NJ Schools Construction Corporation
BUILDING 21ST CENTURY SCHOOLS FOR 21ST CENTURY LEADERS

TO:	The Office of the Governor and Members of the New Jersey State Legislature
FROM:	Scott Weiner, Transitional Chief Executive Officer
DATE:	April 10, 2006
RE:	NJSCC 2005 Audited Financial Statements

Pursuant to P.L.1974, c.80, s.4 (N.J.S.A. 34:1B-4j), enclosed please find the New Jersey Schools Construction Corporation's 2005 Financial Statements. I am pleased to inform you that Ernst & Young LLP has issued an unqualified (clean) opinion on the Corporation's 2005 financial statements.

This financial report consists of two parts: Management's Discussion and Analysis and the basic financial statements. Included in Management's Discussion and Analysis is a summary of the School Construction Program's activities during the 2005 fiscal year. The highlights for 2005 are as follows:

- Completed 25 major school facilities projects
- Issued 74 "Notices to Proceed" (NTPs) totaling $401 million to general contractors and nine NTPs totaling $13 million to architectural firms for design work
- Executed over 660 Section 15 grants totaling $532 million for non-Abbott schools
- Under the Small Business Enterprise program, obtained 70 contracts totaling $180 million for small, minority- and women-owned businesses across the State

Please do not hesitate to contact me with any questions or concerns. I look forward to working with you in the future.

Sincerely,

Scott Weiner

cc: Lucille E. Davy, Department of Education
Laurence Downes, Public Member and Audit Committee Chairman, NJSCC
Caren Franzini, Economic Development Authority
James F. Kelly, Department of the Treasury, Office of Management & Budget
Albert Porroni, Office of Legislative Services
Nancy Kaplen, Office of the Attorney General, Division of Law
Barry Zubrow, Chairman, NJSCC

FINANCIAL STATEMENTS

New Jersey Schools Construction Corporation
(a component unit of the State of New Jersey)

December 31, 2005

New Jersey Schools Construction Corporation
(a component unit of the State of New Jersey)

Financial Statements

December 31, 2005

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New Jersey Schools Construction Corporation
(a component unit of the State of New Jersey)

Management's Discussion and Analysis

Year ended December 31, 2005

This section of the New Jersey Schools Construction Corporation's (the "Corporation" or "SCC") annual financial report presents our discussion and analysis of the Corporation's financial performance during the fiscal year ended December 31, 2005. This management discussion and analysis should be read in conjunction with the Corporation's financial statements and accompanying notes.

Background

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

The New Jersey Educational Facilities Construction and Financing Act ("EFCFA") was enacted on July 18, 2000 by the Legislature in response to the New Jersey Supreme Court's decision in Raymond Abbott et al. v. Fred G. Burke, 153 N.J. 480 (1998). As a result of the EFCFA, the State is required to provide certain educational infrastructure improvements in the poor, urban school districts ("Abbott School Districts") so that students in these school districts can receive a thorough and efficient education, an explicit requirement of the New Jersey Constitution. The Corporation is responsible under the EFCFA for funding (full or partial), designing and constructing all school facilities projects in the Abbott School Districts, in districts eligible to receive 55% or more in State funding for education, and in districts that are designated as level II State monitoring by the New Jersey Department of Education ("DOE"). School facilities projects constructed in any of the 31 designated Abbott School Districts are eligible for full funding by the State. Additionally, the Corporation is responsible for providing grants to fund the State share of school facilities projects approved by the DOE in districts with a district aid percentage of less than 55%. Those districts, which receive less than 55% funding, may elect to have the Corporation undertake the construction of their school facilities projects.

The School Construction Program is the largest public construction program undertaken by the State of New Jersey and represents one of the largest school construction programs ever undertaken in the nation. The EFCFA provides for an aggregate $8.6 billion principal amount of bond proceeds ("EFCFA funding") to be issued by the NJEDA and transferred to the Corporation. Of this amount, $6 billion is slated for the Abbott School Districts, $2.5 billion is for non-Abbott districts, and $100 million is for vocational schools. Through December 31, 2005, the Corporation has received $5.521 billion of the allotted $8.6 billion principal amount of bond proceeds authorized for the School Construction Program. In addition, as of that date, the Corporation has disbursed approximately 49.7% of the current total funding, as follows:

	EFCFA Funding	Total Funding[1]	Disbursements	% Paid
Abbott Schools	$6,000,000,000	$6,046,872,609	$3,085,894,662	51.0%
Non-Abbott Schools	2,500,000,000	2,518,948,068	1,161,144,963	46.1%
Vocational Schools	100,000,000	100,756,451	58,920,285	58.5%
Totals	$8,600,000,000	$8,666,577,128	$4,305,959,910	49.7%

[1] Includes EFCFA funding as well as other income and miscellaneous revenue of $66.6 million earned through December 31, 2005, consisting primarily of interest income on invested funds and State appropriations received prior to 2003.

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

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

Recent Legislative Developments

In November 2005, the citizens of the State elected a new Governor, Jon S. Corzine, who subsequently was sworn into office on January 17, 2006. On February 7, 2006, Governor Corzine signed Executive Order #3 ("E.O. #3") to facilitate review and reform at the Corporation. For a summary of E.O. #3, see Note 13 of the Notes to Financial Statements.

Governor Corzine also appointed five individuals to serve as public members on the Corporation's Board of Directors. Public members are directly appointed by the Governor, serve three-year terms without compensation, and are eligible for reappointment.

Significant Business Developments

To date, in the 31 Abbott districts the Corporation has completed the construction of 16 new schools and rehabilitation of or additions to 25 schools amounting to $588 million. The Corporation has also completed 354 health and safety projects in the Abbott districts amounting to $817 million. Currently, there are 69 Abbott projects in various stages of completion for new construction, renovations, or rehabilitations. As discussed below, work has also been initiated on the list of 59 Abbott projects that were recently approved to advance for construction. The Corporation is also moving forward on six “demonstration projects” in Union City, Trenton, Vineland, New Brunswick, Camden and East Orange with a construction cost estimate of approximately $543 million. These projects incorporate community-oriented features such as athletic venues, childcare centers, health clinics and media centers accessible to both students and residents. Lastly, to date the Corporation has executed 2,406 Section 15 Grant Agreements totaling $2.1 billion for non-Abbott schools.

For the year ended December 31, 2005, the School Construction Program had many achievements, including the following:

- Participated in “ribbon cutting” ceremonies throughout the State, in both Abbott and non-Abbott school districts, to commemorate the successful completion of 25 major school facilities projects managed by the Corporation.
- Issued 74 “Notices To Proceed” (“NTPs”) totaling $401 million to general contractors, and nine NTPs totaling $13 million to architectural firms for design work.
- Under the Small Business Enterprise program, obtained 70 contracts totaling $180 million for small businesses across the State.
- Acquired 150 properties valued at $54 million for school sites.
- Executed 663 Section 15 Grant Agreements totaling $532 million for non-Abbott schools.

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

	$ In thousands				
	2005	**2004**	**2003**	**2002**	**2001**
EFCFA funding and appropriations received from State	$2,075,000	$1,700,000	$607,929	$585,900	$555,726
Investment earnings	17,473	8,098	5,488	9,991	18,863
Project costs	1,466,536	1,374,637	1,096,481	460,971	18,968
Administrative expenses and program costs	29,127	27,950	22,135	10,116	6,780
Capital expenditures	194	844	7,610	1,440	1,735
Employee count (actual)	240	250	204	96	53

Recently, it has become more apparent that the $8.6 billion earmarked for the School Construction Program wasn’t nearly enough to complete all of the projects for which the Corporation received transmittals from the DOE. This is partially due to the fact that the cost estimates envisioned for the School Construction Program were based on data that was outdated at the time the EFCFA was enacted. Moreover, these cost estimates did not include such costs as: land acquisition; relocation of homeowners, tenants and businesses; historic preservation; environmental remediation and demolition; the cost to provide temporary classroom units and swing space; and the creation of an additional Abbott district. As a result, by the middle of 2005, the Corporation had either expended or committed to expend most of the monies allocated to the Abbott districts. In order to determine how to commit any remaining Abbott funding, the Board of Directors selected 59 projects to advance for construction. The Corporation then suspended work on any project that was either not in construction or on this list of 59. This resulted in a number of projects for which work is not proceeding at this time. In light of these developments, the Corporation instituted a number of changes in 2005, the most significant of which are as follows:

- In July 2005, the Board of Directors approved 59 Abbott School District projects in various stages of design and pre-development to advance for construction. A Special Committee of the Board of Directors, which included a representative from each of the DOE, the Attorney General's Office and the Governor's Office, selected the projects to advance based on certain educational and programmatic criteria, as well as an equitable distribution of funding.
- The Corporation suspended design contracts for projects outside the capital plan resulting in immediate cost savings.
- A new Operating Authority policy was adopted which, among other things, removes the potential for only one person to approve contracts or payments, and requires a financial review by the newly formed Office of the Chief Financial Officer.
- The Corporation developed a new policy for governing, approving and processing construction change orders. The process incorporates the newly formed Change Order Review Unit, which ensures that requested change orders are consistently justified and the resulting impact to cost and/or schedule is reasonable and appropriate.
- The Corporation adopted a new policy regarding the reuse of architectural designs that provides for the procurement of architectural services for which the same design can be used effectively for multiple school facilities projects. In addition, the Corporation is in the process of finalizing guidelines for the use of standardized designs and construction materials in SCC managed projects. It is expected that these measures will provide cost savings and efficiencies.
- A policy was adopted that prohibits the Corporation from accepting bids on any project not having 100% complete drawings, which is expected to minimize the need for substantial design modifications and related construction change orders, thereby reducing costs. Also, to avoid or reduce design change orders, the SCC no longer accepts modifications to the project scope from the DOE after the design contract has been awarded. Furthermore, all construction change orders must indicate whether it appears that the work included in the change order was due to a design error or omission.
- Comprehensive land acquisition guidelines were adopted which articulate and formalize the SCC's policies and procedures with respect to the land acquisition process, including identifying suitable land sites for school facilities.

- A monthly "Project Cost Report" was developed to help the Corporation manage and track the status of school facilities projects. Among other things, the report lists all of the contracts related to an individual project, provides a budget for each category of project expenditure and tracks actual expenditures against the approved project budgets. In addition, to further its effort to effectively manage school facilities projects, the Corporation has decided to purchase and implement state-of-the-art project management software, which is expected to be fully operational in mid-2006.
- Internal auditing was outsourced to a "Big 4" public accounting firm to enhance our internal auditing capabilities.

With respect to non-Abbott funding, the Corporation has determined that the $2.5 billion available under the EFCFA has already been either expended or committed to be spent. As a result, the Corporation is currently unable to award any new funding grants to non-Abbott school districts under the School Construction Program. The DOE has informed the under-55% districts that if they are still considering obtaining voter approval for any school facility project, the district should request that such project be funded by either a State grant, if such monies become available in the future, or by State debt service aid pursuant to the EFCFA.

In addition, the $100 million available under the EFCFA for county vocational schools has either been expended or committed to be spent.

Thus, as of December 31, 2005, all funds under the statutory bonding cap pursuant to the EFCFA have either been expended or committed to be spent. Until and unless the bonding cap is increased, the School Construction Program will neither undertake any new school facilities projects nor provide any new funding grants. There can be no assurance that the Corporation will receive additional funding above the $8.6 billion authorized by the State under the EFCFA.

The Corporation does not have an economic interest in any school facility project. With the exception of interest income on invested funds, the Corporation 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 project costs in the statement of activities. Administrative expenses and program costs, considered to be eligible project costs under EFCFA, but not identifiable to a specific project, are also paid from EFCFA funding.

2005 Financial Highlights

- The Corporation's total net assets were $1.069 billion
- Cash and investments were $1.366 billion
- Total revenues were $2.093 billion, $2.075 billion of which was EFCFA funding received from the State (or 99.1%)
- Total expenses were $1.498 billion, $1.467 billion of which were Project Costs (or 97.9%)
- Excess of general fund revenues over expenses was $620.3 million

Overview of the Financial Statements

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

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

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

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

The focus of governmental fund financial statements is on near-term inflows and outflows of spendable resources as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating the Corporation'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 Corporation's near-term financing decisions. Both the fund balance sheet and the financial statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison.

Financial Analysis of the Corporation

Net Assets - The Corporation's net assets increased to $1.069 billion at year-end, primarily due to the receipt of $2.075 billion of EFCFA funding during the year exceeding incurred expenses.

The following table summarizes the Corporation's financial position at December 31, 2005 and 2004.

	$ In thousands			
	2005	**2004**	**$ Increase/ (Decrease)**	**% Increase/ (Decrease)**
Current assets	$1,367,038	$581,206	$785,832	135.2 %
Capital assets-net	7,855	9,788	(1,933)	(19.7)%
Total assets	1,374,893	590,994	783,899	132.6 %
Current liabilities	282,618	117,076	165,542	141.4 %
Non-current liabilities	23,563	527	23,036	4,372.4 %
Total liabilities	306,181	117,603	188,578	160.4 %
Net assets:				
Invested in capital assets	7,855	9,788	(1,933)	(19.7)%
Restricted for Qualified Zone Academies	3,539	38,885	(35,346)	(90.9)%
Restricted for Schools Construction Special Revenue Fund	1,057,318	424,718	632,600	148.9 %
Total net assets	$1,068,712	$473,391	$595,321	125.8 %

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

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

The following table summarizes the change in net assets for the years ended December 31, 2005 and 2004.

	$ In thousands			
	2005	**2004**	**$ Increase/ (Decrease)**	**% Increase/ (Decrease)**
Revenues				
EFCFA funding received from State	$2,075,000	$1,700,000	$ 375,000	22.1 %
Bidding fees-plans and specs	78	230	(152)	(65.9)%
Investment earnings	17,473	8,098	9,375	115.8 %
Rental property income	553	126	427	339.2 %
Other revenue	7	-	7	N/A
Total revenues	2,093,111	1,708,454	384,657	22.5 %

	$ In thousands			
	2005	**2004**	**$ Increase/ (Decrease)**	**% Increase/ (Decrease)**
Expenses				
Administrative expenses	27,637	26,387	1,250	4.7 %
Program costs	1,490	1,563	(73)	(4.7) %
Depreciation	2,127	1,164	963	82.8 %
Project costs	1,466,536	1,374,637	91,899	6.7 %
Total expenses	1,497,790	1,403,751	94,039	6.7 %
Change in net assets	595,321	304,703	290,618	95.4 %
Net assets, beginning of year	473,391	168,688	304,703	180.6 %
Net assets, end of year	$1,068,712	$ 473,391	$ 595,321	125.8 %

Contacting the Corporation's Financial Management

This financial report is designed to provide New Jersey citizens and taxpayers, and the Corporation's customers, clients and creditors, with a general overview of the Corporation's finances and to demonstrate the Corporation'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, NJSCC, P.O. Box 991, Trenton, NJ 08625-0991, or visit our web site at: **www.njscc.com**.

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Report of Independent Auditors

Members of the Corporation
New Jersey Schools Construction Corporation

We have audited the accompanying basic financial statements of the New Jersey Schools Construction Corporation (the "Corporation"), a component unit of the State of New Jersey, as of December 31, 2005 and for the year then ended as listed in the table of contents. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the New Jersey Schools Construction Corporation as of December 31, 2005, and the changes in its financial position for the year then ended in conformity with accounting principles generally accepted in the United States.

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

Ernst + Young LLP

February 21, 2006, except for Note 13,
as to which the date is March 15, 2006

New Jersey Schools Construction Corporation
(a component unit of the State of New Jersey)

Statement of Net Assets and General Fund Balance Sheet

December 31, 2005

	General Fund Total	Adjustments (Note 8)	Statement of Net Assets
Assets			
Cash and cash equivalents	$1,366,305,039		$1,366,305,039
Receivables	553,653		553,653
Prepaid expenses	178,913		178,913
Capital assets-net of accumulated depreciation of $3,969,989		$7,855,137	7,855,137
Total assets	1,367,037,605	7,855,137	1,374,892,742
Liabilities			
Accrued project expenditures	195,886,672	23,000,000	218,886,672
Other accrued liabilities	1,946,675	562,421	2,509,096
Deposits	84,784,669		84,784,669
Total liabilities	282,618,016	23,562,421	306,180,437
Fund Balances and Net Assets			
Fund balances:			
Reserved for prepaids	178,913	(178,913)	
Reserved for qualified zone academies	3,539,457	(3,539,457)	
Unreserved-designated for schools construction special revenue fund	1,080,701,219	(1,080,701,219)	
Total fund balances	1,084,419,589	(1,084,419,589)	
Total liabilities and fund balances	$1,367,037,605		
Net Assets			
Invested in capital assets		7,855,137	7,855,137
Restricted for qualified zone academies		3,539,457	3,539,457
Restricted for schools construction special revenue fund		1,057,317,711	1,057,317,711
Total net assets		$1,068,712,305	$1,068,712,305

See accompanying notes.

New Jersey Schools Construction Corporation
(a component unit of the State of New Jersey)

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

Year ended December 31, 2005

	General Fund Total	Adjustments (Note 8)	Statement of Activities
Revenues			
School Construction Program:			
EFCFA funding received from State	$2,075,000,000		$2,075,000,000
Bidding fees-plans and specs	78,600		78,600
General:			
Investment earnings	17,472,686		17,472,686
Rental property income	552,675		552,675
Other revenue	7,322		7,322
Total revenues	2,093,111,283		2,093,111,283
Expenditures/Expenses			
Personnel and benefits	21,294,338	$ 35,582	21,329,920
General and administrative	6,307,419		6,307,419
Program costs	1,489,763		1,489,763
Capital expenditures	194,394	(194,394)	-
Capital depreciation		2,127,141	2,127,141
Project costs	1,443,535,310	23,000,000	1,466,535,310
Total expenditures/expenses	1,472,821,224	24,968,329	1,497,789,553
Excess of revenues over expenditures	620,290,059	(24,968,329)	
Change in net assets			595,321,730
Fund Balance/Net Assets			
Beginning of year, January 1, 2005	464,129,530	9,261,045	473,390,575
End of year, December 31, 2005	$1,084,419,589	$(15,707,284)	$1,068,712,305

See accompanying notes.

Notes to Financial Statements

1. Nature of the Corporation

The New Jersey Schools Construction Corporation (the "Corporation") is a subsidiary organization of the New Jersey Economic Development Authority ("NJEDA") and a component unit of the State of New Jersey ("State"). The Corporation was created on October 1, 2002, pursuant to N.J.S.A. 34:1B-159 and Executive Order #24 as a subsidiary of the NJEDA, to assume all the responsibilities and obligations conferred upon the NJEDA pursuant to the Educational Facilities Construction and Financing Act, P.L.2000, c.72 ("EFCFA"), except the power to incur indebtedness. The Corporation is governed by its own Board of Directors and is fiscally dependent upon the State for its funding.

The EFCFA was adopted by the Legislature in response to the New Jersey Supreme Court's decision in Raymond Abbott et al. v. Fred G. Burke, 153 N.J. 480 (1998), which requires the State to provide certain educational infrastructure improvements in the poor, urban school districts ("Abbott School Districts"). The EFCFA provides for an aggregate $8.6 billion principal amount of bond proceeds ("EFCFA funding") to be issued by the NJEDA and transferred to the Corporation. Of this amount, $6 billion is slated for the Abbott School Districts, $2.5 billion is for non-Abbott districts, and $100 million is for vocational schools. Pursuant to the EFCFA, the Corporation is responsible for the design and construction of school facilities in the Abbott School Districts, in districts that receive 55% or more State funding for education, and districts that are designated as level II State monitoring by the New Jersey Department of Education ("DOE"). School facilities projects constructed in any of the 31 designated Abbott School Districts are eligible for full funding by the State. Additionally, the Corporation is responsible for providing grants to fund the State share of school facilities projects approved by DOE in districts with a district aid percentage of less than 55%. Those districts that receive less than 55% funding may elect to have the Corporation undertake the construction of their school facilities projects.

The Corporation has reviewed its current operating cost obligations, together with outstanding commitments, and has determined that it has sufficient resources available to satisfy these anticipated expenditures through at least January 1, 2007. Accordingly, the accompanying financial statements have been prepared on the basis that the Corporation will continue to operate as a going concern, which assumes the realization of assets and payments of liabilities in the ordinary course of business.

As discussed above, the Corporation has assessed the status of its ongoing operations and outstanding construction projects and its ability to meet its contractual commitments. Currently, there are 69 Abbott school projects in various stages of construction, all of which the Corporation expects will be completed within the remaining authorized EFCFA funding. The Corporation anticipates that the majority of these projects in construction will be completed during 2006, with the remaining projects expected to be completed in 2007. The Corporation has also identified 59 additional Abbott projects in various stages of design that were approved for construction in 2005 as part of the Corporation's Capital Plan. The DOE, in conjunction with the Corporation, is currently in the process of reviewing and prioritizing these projects to determine which can be constructed with any remaining available funds. The DOE and the Corporation are also reviewing numerous other projects in various stages of design and pre-development that were suspended due to the lack of available funding. Once this review and prioritization is completed, the Corporation will neither undertake any additional school facilities projects nor provide any new funding grants to school districts unless additional funding is provided by the State. There can be no assurance that the Corporation will receive additional funding above the $8.6 billion authorized by the State under the EFCFA. See Note 13 for information regarding recent legislative developments and the potential reorganization of the Corporation.

2. Summary of Significant Accounting Policies

(a) Government-Wide and Fund Financial Statements

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

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific program. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment, and 2) 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 Corporation's general fund. Because the Corporation operates a single governmental program, its government-wide and general fund financial statements have been combined using a columnar format that reconciles individual line items of general fund financial data to government-wide data in a separate column on the face of the financial statement.

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

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

The Corporation's general fund is classified as a governmental fund and its financial statements are reported using the current financial resources measurement focus and the modified basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Corporation considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting; however, expenditures related to compensated absences are recorded only when payment is due.

(c) Revenue Recognition

The Corporation charges a minimal fee during the bidding process for copies of the design plans and specifications as specified in the construction project advertisements. Rental revenue is received under a month-to-month lease occupancy agreement. Acquisitions of various properties for the construction of school facilities projects generate rental revenue prior to the relocation of the occupants. Fees and rental revenues are recognized when received.

(d) Cash Equivalents

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

(e) Prepaid Expenses

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

(f) Capital Assets

Capital assets, which include property, plant and equipment, are reported in the governmental activity column in the government-wide financial statements. Such assets are recorded at historical cost or estimated historical cost if purchased and constructed. The Corporation's current capitalization threshold is $10,000 for individual items meeting all other capitalization criterion. As of December 31, 2005, the Corporation's capital assets consist of leasehold improvements, equipment, and furniture and fixtures. Depreciation is provided by the straight-line method over the shorter of the life of the lease or the useful life of the related asset. The Corporation has leases ranging from 60 to 136 months.

(g) Taxes

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

(h) 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.

(i) Recently Issued GASB Standard

In June 2004, the Government Accounting Standards Board ("GASB") issued Statement No. 45, "*Accounting and Financial Reporting by Employers for Postretirement Benefits Other Than Pensions,"* which establishes standards of accounting and financial reporting for other postretirement benefits ("OPEB") expense and related OPEB liabilities or assets, financial statement disclosures and required supplementary information. While the Corporation is not required to implement Statement No. 45 until fiscal year ending December 31, 2007, early adoption is encouraged by the GASB. As of December 31, 2005, the Corporation has not determined the future impact of Statement No. 45 on its financial statements.

3. Cash, Cash Equivalents and Investments

(a) Cash Flows

Overall cash and cash equivalents increased during the year by approximately $786 million to $1.366 billion as follows:

EFCFA funding received from State	$ 2,075,000,000
Investment and interest income	17,472,686
Local share deposits, net	53,295,641
Project costs	(1,332,923,106)
SCC administrative and program costs	(27,460,855)
Other, net	542,274
Total increase in cash and cash equivalents	$ 785,926,640

(b) Cash and Cash Equivalents

Operating cash, in the form of Negotiable Order of Withdrawal (“NOW”) accounts, is held in the Corporation’s name by a commercial banking institution. At December 31, 2005, the carrying amount of the Corporation’s operating cash account was $160,632 and the bank balance was $430,304. Regarding the bank balance, $100,000 is insured with Federal Deposit Insurance.

Pursuant to GASB Statement No. 40, “Deposit and Investment Risk Disclosures” (“GASB 40”), 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: 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, 2005, all of the Corporation’s deposits were collateralized by securities held in its name and, accordingly, not exposed to custodial credit risk. The Corporation does not have a policy for custodial credit risk.

As of December 31, 2005, cash and cash equivalents include $84.7 million for local share deposits (see Note 5).

(c) Investments

In order to maximize liquidity, the Corporation utilizes the NJCMF as its sole investment. The NJCMF invests pooled monies from various State and non-State agencies in primarily short-term investments. These investments include: U.S. Treasuries, short-term Commercial Paper, U.S. Agency Bonds, Corporate Bonds, and Certificates of Deposit. Agencies that participate in the NJCMF typically earn returns that mirror short-term investment rates. Monies can be freely added or withdrawn from the NJCMF on a daily basis without penalty. At December 31, 2005, the Corporation's investments in the NJCMF totaled $1,366,144,407.

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

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

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

4. Prepaid Expenses

As of December 31, 2005, the Corporation's prepaid expenses are as follows:

Office rents	$156,861
Other	22,052
Total prepaid expenses	$178,913

5. Deposits

The Corporation has received funds from several local school districts as required by Section 13(B) Local Share Agreements for the funding of the local share portion of non-Abbott school facility projects, or to cover certain ineligible costs pertaining to projects in the Abbott School Districts. These deposits, including investment earnings, are reflected as liabilities in the accompanying financial statements.

As of December 31, 2005, deposits held in bank accounts are as follows:

Egg Harbor Township	$23,303,988
Barnegat Township	22,110,388
Clark Township	17,805,862
Cumberland Township	6,635,405
Harrison Township	6,191,711
Burlington City	2,212,184
City of Newark	2,191,319
Fairfield Township	1,688,493
Manchester Township	1,130,489
Other local share deposits	1,390,911
Total local share deposits	84,660,750
Other deposits	123,919
Total deposits	$84,784,669

6. Rental of Office Space

The Corporation rents commercial office space that is utilized by its staff at its Trenton Headquarters, Jersey City, Newark, and West Paterson Regional Offices. Total rental expense for the year ended December 31, 2005 amounted to $1,895,811. Future rent commitments under operating leases are as follows:

2006	$ 1,778,203
2007	1,979,342
2008	2,034,117
2009	1,574,033
2010	1,508,962
2011-2014	3,649,456
Total future rent expense	$12,524,113

7. Capital Assets

Capital asset activity for the year ended December 31, 2005 is as follows:

	Beginning Balance	Additions	Retirements	Ending Balance
Leasehold improvements	$ 7,727,448	$ -	$ -	$ 7,727,448
Furniture and fixtures	2,883,748	154,070	-	3,037,818
Equipment	1,019,536	40,324	-	1,059,860
Capital assets-gross	11,630,732	194,394	-	11,825,126
Less: accumulated depreciation	1,842,848	2,127,141	-	3,969,989
Capital assets-net	$ 9,787,884	$(1,932,747)	$ -	$ 7,855,137

8. Reconciliation of Government-Wide and Fund Financial Statements

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

"Total fund balances" for the Corporation's general fund ($1,084,419,589) differs from the "net assets" reported on the statement of net assets ($1,068,712,305). This difference results from the long-term economic focus of the statement of net assets versus the current financial resources focus of the fund balance sheet. When capital assets (leasehold improvements, equipment, and furniture and fixtures) that are to be used in the Corporation's activities are constructed or acquired, the costs of those assets are reported as expenditures in the fund financial statements. However, the statement of net assets includes those capital assets among the assets of the Corporation as a whole. In addition, expenses associated with depreciation and noncurrent compensated absences are not recorded in the fund financial statements.

Fund balances	$1,084,419,589
Capital assets, net of related depreciation of $3,969,989	7,855,137
Accrued project expenditures	(23,000,000)
Compensated absences	(562,421)
Net assets	$1,068,712,305

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

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

Excess of revenues over expenditures	$620,290,059
Capital asset acquisitions	194,394
Depreciation expense	(2,127,141)
Project costs	(23,000,000)
Compensated absences	(35,582)
Changes in net assets	$595,321,730

9. Commitments and Contingencies

(a) Contractual Commitments

At December 31, 2005, the Corporation has approximately $2.385 billion of unaccrued contractual commitments relating to future school facilities project expenditures.

(b) Contractor Claims

Numerous contractor claims not involving lawsuits have been filed with the Corporation by design consultants, general contractors and project management firms for disputes concerning school construction matters (e.g., delays, labor and material price increases). The Corporation resolves contractor claims by following the administrative process noted in the relevant contract. As of December 31, 2005, the potential loss for these claims has been reasonably estimated to be approximately $12 million. Accordingly, in December 2005, the Corporation accrued a liability of $12 million on the Statement of Net Assets & General Fund Balance Sheet and recorded a corresponding charge to project costs on the Statement of Activities & General Fund Revenues, Expenditures and Changes in Fund Balances.

(c) Litigation and Insurance

During construction of the Dr. Martin Luther King, Jr. Middle School ("MLK") in Trenton, New Jersey, Turner Construction Company ("Turner"), the firm contracted by the Corporation to construct the new school facility, is alleged to have brought contaminated fill onto the site consisting of recycled concrete aggregate and other materials. Testing of samples of the fill material collected on the site has revealed the presence of several hazardous substances. The MLK site is owned by the Trenton Board of Education ("TBOE"), which filed a lawsuit against the Corporation, Turner and others demanding, among other things, remediation of the site as well as costs and damages. TBOE is demanding that the contaminated fill be removed from the site and replaced with clean fill, which will also require that the partially-constructed school be torn down and rebuilt ("TBOE's demand"). The New Jersey Department of Environmental Protection ("NJDEP") has issued a Directive and Notice to Insurers dated September 21, 2005, and a Supplemental Directive and Notice to Insurers dated October 24, 2005, ("NJDEP Directives") which, among other things, require the Corporation to comply with TBOE's demand. The Corporation has indicated its intention to fully comply with the NJDEP Directives, including TBOE's demand. The Superior Court Judge has placed all litigation on hold, permitting the parties to resolve TBOE's demand in accordance with the NJDEP Directives. Construction of the new school facility ceased in May 2005 with the structure being only partially completed.

As of December 31, 2005, the Corporation estimates the cost to comply with TBOE's demand to be approximately $23 million. This cost includes demolition of the existing partially-constructed structure, removal of all contaminated fill brought onto the site and replacement with clean fill, reconstruction of the school facility to its current state and general inflation. Accordingly, in December 2005, the Corporation accrued a liability of $23 million on the Statement of Net Assets and recorded a corresponding charge to project costs on the Statement of Activities. The Corporation will vigorously oppose unrelated allegations made by the TBOE, and intends to seek recovery from Turner and other third parties for any cost or liability incurred by the Corporation related to the contamination, or any associated effects including, but not limited to, fugitive dust that allegedly may have migrated to a nearby school facility. However, there can be no assurance as to either the outcome of this matter or the extent to which the Corporation will be successful in recovering any such cost from third parties.

The Corporation has also received Notices of Claims or is a named defendant in several lawsuits relating to its land acquisition activities including, among other things, disputes over relocation benefits, and various claims for damages. As of December 31, 2005, management believes its exposure related to these matters is reasonably estimated to be $5.3 million. Accordingly, in December 2005, the Corporation accrued a liability of $5.3 million on the Statement of Net Assets & General Fund Balance Sheet and recorded a corresponding charge to project costs on the Statement of Activities & General Fund Revenues, Expenditures and Changes in Fund Balances.

The Corporation maintains commercial insurance coverage for, among other things, workers' compensation, tort liability (including public liability and automobile) and property damage. As of December 31, 2005, management is not aware of any insurable claim that is expected to exceed its commercial insurance coverage. In addition, the Corporation is involved in several lawsuits not covered under its commercial insurance; however, in the opinion of management, none of these claims is expected to have a material effect on the Corporation's financial statements.

10. Employee Benefits

(a) Public Employees Retirement System of New Jersey

All active, full-time employees of the Corporation are required as a condition of employment to participate in the Public Employees Retirement System of New Jersey ("PERS" or "Plan"), a cost-sharing, multiple-employer defined benefit plan administered by the State. Employees currently contribute 5% of their annual compensation to the Plan. The Corporation's total payroll for the years ended December 31, 2005, 2004 and 2003, which approximates its covered payroll, was $17,100,699, $15,025,891 and $6,428,597, respectively.

The primary funding objective of the PERS is to accumulate sufficient plan assets during its members' active careers so as to have their pension benefits fully funded at the time of retirement. Local employers are essentially responsible by State statute to cover any shortfall in the amount of funds required to meet the retirement system's obligations and those funds available from employee contributions and investment earnings on plan assets. Thus, employers may also be required to make annual normal and accrued liability contributions to the PERS. Pursuant to State statute, annual employer contributions to the PERS are determined using the projected unit credit actuarial cost method. This method utilizes a set of actuarial assumptions to forecast a pension system's liabilities and annual funding requirements. These assumptions include such things as mortality among active and retired members, former service, expected salary increases, investment performance, and rates of disability, retirement and withdrawal. An employer's annual normal cost represents the present value of benefits that have accrued on behalf of its own members during the valuation year. An accrued liability contribution represents an employer's respective share of the pension system's unfunded actuarial liability amortized over a 30 to 40 year period. The unfunded actuarial liability of a retirement system at any time is the excess of the system's actuarial liability over the value of its assets.

For a period of several years ending in 2004 (State fiscal year 2003), local employers were not required to make mandatory normal and accrued liability contributions to the PERS due to the financial condition of the retirement system and the availability of excess pension assets. However, based on an actuarial valuation that determined the contribution requirements for 2005, employer pension contributions are once again required. In order to minimize the immediate fiscal impact of this annual pension obligation, Chapter 108, P.L. 2003 was enacted, which calls for a phase-in of the employer's funding requirement. This State statute provides that the Treasurer shall reduce an employer's normal and accrued liability contributions to a percentage of the amount certified annually by the PERS as follows: 20% of the actuarially calculated liability is payable in 2005; not more than 40% of the actuarially calculated liability is payable in 2006; not more than 60% of the actuarially calculated liability is payable in 2007; not more than 80% of the actuarially calculated liability is payable in 2008; and 100% of the actuarially calculated liability is payable in 2009. Accordingly, in 2005 the Corporation contributed $48,633 to the PERS, which was charged to personnel and benefits expense, and no amounts were contributed to the PERS in 2004 and 2003. The Corporation's 2006 contribution is projected to be $309,156.

The general formula for annual retirement benefits is the final average salary divided by 55, times the employee's years of service. Pension benefits fully vest upon reaching 10 years of credited service. Members are eligible for retirement at age 60 with no minimum years of service required. Members who have 25 years or more of credited service may elect early retirement without penalty at or after age 55 and receive full retirement benefits. The PERS also provides death and disability benefits. All benefits are established by State statute. The State of New Jersey, Department of the Treasury, Division of Pension and Benefits, issues publicly available financial reports that include the financial statements and required supplementary information for the PERS. The financial reports may be obtained by writing to the State of New Jersey, Department of the Treasury, Division of Pension and Benefits, P.O. Box 295, Trenton, New Jersey, 08625-0295.

(b) Deferred Compensation

The Corporation 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 Corporation does not make any contributions to the plan.

(c) Post-Retirement Health Care and Insurance Benefits

The Corporation provides health benefit and prescription drug coverage through the State Health Benefits Bureau to its retirees having 25 years or more of service in the PERS or who are approved for disability retirement. Benefits are provided at no cost to the retiree. For a retiree who reaches or is 65 years of age, Medicare must become the primary coverage, with State Health Benefits providing supplemental coverage. Life insurance is provided at no cost to the retiree in an amount equal to 3/16 of their average salary during the final 12 months of active employment. Post-retirement benefits are paid on a pay-as-you-go basis. At December 31, 2005, no active employees were eligible for post-retirement benefits. Total post-retirement benefits expense for 3 retirees for the year ended December 31, 2005 amounted to $53,392.

11. Compensated Absences

In accordance with GASB Statement No. 16, "Accounting for Compensated Absences", the Corporation recorded a liability in the amount $562,421 as of December 31, 2005. The liability is the value of employee accrued vacation time as of the balance sheet date and vested sick leave benefits that are probable of payment to employees upon retirement. The vested sick leave benefit to retirees for unused accumulated sick leave is calculated at the lesser of 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 Corporation's policy; therefore, such unvested benefits are not accrued.

12. Net Assets

The Corporation's net assets are categorized as: invested in capital assets; restricted for qualified zone academies; and restricted for schools construction special revenue fund.

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

The changes during 2004 and 2005 in net assets are as follows:

	Invested in Capital Assets	Restricted for Qualified Zone Academies	Restricted for Schools Construction Special Revenue Fund	Totals
Net assets, December 31, 2003	$10,107,267	$ 38,885,429	$ 119,694,680	$ 168,687,376
Loss before receipt of EFCFA funding and transfers	(1,163,872)		(19,496,364)	(20,660,236)
Capital assets acquired	844,489		(844,489)	-
EFCFA funding received from State			1,700,000,000	1,700,000,000
Project expenditures			(1,374,636,565)	(1,374,636,565)
Net assets, December 31, 2004	$ 9,787,884	$ 38,885,429	$ 424,717,262	$ 473,390,575
Loss before receipt of EFCFA funding and transfers	(2,127,141)		(11,015,819)	(13,142,960)
Capital assets acquired	194,394		(194,394)	-
EFCFA funding received from State			2,075,000,000	2,075,000,000
Project expenditures		(35,345,972)	(1,431,189,338)	(1,466,535,310)
Net assets, December 31, 2005	$ 7,855,137	$ 3,539,457	$ 1,057,317,711	$ 1,068,712,305

13. Subsequent Events

(a) Recent Legislative Developments

In November 2005, the citizens of the State elected a new Governor, Jon S. Corzine, who subsequently was sworn into office on January 17, 2006. On February 7, 2006, Governor Corzine signed Executive Order #3 ("E.O. #3") to facilitate review and reform at the Corporation. Among other things, E.O. #3 mandates the following:

- Establishes the position of Special Counsel to the Governor for School Construction ("Special Counsel") to serve as the Governor's representative in all matters pertaining to the management and operations of the Corporation and to serve on the Corporation's Board of Directors.
- Creates the Interagency Working Group on School Construction ("Working Group") comprised of the Special Counsel, the Acting Commissioner (or Commissioner) of Education, the Corporation's Chairman of the Board and the Acting State Treasurer (or Treasurer). The Working Group is authorized and directed to:
    a) Review the entire School Construction Program and the laws, regulations, and policies governing educational facilities and to develop recommendations for reform, including recommended statutory and regulatory initiatives, to be presented to the Governor.
    b) Develop and consider specific recommendations for reorganization of the Corporation (see below, Potential Reorganization of the Corporation).
    c) Develop, for consideration by the Corporation and the Acting Commissioner of Education, recommendations that provide immediate improvements in the operation and management of the School Construction Program. Such recommendations would establish an effective program to design and build schools in collaboration with local school boards and communities.
    d) Provide the Governor with an initial written report of its findings and recommendations on or before March 15, 2006.
- Creates a Citizens Advisory Panel to assist the Working Group in fulfilling its mission. The panel shall consist of one public member appointed by the Governor upon the recommendation of the President of the Senate, one public member appointed by the Governor upon the recommendation of the Speaker of the Assembly, and three public members appointed by the Governor.
- Directs the Attorney General to provide such assistance to the Corporation as may be necessary to immediately review the adequacy of contracts entered into by the Corporation and to commence legal proceedings to recover monies disbursed due either to design errors, overcharging for work completed, or other causes for which the Corporation has a right to seek recovery.

- Directs the Acting Commissioner of Education to institute such organizational changes as are required to ensure coordination of school construction activities with other Abbott initiatives and to enhance (i) the management and active participation of the DOE in the School Construction Program for all matters regarding educational policy (ii) the development and application of educational facilities standards, and (iii) priority-setting by and among local school districts.

Governor Corzine also appointed five individuals to serve as public members on the Corporation's Board of Directors. Public members are directly appointed by the Governor, serve three-year terms without compensation, and are eligible for reappointment.

(b) Potential Reorganization of the Corporation

As mentioned above, pursuant to E.O. #3 the Working Group is authorized and directed to develop and consider specific recommendations for reorganization of the Corporation. On March 15, 2006, the Working Group released its initial report on the state of the Corporation, along with findings and recommendations. Among these findings and recommendations, the Working Group has recommended:

- The responsibilities now vested in the Corporation be transitioned to a new, independent authority ("New Authority for Schools") that is located, in, but not of, the Department of the Treasury. The New Authority for Schools would have both a governance and oversight board, the members of which would be selected based on their specific background and knowledge of the activities of the authority.
- The transition takes place in such a way so as to enable the continued management of the $3 billion in ongoing school facilities projects.
- A transition plan be developed by the Working Group, working with the Corporation and other stakeholders, to determine the appropriate corporate governance structure for the New Authority for Schools, as well as a migration path to transfer the existing construction projects.
- Recruitment of a permanent Chief Executive Officer and Chief Financial Officer, as well as other organizational enhancements.

Any change in the organizational structure of the Corporation would require an act of the New Jersey State Legislature. The Working Group will provide additional recommendations in its next report to be submitted on May 15, 2006. This report is expected to address project prioritization, proposed funding levels and the status of the transition plan.

As of the date of this report, management has no knowledge as to the eventual organizational structure of the Corporation, including the likelihood that the Corporation will continue to exist under its current organizational structure for the remainder of 2006.