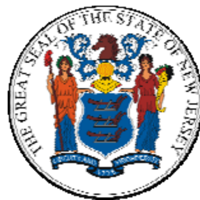
NEW JERSEY SCHOOLS DEVELOPMENT AUTHORITY

(a component unit of the State of New Jersey)



FINANCIAL STATEMENTS AND REQUIRED SUPPLEMENTARY INFORMATION

For the Year Ended December 31, 2010

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, 2010

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Report of Independent Auditors

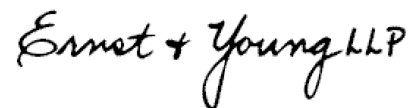
Members of the Authority
New Jersey Schools Development Authority

We have audited the accompanying basic financial statements of the New Jersey Schools Development Authority (the Authority), a component unit of the State of New Jersey, as of December 31, 2010 and for the year then ended as listed in the table of contents. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our 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 Authority's internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the New Jersey Schools Development Authority as of December 31, 2010, and the changes in its financial position for the year then ended in conformity with U.S. generally accepted accounting principles.

Management's discussion and analysis and the schedule of funding progress on pages 2 to 7 and page 28 are not a required part of the basic financial statements but are supplementary information required by the Governmental 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.



February 28, 2011

A member firm of Ernst & Young Global Limited

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

Management's Discussion and Analysis

For the Year ended December 31, 2010

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, 2010. This management discussion and analysis should be read in conjunction with the Authority's financial statements and accompanying notes.

Background

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 School Construction Program, and transferred to the Authority. Of this amount, $8.9 billion is allocated to 31 poor, 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. Administrative and general expenses, considered to be eligible project costs under the EFCFA, but not identifiable to a specific project, are also paid from EFCFA funding.

Through December 31, 2010, the Authority has received $8.645 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 65.1% of the current program funding, as follows:

	Bonding Cap	Program Funding[1]	Disbursements	% Paid
SDA Districts	$8,900,000,000	$9,005,660,394	$5,768,831,989	64.1%
Regular Operating Districts	3,450,000,000	3,492,513,593	2,372,427,467	67.9%
Vocational Schools	150,000,000	151,698,752	94,759,426	62.5%
Totals	$12,500,000,000	$12,649,872,739	$8,236,018,882	65.1%

[1] Program funding includes the amounts authorized under the respective bonding caps in addition to the $150 million of other income and miscellaneous revenue earned through December 31, 2010.

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 2010, the Authority completed nine school facilities projects across New Jersey, including five in the SDA Districts and four in Regular Operating Districts. The nine completed projects consist of four new schools and five extensive additions, renovations and/or rehabilitation projects. In all, nearly 4,200 students benefited from these school facilities projects.

From inception through December 31, 2010, the School Construction Program has completed 624 projects in the SDA Districts. The completed projects consist of: 61 new schools, 42 extensive additions, renovations and/or rehabilitations; 26 rehabilitation projects; 354 health and safety projects; and 141 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 2,616 school projects throughout the 21 counties of New Jersey.

As of December 31, 2010, the SDA has six active construction projects in the SDA Districts and an additional two projects ongoing in Regular Operating Districts. In addition, pre-construction activity has commenced on many other projects. Furthermore, an additional nine emergent needs conditions have been identified as requiring immediate attention in the SDA Districts. The SDA is managing five of the emergent projects and the balance of the projects have been delegated to the school districts. Emergent needs projects consist of such things as roof repairs or replacements; deteriorating façades; water infiltration; heating and cooling system issues; and plumbing, electrical, mechanical and security systems. The Authority maintains a program reserve to address such emergent conditions and other unforeseen events.

In 2008, the SDA and the New Jersey Department of Education ("DOE") identified projects to be funded based on critical need and programmatic policy considerations. However, since 2008, requests have been received from numerous SDA Districts for changes to their projects. In addition, in June 2010, the Office of the New Jersey State Auditor issued a report recommending that the projects in the 2008 Capital Plan be reviewed to ensure that the highest priority projects statewide advance. As a result, the Authority began a comprehensive review of all projects in the SDA's portfolio not yet in construction to ensure that the most critical projects proceed statewide in a fiscally responsible way. This review, done in collaboration with the DOE, includes an evaluation of the policies that were used to develop the 2008 Capital Plan. The Authority currently anticipates releasing the revised Capital Plan in the first quarter of 2011.

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				
	2010	**2009**	**2008**	**2007**	**2006**
EFCFA funding received from State	$499,200	$775,000	$450,000	$800,000	$600,000
Investment earnings, net	1,299	2,345	12,060	25,697	39,702
Administrative and general expenses	44,332	44,707	41,021	35,750	31,717
Capital expenditures	52	234	526	1,027	349
School facilities project costs	274,584	509,462	922,824	925,665	1,061,962
Employee count at end of year	304	332	298	272	241

2010 Financial Highlights

- At year end net assets total $369.7 million
- Cash and cash equivalents are $571.6 million
- Revenues are $500.4 million, $499.2 million of which is from EFCFA funding received from the State (or 99.8 %)
- Expenses are $320.2 million, $274.6 million of which is for school facilities project costs (or 85.7 %)
- Excess of general fund revenues over general fund expenditures is $277.9 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 assets presents information on all of the Authority'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 Authority is improving or deteriorating.

The statement of activities presents information showing how the Authority'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 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 financial statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison.

Financial Analysis of the Authority

Net Assets - The Authority's net assets increased to $369.7 million at year-end, primarily due to 2010 State funding under the EFCFA ($499.2 million) exceeding 2010 expenditures for school facilities projects ($274.6 million). The following table summarizes the Authority's financial position at December 31, 2010 and 2009.

	$ In thousands			
	2010	2009	$ Increase/ (Decrease)	% Increase/ (Decrease)
Current assets	$573,233	$413,171	$160,062	38.7%
Capital assets-net	2,475	3,731	(1,256)	(33.7)%
Total assets	$575,708	$416,902	$158,806	38.1%
Current liabilities	$99,733	$218,131	(118,398)	(54.3)%
Non-current liabilities	106,271	9,273	96,998	1,046.0%
Total liabilities	206,004	227,404	(21,400)	(9.4)%
Net assets:				
Invested in capital assets	2,475	3,731	(1,256)	(33.7)%
Restricted for schools construction:				
Build America Bond program	345,003	-	345,003	N/A
Special revenue fund	22,226	185,767	(163,541)	(88.0)%
Total net assets	369,704	189,498	180,206	95.1%
Total liabilities and net assets	$575,708	$416,902	$158,806	38.1%

Operating Activities – In May 2010, the Authority received $450 million of taxable Build America Bond proceeds issued by the EDA pursuant to the American Recovery and Reinvestment Act ("ARRA"). The Build America Bond program was created under Section 1531 of Title I of Division B of ARRA, and signed into law on February 17, 2009 by President Barrack Obama. The purpose of the program is to help stimulate the economic recovery by offering low cost debt borrowing for capital projects. The Authority also received $49.2 million of "regular" tax-exempt bond proceeds in May 2010.

During the bidding process, the Authority charges a minimal fee ranging from $50 up to $500 for copies of design plans and specifications as specified in the construction project advertisements.

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 assets for the years ended December 31, 2010 and 2009.

	$ In thousands			
	2010	2009	$ Increase/ (Decrease)	% Increase/ (Decrease)
Revenues				
EFCFA funding received from State	$499,200	$775,000	$(275,800)	(35.6)%
Bidding fees-plans and specs	1	52	(51)	(98.6)%
Investment earnings, net	1,299	2,345	(1,046)	(44.6)%
Rental property (loss)/income	(73)	202	(275)	(136.2)%
Other revenue	3	7	(4)	(55.7)%
Total revenues	500,430	777,606	(277,176)	(35.6)%
Expenses				
Administrative and general expenses	$44,332	$44,707	$(375)	(0.8)%
Depreciation	1,308	1,501	(193)	(12.8)%
School facilities project costs	274,584	509,462	(234,878)	(46.1)%
Total expenses	320,224	555,670	(235,446)	(42.4)%
Change in net assets	180,206	221,936	(41,730)	(18.8)%
Beginning net assets/(deficit)	189,498	(32,438)	221,936	684.2%
Ending net assets	$369,704	$189,498	180,206	95.1%

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 Assets and General Fund Balance Sheet

December 31, 2010

	General Fund Total	**Adjustments (Note 8)**	**Statement of Net Assets**
Assets			
Cash and cash equivalents	$571,627,095		$571,627,095
Receivables	166,483	$558,297	724,780
Prepaid expenses	881,074		881,074
Capital assets-net of accumulated depreciation of $11,314,729		2,475,270	2,475,270
Total assets	572,674,652	3,033,567	575,708,219
Liabilities			
Accrued school facilities project costs	85,580,653	97,674,417	183,255,070
Other post-employment benefits obligation		7,665,153	7,665,153
Other accrued liabilities	1,508,522	931,353	2,439,875
Deposits	12,644,238		12,644,238
Total liabilities	99,733,413	106,270,923	206,004,336
Fund Balance/Net Assets			
Invested in capital assets		2,475,270	2,475,270
Nonspendable:			
Prepaid expenses	881,074	(881,074)	
Restricted for schools construction:			
Build America Bond program	345,002,960		345,002,960
Special revenue fund	127,057,205	(104,831,552)	22,225,653
Total fund balance/net assets	472,941,239	(103,237,356)	369,703,883
Total liabilities and fund balance/net assets	$572,674,652	$3,033,567	$575,708,219

See accompanying notes.

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

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

For the Year Ended December 31, 2010

	General Fund Total	**Adjustments (Note 8)**	**Statement of Activities**
Revenues			
School Construction Program:			
EFCFA funding received from State	$499,200,000		$499,200,000
Bidding fees-plans and specs	725		725
General:			
Investment earnings	1,299,176		1,299,176
Rebate arbitrage	(4,193,776)	$4,193,776	-
Rental property loss	(72,964)		(72,964)
Other revenue	3,274		3,274
Total revenues	496,236,435	4,193,776	500,430,211
Expenditures/Expenses			
Administrative and General:			
Salaries and benefits	32,325,060	3,517,349	35,842,409
Other administrative and general	8,490,126		8,490,126
Capital expenditures	52,379	(52,379)	
Capital depreciation		1,307,990	1,307,990
School facilities project costs	177,467,762	97,116,120	274,583,882
Total expenditures/expenses	218,335,327	101,889,080	320,224,407
Excess of revenues over expenditures	277,901,108	(97,695,304)	
Change in net assets			180,205,804
Fund Balance/Net Assets			
Beginning of year, January 1, 2009	195,040,131	(5,542,052)	189,498,079
End of year, December 31, 2010	$472,941,239	$(103,237,356)	$369,703,883

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 School Construction Program, and transferred to the Authority. Of this amount, $8.9 billion is allocated to 31 poor, 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 assets 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

The Authority charges a minimal fee during the bidding process for copies of the design plans and specifications as specified in the construction project advertisements. Rental revenue 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. Fees and rental revenues are generally recognized when received.

(d) 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, as applicable. In October 2010, the Authority paid the EDA the cumulative rebate arbitrage liability of $4,193,776 related to 2005 Series P-Q. The EDA, in turn, made a payment to the Internal Revenue Service to relieve this liability of the State. As of December 31, 2010, no rebate arbitrage liabilities exist.

(e) 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.

(f) 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.

(g) 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, 2010, 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.

(h) Taxes

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

(i) 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.

(j) Recent Accounting Pronouncements

In March 2009, the Governmental Accounting Standards Board ("GASB") issued Statement No. 54, "*Fund Balance Reporting and Governmental Fund Type Definitions.*" GASB Statement No. 54 establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds. GASB Statement No. 54 is effective for periods beginning after June 15, 2010. The Authority's early implementation of this statement, effective for the year ending December 31, 2009, created new categories for segregating the Authority's fund balance. The statement also requires disclosure in the financial statements of any minimum fund balance policies and clarifies the definition of special revenue funds.

3. Cash, Cash Equivalents and Investments

(a) Cash Flows

Overall cash and cash equivalents increased during the year by $161.5 million to $571.6 million as follows:

Cash and cash equivalents, beginning of year	$410,084,560
Changes in cash:	
EFCFA funding received from State	499,200,000
Investment and interest income	1,443,912
Rebate arbitrage	(4,193,776)
Miscellaneous revenue	171,035
School facilities project costs	(282,888,651)
Administrative and general expenses	(41,612,847)
Capital expenditures	(82,769)
Deposits	(10,494,369)
Cash and cash equivalents, end of year	$571,627,095

(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, 2010, the

carrying amount of operating cash is $1,449,280 and the bank balance is $2,291,405. 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, 2010, 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, 2010, cash and cash equivalents include deposits of $12,503,580 for district local share funding requirements (see Note 5) and $11,121 for bond refunding expenses.

(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, 2010, the Authority's investments in the NJCMF total $570,177,615.

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, 2010, the Authority's prepaid expenses are as follows:

Insurance	$641,716
Office rents	171,547
MIS service contracts	45,360
Other	22,451
Total prepaid expenses	$881,074

5. Local Share 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, 2010, local share deposits held in SDA bank accounts, inclusive of interest earned but not refunded to the district, are as follows:

Local School District	
City of Newark	$7,230,053
Egg Harbor City	1,879,086
Greater Egg Harbor	1,251,057
Buena Borough	1,056,925
Other	1,086,459
Total local share deposits	$12,503,580

6. Rental of Office Space

The Authority rents commercial office space for its headquarters facility in Trenton, as well as rents other office space in Trenton and Newark. The remaining terms of these leases range from approximately two years to over three years. Total rental expense for the year ended December 31, 2010 amounted to $2,086,802.

Future rent commitments under operating leases are as follows:

2011	$1,768,635
2012	1,787,312
2013	1,585,479
2014	127,617
Total future rent expense	$5,269,043

7. Capital Assets

Capital asset activity for the year ended December 31, 2010 is as follows:

	Beginning Balance	Additions	Retirements	Ending Balance
Leasehold improvements	$7,845,965	$70,773	$ -	$7,916,738
Office furniture and equipment	5,094,937		-	5,094,937
Computer software	568,993	-	-	568,993
Automobiles	197,335	11,996	-	209,331
Construction in progress	30,390	(30,390)	-	-
Capital assets-gross	13,737,620	52,379	-	13,789,999
Less: accumulated depreciation	10,006,739	1,307,990	-	11,314,729
Capital assets-net	$3,730,881	$(1,255,611)	$ -	$2,475,270

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 Authority's general fund ($472,941,239) differs from the "net assets" reported on the statement of net assets ($369,703,883). 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 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 assets includes those capital assets among the assets of the Authority as a whole. In addition, expenses associated with depreciation, rebate arbitrage, 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.

Fund balances	$472,941,239
Capital assets, net of related depreciation of $11,314,729	2,475,270
Accrued school facilities project costs, net of related receivable	(97,116,120)
Accrued other post-employment benefits	(7,665,153)
Accrued compensated absences	(931,353)
Net assets	$369,703,883

(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 expenditures over revenues 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	$277,901,108
Rebate arbitrage	4,193,776
School facilities project costs	(97,116,120)
Other post-employment benefits expense	(3,505,113)
Compensated absences expense	(12,236)
Capital asset acquisitions	52,379
Depreciation expense	(1,307,990)
Changes in net assets	$180,205,804

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 assets a pollution remediation obligation (PRO) liability (net of environmental cost recoveries not yet realized) in the amount of $36,203,483 as of December 31, 2010. Additionally, as of the same date the Authority has recorded in the statement of net assets a receivable in the amount of $558,297 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 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 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 12-31-2010**
Asbestos and lead based paint removal	$16,884,631	$12,786,074	$4,098,557
Pre-cleanup activities	5,351,581	4,678,290	673,291
Site remediation work	72,340,199	39,913,898	32,426,301
Post-remediation monitoring	1,097,225	293,064	804,161
Sub-total	95,673,636	57,671,326	38,002,310
Less: Estimated environmental cost recoveries (ECR) not yet realized	1,798,827	-	1,798,827
Liability for pollution remediation obligations	$93,874,809	$57,671,326	$36,203.483
Receivable for realized ECR	$558,297	$ -	$558,297

The following table summarizes the changes in the Authority's PRO liability during the year ended December 31, 2010:

PRO at 12-31-2009	**PRO Decreases, Net**	**PRO Payments**	**ECR Not Yet Realized**	**PRO at 12-31-2010**
$42,526,092	$(929,341)	$(5,393,268)	$ -	$36,203,483

10. Commitments and Contingencies

(a) Contractual Commitments

At December 31, 2010, the Authority has approximately $630 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, 2010, the Authority's potential loss from these claims has been estimated at approximately $61.5 million, which represents an increase of $20.8 million from the prior year end accrual. Accordingly, as of

December 31, 2010, an accrued liability of $61.5 million is reflected in the statement of net assets and, for the year then ended, $20.8 million is charged to 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, 2010, 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 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 and loss control services continue for enrolled construction projects. OCIP I premiums are adjustable based upon audited direct labor payroll, currently estimated at $326 million.

In 2009, the Authority purchased a new five-year OCIP (OCIP II). OCIP II provides coverage for projects commencing construction between March 31, 2009 and March 31, 2012, and an additional two years is included for the completion of enrolled projects. Builders risk coverage for OCIP II has a three-year term commencing December 31, 2009. Similar to OCIP I, policy limits for OCIP II 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 provides 10 years of completed operations coverage for claims that arise after the

completion of construction and loss control services to reduce insurance claims and losses. Premiums for OCIP II are adjustable based upon actual construction values of insured projects, estimated at $2 billion.

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 balances.

Concurrent with the Authority's purchase of OCIP II, the insurer agreed to transfer the remaining 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; and the balance of funds remaining from the DRF, totaling approximately $9.9 million, 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, 2010, the Authority has incurred general liability and workers' compensation claims totaling approximately 11.3 million, and $466 thousand respectively, under OCIP I and OCIP II. 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 all obligations have been paid in full. A reasonable estimate of the refund is not yet known nor has a refund been agreed to by the insurer since many covered school facilities projects are in various stages of completion and therefore the Authority's ultimate obligation cannot be immediately determined.

On October 1, 2009, the Authority purchased a 5-year, $25 million limited 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. In addition, the policy provides an Extended Reporting Period (ERP) of up to 10 years to report claims. The ERP commences on the earlier of project completion or the policy expiration date of October 1, 2014.

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. Employees currently contribute 5.5% of their annual compensation to the Plan. 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; and Tier 4 includes those members enrolled in PERS after May 21, 2010. 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, 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, 2010, 2009 and 2008, which approximates its covered payroll, was $23,961,013, $23,683,663, and $21,291,915, respectively.

In 2010, 2009 and 2008, the Authority's pension contributions to the PERS totaled $1,793,455, $1,400,824, and $1,006,609 respectively, which amounts were charged to salaries and benefits expense. The Authority's 2011 pension contribution, due on April 1, 2011, is expected to be $2,545,016.

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 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. 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. Lastly, 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.

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 (Tier 2, 3 and members), 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, 2010, the Authority has nine employees enrolled in the DCRP and has made matching contributions totaling $4,853. Employer matching contributions relating to 2009 and 2008 totaled $5,819.

(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 2010 and 2009 and the related information for the plan are as follows:

	2010	2009
Annual required contribution	$2,747,049	$1,354,100
Adjustment to annual required contribution *	847,233	12,100
Annual OPEB cost	3,594,282	1,366,200
Contributions made	(89,169)	(64,664)
Increase in net OPEB obligation	3,505,113	1,301,536
Net OPEB obligation – beginning of year	4,160,040	2,858,504
Net OPEB obligation – end of year	$7,665,153	$4,160,040

* 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 2010, 2009, and 2008 is as follows:

Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
12/31/2010	$3,594,282	2.5%	$7,665,153
12/31/2009	$1,366,200	4.7%	$4,160,040
12/31/2008	$1,366,200	5.5%	$2,858,504

As of the most recent valuation date (January 1, 2010), the Authority's actuarial accrued liability was $18,875,965, all of which was unfunded as of December 31, 2010. The Authority is recognizing this liability over a 30-year period using level dollar amortization, which is representative of amortizing on a level percentage of payrolls on an open basis. The covered payroll (annual payroll of active employees covered by the plan) as of the valuation date was $24,657,700 and the ratio of the unfunded actuarial accrued liability to the covered payroll was 76.6%. Additionally, as of the valuation date 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 $89,169 and $64,664 respectively, in 2010 and 2009.

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 January 1, 2010 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 11% for 2011, which is assumed to decline 1% per year to an ultimate trend assumption of 6% for the year 2016 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 State Health Benefits Program has opted to receive the RDS.

12. Compensated Absences

In accordance with GASB Statement No. 16, "*Accounting for Compensated Absences,*" the Authority recorded a liability in the amount $931,353 as of December 31, 2010 in the statement of net assets. 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 2010, the following changes in long-term liabilities are reflected in the statement of net assets:

	Beginning Balance	Additions	Deductions	Ending Balance
Accrued school facilities project costs	$ -	$97,674,417	$ -	$97,674,417
Other post-employment benefits obligation	4,160,040	3,594,282	(89,169)	7,665,153
Rebate arbitrage	4,193,775	-	(4,193,775)	-
Compensated absences	919,118	38,683	(26,448)	931,353
Total long-term liabilities	$9,272,933	$101,307,382	$(4,309,392)	$106,270,923

For further information, see Notes 2(d), 11(d) and 12.

14. Net Assets

The Authority's net assets (or deficit) are categorized as either invested in capital assets, or restricted for schools construction. At December 31, 2010, the Authority's net assets are $369.7 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 and special revenue fund for all other sources. Net assets arising from BAB proceeds are more restricted than those in the special revenue fund. As a result, BAB proceeds may not be used to fund projects in the Authority's grant program since the SDA does not hold any of the contracts for those projects. 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 assets 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 2009 and 2010 in net assets are as follows:

	Invested in Capital Assets	Restricted for Schools Construction Build America Bond Program	Restricted for Schools Construction Special Revenue Fund	Totals
Net deficit, December 31, 2008	$4,997,690	-	$(37,436,092)	$(32,438,402)
(Loss)/Excess before receipt of EFCFA funding and transfers	(1,500,778)	-	(42,101,170)	(43,601,948)
Capital assets acquired	233,969	-	(233,969)	-
EFCFA funding received from State	-	-	775,000,000	775,000,000
School facilities project costs	-		(509,461,571)	(509,461,571)
Net assets, December 31, 2009	3,730,881	-	185,767,198	189,498,079
(Loss)/Excess before receipt of EFCFA funding and transfers	(1,307,990)	$(10,548,957)	(32,553,367)	(44,410,314)
Capital assets acquired	52,379	-	(52,379)	-
EFCFA funding received from State	-	450,000,000	49,200,000	499,200,000
School facilities project costs	-	(94,448,083)	(180,135,799)	(274,583,882)
Net assets, December 31, 2010	$2,475,270	$345,002,960	$22,225,653	$369,703,883

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)
1-1-2010	$0	$18,876	$18,876	0%	$24,658	77%
1-1-2008	$0	$8,976	$8,976	0%	$20,275	44%
1-1-2007	$0	$8,922	$8,922	0%	$17,271	52%