
**New Jersey Schools
Development Authority**

**Annual Report
2017**



About the Annual Report

The 2017 Annual Report on the operations of the New Jersey Schools Development Authority (SDA) is presented pursuant to the provisions of Executive Order No. 37 (Corzine), issued on September 26, 2006. The report provides a comprehensive overview of the SDA's operations, highlighting significant actions taken in 2017.

The SDA operates under the Educational Facilities Construction and Financing Act (EFCFA) of 2000 and subsequent August 2007 legislative amendments.

For more information, please refer to the SDA website at www.njsda.gov or the most recent Biannual Report on the School Construction Program (for the period April 1 through September 30, 2017) at https://www.njsda.gov/NJSDA/Content/public/Biannual_Report/2017_2.PDF.

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

SDA Executive Staff

Charles B. McKenna
Chief Executive Officer

Albert J. Alvarez
Chief of Staff

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

Donald R. Guarriello
Vice President and Chief Financial Officer

Jane F. Kelly
Vice President – Corporate Governance and Operations

Manuel M. Da Silva
Vice President – Construction Operations



2017



SDA: YEAR IN REVIEW

5



New or Renovated schools opened

3,100

New seats provided for children throughout New Jersey

More than \$230 million invested by the State of New Jersey in schools opened this year alone

\$260 Million

value of contracts awarded



15

Emergent Projects Approved

5 Schools completed steel erection



51



ROD Grants Executed

2 Schools broke ground



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CEO MESSAGE

We at the Schools Development Authority have good things to report for 2017. We opened new or refurbished schools in Bridgeton, Elizabeth, Jersey City, Gloucester and West New York. These projects represent a collective \$230.4 million in expenditures and in addition to providing state-of-the-art learning facilities for our children, provide quality jobs for our construction professionals making the work we do a total win-win for the State. To put this in perspective, over the last four years, the SDA has delivered 17 new or refurbished buildings representing 500,000 square feet of space impacting more than 4,200 students. The state investment in these projects was \$927 million. Given the benefits, it was money well-spent.

We are constructing and planning for schools across the spectrum of our 31 districts. Work continues in Trenton on the new high school which will be completed in 2019. Projects are progressing in Garfield, Newark, Irvington, New Brunswick, Passaic, Perth Amboy, Trenton and Vineland. In Camden, demolition of the existing high school is ongoing and will be replaced with a new, state-of-the-art facility to serve the educational needs of that City. Also in 2017, work progressed on 21 emergent projects (with an estimated cost of \$16 million) to address health and safety issues.

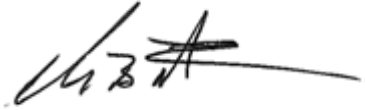
SDA saw great strides in the Regular Operating Districts as well. In 2017, the SDA executed 51 grants to 17 school districts so that they could address health and safety issues and other critical needs. The state share for these grants was \$45 million. When leveraged with the local share, the ROD program accounted for approximately \$68 million in statewide improvements.

SDA put a new public face on the organization with an overhaul of the website. While being more user-friendly, the website provides important information about the progress of projects as well as critical information for the contracting community on upcoming bid opportunities.

The construction business is one that can be dangerous due to uneven sites, large equipment maneuvering in small spaces, workers high up on buildings, and construction work often performed in harsh conditions. All of these factors can lead to injuries if not properly managed. SDA is proud of the safety record of the people who work on our projects. That is due to the care that we and our contractors take in ensuring that safety regulations are delineated clearly, delivered regularly and policed tenaciously.

SDA is proud of its record of contracting with small business owners as well as our minority outreach and training programs. The SDA consistently achieves far greater than the mandated 25% Small Business Enterprise (SBE) participation, including 40% participation in 2017. In addition, minority workers comprised approximately 28% of the work hours on our construction projects. The SDA operates an excellent Small, Minority, Woman Business Enterprise (SWMBE) training program that provides training not only in doing business with the state but on growing and maintaining a business.

Finally, I would be remiss if I did not thank the men and women of the SDA who every day come to work and further the mission of the organization. New and refurbished schools can be the difference in education for many children in the districts we serve. SDA employees understand that and the mission drives them to excellence each day. It is a pleasure to serve with them.

A handwritten signature in black ink, appearing to read 'C McKenna', with a long horizontal flourish extending to the right.

Charles McKenna

PROJECT ACCOMPLISHMENTS

School Openings

In 2017, the SDA continued to deliver quality educational facilities for New Jersey students with the opening of five new or renovated schools. These new and renovated facilities provide more than 3,100 additional seats for students throughout New Jersey and positively impact nearly 4,200 students overall. These schools have an operational impact as well, significantly reducing the overcrowding experienced by their districts.

The five completed school projects represent a state investment of more than \$230 million and include Bridgeton Quarter Mile Lane Elementary School, Elizabeth Halloran Elementary School, Gloucester City Middle School, Jersey City Patricia M. Noonan Elementary School, and the West New York Harry L. Bain Elementary School.

In Jersey City, the sisters of Patricia M. Noonan spoke to students about the impact Ms. Noonan had on the education of the youth in the city. Together with the students and state and local officials, they cut the ribbon and ceremoniously opened the 123,000 square-foot school designed to educate approximately 850 students in grades prekindergarten through five.



In Gloucester City, students were able to leave behind the antiquated Mary Costello E.S. as they began the 2017-2018 school year in the new Gloucester City Middle School. SDA completed this \$65.3 million facility in early 2017. In September, the 122,000 square-foot facility opened to more than 750 students in grades four to eight.



In West New York, students and teachers were in awe as they entered the rehabilitated Harry L. Bain Elementary School. At a reopening ceremony in September, students were welcomed back to their community school following the completion of significant exterior and interior rehabilitation work that was completed on budget and as scheduled.

Students in Elizabeth, gained a new 140,000 square-foot, four-story school in September with the opening of the William F. Halloran Elementary School. A \$55.3 million investment will benefit students in grades two to six.

Finally, in Bridgeton, the renovations to the Quarter Mile Lane Elementary School were completed in 2017, following the completion of the addition in 2016. The \$39 million project increased student capacity from approximately 250 students to 730.

Each of the newly opened schools/addition were designed incorporating the guidelines developed by the United States Green Building Council (USGBC) known as the "Leadership in Energy & Environmental Design ("LEED®") program in order to achieve maximum energy efficiency and environmental sustainability in the design of schools.

NJSDA 2017 School Openings				
School District	School Name	Project Type	Delivery Type	Cost
Bridgeton	Quarter Mile Lane E.S.	Addition/Renovation	Design-Build	\$ 39M
Elizabeth	Halloran E.S.	New School	Design- Build	\$ 55.3M
Gloucester City	Gloucester City Middle School	New School	Design-Build	\$ 65.3M
Jersey City	Patricia M. Noonan E.S.	New School	Design- Build	\$ 54M
West New York	Harry L. Bain E.S.	Renovation	Design-Bid-Build	\$ 16.8M
Total Project Costs for 2017 Openings				\$230.4M

The SDA continues to use the design-build approach with the kit of parts as the design foundation for many projects. The three new schools and addition project all used design-build. Design-Build project delivery has yielded significant success, supporting shortened schedules through advancement of early-stage construction work during design completion. In certain projects, like the Harry L. Bain E.S., design-bid-build remains the preferred option. As in prior years, both the design-build and design-bid-build approaches have proven successful with the projects opened this year, importantly providing predictability in terms of schedule and cost. We expect to employ both delivery methods going forward.

With the opening of these five new or renovated schools, SDA delivered nearly 500,000 square-feet of new construction in 2017 alone. This represents an investment of more than \$230 million and exemplifies the State’s commitment to providing New Jersey students with the facilities they need.

Breaking Ground

Two new schools broke ground in 2017, marking the start of construction for projects that will provide students with inviting learning environments that will help to alleviate the overcrowding experienced by

the districts. The Seaman Avenue School in Perth Amboy will be a new 128,000-square-foot facility designed to educate approximately 800 students in grades kindergarten through five.

The new Madison Avenue Elementary School in Irvington will replace the former school that was demolished. The SDA is building a 73,000 square-foot, 3-story school facility designed to educate approximately 500 students in grades prekindergarten through five. SDA will construct both projects utilizing a design-build approach.



Capital Construction

In 2017, the SDA held beam-signing ceremonies for five projects, marking a significant milestone in the construction of each project.



At ceremonies in New Brunswick, Newark, Passaic City, Trenton and Vineland, students and local officials joined together to sign their names to a steel beam that would become a lasting part of each of their new schools.

With steel erection complete, the surrounding communities can envision their new school facilities and the educational opportunities that they will afford to their students.

With the start of construction for projects in Irvington and Perth Amboy, the SDA ended 2017 with eight projects in construction.

Representing nearly \$500 million in total estimated project costs, the State continues to invest heavily in the educational facilities students need to receive a quality education and support lifelong success. These eight school facility projects will impact 6,661 students, addressing overcrowding and replacing deficient learning environments.

In addition to projects that are in construction, significant work is ongoing in connection with many others. Early site preparation activities commenced for the Paterson Union Avenue Middle School project and the Camden High School project. The design phase of a design-build contract is in progress for the Dayton Avenue Educational Complex in Passaic City, the Millville Senior High School, and the

Pemberton Denbo Elementary School. Design services are ongoing for the Cleveland Elementary School and High School in Orange, and the Port Monmouth Road School in Keansburg.

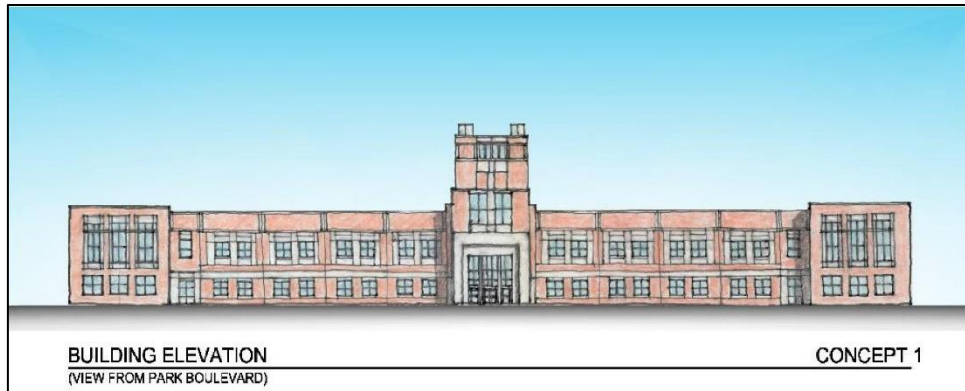
SDA Capital Projects in Construction (As of December 31, 2017)				
District	School	Project Type	Max Student Capacity	Total Project Costs
Garfield	James Madison E.S.	New Construction	305	\$29.7 Million
Irvington	Madison Avenue E.S.	New Construction	504	\$35.4 Million
New Brunswick	Paul Robeson Community Theme School for the Arts	Addition/Renovation	893	\$47 Million
Newark	South Street E.S.	New Construction	657	\$69.9 Million
Passaic City	E.S. at Leonard Place	New Construction	698	\$55.9 Million
Perth Amboy	Seaman Avenue E.S.	New Construction	804	\$56.8 Million
Trenton	Trenton Central H.S.	New Construction	2,176	\$155.4 Million
Vineland	Lincoln Road M.S.	New Construction	624	\$49.8 Million
Total (8 Projects)			6,661	\$499.9 Million

Spotlight on Camden

Throughout 2017, SDA made significant progress toward the construction of a new Camden High School. Once complete, the new 242,000 square-foot facility will educate approximately 1,200 students in grades nine to twelve.

SDA issued a notice-to-proceed (NTP) with demolition services to USA Environmental Management, Inc. on September 26, 2017, and abatement activities commenced soon thereafter. The Authority completed abatement activities for the annex and circular buildings in December 2017 and demolition activities began. Abatement activities at the main building (built in 1916) were ongoing through the end of the year.

More than 260 Camden students, staff, alumni, and community members helped to choose the design concept for the new Camden High School, SDA presented three design options and, following consideration, the district selected a design that honors the previous school's Castle on the Hill.



Emergent Projects

At the end of 2017, the SDA was managing 21 emergent projects. These projects will address emergent conditions in SDA District facilities in order to alleviate conditions that, if not remedied, could affect the health and/or safety of students or staff. These projects have a preliminary cost estimate of nearly \$16 million. The status of 21 SDA-managed projects at year-end was:

- two in construction
- four in the design phase
- fifteen in scope development

Among the 21 active emergent projects, 15 were approved by the New Jersey Department of Education in June 2017. All of the projects involve the repair or replacement of existing systems that are failing or are anticipated to fail and can no longer be addressed through general maintenance.

Emergent Projects Approved in 2017		
District	School Name	Project Scope
Bridgeton	Bridgeton High School	Building Envelope - Roof and Masonry
Camden	Forest Hill Elementary School	HVAC
Newark	Malcolm X Shabazz High School	Structural
Newark	Technology High School	Structural
Newark	Luis Munoz Marin School	HVAC
Newark	Cleveland Street School	Structural
Newark	Dr. E. Alma Flagg School	Building Envelope - Roof and Exterior Doors
Newark	Harriet Tubman School	Water Infiltration
Newark	Hawkins Street School	Structural
Newark	Ivy Hill School	Structural
Newark	Lafayette Street School	Building Envelope - Roof and Exterior Doors
Newark	Roberto Clemente School	Structural
Newark	Wilson Avenue School	Structural
Plainfield	Plainfield High School	Structural
Plainfield	Plainfield High School	Structural - Exterior Stairs

In addition, two SDA Districts were managing ten emergent projects previously delegated to the districts. Four of the delegated projects are in the construction phase and six are in the design phase.

Construction Opportunities Continue

During 2017, the SDA issued advertisements to contract for work related to 12 capital and emergent projects resulting in awards of more than \$195 million. This included a large addition/renovation project at the Millville Senior High School and a project for the new George Washington Carver Elementary School in East Orange. In addition, at its December 2017 meeting, the SDA Board approved a design-build award for \$163 million to deliver the Dayton Avenue Educational Campus project in Passaic City, a campus consisting of four facilities in a unified structure that will educate 2,760 students in grades prekindergarten to 8.

All of the projects at the SDA provide important economic opportunities to New Jersey's construction companies and workforce. State investment in school projects creates jobs and spurs other private and public investments in communities that need it the most.

In 2018, the SDA expects to continue this strong investment through the procurement of several new contracts valued at between \$400 and \$500 million in the aggregate. The 2018 forecast includes advertisements for site preparation work, emergent work and new construction. The portfolio includes the Camden High School design-build project estimated at \$90-100 million, as well as the Perth Amboy High School design-build project with a construction cost estimate valued at \$180-\$200 million.

The SDA's 2018 construction forecast is available on our website at:

https://www.njsda.gov/SDA/Content/Business/PDFs/Project_Forecast.pdf.

Regular Operating Districts

SDA's Regular Operating District (ROD) grants fund at least 40 percent of eligible costs for projects in the New Jersey's ROD Districts, addressing health and safety issues and other critical needs. In 2017, the SDA executed 51 grants to 17 school districts for school improvement projects. This state investment totaling more than \$45 million leverages a local contribution of an additional \$23 million.

Grants executed in 2017 include funding for the new construction component of the Park Ave ES/Freehold Intermediate MS and Freehold Learning Center addition and renovation projects. Pursuant to a 2016 decision of the New Jersey Commissioner of Education, the SDA will fund 100% of the cost

of the additions. Renovation work at the schools is funded by the district. The total estimated cost of the projects is approximately \$25 million.

The SDA funded Park Avenue ES/Freehold Intermediate MS project includes an approximately 23,000-square-foot addition that is comprised of a media center and computer instruction area, intermediate school gymnasium and locker room, cafeteria expansion, kitchen support and receiving area, four general classrooms and support spaces.

The Freehold Learning Center project includes an approximately 20,000-square-foot addition that includes seven kindergarten classrooms, four pre-kindergarten classrooms, small group instruction spaces, and a new kitchen.

Examples of ROD Grant project executions in 2017 include:

- Black Horse Pike Regional School District - Timber Creek Regional High School (Camden County): Security Upgrades. State share: \$290,495; Estimated total project costs: \$507,651.
- Central Regional School District – Central Regional High School (Ocean County): Partial Window Replacements. State share \$64,725.20; Estimated total project costs: \$161,813.
- Hasbrouck Heights School District - Hasbrouck Heights High School (Bergen County): Mechanical Upgrades. State share: \$1,510,659; Estimated total project costs: \$3,776,647.
- North Bergen School District – Robert Fulton No. 2 Elementary School (Hudson County): Complete window replacement, exterior door replacement. State share: \$1,387,825; Estimated total project costs: \$2,510,379.
- Swedesboro-Woolwich School District - Walter H. Hill Elementary School (Gloucester County): Roof replacement. State share: \$350,710; Estimated total project costs: \$722,906.
- Madison School District – Madison High School (Morris County): Partial Roof replacement. State share: \$1,291,710. Estimated total project costs: \$3,229,275.
- Berkeley Heights School District – Columbia Middle School (Union County): Site Work - Replace approximately 23,000 square feet of roofing. Asbestos removal in boiler room. State share: \$819,762. Estimated total project costs: \$2,049,404.
- Bloomingdale School District – Walter T. Bergen Middle School (Passaic County): Site Work - Remove existing concrete sidewalks and curbs along front of school; Install new concrete curbing and concrete sidewalk and install new drop curbs for handicap accessibility. State share: \$29,118. Estimated total project costs: \$72,796.

REGULAR OPERATING DISTRICT GRANTS

2017 Grant Executions		Grant Executions Since Inception	
No. of Grants Executed	51	No. of Grants Executed	5,409
State Share	\$45,309,027	State Share	\$3,022,293,605
Local Share	\$23,158,183	Local Share	\$5,948,852,737
Total Est. Costs	\$68,467,210	Total Est. Costs	\$8,972,796,729
No. of Districts Impacted	17	No. of Districts Impacted	524
No. of Counties Impacted	10	No. of Counties Impacted	21

Positive Safety Record

Construction sites can be dangerous and SDA staff strives every day to ensure that our sites are as safe as possible. In 2017, SDA continued to demonstrate an excellent safety record. SDA’s Field Compliance Inspectors were active, each conducting approximately 400 safety inspections on their assigned SDA projects. The SDA received no OSHA citations in 2017. SDA conducted Occupational Safety and Health Administration (OSHA) training for seven SBE firms, providing 30-hour OSHA cards. OSHA Training provides workers with basic and more advanced training about common safety and health hazards on the job. Certain positions require a 30-hour OSHA card, signifying a level of safety awareness.

In addition, due primarily to SDA’s positive safety trend, the SDA obtained a 38% premium reduction for its new Owner Controlled Insurance Program coverage commencing March 1, 2018.

SUPPORT FOR NEW JERSEY'S BUSINESSES AND CONSTRUCTION WORKFORCE

SMWBE Contractor Training Program

With our Small, Minority and Women-owned Business Enterprise (SMWBE) Contractor Training Program, SDA provides assistance to small business entities throughout the State of New Jersey and promotes our SBE goals.

The 2017 program offered eight weeks of instructional classes followed by a graduation/networking event. SDA offered training classes at locations in both Trenton and Newark. The program provided participants with information on business planning, marketing services, finding the work, pre-qualification, estimating and budgeting, procurement, prevailing wage and finding the funding.

Twenty-two small business enterprises successfully completed the 2017 SMWBE Contractor Training Program.

Providing Opportunities for New Jersey's Small Businesses

In conformance with the State set-aside laws and Executive Order 71 (2003), SDA's Small Business Enterprise (SBE) program consistently exceeds the mandated 25 percent SBE participation level calculated on the total dollar value of publicly advertised contracts awarded by SDA. In 2017, SBE participation was 40 percent. This represents \$50,781,276 million in SDA contract values for SBE companies.

At the end of 2017, the SDA had 1,730 firms pre-qualified to do business with both the SDA and the Regular Operating Districts. The New Jersey Department of the Treasury certified 723 of these firms (or 42% of all firms) as SBE firms.

SDA also verifies contractor-reported data regarding the number of women and minority workers on SDA's construction sites to ensure that prime contractors make good faith efforts to meet appropriate workforce goals for the hiring of women and minorities. In 2017, minority and female workers performed approximately 29 percent of construction work on SDA projects.

NJ-GIVS Helps Students Pursuing Careers in the Construction Industry

In the fourth full year of the program, SDA and the New Jersey Higher Education Student Assistance Authority continued the Governor's Industry Vocations Scholarship for Women and Minorities (NJ-GIVS). Funding for the NJ-GIVS program is in furtherance of the SDA's effort to provide funding for on-the-job or off-the-job outreach and training programs for minority group members and women in construction trade occupations or other occupations – including engineering and management occupations – utilized in the performance of public works contracts.

NJ-GIVS pays up to \$2,000 per year to women and minority students who reside in New Jersey towards the cost of enrollment in a NJ-GIVS eligible program at one of New Jersey's approved county colleges or vocational schools. During 2017, SDA provided \$199,752 to 106 qualifying students throughout New Jersey. Grant recipients are attending eligible programs at schools including Sussex Community College, Middlesex County College, Morris County Vocational & Technical Schools, Ocean County Vocational-Technical School, Union County College and the Hohokus School of Trade. The grants benefit women and minority students who are pursuing programs that will prepare them for careers in the construction industry.

FINANCIAL INFORMATION

2017 PROJECT EXPENDITURES	
SDA District Capital Projects	\$243.6 Million
SDA District Emergent Projects	\$19 Million
ROD Grant Projects	\$91.2 Million
Other Project Costs – Program	\$2.6 Million
TOTAL PROJECT EXPENDITURES	\$356.5 Million

2017 Bond Sales

School Facilities Construction Bonds, issued by the New Jersey Economic Development Authority (EDA) on behalf of the SDA, provide SDA with the funds it needs to sustain an active project portfolio and cover operating expenses. Bond sales generally coincide with forecasted cash flow requirements for already committed projects in SDA’s portfolio, enabling SDA to pay its vendors promptly as the projects advance.

In October 2017, EDA sold bonds that provided an additional \$350 million to SDA to support the state’s school construction program. To date, \$10.80 billion in bonds were issued to fund the program. Approximately \$1.7 billion in bonding authority remains.

Budgetary and Financial Controls

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

judgments by management. These internal controls are subject to continuous evaluation by SDA management.

Budgetary Controls

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

In addition, the Authority develops and maintains comprehensive project budgets, approved by the Board of Directors, for each of the school facilities projects that it manages. The Authority uses project management software for planning, recording and monitoring project budgets and schedules. Other software and tools are used by the Authority for cost estimating and financial analyses. The data obtained from regular monthly re-forecasting sessions is used to monitor the status of projects and to review and analyze costs in comparison to approved budgets. The information obtained from these sessions is summarized and presented to the Audit Committee in a monthly report.

Financial Controls

The Authority maintains effective financial controls in part with an integrated accounting and budgeting system, which enables the Authority to view, analyze and report on various financial data. The Authority utilizes separate financial reporting software to: (1) efficiently and effectively monitor the Authority's financial performance; (2) identify financial trends; and (3) generate accurate and timely financial data and reports.

Additionally, the Authority has implemented effective financial controls in key risk areas as documented in numerous written policies, procedures, standard operating procedures (SOPs), processes, guidelines, checklists and standards. The Authority has implemented policies and procedures (or other analogous documents) in the areas of accounting, accounts payable, procurement, information technology, corporate governance and program operations. The Board of Directors has also adopted an Ethics Code for all employees, which is intended to foster a strong ethical climate at the Authority. Together, these policies and procedures (or other analogous documents) provide a system of internal controls and accountability designed to safeguard the Authority's assets. The Authority's internal auditors conduct periodic reviews to ensure the Authority's adherence to internal control policies and procedures.

The Board of Directors periodically reviews and approves modifications to the SDA's Operating Authority policy. The Operating Authority designates those persons at the Authority who are authorized by the Board (either generally or in specific transactions) to: (1) approve contracts and contract changes (i.e., change orders and amendments), (2) execute documents legally binding on the Authority, and (3) sign checks and approve disbursements on behalf of the Authority.

CERTIFICATIONS PURSUANT TO SECTION 22C OF EXECUTIVE ORDER 37 (2006)

I certify that, to the best of my knowledge, the financial information provided to the Authority's independent auditors in connection with their audit of the 2017 financial statements is accurate, and that such information fairly presents the financial condition and operational results of the Authority as of December 31, 2017 and for the year then ended.



Donald Guarriello, Jr.
Chief Financial Officer

I certify that, to the best of my knowledge, the financial information provided to the Authority's independent auditors in connection with their audit of the 2017 financial statements is accurate, and that such information fairly presents the financial condition and operational results of the Authority as of December 31, 2017 and for the year then ended.



Charles B. McKenna
Chief Executive Officer

CERTIFICATION PURSUANT TO SECTION 2 OF EXECUTIVE ORDER 37 (2006)

In accordance with Executive Order 37 (2006), please find enclosed the New Jersey Schools Development Authority's (the "Authority") 2017 comprehensive report of Authority operations (the "2017 Annual Report"). This report highlights the significant actions of the Authority for the year ending December 31, 2017, including the degree of success the SDA had in promoting the State's economic growth strategies and other policies during the year.

The report of independent auditors, issued by Ernst and Young LLP is included within the financial statements section of the 2017 Annual Report. The completion of the audit report fulfills the Authority's requirements under Executive Order 37 and the audit requirements of Executive Order 122 (2004).

Executive Order 37 Section 2 Certification:

I, Charles B. McKenna, certify that, from January 1, 2017, to December 31, 2017, the Authority has, to the best of my knowledge, followed all of its standards, procedures and internal controls.



Charles B. McKenna
Chief Executive Officer

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, 2017

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, 2017

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Report of Independent Auditors

Management and Members of the Authority
New Jersey Schools Development Authority

We have audited the accompanying financial statements of the New Jersey Schools Development Authority (the Authority), a component unit of the State of New Jersey, as of and for the year ended December 31, 2017, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Authority as of December 31, 2017, and the changes in financial position for the year then ended in conformity with U.S. generally accepted accounting principles.

Required Supplementary Information

U.S. generally accepted accounting principles require that management's discussion and analysis, the schedule of the Authority's proportionate share of the net pension liability, the schedule of the Authority's contributions to the Public Employees' Retirement System (PERS) and the schedule of changes in the total postemployment benefits other than pensions (OPEB) liability and related ratios, as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board which considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Ernst + Young LLP

May 17, 2018

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, 2017

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, 2017. This management discussion and analysis should be read in conjunction with the Authority's financial statements and accompanying notes.

Nature of the Authority

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

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

School Construction Program Authorized Funding and Disbursements

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

Through December 31, 2017, the Authority has received \$10.8 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 82.3% of the currently authorized program funding, as follows:

	<u>Bonding Cap</u>	<u>Program Funding</u> ¹	<u>Disbursements</u>	<u>% Paid</u>
SDA Districts	\$ 8,900,000,000	\$ 9,013,371,335	\$ 7,218,843,049	80.1%
Regular Operating Districts	3,450,000,000	3,494,628,799	3,088,759,315	88.4%
Vocational Schools	150,000,000	151,783,290	113,441,723	74.7%
Totals	<u>\$ 12,500,000,000</u>	<u>\$ 12,659,783,424</u>	<u>\$ 10,421,044,087</u>	82.3%

¹ Program funding includes the amounts authorized under the respective bonding caps in addition to approximately \$160 million of interest income and miscellaneous revenue earned through December 31, 2017.

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

<u>County</u>	<u>School District</u>	<u>County</u>	<u>School District</u>
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 2017, the SDA celebrated the opening of 5 capital plan school facilities projects directly benefitting nearly 4,200 students in the SDA Districts. The total State investment in these 5 projects was \$230 million.

As of December 31, 2017, the SDA has 11 active construction projects in the SDA Districts. In addition, pre-construction activity has commenced on several other projects. Furthermore, the Authority is currently in construction on 3 emergent needs projects in the SDA Districts. Emergent need projects most often address roof repairs or replacements; deteriorating façades; water infiltration; heating and cooling system issues; and plumbing, electrical, mechanical and security systems. The Authority maintains separate program reserves to address such emergent conditions as well as unforeseen events.

From inception through December 31, 2017, the School Construction Program has completed 685 projects in the SDA Districts. The completed projects consist of: 80 new schools, including 6 demonstration projects; 46 extensive additions, renovations and/or rehabilitations; 31 rehabilitation projects; 354 health and safety projects; and 174 Section 13 Grants for SDA District-managed projects. 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 4,544 school projects throughout the 21 counties of New Jersey.

The following 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				
	2017	2016	2015	2014	2013
EFCFA funding received from State	\$ 350,000	\$ 342,574	\$ 500,000	\$ 585,000	\$ -
Investment earnings, net	3,787	1,730	560	170	272
Administrative and general expenses	19,821	22,256	18,924	17,293	19,835
Capital expenditures	25	124	475	115	295
School facilities project costs	341,480	388,133	429,684	282,023	172,238
Employee count at end of year	211	229	230	227	243

2017 Financial Highlights

- At year end, the Authority’s net position is \$392.7 million.
- At year end, cash and cash equivalents total \$539.8 million.
- For the year, revenues total \$353.8 million, \$350.0 million of which is from EFCFA funding received from the State (or 98.9%).
- For the year, expenses total \$361.5 million, \$341.5 million (94.5%) of which is for school facilities project costs.
- For the year, general fund expenditures exceed general fund revenues by \$6.1 million.

Overview of the Financial Statements

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

individual line items of general fund financial data to government-wide data in a separate column on the face of the financial statement.

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

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

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

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

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

Financial Analysis of the Authority

The Authority's net position decreased to \$392.7 million at year-end, primarily due to 2017 expenditures for school facilities projects (\$341.5 million) and administrative and general expenses (\$19.8 million) exceeding State funding under EFCFA (\$350.0 million).

The following table summarizes the Authority's net position at December 31, 2017 and 2016.

	\$ In thousands			
	2017	2016	\$ Increase/ (Decrease)	% Increase/ (Decrease)
Current assets	\$ 540,143	\$ 558,298	\$ (18,155)	(3.3)%
Capital assets-net	523	707	(184)	(26.0)%
Total assets	540,666	559,005	(18,339)	(3.3)%
Deferred outflows of resources	19,537	21,940	(2,403)	(11.0)%
Total assets and deferred outflows of resources	\$ 560,203	\$ 580,945	\$ (20,742)	(3.6)%
Current liabilities	\$ 53,000	\$ 64,880	\$ (11,880)	(18.3)%
Non-current liabilities	98,667	112,583	(13,916)	(12.4)%
Total liabilities	151,667	177,463	(25,796)	(14.5)%
Deferred inflows of resources	15,795	3,075	12,720	413.7%
Net position:				
Net investment in capital assets	523	707	(184)	(26.0)%
Restricted for schools construction	392,218	399,700	(7,482)	(1.9)%
Total net position	392,741	400,407	(7,666)	(1.9)%
Total liabilities, deferred inflows of resources and net position	\$ 560,203	\$ 580,945	\$ (20,742)	(3.6)%

Note: All percentages are calculated using unrounded figures.

Significant Account Variances for Net Position

Current assets: The decrease is due to reductions in cash and cash equivalents, prepaid expenses and receivables.

Capital assets-net: The decrease is due largely to the recording of depreciation expense for assets in service during the year, slightly offset by new capital asset purchases.

Deferred outflows of resources: The decrease is due mainly to lower deferred outflows of resources associated with pensions.

Current liabilities: The decrease is due mostly to the reduction in accrued school facilities project costs for amounts billed but not paid for services rendered in 2017.

Non-current liabilities: The decrease is due primarily to the significantly lower net pension liability.

Deferred inflows of resources: The increase is due mainly to higher deferred inflows of resources associated with pensions and other postemployment benefit obligations.

The following table summarizes the change in net position for the years ended December 31, 2017 and 2016.

	\$ In thousands			
	2017	2016	\$ Increase/ (Decrease)	% Increase/ (Decrease)
Revenues				
EFCFA funding received from State	\$ 350,000	\$ 342,574	\$ 7,426	2.2%
Investment earnings	3,787	1,730	2,057	118.8%
Rental property income	41	808	(767)	(94.9)%
Other revenue	16	1	15	980.4%
Total revenues	<u>353,844</u>	<u>345,113</u>	<u>8,731</u>	<u>2.5%</u>
Expenses				
Administrative and general expenses	19,821	22,256	(2,435)	(10.9)%
Depreciation	209	184	25	13.6%
School facilities project costs	<u>341,480</u>	<u>388,133</u>	<u>(46,653)</u>	<u>(12.0)%</u>
Total expenses	<u>361,510</u>	<u>410,573</u>	<u>(49,063)</u>	<u>(12.0)%</u>
Change in net position	<u>(7,666)</u>	<u>(65,460)</u>	<u>57,794</u>	<u>88.3%</u>
Beginning net position	<u>400,407</u>	<u>465,867</u>	<u>(65,460)</u>	<u>(14.1)%</u>
Ending net position	<u>\$ 392,741</u>	<u>\$ 400,407</u>	<u>\$ (7,666)</u>	<u>(1.9)%</u>

Note: All percentages are calculated using unrounded figures.

Significant Account Variances for the Change in Net Position

EFCFA funding received from State: The Authority derives essentially all of its revenue from the proceeds of tax-exempt bonds issued by the EDA.

The moderate increase in the amount of bond proceeds received in 2017 is a function of the Authority's projected cash requirements, as well as market conditions and other considerations as determined by the EDA and the State of New Jersey, Department of the Treasury.

Investment earnings: 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 increase is due to higher investment return rates and a slightly larger average invested cash balance during 2017.

Administrative and general expenses: The decrease is due primarily to lower employee salaries and benefit costs, with the largest reduction being in pension expense. Also contributing to the decrease are lower spending for temporary staffing services and training and professional development. These decreases are partially offset by increases in spending

for professional and other contracted services, information systems and facilities and general office expenses.

School facilities project costs: The decrease is due to lower spending in construction, school furniture, fixtures and equipment and project insurance, partially offset by spending increases in the regular operating district grant program.

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
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Statement of Net Position and General Fund Balance Sheet

December 31, 2017

	General Fund Total	Adjustments (Note 8)	Statement of Net Position
Assets			
Cash and cash equivalents	\$ 539,839,623	\$ -	\$ 539,839,623
Receivables	37,536	-	37,536
Prepaid expenses	266,426	-	266,426
Capital assets-net	-	522,915	522,915
Total assets	540,143,585	522,915	540,666,500
Deferred Outflows of Resources			
Deferred amount for pensions	-	19,206,757	19,206,757
Deferred amount for other postemployment benefits	-	330,000	330,000
Total deferred outflows of resources	-	19,536,757	19,536,757
Total Assets and Deferred Outflows of Resources	\$ 540,143,585	\$ 20,059,672	\$ 560,203,257
Current Liabilities			
Accrued school facilities project costs	\$ 48,885,638	\$ -	\$ 48,885,638
Other accrued liabilities	716,501	-	716,501
Escrow deposits	3,397,638	-	3,397,638
Total current liabilities	52,999,777	-	52,999,777
Non-Current Liabilities			
Accrued school facilities project costs	-	9,285,082	9,285,082
Net pension liability	-	60,083,669	60,083,669
Total postemployment benefits liability	-	25,290,074	25,290,074
Other accrued liabilities	-	4,008,464	4,008,464
Total non-current liabilities	-	98,667,289	98,667,289
Deferred Inflows of Resources			
Deferred amount for pensions	-	14,424,665	14,424,665
Deferred amount for other postemployment benefits	-	1,370,792	1,370,792
Total deferred inflows of resources	-	15,795,457	15,795,457
Fund Balance/Net Position			
Net investment in capital assets	-	522,915	522,915
Nonspendable:			
Prepaid expenses	266,426	(266,426)	-
Restricted for schools construction	486,877,382	(94,659,563)	392,217,819
Total fund balance/net position	487,143,808	(94,403,074)	392,740,734
Total Liabilities, Deferred Inflows of Resources and Fund Balance/Net Position	\$ 540,143,585	\$ 20,059,672	\$ 560,203,257

See accompanying notes.

New Jersey Schools Development Authority
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Statement of Activities and General Fund Revenues,
Expenditures and Changes in Fund Balance

For the Year Ended December 31, 2017

	General Fund Total	Adjustments (Note 8)	Statement of Activities
Revenues			
School Construction Program:			
EFCFA funding received from State	\$ 350,000,000	\$ -	\$ 350,000,000
General:			
Investment earnings	3,786,684	-	3,786,684
Rental property income	41,000	-	41,000
Other revenue	16,011	-	16,011
Total revenues	<u>353,843,695</u>	<u>-</u>	<u>353,843,695</u>
Expenditures/Expenses			
Administrative and general expenses	15,739,533	4,081,693	19,821,226
Capital expenditures	24,699	(24,699)	-
Capital depreciation	-	208,888	208,888
School facilities project costs	344,200,856	(2,721,165)	341,479,691
Total expenditures/expenses	<u>359,965,088</u>	<u>1,544,717</u>	<u>361,509,805</u>
Deficiency of revenues over expenditures/Change in net position	(6,121,393)	(1,544,717)	(7,666,110)
Fund Balance/Net Position			
Beginning of year, January 1, 2017	493,265,201	(92,858,357)	400,406,844
End of year, December 31, 2017	<u>\$ 487,143,808</u>	<u>\$ (94,403,074)</u>	<u>\$ 392,740,734</u>

See accompanying notes.

New Jersey Schools Development Authority
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Notes to Financial Statements

1. Nature of the Authority

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

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

2. Summary of Significant Accounting Policies

(a) Government-Wide and Fund Financial Statements

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

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

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

New Jersey Schools Development Authority
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Notes to Financial Statements (Continued)

(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 general fund, restricted amounts are considered to have been spent only after the expenditure is incurred for which there is available restricted fund balance.

(c) Revenue Recognition

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

(d) Allocation of Employee Salaries and Benefits Costs

The Authority allocates employee salaries and benefits costs between operating expense (i.e., administrative and general expenses) and school facilities project costs on the Statement of Activities and General Fund Revenues, Expenditures and Changes in Fund Balance. The allocation of employee salaries to school facilities project costs is supported by weekly time sheet data; employee benefits costs are allocated to projects based on a projected annual fringe benefit rate determined by the Authority. The fringe benefit rate utilized for 2017 is 40.75%.

For the year ended December 31, 2017, employee salary and benefit costs are allocated as follows:

Employee salary and fringe benefits costs:	
Charged to administrative and general expenses	\$ 15,232,307
Charged to school facilities project costs	14,266,816
Total employee salary and benefits costs	<u>\$ 29,499,123</u>

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Notes to Financial Statements (Continued)

(e) Rebate Arbitrage

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

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

Rebate arbitrage calculations have been performed for all series of School Facilities Construction Bonds up through 2017 Series DDD. As of December 31, 2017, no rebate arbitrage liabilities exist.

(f) Cash and Cash Equivalents

Cash and cash equivalents consist of cash on hand and highly liquid short-term investments with original maturities of three months or less, and participation in the State of New Jersey 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. The fair value is measured based on net asset value (“NAV”) which approximates \$1 per share.

(g) Prepaid Expenses

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

(h) Capital Assets

Capital assets are reported in the governmental activity column in the government-wide financial statements and are recorded at historical cost or estimated historical cost if purchased and constructed. The Authority’s current capitalization threshold is \$10,000 for individual items meeting all other capitalization criterion. As of December 31, 2017, the Authority’s capital assets consist of leasehold improvements, automobiles, equipment,

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Notes to Financial Statements (Continued)

computer software and furniture and fixtures. Depreciation is provided by the straight-line method over the shorter of the life of the lease or the useful life of the related asset.

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

(i) Taxes

The Authority is exempt from all federal and state income taxes and real estate taxes under Internal Revenue Code Section 115.

(j) Use of Estimates

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

(k) Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the New Jersey Public Employee Retirement System ("PERS") and additions to/deductions from PERS's fiduciary net position have been determined on the same basis as they are reported by the plan. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Plan asset investments are reported at fair value.

(l) Accounting Standards Issued But Not Yet Adopted

Government Accounting Standards Board ("GASB") Statement No. 85, *Omnibus 2017*, was issued in March 2017. The primary objective of this Statement is to address practice issues that have been identified during implementation and application of certain GASB Statements. This Statement addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and other postemployment benefits ("OPEB"). Among the various topics that may pertain to the Authority financial reporting include; blending a component unit in circumstances in which the primary government is a business-type activity that reports in a single column for financial statement presentation, measuring certain money market investments and participating interest-earning investment contracts at amortized cost, timing of the measurement of pension or OPEB liabilities and expenditures recognized in financial

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Notes to Financial Statements (Continued)

statements prepared using the current financial resources measurement focus, and classifying employer-paid member contributions for OPEB.

The Statement is effective for fiscal years beginning after June 15, 2017. The Authority is in the process of evaluating the impact of its adoption on the financial statements.

GASB Statement No. 86, *Certain Debt Extinguishment*, was issued in May 2017. The primary objective of this Statement is to improve consistency in accounting and financial reporting for in-substance defeasance of debt by providing guidance in which cash and other monetary assets acquired with only existing resources (resources other than the proceeds of refunding debt) are placed in an irrevocable trust for the sole-purpose of extinguishing debt. This Statement also improves accounting and financial reporting for prepaid insurance on debt that is extinguished and notes to financial statements for debt that is defeased in substance.

The Statement is effective for fiscal years beginning after June 15, 2017. The Authority is in the process of evaluating the impact of its adoption on the financial statements.

GASB Statement No. 87, *Leases*, was issued in June 2017. The primary objective of this Statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This Statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this Statement, a lease is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities.

The Statement is effective for fiscal years beginning after December 15, 2019. The Authority is in the process of evaluating the impact of its adoption on the financial statements.

3. Deposits and Investments

(a) Cash Flows

Cash and cash equivalents decreased during the year by \$17.4 million to \$539.8 million as follows:

New Jersey Schools Development Authority
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Cash and cash equivalents, beginning of year	\$ 557,246,319
Changes in cash:	
EFCFA funding received from State	350,000,000
Investment and interest income	3,786,684
Miscellaneous revenue	57,011
School facilities project costs	(355,980,655)
Administrative and general expenses	(15,162,386)
Capital expenditures	(24,699)
Escrow deposits	(82,651)
Cash and cash equivalents, end of year	<u>\$ 539,839,623</u>

(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, 2017, the carrying amount of operating cash is \$7,052,938 and the bank balance is \$7,204,132. 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, 2017, 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.

(c) Investments

In order to maximize liquidity, the Authority utilizes the NJCMF as its sole investment. All investments in the NJCMF are governed by the regulations of the State of New Jersey, Department of Treasury, Division of Investment, which prescribes specific standards designed to ensure the quality of investments and to minimize the risks related to investments. The NJCMF invests pooled monies from various State and non-State agencies in primarily short-term investments. These investments include: U.S. Treasury Notes and Bills; 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, 2017, the Authority’s investments in the NJCMF total

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\$532,786,685. Of this amount, \$3,397,638 relates to district local share funding requirements (see Note 6).

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, 2017, the Authority's prepaid expenses are as follows:

Office rents	\$ 123,587
Service contracts	108,086
Other	34,753
Total prepaid expenses	<u>\$ 266,426</u>

5. Escrow 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, 2017, deposits held in SDA bank accounts, inclusive of interest earned but not yet refunded to the district, are as follows:

City of Newark	\$ 455,499
Egg Harbor City	275,099
Gloucester City	13,137
New Brunswick	39,082
Perth Amboy	2,541,981
Phillipsburg	12,835
Other	60,005
Total escrow deposits	<u>\$ 3,397,638</u>

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6. Rental of Office Space

The Authority rents commercial office space for its headquarters facility in Trenton, as well as other office space in Newark. The remaining terms of these leases range from 1 to 6 years. Total rental expense for the year ended December 31, 2017 amounted to \$1,590,996.

Future rent commitments under operating leases as of December 31, 2017 are as follows:

2018	\$ 1,243,113
2019	1,062,008
2020	1,077,938
2021	1,094,107
2022	1,110,519
2023	<u>1,127,177</u>
Total future rent expense	<u><u>\$ 6,714,862</u></u>

7. Capital Assets

Capital asset activity for the year ended December 31, 2017 is as follows:

	Beginning Balance	Additions	Retirements	Ending Balance
Depreciable capital assets:				
Leasehold improvements	\$ 502,679	\$ -	\$ -	\$ 502,679
Office furniture and equipment	5,902,104	24,699	-	5,926,803
Computer software	568,993	-	-	568,993
Automobiles	463,875	-	(142,217)	321,658
Capital assets-gross	<u>7,437,651</u>	<u>24,699</u>	<u>(142,217)</u>	<u>7,320,133</u>
Less: accumulated depreciation	<u>(6,730,547)</u>	<u>(208,888)</u>	<u>142,217</u>	<u>(6,797,218)</u>
Capital assets-net	<u><u>\$ 707,104</u></u>	<u><u>\$ (184,189)</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 522,915</u></u>

8. Reconciliation of Government-Wide and Fund Financial Statements

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

“Total fund balances” for the Authority’s general fund (\$487,143,808) differs from the “net position” reported on the statement of net position (\$392,740,734). This difference results from the long-term economic focus of the statement of net position versus the current financial resources focus of the fund balance sheet. When capital assets that are to be used in the Authority’s activities are constructed or acquired, the costs of those assets are reported as expenditures in the fund financial statements. However, the statement of net position includes

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those capital assets among the assets of the Authority as a whole. In addition, expenses associated with depreciation, accrued school facilities project costs not currently due for payment and non-current other postemployment benefits and compensated absences are not recorded in the fund financial statements until paid.

A summary of these differences at December 31, 2017 is as follows:

Fund balances	\$ 487,143,808
Capital assets, net of accumulated depreciation of \$(6,797,218)	522,915
Deferred outflows of resources for pensions and other postemployment benefits	19,536,757
Accrued school facilities project costs	(9,285,082)
Net pension liability	(60,083,669)
Total other postemployment benefits liability	(25,290,074)
Accrued compensated absences	(1,287,359)
OPEB payable	(330,000)
Accrued pension payable	(2,391,105)
Deferred inflows of resources for pensions and other postemployment benefits	<u>(15,795,457)</u>
Net position	<u>\$ 392,740,734</u>

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

The governmental fund statement of revenues, expenditures, and changes in fund balances includes a reconciliation between excess of revenues over expenditures and changes in net position as reported in the government-wide statement of activities. Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. Also, some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. A summary of these differences for the year ended December 31, 2017 is as follows:

Deficiency of revenues over expenditures	\$ (6,121,393)
School facilities project costs	2,721,165
Pension expense (GASB 68)	(1,945,405)
Other postemployment benefits expense (GASB 75)	(2,159,903)
Compensated absences expense	23,615
Capital asset acquisitions	24,699
Depreciation expense	<u>(208,888)</u>
Changes in net position	<u>\$ (7,666,110)</u>

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9. Pollution Remediation Obligations

In accordance with GASB Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*, the Authority has recorded in the statement of net position a pollution remediation obligation (“PRO”) liability (net of environmental cost recoveries not yet realized) in the amount of \$1,999,849 as of December 31, 2017. This liability is included in accrued school facilities project costs reported on the statement of net position. The Authority’s PRO liability and asset are charged or credited to school facilities project costs in the statement of activities. The Authority’s PRO liability is measured based on the current cost of future activities. Also, the PRO liability was estimated using “the expected cash flow technique,” which measures the liability as the sum of probability weighted amounts in a range of possible estimated outcomes.

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

	Estimated Cost	Payments to Date	PRO at 12-31-2017
Pre-cleanup activities	\$ 1,592,422	\$ 1,479,007	\$ 113,415
Site remediation work	19,327,583	16,540,687	2,786,896
Post-remediation monitoring	412,820	77,647	335,173
Asbestos and lead based paint removal	6,387,050	5,610,113	776,937
Sub-total	27,719,875	23,707,454	4,012,421
Less: Estimated environmental cost recoveries (ECR) not yet realized	2,012,572	-	2,012,572
Liability for pollution remediation obligations	<u>\$ 25,707,303</u>	<u>\$ 23,707,454</u>	<u>\$ 1,999,849</u>

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The following table summarizes the changes in the Authority’s PRO liability during the year ended December 31, 2017:

PRO at 12-31-2016	Increase in Expected Cash Outlays	PRO Payments	Increase in ECR Not Yet Realized	PRO at 12-31-2017
\$4,288,607	\$72,981	\$(2,134,512)	\$(227,227)	\$1,999,849

10. Commitments and Contingencies

(a) Contractual Commitments

At December 31, 2017, the Authority has approximately \$819 million of unaccrued contractual commitments relating to future expenditures associated with school facilities projects.

(b) Contractor and Other Claims

Numerous contractor and other claims, the vast majority of which are not in litigation, have been filed with the Authority by design consultants, general contractors, project management firms and school districts 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, 2017, the Authority’s potential loss from all claims has been estimated at approximately \$7.3 million, which represents a decrease of \$0.6 million from the prior year end accrual. Accordingly, as of December 31, 2017, an accrued liability of \$7.3 million is reflected in the statement of net position as a component of accrued school facilities project costs and, for the year then ended, \$0.6 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 Builders Risk and Owners Protective Professional Indemnity Insurance (“OPPI”), all of which are discussed below. As of December 31, 2017, management is not aware of any insurable claim that is expected to exceed its commercial insurance coverage.

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

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general liability and umbrella/excess liability insurance for all eligible contractors performing labor on school facilities projects. OCIP I was subsequently extended to March 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 for claims that arise after the completion of construction.

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

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

Concurrent with the Authority's purchase of OCIP II, the insurer agreed to transfer a portion of the remaining available funds from the Authority's DRF to a new Loss Reimbursement Fund ("LRF"). The LRF for OCIP II was initially established at

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approximately \$18.9 million to partially fund a maximum deductible obligation of \$26 million. Approximately \$9.9 million remained in the LRF for OCIP I. In connection with the OCIP II extension, discussed above, the maximum deductible obligation was reduced to \$16 million. In 2015, concurrent with the purchase of OCIP III with a new insurer, the Authority was required to fund a new LRF in the amount of approximately \$4.5 million to partially fund a maximum deductible obligation of \$12.4 million. All monies deposited in the respective LRFs accrue interest to the benefit of the Authority and are available to pay claim costs arising from construction projects enrolled in a specific OCIP.

As of December 31, 2017, the Authority has open reserves for general liability and workers' compensation claims totaling approximately \$140,000, \$1.1 million and \$710,000, under OCIP I, OCIP II and OCIP III, respectively. All monies deposited in the LRF and not used to pay claims will be refunded to the Authority along with accrued interest. Under the terms of the contract, the Authority has no claim or interest in the LRF until six (6) months after the expiration of the program. Since their respective enrollment periods have expired, the DRF for OCIP I and the LRF for OCIP II are reviewed annually and the deductible obligation re-determined; if the respective deductible fund is determined to be overfunded based on the annual re-determination, the Authority entitled to a refund of the difference.

Since the inception of OCIP I, the Authority has purchased and maintained Builders Risk property insurance that protects the Authority from unexpected losses due to fire, vandalism, lightning, wind and similar forces during construction of a school facilities project. The current insurance policy expiration date is March 1, 2020 and provides a limit of \$200 million for any one project.

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

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

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11. Employee Benefits

(a.1) Public Employees' Retirement System of New Jersey

Plan description and benefits provided. 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. The contribution policy is established by N.J.S.A. 43:15A and requires contributions by active members and contributing employers. Currently as of July 1, 2017, employees are required to contribute 7.34% (up from 7.20%) of their annual compensation to the Plan. Annual increases of 0.14% will be phased in effective each July 1 during the succeeding 5 years bringing the pension contribution rate for employees up to 7.5%. All Plan participants are categorized within membership Tiers in accordance with their enrollment date in the PERS, as follows: Tier 1 includes those members enrolled in the PERS prior to July 1, 2007; Tier 2 includes those members enrolled in the PERS on or after July 1, 2007 and prior to November 2, 2008; Tier 3 includes those members enrolled in the PERS on or after November 2, 2008 and on or before May 22, 2010; Tier 4 includes those members enrolled in the PERS after May 22, 2010 and prior to June 28, 2011; and Tier 5 includes those members enrolled in the PERS on or after June 28, 2011. Depending on the Tier, other factors including minimum base salary amounts and/or minimum hours worked, among other things, may impact an employee's eligibility in the PERS. As discussed below, members enrolled in the PERS on or after July 1, 2007, and who earn an annual salary in excess of established limits, are eligible to participate in a Defined Contribution Retirement Program ("DCRP") administered by Prudential Financial on behalf of the State.

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

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

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55. Lastly, for Tier 5 members the retirement allowance is reduced by 3% per year (1/4 of 1% per month) for each year the member is under age 65.

The PERS also provides death and disability benefits. The State of New Jersey, as established by N.J.S.A. 43:15A, has the authority to establish and/or amend any of the benefit provisions and contribution requirements.

(a.2) Pension Liabilities, Pension Expense, Deferred Outflows of Resources and Deferred Inflows of Resources

In accordance with GASB 68, the Authority recognized a net pension liability for the difference between the present value of the projected benefits for past service known as the Total Pension Liability (“TPL”) and the restricted resources held in trust for the payment of pension benefits, known as the Fiduciary Net Position (“FNP”).

At December 31, 2017, the Authority reported a liability of \$60.1 million in the statement of net position for its proportionate share of the net pension liability for the PERS. The net pension liability was measured as of June 30, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of July 1, 2016. The actuarial valuation was rolled forward to June 30, 2017 using update procedures. The Authority’s proportion of the net pension liability was based on a projection of the Authority’s long-term share of contributions to the Plan relative to the projected contributions of all participating State agencies, actuarially determined. At June 30, 2017, the Authority’s proportionate share was estimated to be 0.25811%. The change in proportion since the prior measurement date was an increase of 0.01352%.

In accordance with GASB 68, for the year ended December 31, 2017, the Authority recognized pension expense of \$4,118,272, of which \$2,172,867 (the amount of the Authority’s 2017 contractually required pension contribution to the PERS) was recorded in the General Fund Revenues, Expenditures and Changes in Fund Balance. The amount of the Authority’s pension contribution due on April 1, 2018 is \$2,391,105. Pension expense is reported in the Authority’s financial statements as a component of administrative and general expenses.

The Authority’s contractually required contribution to the PERS for the year ended December 31, 2017 was \$2,172,867, which is 13.2% of annual covered payroll. Based on the recommendation of the State of New Jersey Department of the Treasury, the investment rate of return used to calculate the actuarially determined contribution effective with the July 1, 2017 valuation was 7.50% per annum. The Department of the Treasury recommendation also calls for the rate to be reduced further to 7.30% per annum effective with the July 1, 2019 valuation, and to 7.00% per annum effective with the July 1, 2021 valuation. The actuarially determined employer contribution amount, when combined with employee

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contributions, is expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability.

At December 31, 2017, the Authority's reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Net difference between projected and actual earnings on pension plan investments	\$ 409,129	\$ -
Differences between expected and actual experience	1,414,763	-
Changes in assumptions or other inputs	12,104,789	12,060,410
Changes in proportion	2,886,971	2,364,255
Contributions subsequent to the measurement date	2,391,105	-
Total deferred outflows and inflows of resources	\$ 19,206,757	\$ 14,424,665

Deferred outflows of resources of \$2,391,105 resulting from contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year 1 (2018)	\$ 1,500,809
Year 2 (2019)	1,500,809
Year 3 (2020)	1,400,899
Year 4 (2021)	(1,089,793)
Year 5 (2022)	(921,737)
Total	\$ 2,390,987

Actuarial methods and assumptions

The collective total pension liability in the June 30, 2017 measurement date was determined by an actuarial valuation as of July 1, 2016, which was rolled forward to June 30, 2017. The key actuarial assumptions are summarized as follows:

Rate of inflation	2.25%
Salary increase:	
Through 2026	1.65% – 4.15% (based on age)
Thereafter	2.65% – 5.15% (based on age)
Investment rate of return	7.00%
Cost of living adjustment	None assumed

Mortality rates were based on the RP-2000 Mortality Table for Males and Females, as appropriate, with adjustments for future mortality improvements based on Scale AA.

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Discount rate

The discount rate used to measure the total pension liability was 5.00% as of June 30, 2017. This single blended discount rate was based on the long-term expected rate of return on pension plan investments of 7.00% and a municipal bond rate of 3.58% as of June 30, 2017, based on the Bond Buyer Go 20-Bond Municipal Bond Index which includes tax-exempt general obligation municipal bonds with an average rating of AA/Aa or higher. The contribution percentage is the average percentage of the annual actual contribution paid over the annual actuarially determined contribution during the most recent five-year period. Based on those assumptions, the Plan's fiduciary net position was projected to be available to make projected future benefit payments of current Plan members through 2040. Accordingly, the long-term expected rate on Plan investments was applied to projected benefit payments through 2040 and the municipal bond rate was applied to projected benefit payments after that date in determining the total pension liability.

Expected rate of return on investments

The long-term expected rate of return on Plan investments was determined using a building block method in which best estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

The target asset allocation and best estimate of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Absolute return/risk mitigation	5.00%	5.51%
Cash equivalents	5.50%	1.00%
U.S. Treasuries	3.00%	1.87%
Investment grade credit	10.00%	3.78%
Public high yield	2.50%	6.82%
Global diversified credit	5.00%	7.10%
Credit oriented hedge funds	1.00%	6.60%
Debt related private equity	2.00%	10.63%
Debt related real estate	1.00%	6.61%
Private real asset	2.50%	11.83%
Equity related real estate	6.25%	9.23%
U.S. equity	30.00%	8.19%
Non-U.S. developed markets equity	11.50%	9.00%
Emerging markets equity	6.50%	11.64%
Buyouts/venture capital	8.25%	13.08%

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Sensitivity of the Authority’s proportionate share of the net pension liability to changes in the discount rate

The following presents the Authority’s proportionate share of the net pension liability calculated using the discount rate of 5.00% as well as the proportionate share of the net pension liability using a 1.00% increase or decrease from the current discount rate:

	1% Point Decrease	Discount Rate Assumption	1% Point Increase
PERS (4.00%, 5.00%, 6.00%)	\$74,537,870	\$60,083,669	\$48,041,530

Pension plan fiduciary net position

Detailed information about the Plan’s fiduciary net position is available in a separately issued financial report. 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. Information on the total Plan funding status and progress, required contributions and trend information is available on the State’s web site at www.state.nj.us/treasury/pensions/annrprts.shtml in the Comprehensive Annual Financial Report of the State of New Jersey, Division of Pensions and Benefits.

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

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

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Notes to Financial Statements (Continued)

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, 2017, the Authority had 10 active employees enrolled in the DCRP and made matching contributions totaling \$9,705. Employer matching contributions relating to 2016, 2015 and 2014 totaled \$12,019, \$11,485 and \$9,239, respectively.

(c) Deferred Compensation

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

(d) Other Postemployment Benefits

Plan description and benefits provided. The Authority provides postemployment healthcare benefits (including Medicare Part B reimbursement) and prescription drug coverage through participation in the New Jersey State Health Benefits Program, as sponsored and administered by the State of New Jersey, to eligible retirees having either: (1) 25 years or more of service in the PERS if hired on or prior to June 28, 2011, or; (2) 30 years or more of service in the PERS if hired after June 28, 2011, or (3) to those individuals approved for disability retirement. These postemployment benefits also extend to the retirees’ covered dependents. Health benefits and prescription benefits provided by the plan are at no cost to eligible retirees who had accumulated at least 20 years of service credit as of June 30, 2010; all other eligible retirees must contribute a portion of the premium costs based on the applicable percentage of premium as determined by the annual retirement allowance. A minimum contribution of 1.5% of the monthly retirement allowance is required. 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 at no cost to the Authority and the retiree in an amount equal to 3/16 of their average salary during the final 12 months of active employment. The State pays the cost of this benefit. The State has the authority to establish and amend the benefit provisions offered and contribution requirements. The plan is considered a single employer defined benefit plan for financial reporting purposes. The Authority has elected to fund postretirement health benefits on a pay-as-you-go basis since it 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. Therefore, no plan assets exist in a trust that meets the specified criteria in paragraph 4 of GASB 75.

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Notes to Financial Statements (Continued)

Retirees and employees covered by OPEB Plan

At December 31, 2017, the following employees were covered by the benefit terms:

Retired employees and/or beneficiaries currently receiving benefit payments	24
Active employees	211
Total	235

Total OPEB liability

The Authority’s total OPEB liability of \$25,290,074 was measured as of January 1, 2017, and was based upon an actuarial valuation as of January 1, 2016. The results of the January 1, 2016 valuation were rolled forward to January 1, 2017. The Authority has fully recognized this liability in the statement of net position as of December 31, 2017 in accordance with GASB 75.

Actuarial methods and assumptions

The total OPEB liability in the January 1, 2017 actuarial valuation was determined using the following actuarial assumptions and other inputs, applied to all periods included in the measurement, unless otherwise specified:

Rate of inflation		2.50%
Annual salary increases		3.00%
Discount rate		3.76%
Retirees’ share of benefit related premium costs	None for retirees with at least 20 years of service credit as of June 30, 2010. All other retirees to contribute based on the applicable percentage of premium as determined by the annual retirement allowance. A minimum contribution of 1.5% of the retirement allowance is required.	

The entry age - level percent-of-pay actuarial cost method was used. No investment return was assumed in the current valuation since there are no OPEB plan assets. The discount rate was based on the average of the S&P Municipal Bond 20 Year High Grade and Fidelity GO AA-20 Year published yields.

The actuarial valuation included the use of the latest available mortality improvement scale published by the Society of Actuaries (“SOA”). The assumed mortality is the SOA RPH-2014 Adjusted to 2006 Total Dataset Headcount-weighted mortality with Scale MP-2016 full generational improvement. The actuarial assumptions used in the December 31, 2016 valuation report and the December 31, 2017 roll forward report were derived

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Notes to Financial Statements (Continued)

from the results of an actuarial experience study for the period 1950-2013 based on Social Security Administration (“SSA”) mortality data.

The annual healthcare cost inflation rate for retiree benefits is 10.5% for prescription drug and 5.9% for Medical-Pre Medicare for 2017. The trend on prescription drug costs is assumed to reach an ultimate rate of 5% in 2026. The trend on medical-pre Medicare costs is assumed to reach an ultimate rate of 5% in 2027. A flat trend of 4.5% to ultimate is assumed to apply to medical-post Medicare costs and Medicare Part B premium reimbursements.

The actuarial valuation included the impact of the healthcare reform law (i.e., excise “Cadillac” tax). Accordingly, a 10% load is applied to the present value costs results.

The decrement assumptions (i.e., retirement, turnover and disability) and age based costs for the Authority were estimated using information from the State of New Jersey Health Benefits Program OPEB report dated June 30, 2016. The age-based costs include medical and prescription drug with a reduction in prescription drug costs for the Employer Group Waiver Plan (“EGWP”) for those on Medicare.

As required for any actuarial valuation with a measurement date on or after March 31, 2015, Actuarial Standard of Practice No. 6, *Measuring Retiree Group Benefits Obligations and Determining Retiree Group Benefits Program Periodic Costs or Actuarially Determined Contributions*, was used in performing the Authority’s actuarial valuation for OPEB.

Changes in total OPEB liability

Service cost	\$ 1,634,702
Interest cost	927,740
Changes in benefit terms	-
Differences between actual and expected experience	-
Changes in assumptions	(1,476,238)
Benefit payments	<u>(297,093)</u>
Net change in total OPEB liability	789,111
Total OPEB liability – beginning of year	<u>24,500,963</u>
Total OPEB liability – end of year	<u><u>\$ 25,290,074</u></u>

The schedule of changes in the Authority’s total OPEB liability and related ratios are presented for multiple years as required supplementary information following the notes to financial statements.

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Notes to Financial Statements (Continued)

Sensitivity of the total OPEB liability to changes in the discount rate

The following presents the total OPEB liability of the Authority, as well as what the Authority's total OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower or 1-percentage-point higher than the discount rate assumed for the current valuation:

	1% Point Decrease	Discount Rate Assumption	1% Point Increase
Total OPEB liability (2.76%, 3.76%, 4.76%)	\$31,249,432	\$25,290,074	\$20,719,321

Sensitivity of the total OPEB liability to changes in the healthcare cost trend rates

The following presents the total OPEB liability of the Authority, as well as what the Authority's total OPEB liability would be if it were calculated using healthcare cost trend rates that are 1-percentage-point lower or 1-percentage-point higher than assumed for the current valuation:

	1% Point Decrease	Healthcare Cost Trend Assumption	1% Point Increase
Total OPEB liability (3.5%, 4.5%, 5.5%)	\$19,691,064	\$25,290,074	\$32,984,680

OPEB expense and deferred outflows of resources and deferred inflows of resources

For the year ended December 31, 2017, the Authority recognized OPEB expense of \$2,464,952 in the statement of activities as a component of administrative and general expenses. The accumulated amount of deferred outflows of resources and deferred inflows of resources are as follows:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ -	\$ -
Changes in assumptions	-	1,370,792
Contributions subsequent to the measurement date and prior to reporting date	330,000	-
Total deferred outflows and inflows of resources	\$ 330,000	\$ 1,370,792

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Notes to Financial Statements (Continued)

Deferred inflows and outflows of resources related to OPEB will be recognized in OPEB expense as follows:

Year 1 (2018)	\$ (105,446)
Year 2 (2019)	(105,446)
Year 3 (2020)	(105,446)
Year 4 (2021)	(105,446)
Year 5 (2022)	(105,446)
Year 6 (2023) and thereafter	(843,562)
Total	<u>\$ (1,370,792)</u>

12. Compensated Absences

In accordance with GASB Statement No. 16, *Accounting for Compensated Absences*, the Authority recorded a liability in the amount of \$1,287,359 as of December 31, 2017 in the statement of net position. The liability is the value of employee accrued vacation time as of the balance sheet date and vested sick leave benefits that are probable of payment to employees upon retirement. The vested sick leave benefit to future retirees for unused accumulated sick leave is calculated at the lesser of ½ the value of earned time or \$15,000. The payment of sick leave benefits, prior to retirement, is dependent on the occurrence of sickness as defined by the Authority's policy; therefore, such unvested benefits are not accrued.

13. Long-Term Liabilities

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

	Beginning Balance		Additions		Deductions		Ending Balance
Accrued school facilities							
project costs	\$ 12,159,047	\$	-	\$	(2,873,965)	\$	9,285,082
Net pension liability	72,439,355		-		(12,355,686)		60,083,669
Total other postemployment							
benefits liability	24,500,963		789,111		-		25,290,074
Accrued OPEB payable	-		330,000		-		330,000
Accrued pension payable	2,172,867		2,391,105		(2,172,867)		2,391,105
Compensated absences	1,310,974		-		(23,615)		1,287,359
Total long-term liabilities	<u>\$ 112,583,206</u>	<u>\$</u>	<u>3,510,216</u>	<u>\$</u>	<u>(17,426,133)</u>	<u>\$</u>	<u>98,667,289</u>

For further information, see Notes 11 and 12.

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Notes to Financial Statements (Continued)

14. Net Position

The Authority's net position is categorized as either invested in capital assets, or restricted for schools construction. At December 31, 2017, the Authority's net position is \$392.7 million. Invested in capital assets includes leasehold improvements, automobiles, furniture and fixtures, equipment and computer software used in the Authority's operations, net of accumulated depreciation.

The changes in net position during 2016 and 2017 are as follows:

	Net Investment in Capital Assets	Restricted for Schools Construction	Totals
Net position, January 1, 2016	\$ 766,872	\$ 465,099,806	\$ 465,866,678
(Loss)/excess before receipt of EFCFA funding and transfers	(183,951)	(19,716,175)	(19,900,126)
Capital assets acquired	124,183	(124,183)	-
EFCFA funding received from State	-	342,573,648	342,573,648
School facilities project costs	-	(388,133,356)	(388,133,356)
Net position, December 31, 2016	707,104	399,699,740	400,406,844
(Loss)/excess before receipt of EFCFA funding and transfers	(208,888)	(15,977,531)	(16,186,419)
Capital assets acquired	24,699	(24,699)	-
EFCFA funding received from State	-	350,000,000	350,000,000
School facilities project costs	-	(341,479,691)	(341,479,691)
Net position, December 31, 2017	<u>\$ 522,915</u>	<u>\$ 392,217,819</u>	<u>\$ 392,740,734</u>

STATE OF NEW JERSEY
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REQUIRED SUPPLEMENTARY INFORMATION

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Schedule of Authority's Proportionate
Share of the Net Pension Liability

	<u>2017 *</u>	<u>2016</u>	<u>2015</u>
Authority's proportion of the net	0.25811%	0.24459%	0.26024%
Authority's proportionate share of the net pension liability	\$ 60,083,669	\$ 72,439,355	\$ 58,417,776
Authority's covered employee payroll	\$ 18,573,489	\$ 18,574,888	\$ 18,072,739
Authority's proportionate share of the net pension liability as a percentage of covered employee payroll	323.5%	390.0%	323.2%
Plan fiduciary net position as a percentage of the total pension liability	36.8%	31.2%	38.2%

* The amounts presented in the table above were determined as of June 30, 2017.

This schedule is intended to show information for 10 years. Additional years will be displayed as they become available.

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Schedule of Authority's Contributions
to the Public Employees' Retirement System (Continued)

Mortality

RP-2000 Employee Preretirement Mortality Table for male and female active participants. Mortality tables are set back 2 years for males and 7 years for females for 2016 through 2013. In addition, the tables provide for future improvements in mortality from the base year of 2013 using a generational approach based on the Plan actuary's modified MP-2014 projection scale. The RP-2000 Employee Preretirement Mortality table was used and was set back 2 years for males and 7 years for females for 2012, and was set back 4 years for females prior to 2012.

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Schedule of Changes in the Total Postemployment Benefits
Other Than Pensions (OPEB) Liability and Related Ratios

	<u>2017</u>	<u>2016</u>
Service cost	\$ 1,634,702	\$ 1,578,355
Interest cost	927,740	849,309
Changes in benefit terms	-	-
Differences between actual and expected experience	-	-
Changes in assumptions	(1,476,238)	-
Benefit payments	<u>(297,093)</u>	<u>(277,001)</u>
Net change in total OPEB liability	789,111	2,150,663
Total OPEB liability – beginning of year	<u>24,500,963</u>	<u>22,350,300</u>
Total OPEB liability – end of year	<u>\$ 25,290,074</u>	<u>\$ 24,500,963</u>
Covered employee payroll	\$ 18,451,700	\$ 17,954,600
Total OPEB liability as a percentage of covered employee payroll	137.06%	136.64%

This schedule is intended to show information for 10 years. Additional years will be displayed as they become available.

Notes to Schedule:

For 2017, there is a deferred inflow of resources resulting from a change in the discount rate from 3.57% to 3.76%.

No assets are accumulated in a trust that meets the criteria in paragraph 4 of GASB 75 to pay related benefits.