	Long Branch
Cumberland	Vineland	Monmouth	Neptune Township
Essex	East Orange	Passaic	Passaic City
Essex	Irvington	Passaic	Paterson
Essex	Newark	Salem	Salem City
Essex	Orange	Union	Elizabeth
Hudson	Harrison	Union	Plainfield
Hudson	Hoboken	Warren	Phillipsburg
Hudson	Jersey City		

In 2014, the Authority completed two new school facilities projects in the SDA Districts, which benefited approximately 11,900 students.

From inception through December 31, 2014, the School Construction Program has completed 669 projects in the SDA Districts. The completed projects consist of: 68 new schools, including 6 demonstration projects; 43 extensive additions, renovations and/or rehabilitations; 31 rehabilitation projects; 354 health and safety projects; and 173 Section 13 Grants for SDA District-managed projects under $500,000. The demonstration projects serve as a cornerstone of revitalization efforts and are funded by the Authority but managed by a municipal redevelopment entity and redeveloper. In addition, in the Regular Operating Districts the Authority has completed 26 projects that it managed for the districts, and state funding was provided through Section 15 Grants for 3,506 school projects throughout the 21 counties of New Jersey.

As of December 31, 2014, the SDA has 12 active construction projects in the SDA Districts. In addition, pre-construction activity has commenced on several other projects. Furthermore, the Authority is currently in construction on 11 emergent need projects in the SDA Districts. Emergent need projects most often address roof repairs or replacements; deteriorating façades; water infiltration; heating and cooling system issues; and plumbing, electrical, mechanical and security systems. The Authority maintains separate program reserves to address such emergent conditions as well as unforeseen events.

Through the approval of various capital plans, the Authority's current capital portfolio of school facilities projects includes 40 projects consisting of: 36 new or addition/major renovation projects; and 4 capital maintenance projects that address serious facility deficiencies. The total estimated project costs for the current capital program exceeds $1.5 billion. The SDA continues to evaluate other school facilities projects for advancement.

The following un-audited information provides insight into the activities of the School Construction Program during the last five years and is not intended to be presented in accordance with generally accepted accounting principles.

	$ In thousands				
	2014	**2013**	**2012**	**2011**	**2010**
EFCFA funding received from State	$585,000	$ -	$375,000	$ -	$499,200
Investment earnings, net	170	272	205	546	1,299
Administrative and general expenses *	17,293	19,835	34,749	35,699	44,333
Capital expenditures	115	295	54	26	52
School facilities project costs *	282,023	172,238	145,584	154,930	274,584
Employee count at end of year	227	243	241	255	304

* *Commencing January 1, 2013, the Authority began allocating employee salaries and benefit costs between operating expense (i.e., administrative and general expenses) and school facilities project costs.*

2014 Financial Highlights

- At year end, the Authority's net position is $467.1 million.
- At year end, cash and cash equivalents total $560.9 million.
- For the year, revenues total $585.3 million, $585.0 million of which is from EFCFA funding received from the State (or 99.95%).
- For the year, expenses total $299.4 million, $282.0 million (94.2%) of which is for school facilities project costs.
- For the year, general fund revenues exceed general fund expenditures by $275.1 million.

Overview of the Financial Statements

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

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

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

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

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

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

Financial Analysis of the Authority

Net Position - The Authority's net position increased to $467.1 million at year-end, primarily due to 2014 State funding under EFCFA ($585.0 million) exceeding 2014 expenditures for school facilities projects ($282.0 million).

The following table summarizes the Authority's net position at December 31, 2014 and 2013.

	$ In thousands			
	2014	2013	$ Increase/ (Decrease)	% Increase/ (Decrease)
Current assets	$561,987	$283,909	$278,078	97.9%
Capital assets-net	386	370	16	4.3%
Total assets	$562,373	$284,279	$278,094	97.8%
Current liabilities	$ 55,849	$ 52,358	$ 3,491	6.7%
Non-current liabilities	39,403	50,672	(11,269)	(22.2)%
Total liabilities	$ 95,252	$103,030	$ (7,778)	(7.5)%
Net position:				
Invested in capital assets	386	370	16	4.3%
Restricted for schools construction:				
Special revenue fund	466,735	180,879	285,856	158.0%
Total net position	467,121	181,249	285,872	157.7%
Total liabilities and net position	$562,373	$284,279	$278,094	97.8%

Note: All percentages are calculated using unrounded figures.

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

The following table summarizes the change in net position for the years ended December 31, 2014 and 2013.

	$ In thousands			
	2014	2013	$ Increase/ (Decrease)	% Increase/ (Decrease)
Revenues				
EFCFA funding received from State	$585,000	$ -	$585,000	N/A
Investment earnings, net	170	272	(102)	(37.3)%
Rental property income	115	150	(35)	(23.8)%
Other revenue	2	5	(3)	(54.9)%
Total revenues	$585,287	$ 427	$584,860	136,879.1%

	$ In thousands			
	2014	2013	$ Increase/ (Decrease)	% Increase/ (Decrease)
Expenses				
Administrative and general expenses	$ 17,293	$ 19,834	$ (2,541)	(12.8)%
Depreciation	99	570	(471)	(82.6)%
School facilities project costs	282,023	172,238	109,785	63.7%
Total expenses	299,415	192,642	106,773	55.4%
Change in net position	285,872	(192,215)	478,087	248.7%
Beginning net position	181,249	373,464	(192,215)	(51.5)%
Ending net position	$467,121	$ 181,249	$ 285,872	157.7%

Note: All percentages are calculated using unrounded figures.

Contacting the Authority's Financial Management

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

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

Statement of Net Position and General Fund Balance Sheet

December 31, 2014

	General Fund Total	Adjustments (Note 8)	Statement of Net Position
Assets			
Cash and cash equivalents	$560,858,585		$560,858,585
Receivables	165,830	$ 152,800	318,630
Prepaid expenses	809,737		809,737
Capital assets-net		386,044	386,044
Total assets	$561,834,152	$ 538,844	$562,372,996
Liabilities			
Accrued school facilities project costs	$ 51,007,810	$22,319,743	$ 73,327,553
Other post-employment benefits obligation		16,015,367	16,015,367
Other accrued liabilities	545,962	1,068,278	1,614,240
Deposits	4,294,768		4,294,768
Total liabilities	$ 55,848,540	$39,403,388	$ 95,251,928
Fund Balance/Net Position			
Invested in capital assets		386,044	386,044
Nonspendable:			
Prepaid expenses	809,737	(809,737)	
Restricted for schools construction:			
Special revenue fund	505,175,875	(38,440,851)	466,735,024
Total fund balance/net position	505,985,612	(38,864,544)	467,121,068
Total liabilities and fund balance/net position	$561,834,152	$ 538,844	$562,372,996

See accompanying notes.

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

For the Year Ended December 31, 2014

	General Fund Total	Adjustments (Note 8)	Statement of Activities
Revenues			
School Construction Program:			
EFCFA funding received from State	$585,000,000		$585,000,000
General:			
Investment earnings	170,381		170,381
Rental property income	114,453		114,453
Other revenue	2,338		2,338
Total revenues	585,287,172		585,287,172
Expenditures/Expenses			
Administrative and general expenses	15,222,312	$ 2,070,320	17,292,632
Capital expenditures	114,931	(114,931)	
Capital depreciation		99,040	99,040
School facilities project costs	294,803,450	(12,780,260)	282,023,190
Total expenditures/expenses	310,140,693	(10,725,831)	299,414,862
Excess of revenues over expenditures	275,146,479	10,725,831	
Change in net position			285,872,310
Fund Balance/Net Position			
Beginning of year, January 1, 2014	230,839,133	(49,590,375)	181,248,758
End of year, December 31, 2014	$505,985,612	$(38,864,544)	$467,121,068

See accompanying notes.

1. Nature of the Authority

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

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

2. Summary of Significant Accounting Policies

(a) Government-Wide and Fund Financial Statements

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

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

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

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

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

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

(c) Revenue Recognition

Rental property income is received under month-to-month lease occupancy agreements. Acquisitions of various properties for the construction of school facilities projects generate rental revenue prior to the relocation of the occupants. Rental property income is generally recognized when received.

(d) Allocation of Employee Salaries and Benefits Costs

Commencing January 1, 2013 the Authority began allocating employee salaries and benefits costs between operating expense (i.e., administrative and general expenses) and school facilities project costs on the Statement of Activities and General Fund Revenues, Expenditures and Changes in Fund Balance. Previously, these costs were charged entirely to operating expense. The allocation of employee salaries to school facilities project costs is supported by weekly time sheet data; employee benefits costs are allocated to projects based on a projected annual fringe benefit rate determined by the Authority. The fringe benefit rate utilized for 2014 is 40.6%.

For the year ended December 31, 2014, employee salary and benefit costs are allocated as follows:

Employee salary and fringe benefits costs:	
Charged to administrative and general expenses	$13,490,995
Charged to school facilities project costs	14,256,615
Total employee salary and benefits costs	$27,747,610

(e) Rebate Arbitrage

Rebate arbitrage is defined by Internal Revenue Code ("IRC") Section 148 as earnings on investments purchased with the gross proceeds of a bond issue in excess of the amount that would have been earned if the investments were invested at a yield equal to the yield on the bond issue. The amount of rebates due the federal government is determined and payable during each five-year period and upon final payment of the tax-exempt bonds. The Authority, the EDA and the New Jersey Department of the Treasury, Office of Public Finance have determined that any rebate arbitrage liability associated with an issue of School Facilities Construction Bonds shall be recorded on the Authority's books since the Authority retains the income on the investment of bond proceeds.

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

Rebate arbitrage calculations have been performed for all series of School Facilities Construction Bonds up through 2014 Series RR and UU. As of December 31, 2014, no rebate arbitrage liabilities exist.

(f) Cash Equivalents

Cash equivalents consist of highly liquid debt instruments with original maturities of three months or less, and participation in the State's Cash Management Fund ("NJCMF"), a fund managed by the Division of Investment under the Department of Treasury. It consists of U.S. Treasury obligations, government agencies obligations, certificates of deposit and commercial paper. Cash equivalents are stated at fair value.

(g) Prepaid Expenses

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both the government-wide and governmental fund financial statements.

(h) Capital Assets

Capital assets are reported in the governmental activity column in the government-wide financial statements and are recorded at historical cost or estimated historical cost if purchased and constructed. The Authority's current capitalization threshold is $10,000 for individual items meeting all other capitalization criterion. As of December 31, 2014, the Authority's capital assets consist of leasehold improvements, equipment, computer software and furniture and fixtures. Depreciation is provided by the straight-line method over the shorter of the life of the lease or the useful life of the related asset.

The Authority does not have an economic interest in any school facility project that it finances. Therefore, costs related to school facilities projects are not recorded as capital assets in the Authority's Statement of Net Position but instead are reported as school facilities project costs in the statement of activities.

(i) Taxes

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

(j) Use of Estimates

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

(k) Recent Accounting Pronouncements

In June 2012, the Governmental Accounting Standards Board ("GASB") issued Statement No. 67, *Financial Reporting for Pension Plans* ("GASB 67"). The objective of this Statement is to improve the usefulness of pension information included in the general purpose external financial reports of state and local governmental pension plans for making decisions and assessing accountability. The provisions of this Statement are effective for financial statements for periods beginning after June 15, 2013. Since this standard impacts the financial reporting of pension plans, this standard did not have an impact on the Authority's financial statements.

In June 2012, GASB issued Statement No. 68, *Accounting and Financial Reporting for Pensions* ("GASB 68"). The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for pensions. GASB 68 also improves information provided by state and local governmental employers about financial support for pensions that is provided by other entities. The provisions of this Statement are effective for financial statements for periods beginning after June 15, 2014.

The Authority has not completed the process of evaluating the impact of GASB 68 on its financial statements.

In January 2013, GASB issued Statement No. 69, *Government Combinations and Disposals of Government Operations* (“GASB 69”). The objective of this Statement is to improve the accounting for mergers and acquisitions among state and local governments by providing guidance specific to the situations and circumstances encountered within the governmental environment. The provisions of this Statement are effective for government combinations and disposals of government operations occurring in financial reporting periods beginning after December 15, 2013. The implementation of this standard did not have an impact on the Authority’s financial statements.

In February 2013, GASB issued Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees* (“GASB 70”). The objective of this Statement is to improve the comparability of financial statements among governments by requiring consistent reporting by those governments that extend and/or receive nonexchange financial guarantees. The provisions of this Statement are effective for financial statements for periods beginning after June 15, 2013. The implementation of this standard did not have an impact on the Authority’s financial statements.

In November 2013, GASB issued Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date, an amendment of GASB 68*, (“GASB 71”). The objective of this Statement is to address an issue regarding application of the transition provisions of GASB 68. The issue relates to amounts associated with contributions, if any, made by a state or local government employer or non-employer contributing entity to a defined benefit pension plan after the measurement date of the government’s beginning net pension liability. This Statement amends GASB 68 to require that, at transition, a government recognize a beginning deferred outflow of resources for its pension contributions, if any, made subsequent to the measurement date of the beginning net pension liability. GASB 68, as amended, continues to require that beginning balances for other deferred outflows of resources and deferred inflows of resources related to pensions be reported at transition only if it is practical to determine all such amounts. The provisions of this Statement are required to be applied simultaneously with the provisions of GASB 68. The Authority has not completed the process of evaluating the impact of GASB 71 on its financial statements.

3. Cash, Cash Equivalents and Investments

(a) Cash Flows

Overall cash and cash equivalents increased during the year by $278.9 million to $560.8 million as follows:

Cash and cash equivalents, beginning of year	$281,909,622
Changes in cash:	
EFCFA funding received from State	585,000,000
Investment and interest income	170,381
Miscellaneous revenue	116,791
School facilities project costs	(288,876,308)
Administrative and general expenses	(15,240,748)
Capital expenditures	(114,931)
Deposits	(2,106,222)
Cash and cash equivalents, end of year	$560,858,585

(b) Cash and Cash Equivalents

Operating cash, in the form of Negotiable Order of Withdrawal ("NOW") accounts, is held in the Authority's name by two commercial banking institutions. At December 31, 2014, the carrying amount of operating cash is $856,516 and the bank balance is $1,200,495. Regarding the amount held by commercial banking institutions, up to $250,000 at each institution is insured with Federal Deposit Insurance.

Pursuant to GASB Statement No. 40, *Deposit and Investment Risk Disclosures,* NOW accounts are profiled in order to determine exposure, if any, to custodial credit risk (risk that in the event of failure of the counterparty the account owner would not be able to recover the value of its deposits or investment). Deposits are considered to be exposed to custodial credit risk if they are: uninsured and uncollateralized (securities not pledged to the depositor); collateralized with securities held by the pledging financial institution; or collateralized with securities held by the financial institution's trust department or agent but not in the government's name. At December 31, 2014, all of the Authority's deposits were insured or collateralized by securities held in its name and, accordingly, not exposed to custodial credit risk. The Authority does not have a policy for custodial credit risk.

As of December 31, 2014, cash and cash equivalents include deposits of $4,294,768 consisting mainly of district local share funding requirements (see Note 5).

(c) Investments

In order to maximize liquidity, the Authority utilizes the NJCMF as its sole investment. The NJCMF invests pooled monies from various State and non-State agencies in primarily short-term investments. These investments include: U.S. Treasuries; short-term commercial paper; U.S. Agency Bonds; Corporate Bonds; and Certificates of Deposit. Agencies that participate in the NJCMF typically earn returns that mirror short-term investment rates. Monies can be freely added or withdrawn from the NJCMF on a daily basis without penalty. At December 31, 2014, the Authority's investments in the NJCMF total $560,002,069.

Custodial Credit Risk: Pursuant to GASB Statement No. 40, the NJCMF, which is a pooled investment, is exempt from custodial credit risk disclosure. As previously stated, the Authority does not have a policy for custodial credit risk.

Credit Risk: The Authority does not have an investment policy regarding the management of credit risk. GASB Statement No. 40 requires that disclosure be made as to the credit rating of all debt security investments except for obligations of the U.S. government or investments guaranteed by the U.S. government. The NJCMF is not rated by a rating agency.

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

4. Prepaid Expenses

As of December 31, 2014, the Authority's prepaid expenses are as follows:

Insurance	$490,925
Office rents	100,169
Service contracts	179,851
Other	38,792
Total prepaid expenses	$809,737

5. Deposits

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

As of December 31, 2014, deposits held in SDA bank accounts, inclusive of interest earned but not refunded to the district, are as follows:

City of Newark	$3,638,679
Egg Harbor City	641,089
Other	15,000
Total deposits	$4,294,768

6. Rental of Office Space

The Authority rents commercial office space for its headquarters facility in Trenton, as well as other office space in Newark. The remaining terms of these leases range from 4 to 9 years. With respect to the Trenton office lease, the Authority has the right to terminate the lease after five years. Total rental expense for the year ended December 31, 2014 amounted to $1,487,645.

Future rent commitments under operating leases as of December 31, 2014 are as follows:

2015	$1,197,407
2016	1,212,416
2017	1,227,651
2018	1,243,113
Total future rent expense	$4,880,587

7. Capital Assets

Capital asset activity for the year ended December 31, 2014 is as follows:

	Beginning Balance	Additions	Retirements	Ending Balance
Leasehold improvements	$ 502,679	$ -	$ -	$ 502,679
Office furniture and equipment	5,320,479	33,323	-	5,353,802
Computer software	568,993	-	-	568,993
Automobiles	331,615	81,608	-	413,223
Capital assets-gross	6,723,766	114,931	-	6,838,697
Less: accumulated depreciation	(6,353,613)	(99,040)	-	(6,452,653)
Capital assets-net	$ 370,153	$ 15,891	$ -	$ 386,044

8. Reconciliation of Government-Wide and Fund Financial Statements

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

“Total fund balances” for the Authority’s general fund ($505,985,612) differs from the “net position” reported on the statement of net position ($467,121,068). This difference results from the long-term economic focus of the statement of net position versus the current financial resources focus of the fund balance sheet. When capital assets that are to be used in the Authority’s activities are constructed or acquired, the costs of those assets are reported as expenditures in the fund financial statements. However, the statement of net position includes those capital assets among the assets of the Authority as a whole. In addition, expenses associated with depreciation, accrued school facilities project costs not currently due for payment and non-current other post-employment benefits and compensated absences are not recorded in the fund financial statements until paid. A summary of these differences at December 31, 2014 is as follows:

Fund balances	$505,985,612
Capital assets, net of related depreciation of $(6,452,653)	386,044
Accrued school facilities project costs, net of related receivable	(22,166,943)
Accrued other post-employment benefits	(16,015,367)
Accrued compensated absences	(1,068,278)
Net position	$467,121,068

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

The governmental fund statement of revenues, expenditures, and changes in fund balances includes a reconciliation between excess of revenues over expenditures and changes in net position as reported in the government-wide statement of activities. Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. Also, some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. A summary of these differences for the year ended December 31, 2014 is as follows:

Excess of revenues over expenditures	$275,146,479
School facilities project costs	12,780,260
Other post-employment benefits expense	(2,134,600)
Compensated absences expense	64,280
Capital asset acquisitions	114,931
Depreciation expense	(99,040)
Changes in net position	$285,872,310

9. Pollution Remediation Obligations

In accordance with GASB Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*, the Authority has recorded in the statement of net position a pollution remediation obligation ("PRO") liability (net of environmental cost recoveries not yet realized) in the amount of $18,193,355 as of December 31, 2014. Additionally, as of the same date the Authority has recorded in the statement of net position a receivable in the amount of $152,800 for realized environmental cost recoveries. The Authority's PRO liability and asset are charged or credited to school facilities project costs in the statement of activities. The Authority's PRO liability is measured based on the current cost of future activities. Also, the PRO liability was estimated using "the expected cash flow technique," which measures the liability as the sum of probability weighted amounts in a range of possible estimated outcomes.

The Authority owns numerous properties with environmental issues that meet the criteria for "obligating events" and disclosure under GASB Statement No. 49. All of the properties meeting the criteria were acquired by the Authority for the purpose of constructing a school facilities project on behalf of an SDA District and, at the present, the Authority believes it has obligated itself to commence clean-up activities. The Authority will continue to evaluate the applicability of this Statement relating to specific project sites as adjustments are made to its portfolio of school facilities projects. The Authority's remediation activities generally include: pre-cleanup activities including preliminary assessment and site investigation; asbestos and lead based paint removal; underground storage tank removal; neutralization, containment, removal and disposal of ground pollutants; site restoration; and post-remediation monitoring and oversight. The following table summarizes the Authority's expected cash outlays (estimated costs), payments and cost recoveries related to numerous SDA-owned properties associated with school facilities projects in various stages of pre-development and construction.

Description	**Estimated Cost**	**Payments to Date**	**PRO at 12-31-2014**
Pre-cleanup activities	$ 5,308,692	$ 5,468,874	$ (160,182)
Site remediation work	72,816,812	55,623,824	17,192,988
Post-remediation monitoring	1,112,858	405,256	707,602
Asbestos and lead based paint removal	18,463,218	16,132,941	2,330,277
Sub-total	97,701,580	77,630,895	20,070,685
Less: Estimated environmental cost recoveries (ECR) not yet realized	1,877,330	-	1,877,330
Liability for pollution remediation obligations	$95,824,250	$77,630,895	$18,193,355
Receivable for realized ECR	$ 152,800	$ -	$ 152,800

The following table summarizes the changes in the Authority's PRO liability during the year ended December 31, 2014:

PRO at 12-31-2013	**Decrease in Expected Cash Outlays**	**PRO Payments**	**Decrease in ECR Not Yet Realized**	**PRO at 12-31-2014**
$24,554,794	$1,168,608	$(7,438,062)	$(91,985)	$18,193,355

10. Commitments and Contingencies

(a) Contractual Commitments

At December 31, 2014, the Authority has approximately $827 million of unaccrued contractual commitments relating to future expenditures associated with school facilities projects.

(b) Contractor Claims

Numerous contractor claims, the vast majority of which are not in litigation, have been filed with the Authority by design consultants, general contractors and project management firms relating to disputes concerning school construction matters (e.g., delays, labor and material price increases). The Authority resolves contractor claims by following the administrative process noted in the relevant contract. As of December 31, 2014, the Authority's potential loss from these claims has been estimated at approximately $4.1 million, which represents a decrease of $7.0 million from the prior year end accrual. The decrease resulted primarily from paid settlements in 2014. Accordingly, as of December 31, 2014, an accrued liability of $4.1 million is reflected in the statement of net position and, for the year then ended, $7.0 million is offset against school facilities project costs on the statement of activities.

(c) Insurance

The Authority maintains commercial insurance coverage for, among other things, workers' compensation, tort liability (including public liability and automobile) and property damage. Additionally, in support of its construction operations the Authority has implemented an Owner-Controlled Insurance Program ("OCIP") and has also purchased Owners Protective Professional Indemnity Insurance ("OPPI"), both of which are discussed below. As of December 31, 2014, management is not aware of any insurable claim that is expected to exceed its commercial insurance coverage. The Authority is also involved in several lawsuits not covered under its commercial insurance; however, in the opinion of management, none of the claims is expected to have a material effect on the Authority's financial statements.

The Authority has implemented an OCIP that "wraps up" multiple types of insurance coverage into one program. The Authority initially implemented a three-year OCIP, effective December 31, 2003 ("OCIP I"), to provide workers' compensation, commercial general liability, umbrella/excess liability and builders risk insurance for all eligible contractors performing labor on school facilities projects. OCIP I was subsequently extended to March 31, 2009. Builders risk coverage for OCIP I expired as of December 31, 2009. Policy limits for OCIP I vary depending upon, among other things, the type of insurance coverage; a $300 million umbrella/excess liability program provides additional protection against potentially catastrophic losses resulting from workers' compensation and commercial general liability claims. Losses are subject to a $250,000 per claim deductible. Although OCIP I is no longer enrolling new projects into the program since its expiration, completed operations coverage continues for 10 years from the end of construction for all previously enrolled projects.

In 2009, the Authority approved the purchase of a succeeding five-year OCIP ("OCIP II") program to coincide with the expiration of the OCIP I enrollment period for new projects. OCIP II, as originally purchased, provided coverage for projects commencing construction between March 31, 2009 and March 31, 2012. The OCIP II enrollment period was extended to March 31, 2014 at no additional cost to the Authority. The extension also provides an additional two years for the completion of enrolled projects. Subsequently, the Authority has authorized the purchase of a new three-year OCIP ("OCIP III") with an anticipated effective date of March 1, 2015. Similar to OCIP I, policy limits for OCIP II and OCIP III vary depending upon, among other things, the type of insurance coverage; a $200 million umbrella/excess liability program provides additional protection against potentially catastrophic losses resulting from workers' compensation and commercial general liability claims. Losses are subject to either a $250,000 per claim deductible or a $350,000 deductible in the event that both a workers' compensation and general liability claim occur from the same incident. Additionally, OCIP II and OCIP III each provide 10 years of completed operations coverage for claims that arise after the completion of construction. Premiums for OCIP II and OCIP III are adjustable based upon actual construction values for enrolled contractors (not all trades are eligible for enrollment) on insured projects.

In connection with OCIP I, the Authority executed a Funded Multi-Line Deductible Program Agreement which, among other things, required the Authority to fund a Deductible Reimbursement Fund ("DRF") to collateralize the Authority's estimated deductible obligations under certain OCIP I policies. The DRF, which was established at $37 million, consists of cash payments by the Authority totaling $34.9 million, and a one-time credit of $2.1 million received at inception for estimated interest. The cash portion of the DRF was funded by the Authority in installments during the period from December 2003 through December 2006, and expensed as paid as school facilities project costs on the statement of activities and general fund revenues, expenditures and changes in fund balance.

Concurrent with the Authority's purchase of OCIP II, the insurer agreed to transfer the available funds from the Authority's DRF to a new Loss Reimbursement Fund ("LRF"). The LRF for OCIP II was initially established at approximately $18.9 million to partially fund a maximum deductible obligation of $26 million. The funds remaining, totaling approximately $9.9 million, were allocated to fund the LRF for OCIP I. All monies deposited in the LRF accrue interest to the benefit of the Authority and are available to pay claim costs arising from construction projects enrolled within the respective OCIP.

As of December 31, 2014, the Authority has incurred general liability and workers' compensation claims totaling approximately $14.3 million and $1.7 million, under OCIP I and OCIP II, respectively. All monies deposited in the LRF and not used to pay claims will be refunded to the Authority along with accrued interest. Under the terms of the contract, the

Authority has no claim or interest in the LRF until six (6) months after the expiration of the program. At this time, and annually thereafter, the LRF for OCIP I shall be reviewed and the deductible obligation re-determined.

In connection with the OCIP II extension, discussed above, the maximum deductible obligation is $16 million. A reasonable estimate of future refunds from the OCIP II LRF is not yet known since the majority of covered school facilities projects are in various stages of completion and therefore the Authority's ultimate obligation cannot be immediately determined.

Coverage under the current Builders Risk program was purchased for a three-year term for projects commencing construction from December 31, 2013 through December 31, 2016.

In October 2009, the Authority purchased a 5-year, $25 million limit of liability OPPI policy designed to provide additional protection in excess of the professional liability insurance maintained by the Authority's contracted design professionals. The policy is subject to a $500,000 self-insured retention, and provides coverage for construction projects. The policy also provides an Extended Reporting Period ("ERP") of up to 10 years to report claims, commencing on the earlier of project substantial completion or the policy expiration date of October 1, 2014.

In December 2014, the Authority approved the purchase of a new 5-year OPPI policy, including excess Contractors Pollution Liability ("CPL"), for SDA construction projects commencing construction on or after December 31, 2014 and prior to December 31, 2019. The policy provides a $25 million limit of liability subject to a $500,000 self-insured retention for OPPI, and a $250,000 self-insured retention for CPL. Additionally, the policy provides an ERP of up to 8 years to report claims, commencing on the earlier of project substantial completion or the policy expiration date of December 31, 2019.

11. Employee Benefits

(a) Public Employees Retirement System of New Jersey

All active, full-time employees of the Authority are required as a condition of employment to participate in the Public Employees Retirement System of New Jersey ("PERS" or "Plan"), a cost-sharing, and multiple-employer defined benefit plan administered by the State. Effective July 1, 2014, employees are required to contribute 6.64% (up from 6.5%) of their annual compensation to the Plan. An additional 0.86% increase will be phased in over the next 6 years, bringing the total pension contribution rate to 7.5%. All Plan participants are categorized within membership Tiers in accordance with their enrollment date in the PERS, as follows: Tier 1 includes those members enrolled in PERS prior to July 1, 2007; Tier 2 includes those members enrolled in PERS on or after July 1, 2007 and prior to November 2, 2008; Tier 3 includes those members enrolled in PERS on or after November 2, 2008 and on or before May 21, 2010; Tier 4 includes those members enrolled in PERS after May 21, 2010 and prior to June 28, 2012; and Tier 5 includes those members enrolled in PERS on or after June 28, 2012. Depending on the Tier, other factors including minimum base salary amounts and/or minimum hours worked, among other things, may impact an employee's eligibility in the PERS. As discussed below, members enrolled in the PERS on or after July 1, 2007, and who earn an annual salary in excess of established limits, are eligible to participate in a Defined Contribution Retirement Program ("DCRP") administered by Prudential Financial on behalf of the State.

The Authority's total payroll for the years ended December 31, 2014, 2013 and 2012, which approximates its covered payroll, was $18,549,600, $18,329,051 and $18,472,472, respectively.

In 2014, 2013 and 2012, the Authority's pension contributions to the PERS totaled $1,960,286, $2,163,895, and $2,673,145, respectively; such amounts were charged to salaries and benefits expense. The Authority's 2015 pension contribution, due on April 1, 2015, is expected to be $2,102,418.

The general formula for annual retirement benefits for Tier 1, Tier 2, and Tier 3 members is the final 3 year average salary divided by 55, times the employee's years of service. The formula for Tier 4 and Tier 5 members is the final 5 year average salary divided by 60, times the employee's years of service. Pension benefits for all members fully vest upon reaching 10 years of credited service. Tier 1 and Tier 2 members are eligible for normal retirement at age 60, while Tier 3 and Tier 4 members are eligible for normal retirement at age 62. Tier 5 members are eligible for normal retirement at age 65. No minimum years of service is required once an employee reaches the applicable retirement age.

Tier 1 members who have 25 years or more of credited service may elect early retirement without penalty at or after age 55, and receive full retirement benefits; however, the retirement allowance is reduced by 3% per year (1/4 of 1 percent per month) for each year the member is under age 55. For Tier 2 members with 25 years or more of credited service the retirement allowance is reduced by 1% per year (1/12 of 1 percent per month) for each year the member is under age 60 (until age 55) and 3% per year (1/4 of 1 percent per month) for each year the member is under age 55. For Tier 3 and Tier 4 members the retirement allowance is reduced by 1% per year (1/12 of 1 percent per month) for each year the member is under age 62 (until age 55) and 3% per year (1/4 of 1 percent per month) for each year the member is under age 55. Lastly, for Tier 5 members the retirement allowance is reduced by 3% per year (1/4 of 1 percent per month) for each year the member is under age 65.

The PERS also provides death and disability benefits. The State of New Jersey has the authority to establish and/or amend any of the benefit provisions and contribution requirements. The State of New Jersey, Department of the Treasury, Division of Pension and Benefits, issues publicly available financial reports that include the financial statements and required supplementary information for the PERS. The financial reports may be obtained by writing to the State of New Jersey, Department of the Treasury, Division of Pension and Benefits, P.O. Box 295, Trenton, New Jersey, 08625-0295.

(b) Defined Contribution Retirement Program and Early Retirement Changes for Employees Enrolled in the PERS on or after July 1, 2007

The DCRP was established on July 1, 2007 under the provisions of P.L.2007, c.92 and P.L.2007, c.103. The DCRP provides eligible members with a tax-sheltered, defined contribution retirement benefit, along with death and disability benefits. A PERS member who becomes eligible and is enrolled in the DCRP is immediately vested in the DCRP. To be eligible for the DCRP, an employee is required to have enrolled in the PERS on or after July 1, 2007 (Tiers 2 through 5), and they must earn an annual salary in excess of established "maximum compensation" limits. The maximum compensation is based on the annual maximum wage for Social Security and is subject to change at the start of each calendar year. A PERS member who is eligible for the DCRP may voluntarily choose to waive participation in the DCRP for a reduced retirement benefit from the State. If a member waives DCRP participation and later wishes to participate, the member may apply for DCRP enrollment, with membership to be effective January 1 of the following calendar year. PERS members who participate in the DCRP continue to receive service credit and are eligible to retire under the rules of the PERS, with their final salary at retirement limited to the maximum compensation amounts in effect when the salary was earned. The participating member would also be entitled to a supplementary benefit at retirement based on both the employee (above the maximum compensation limit) and employer contributions to the DCRP. For the direct benefit of those participating in the DCRP, the Authority would be required to contribute 3% to the DCRP ("employer matching") based on the member's annual compensation (base salary) in excess of the maximum compensation limit.

For the year ending December 31, 2014, the Authority had eleven active employees enrolled in the DCRP and made matching contributions totaling $9,239. Employer matching contributions relating to 2013, 2012 and 2011 totaled $8,271, $5,596, and $6,858, respectively.

(c) Deferred Compensation

The Authority has established an Employees Deferred Compensation Plan under section 457 of the Internal Revenue Code. All active, full-time employees are eligible to participate in the plan, which permits participants to defer a portion of their pay in accordance with the contribution limits established in section 457(b) of the Internal Revenue Code. The Authority does not make any contributions to the plan.

(d) Other Post-Employment Benefits

The Authority provides post-employment healthcare benefits (including Medicare Part B reimbursement) and prescription drug coverage through participation in the New Jersey Health Benefits Program, as sponsored and administered by the State of New Jersey, to retirees having 25 years or more of service in the PERS, or to those individuals approved for disability retirement. These post-employment benefits also extend to the retirees' covered dependents. Upon turning 65 years of age, a retiree must opt for Medicare as their primary coverage, with State benefits providing supplemental coverage. In addition, life insurance is provided to retirees in an amount equal to 3/16 of their average salary during the final 12 months of active employment. These post-employment benefits, referred to as OPEB, are presently provided by the Authority at no cost to the retiree. The State has the authority to establish and amend the benefit provisions offered and contribution requirements. The plan is considered an agent multiple-employer defined benefit plan for financial reporting purposes. The State of New Jersey, Department of the Treasury, Division of Pension and Benefits, issues publicly available financial reports that include the financial statements for the State Health Benefits Program Funds. The financial reports may be obtained by writing to the State of New Jersey, Department of the Treasury, Division of Pension and Benefits, P.O. Box 295, Trenton, New Jersey, 08625-0295.

The Authority accounts for its OPEB obligations in accordance with GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions.* The Authority's OPEB cost is calculated based on the annual required contribution of the employer ("ARC"), an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal costs each year and to amortize any unfunded actuarial liabilities over a period not to exceed 30 years.

The Authority's annual OPEB cost for 2014 and 2013 and the related information for the plan are as follows:

	2014	2013
Annual required contribution	$ 1,794,877	$ 2,001,296
Adjustment to annual required contribution *	503,368	381,181
Annual OPEB cost	2,298,245	2,382,477
Contributions made	(163,645)	(136,736)
Increase in net OPEB obligation	2,134,600	2,245,741
Net OPEB obligation – beginning of year	13,880,767	11,635,026
Net OPEB obligation – end of year	$16,015,367	$13,880,767

* The adjustment to the ARC includes interest on the net OPEB obligation, less amortization of the net OPEB obligation.

The annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2014, 2013, and 2012 is as follows:

Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
12/31/2014	$2,298,245	7.1%	$16,015,367
12/31/2013	$2,382,477	5.7%	$13,880,767
12/31/2012	$2,215,653	5.7%	$11,635,026

As of the most recent valuation date (January 1, 2014), the Authority's actuarial accrued liability was $18,641,861, all of which was unfunded as of December 31, 2014. The Authority is recognizing this liability over a 30-year period using level dollar amortization, which is representative of amortizing on a closed basis. The covered payroll (annual payroll of active employees covered by the plan) as of the valuation date was $18,224,900 and the ratio of the unfunded actuarial accrued liability to the covered payroll was 102.3%. Additionally, as of December 31, 2014, seven active and seven retired employees were eligible for post-employment benefits.

The Authority has elected at this time to finance its annual OPEB cost on a pay-as-you-go basis in view of the fact that the Authority is not authorized to pre-fund an OPEB trust from the proceeds of tax-exempt bonds (nor from the income earned on the investment of those proceeds) from which it presently derives essentially all of its revenue. Payments for retiree post-employment benefits totaled $163,645 and $136,736, respectively, in 2014 and 2013.

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

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

For the most recent actuarial valuation the projected unit credit actuarial cost method was used with a 4.5% discount rate. Pursuant to this method, benefits are recognized from date of hire to the date the employee is first eligible for benefits. No investment return was assumed in the current valuation since there are no OPEB plan assets. The annual healthcare cost inflation rates (trend) for retiree benefits is 9% for 2014, which is assumed to decline 1% per year to an ultimate trend assumption of 5% for the year 2018 and beyond. The same trend rates are assumed for Medicare Part B premium reimbursement and prescription drug costs. As required in GASB Technical Memorandum 2006 1 on the accounting for the federal Retiree Drug Subsidy ("RDS"), the Authority's actuarial liabilities are shown without a reduction for the RDS even though the NJ Health Benefits Program has opted to receive the RDS.

To be consistent with the NJ Health Benefits Program, the Authority's January 1, 2012 actuarial valuation included the impacts of both the healthcare reform law (i.e., excise "Cadillac" tax), and the new Mortality Improvement Projection Scale AA. These assumptions were not applied in previous actuarial valuations.

12. Compensated Absences

In accordance with GASB Statement No. 16, *Accounting for Compensated Absences,* the Authority recorded a liability in the amount of $1,068,278 as of December 31, 2014 in the statement of net position. The liability is the value of employee accrued vacation time as of the balance sheet date and vested sick leave benefits that are probable of payment to employees upon retirement. The vested sick leave benefit to future retirees for unused accumulated sick leave is calculated at the lesser of ½ the value of earned time or $15,000. The payment of sick leave benefits, prior to retirement, is dependent on the occurrence of sickness as defined by the Authority's policy; therefore, such unvested benefits are not accrued.

13. Long-Term Liabilities

During 2014, the following changes in long-term liabilities are reflected in the statement of net position:

	Beginning Balance	Additions	Deductions	Ending Balance
Accrued school facilities project costs	$35,658,300	$ -	$(13,338,557)	$22,319,743
Other post-employment benefits obligation	13,880,767	2,298,245	(163,645)	16,015,367
Compensated absences	1,132,558	-	(64,280)	1,068,278
Total long-term liabilities	$50,671,625	$2,298,245	$(13,566,482)	$39,403,388

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

14. Net Position

The Authority's net position is categorized as either invested in capital assets, or restricted for schools construction. At December 31, 2014, the Authority's net position is $467.1 million. Invested in capital assets includes leasehold improvements, furniture and fixtures, equipment and computer software used in the Authority's operations, net of accumulated depreciation. Restricted for schools construction includes sub-categories for Build America Bond ("BAB") proceeds, which proceeds were fully expended in 2013, and special revenue fund for all other sources. Net position arising from BAB proceeds are more restricted than those in the special revenue fund. Additionally, only the portion of the Authority's operating costs deemed capitalizable may be funded from BAB proceeds. The special revenue fund includes all net position not included in the other categories. When both restricted and unrestricted resources are available for use, it is the Authority's policy to first use restricted resources then unrestricted resources as needed.

The changes during 2013 and 2014 in net position are as follows:

	Invested in Capital Assets	Restricted for Schools Construction Build America Bond Program	Restricted for Schools Construction Special Revenue Fund	Totals
Net position, January 1, 2013	$645,218	$ 98,297,315	$274,522,225	$373,464,758
(Loss)/excess before receipt of EFCFA funding and transfers	(570,279)	(3,777,151)	(15,630,096)	(19,977,526)
Capital assets acquired	295,214	-	(295,214)	-
School facilities project costs	-	(94,520,164)	(77,718,310)	(172,238,474)
Net position, December 31, 2013	370,153	-	180,878,605	181,248,758
(Loss)/excess before receipt of EFCFA funding and transfers	(99,040)	-	(17,005,460)	(17,104,500)
Capital assets acquired	114,931	-	(114,931)	-
EFCFA funding received from State		-	585,000,000	585,000,000
School facilities project costs	-	-	(282,023,190)	(282,023,190)
Net position, December 31, 2014	$386,044	$ -	$466,735,024	$467,121,068

NEW JERSEY SCHOOLS DEVELOPMENT AUTHORITY
(a component unit of the State of New Jersey)

REQUIRED SUPPLEMENTARY INFORMATION

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

Schedule of Funding Progress - Post-Employment Healthcare Benefit Plan

$ In thousands

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Level Dollar (b)	Unfunded AAL (UAAL) (b) - (a)	Funded Ratio (a) / (b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll (b) - (a) / (c)
1-1-2014	$ -	$18,642	$18,642	- %	$18,225	102%
1-1-2012	$ -	$15,905	$15,905	- %	$18,789	85%
1-1-2011*	$ -	$15,706	$15,706	- %	$22,667	69%

* The actuarial valuation for this year does not include the impacts of either the healthcare reform law (i.e., the excise “Cadillac” tax) or the new Mortality Improvement Projection Scale BB.