NJ Schools Construction Corporation

(a component unit of the State of New Jersey)

FINANCIAL STATEMENT

For the Year Ended December 31, 2004

Contents

Ernst & Young LLP
99 Wood Avenue South
MetroPark
P.O. Box 751
Iselin, New Jersey 08830-0471

Phone: (732) 516-4200
www.ey.com

Report of Independent Auditors

Members of the Corporation
New Jersey Schools Construction Corporation

We have audited the accompanying financial statements of the governmental activities and the general fund of the New Jersey Schools Construction Corporation (the "Corporation"), a component unit of the State of New Jersey, as of December 31, 2004 and for the year then ended as listed in the table of contents. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the general fund of the New Jersey Schools Construction Corporation as of December 31, 2004, and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States.

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

Ernst + Young LLP

March 24, 2005

Management's Discussion & Analysis

This section of the New Jersey Schools Construction Corporation's ("Corporation") annual financial report presents our discussion and analysis of the Corporation's financial performance during the fiscal year ended December 31, 2004. Please read this management's discussion and analysis in conjunction with the Corporation's financial statements and accompanying notes.

Background

The New Jersey Schools Construction Corporation was created as a subsidiary of the New Jersey Economic Development Authority ("NJEDA"). The Corporation was formed as a separate activity apart from the NJEDA's mandated economic development mission for the purpose of establishing a more concentrated focus and streamlined approach to the timely and efficient construction of quality schools in New Jersey.

The New Jersey Educational Facilities Construction and Financing Act ("EFCFA") was enacted on July 18, 2000 by the Legislature in response to the New Jersey Supreme Court's decision in Raymond Abbott et al. v. Fred G. Burke, 153 N.J. 480 (1998). As a result of the Act, the State is required to provide certain educational infrastructure improvements in the poor, urban school districts ("Abbott School Districts") so that students in these school districts can receive a thorough and efficient education, an explicit requirement of the New Jersey Constitution. The Corporation is responsible under the EFCFA for financing, designing and constructing all school facilities projects in the Abbott Districts, in districts which receive 55% or more in State funding for education and in districts that are designated as level II State monitoring by the Department of Education. Additionally, the Corporation is responsible for providing grants to fund the State share of school facilities projects approved by the Department of Education in districts with a district aid percentage of less than 55%. Those districts, which receive less than 55% funding, may elect to have the Corporation undertake the construction of their school facilities projects.

The School Construction Program ("Program") is the largest public construction program undertaken by the State of New Jersey and represents one of the largest school construction programs ever undertaken in the nation. The Program anticipates the expenditure of up to $12 billion over the next ten or more years. Of that amount, $8.6 billion will be appropriated by the State to the Corporation, and the balance will be raised through local school district voter approval. This includes full funding by the State of all school renovation and construction projects in the 31 designated Abbott School Districts.

The Corporation does not have an economic interest in the school facility projects that are completed. With the exception of an undeterminable amount of interest income on temporarily "idle" appropriated funds, the Program is not expected to generate operating revenues, yet will incur significant operating expenses. Costs related to school facilities projects are reported as project costs in the statement of activities. Administrative expenses and program costs, considered to be eligible project costs, but not identifiable to a specific project, are also paid from appropriated funds.

Financial Highlights

- The Corporation's total net assets were $473.4 million
- Cash and investments were $580.4 million
- Total revenues were $1.71 billion, $1.70 billion of which were appropriations received from the State (or 99.7%)
- Expenses were $1.40 billion, $1.38 billion of which were Project Costs (or 99.0%)
- Excess of revenues over expenses was $305.2 million

Overview of the Financial Statements

This annual financial report consists of two parts: Management's Discussion and Analysis (this section) and the basic financial statements. The Corporation's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. Because the Corporation operates a single governmental program, its government-wide and general 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 Corporation's finances, in a manner similar to a private sector business. The statement of net assets presents information on all of the Corporation's assets and liabilities, with the difference between the two reported as net assets. Over time, an increase or decrease in net assets may serve as a useful indicator of whether the financial position of the Corporation is improving or deteriorating.

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

Governmental fund financial statements are designed to provide the reader information about an entity's various funds. A fund is a grouping of related accounts that is used to maintain control over the resources that have been segregated for specific activities or objectives. The Corporation uses fund accounting to ensure and demonstrate compliance with finance related legal requirements. The Corporation operates a single fund for financial reporting purposes and this fund is considered a governmental 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 a governments' 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 Corporation's near term financing decisions. Both the fund balance sheet and the financial statement of revenues, expenditures, and change in fund balances provide a reconciliation to facilitate this comparison.

Financial Analysis of the Corporation

Net Assets – The Corporation's net assets increased to $473,390,575 primarily due to appropriations of $1,700,000,000 received and revenues earned exceeding expenses during the year.

The following table, presented in thousands, summarizes the Corporation's financial position at December 31, 2004 and 2003.

	2004	2003	% Increase (Decrease)	% Increase (Decrease)
Current Assets	$581,206	$186,128	$395,078	212.3%
Capital Assets-net	9,788	10,107	(319)	(3.2)
Total Assets	590,994	196,235	394,759	201.2
Current Liabilities	117,603	27,548	90,055	326.9
Net Assets:				
Invested in Capital Assets	9,788	10,107	(319)	(3.2)
Restricted	38,886	38,886	-	-
Unrestricted	424,717	119,694	305,023	254.8
Total Net Assets	$473,391	$168,687	$304,704	180.6

Operating Activities – The Corporation charges a minimal fee, ranging from $50 up to $500, during the bidding process, for copies of the design plans and specifications as specified in the Construction Project Advertisements. The Project Management Firms ("PMF") forward these fees on a regular basis to a dedicated lockbox.

The following table summarizes the change in net assets for the years ended December 31, 2004 and 2003.

	2004	2003	% Increase (Decrease)	% Increase (Decrease)
Revenues				
Appropriations received-net	$1,700,000,000	$ 608,504,400	$1,091,495,600	179.4%
Bidding fees-plans and specs	230,325	210,921	19,404	9.2
Rental revenue	125,842	94,675	31,167	32.9
Interest income	8,098,130	5,488,373	2,609,757	47.6
Other income	406,804	-	406,804	100.0
Total revenues	1,708,861,101	614,298,369	1,094,562,732	178.2
Expenses				
Administrative expenses	26,387,302	20,690,962	5,696,340	27.2
Program costs	1,563,359	1,443,566	119,793	8.3
Depreciation	1,163,872	591,550	572,322	96.7
Project costs	1,375,043,369	1,097,056,383	277,986,986	25.3
Total expenses	1,404,157,902	1,119,782,461	284,375,441	25.4
Change in net assets	304,703,199	(505,484,092)	810,187,291	(160.0)
Net assets, beginning of year	168,687,376	674,171,468	(505,484,092)	(75.0)
Net assets, end of year	$ 473,390,575	$ 168,687,376	$ 304,703,199	180.6

Significant Business Developments

Prior to October 1, 2002, the Corporation's date of inception, the activities under the EFCFA were reported as a program of the NJEDA. Since that date, the Corporation has committed to support 2,700 school projects in 1,700 schools throughout New Jersey for new additions, renovations, health and safety work and new construction. The Corporation has initiated the design and construction of nearly 400 schools in the Abbott districts. By the close of 2004, the Corporation opened approximately 50 schools and school additions. Twenty-two of these new schools are located within the Abbott and managed districts. The Corporation has created 940 classrooms to house over 14,000 early childhood students. The Corporation is moving forward on "demonstration projects" in Union City, Trenton, Vineland, New Brunswick, Camden and East Orange worth more than $500 million. These projects incorporate community oriented features such as athletic venues, childcare centers, health clinics and media centers accessible to both students and residents.

Programmatic results for 2004 included: over 100 construction notices to proceed totaling $930 million and nearly 50 design notices to proceed totaling $83 million. The Corporation also created the SBE Set Aside Program for construction and design contracts. This program includes more than 120 contracts valued at $241 million that were made available to small firms across the state. The Corporation's 2004 land acquisitions include 15 sites and 285 relocations. In 2004 the Corporation began to implement both the E-Rate and the BPU Solar Programs; created the Customer Service Center to better serve the districts and the business community and began a Mentor Protégé program that will pair up smaller firms with large firms to assist them to expand their opportunities with our program.

The following unaudited information provides insight into the activities of this program since the enactment of the EFCFA and is not intended to be presented in accordance with generally accepted accounting principles.

	2004	2003	2002	2001	2000
Interest Income	$ 8,098,130	$ 5,488,373	$ 9,991,010	$ 18,862,686	$ 5,013
Administrative Expenses	26,387,302	20,690,962	9,413,184	4,354,451	385,477
Program Costs & Capital Expenditures	2,407,848	9,053,327	2,143,365	4,160,953	383,915
Appropriations Received-net	$1,700,000,000	608,504,400	590,617,301	558,567,256	$1,510,975
Project Costs	1,375,043,369	$1,097,056,383	465,688,216	21,809,096	–
Employee Count	250	204	96	53	9

Contacting the Corporation's Financial Management

This financial report is designed to provide New Jersey citizens and taxpayers, and our customers, clients, investors and creditors, with a general overview of the Corporation's finances and to demonstrate the Corporation's accountability for the appropriations it receives. If you have questions about this report or need additional financial information, contact the Office of Policy and Communications, NJSCC, P.O. Box 991, Trenton, NJ 08625-0991, or visit our web site at: **www.njscc.com**.

Statement of Net Assets & General Fund Balance Sheet

DECEMBER 31, 2004

	General Fund Total	Adjustments (Note 8)	Statement of Net Assets
Assets			
Cash and cash equivalents	$580,378,399		$580,378,399
Receivables	1,488		1,488
Prepaid expenses	825,727		825,727
Capital assets-net of accumulated depreciation		$ 9,787,885	9,787,885
Total assets	$581,205,614	9,787,885	590,993,499
Liabilities			
Accrued liabilities	$ 849,728	526,840	1,376,568
Accrued liabilities-project expenditures	84,835,398		84,835,398
Deposits	31,390,958		31,390,958
Total liabilities	117,076,084	526,840	117,602,924
Fund Balances and net assets			
Fund balances:			
Reserved for prepaids	825,727	(825,727)	
Reserved for qualified zone academies	38,885,429	(38,885,429)	
Unreserved	424,418,374	(424,418,374)	
Total fund balances	464,129,530	(464,129,530)	
Total liabilities and fund balances	$581,205,614		
Net Assets:			
Invested in capital assets		9,787,885	9,787,885
Restricted for qualified zone academies		38,885,429	38,885,429
Unrestricted		424,717,261	424,717,261
Total net assets		$ 473,390,575	$473,390,575

See accompanying notes.

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

YEAR ENDED DECEMBER 31, 2004

	General Fund Total	Adjustments (Note 8)	Statement of Net Assets
Revenues			
Program revenues:			
Appropriations Received	$1,700,000,000		$1,700,000,000
Bidding fees-plans and specs	230,325		230,325
General revenues:			
Investment earnings	8,098,130		8,098,130
Rental revenue	125,842		125,842
Other revenue-rebates and refunds	406,804		406,804
Total Revenues	1,708,861,101		1,708,861,101
Expenditures/expenses			
Direct personnel and benefits	19,843,669	$ 157,315	20,000,984
Direct general and administrative	5,736,318		5,736,318
Indirect and support services	650,000		650,000
Capital expenditures	844,489	(844,489)	
Program costs	1,563,359		1,563,359
Capital depreciation		1,163,872	1,163,872
Project costs	1,375,043,369		1,375,043,369
Total expenditures/expenses	1,403,681,204	476,698	1,404,157,902
Excess of revenues over expenditures	305,179,897	(476,698)	
Change in net assets			304,703,199
Fund balance/net assets:			
Beginning of year, January 1, 2004	158,949,633	9,737,743	168,687,376
End of year, December 31, 2004	$ 464,129,530	$9,261,045	$ 473,390,575

See accompanying notes.

Notes of Financial Statements

DECEMBER 31, 2004

1. Nature of the Corporation

The New Jersey Schools Construction Corporation ("Corporation") is a related organization of the New Jersey Economic Development Authority ("NJEDA") and a component unit of the State of New Jersey ("State"). The Corporation was created on September 20, 2002, pursuant to Executive Order #24 as a subsidiary of the NJEDA, to assume all the responsibilities and obligations conferred upon the NJEDA pursuant to the Educational Facilities Construction and Financing Act, P.L.2000, c.72 ("EFCFA"), except and excluding the power to incur indebtedness. The Corporation is governed by its own Board of Directors and is fiscally dependent upon the State for its funding.

The EFCFA was adopted by the Legislature 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 requires the State to provide certain educational infrastructure improvements in the poor, urban school districts ("Abbott School Districts"). Pursuant to the EFCFA, the Corporation is responsible for the financing, design and construction of school facilities in the "Abbott Districts", in districts which receive 55% or more State funding for education, and districts that are designated as level II State monitoring by the Department of Education ("DOE"). Additionally, the Corporation is responsible for providing grants to fund the State share of school facilities projects approved by DOE in districts with a district aid percentage of less than 55%. Those districts which receive less than 55% funding may elect to have the Corporation undertake the construction of their school facilities projects.

2. Summary of Significant Accounting Policies

(a) Government-Wide and Fund Financial Statements

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

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are 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) appropriations that are restricted to meeting the operational or capital requirement of a particular program.

Separate financial statements are provided for the Corporation's general fund. Because the Corporation operates a single governmental program, its government-wide and general 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 Corporation's general fund is classified as a governmental fund and its financial statements are reported using the current financial resources measurement focus and the modified 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 Corporation 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 accounting; however, expenditures related to compensated absences are recorded only when payment is due.

(c) Revenue Recognition

The Corporation charges a minimal fee during the bidding process for copies of the design plans and specifications as specified in the Construction Project Advertisements. The Project Management Firms forward these fees on a regular basis to a dedicated lockbox. Rental revenue is received under a month-to-month Lease Occupancy Agreement. Acquisitions of various properties for the construction of school facilities projects generates rental revenue prior to the relocation of the occupants. Fees and rental revenues are recognized when received.

When both restricted and unrestricted resources are available for use, it is the Corporation's policy to use the restricted resources first, then unrestricted resources as they are needed.

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

(e) 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 fund financial statements.

(f) Capital Assets
Capital assets, which include property, plant and equipment are reported in the governmental activity column in the government-wide financial statements. Such assets are recorded at historical cost or estimated historical cost if purchased and constructed. The Corporation's current capital assets are leasehold improvements, equipment, 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 Corporation has leases ranging 60 to 136 months.

(g) Taxes
The Corporation is exempt from all federal and state income taxes and real estate taxes.

3. Cash, Cash Equivalents and Investments

(a) Cash and Cash Equivalents
Operating cash, in the form of Negotiable Order of Withdrawal ("NOW") accounts, is held in the Corporation's name by a commercial banking institution. At December 31, 2004, the carrying amount of the Corporation's deposits was $6,022,885 and the bank balance was $7,160,316. Of the bank balance, $100,000 was insured with Federal Deposit Insurance.

Pursuant to GASB Statement No. 40, "Deposit and Investment Risk Disclosures" ("GASB 40"), the Corporation's 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 Corporation would not be able to recover the value of its deposits or investment). Deposits are considered to be exposed to Custodial Credit Risk if they are: uncollateralized (securities not pledged to the depositor), collateralized with securities held by the pledging financial institution, or collateralized with securities held by the financial institution's trust department or agent but not in the government's name. At December 31, 2004, all of the Corporation's deposits were collateralized by securities held in its name and, accordingly, not exposed to custodial credit risk. The Corporation does not have a policy for custodial credit risk.

(b) Investments
Pursuant to the Enabling Act, the funds of the Corporation may be invested in any direct obligations of, or obligations as to which the principal and interest thereof is guaranteed by, the United States of America or other obligations as the Corporation may approve.

In order to maximize liquidity, the Corporation utilizes the New Jersey Cash Management Fund ("NJCMF") as it sole investment. The NJCMF is administered by the New Jersey Department of Treasury. It 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, 2004 the Corporation's balance in the NJCMF was $574,355,514.

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

SCC

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

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

4. Prepaid Expenses

As of December 31, 2004 prepaid expenses consists of:

Insurance	$ 637,777
Office rent	163,118
Other	24,832
Total prepaid expenses	$ 825,727

5. Deposits

The Corporation has received funds from several local school districts as required by Section 13(B) Local Share Agreements for the funding of the Local Share portion of the 55% or greater district school facility projects. These funds, including allocable investment earnings and other deposits, are reflected as liabilities in the statements.

Harrison Township	$ 9,446,903
Cumberland Township	6,720,959
Fairfield Township	4,809,138
Manchester Twp – High School	3,248,711
Burlington City	3,044,240
Parker School/DOT	865,557
Clark-Johnson HS	751,201
Manchester Twp – Middle School	693,601
Barnegat Township	585,684
Other	1,224,964
Total deposits	$31,390,958

6. Rental of Office Space

The Corporation rents commercial office space that is utilized by its staff at its Trenton Headquarters, Jersey City, Newark, and West Paterson Regional Offices. Total rental expense for the year ended December 31, 2004 amounted to $1,656,584. Future rent expense is anticipated as follows:

2005	$ 1,718,679
2006	1,736,002
2007	1,753,877
2008	1,574,386
2009	1,309,209
2010-2014	4,683,513
	$12,775,666

7. Capital Assets

Capital asset activity for the period ended December 31, 2003 was as follows:

	Beginning Balance	Additions	Retirements	Ending Balance
Leasehold improvements	$ 7,275,413	$ 452,036	$ –	$ 7,727,449
Furniture and fixtures	2,525,351	358,397	–	2,883,748
Equipment	984,278	35,258	–	1,019,536
Construction in progress	1,202	(1,202)	–	–
Capital assets – gross	10,786,244	844,489	–	11,630,733
Less: accumulated depreciation	678,976	1,163,872	–	1,842,848
Capital assets - net	$10,107,268	$ (319,383)	$ –	$ 9,787,885

8. Reconciliation of Government-Wide and Fund Financial Statements

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

"Total fund balances" for the Corporation's general fund ($464,129,530) differs from the "net assets" reported on the statement of net assets ($473,390,575). This difference results from the long-term economic focus of the statement of net assets versus the current financial resources focus of the fund balance sheet. When capital assets (leasehold improvements, equipment, and furniture and fixtures) that are to be used in the Corporation's activities are constructed, the costs of those assets are reported as expenditures in the fund financial statements. However, the statement of net assets includes those capital assets among the assets of the Corporation as a whole. In addition, expenses associated with depreciation and noncurrent compensated absences are not recorded in the fund financial statements.

Fund balances	$ 464,129,530
Capital asset acquisitions, net of related depreciation of $1,842,848	9,787,885
Compensated absences	(526,840)
Net assets	$ 473,390,575

(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 assets as reported in the government-wide statement of activities. Governmental funds report capital outlays as expenditures, however, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. Also some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.

Excess of revenues over expenditures	$305,179,897
Capital asset acquisitions	844,489
Depreciation expense	(1,163,872)
Compensated absences	(157,315)
Changes in net assets	$304,703,199)

9. Agreement with the NJEDA

The Corporation had a Memorandum of Understanding with the NJEDA, whereby the NJEDA provided, for a fee, administrative support services such as Human Resources, Information Technology, and Accounting. The fee for these services totaled $650,000 for the year ended December 2004 and is reported as Indirect and Support Services. This Memorandum of Understanding was terminated on June 30, 2004. All administrative support services are now performed by the Corporation.

10. Commitments and Contingencies

(a) Contractual Obligations

At December 31, 2004, the Corporation has $2,214,526,865 of unaccrued contractual obligations relating to Project Expenditures, of which 46.6% is for Abbott Districts.

(b) Litigation

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

11. Employee Benefits

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

The Corporation's employees participate in the PERS, a cost sharing multiple-employer defined benefit plan administered by the State. The Corporation's contribution is based upon an actuarial computation performed by the PERS. The Corporation's total payroll, which approximates its covered payroll, for the year ended December 31, 2004 was $15,025,891. Pursuant to the Pension Security Legislation Act of 1997, the issuance of bonds permitted the pension benefit obligation to be fully funded. As a result the Corporation has not been assessed for either a normal contribution or for an accrued liability; accordingly, no costs have been recorded for the year ended December 31, 2004. Employees of the Corporation are required to participate in the PERS and contribute between 3% and 5% of their annual compensation.

The general formula for annual retirement benefits is the final average salary divided by 55, times the employee's years of service. Pension benefits fully vest upon reaching 10 years of credited service. Members are eligible for retirement at age 60 with no minimum years of servlce required. 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. The PERS also provides death and disability benefits. All benefits are established by state statute. The State of New Jersey, Department of the Treasury, Division of Pension and Benefits, issues publicly available financial reports that include the financial statements and required supplementary information for the PERS. The financial reports may be obtained by writing to the State of New Jersey, Department of the Treasury, Division of Pension and Benefits, P.O. Box 295, Trenton, New Jersey, 08625-0295.

(b) Post-Retirement Health Care and Insurance Benefits

The Corporation provides health benefit and prescription drug coverage through the State Health Benefits Bureau to its retirees having 25 years or more of service in the PERS or who are approved for disability retirement. Benefits are provided at no cost to the retiree. For a retiree who reaches or is 65 years of age, Medicare must become the primary coverage, with State Health Benefits providing supplemental coverage. Life insurance is provided at no cost to the retiree in an amount equal to 3/16 of their average salary during the final 12 months of active employment. Post-retirement benefits are paid on a pay-as-you-go basis. At December 31, 2004, no current employees were eligible for post-retirement benefits. Total post-retirement benefits expense for 3 retirees for the year ended December 31, 2004 amounted to $44,248.

12. Compensated Absences

In accordance with GASB Statement No. 16, "Accounting for Compensated Absences", the Corporation recorded a liability in the amount $526,840 as of December 31, 2004. The liability is the value of employee accrued vacation time as of the balance sheet date and vested sick leave benefits that are probable of payment to employees upon retirement. The vested sick leave benefit to retirees for unused accumulated sick leave is calculated at the lesser of 1/2 the value of earned time or $15,000. The payment of sick leave benefits, prior to retirement, is dependent on the occurrence of sickness as defined by the Corporation's policy; therefore, such unvested benefits are not accrued.

13. Net Assets

The Corporation's net assets are categorized as follows:

Invested in capital assets
Restricted
Unrestricted

Invested in capital assets includes leasehold improvements, furniture and fixtures, and equipment, net of accumulated depreciation used in the Corporation's operations. Restricted assets includes net assets that have been restricted in use for construction projects which qualifies under Section 1397E(e)(2) of the Internal Revenue Code as qualified zone academies. Unrestricted assets include all net assets not included above.

The changes during 2003 and 2004 in net assets are as follows:

	Invested in Capital Assets	Restricted	Unrestricted	Totals
Net assets, December 31, 2002	$ 3,089,057	$32,904,351	$ 638,178,060	$ 674,171,468
Loss before appropriations and transfers	(591,550)		(16,340,559)	(16,932,109)
Capital assets acquired	7,609,761		(7,609,761)	–
State appropriations		7,929,000	600,575,400	608,504,400
Project expenditures		(1,947,922)	(1,095,108,461)	(1,097,056,383)
Net assets, December 31, 2003	10,107,268	38,885,429	119,694,679	168,687,376
Loss before appropriations and transfers	(1,163,872)		(19,089,560)	(20,253,432)
Capital assets acquired	844,489		(844,489)	
State appropriations			1,700,000,000	1,700,000,000
Project expenditures			(1,375,043,369)	(1,375,043,369)
Net assets, December 31, 2004	$9,787,885	$38,885,429	$ 424,717,261	$ 473,390,575