

STATE OF 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, 2020

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, 2020

Contents

I. Financial Section

Report of Independent Auditors.....1

Management’s Discussion and Analysis3

Statement of Net Position and General Fund Balance Sheet10

Statement of Activities and General Fund Revenues, Expenditures and
Changes in Fund Balance11

Notes to Financial Statements.....12

Required Supplementary Information

Schedule of the Authority’s Proportionate Share of the Net Pension Liability41

Schedule of the Authority’s Contributions to the Public Employees’
Retirement System.....42

Schedule of Changes in the Total Postemployment Benefits Other Than Pensions
(OPEB) Liability and Related Ratios.....44

II. Government Auditing Standards Section

Report of Independent Auditors on Internal Control Over Financial Reporting and
on Compliance and Other Matters Based on an Audit of Financial Statements
Performed in Accordance with *Government Auditing Standards*45



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Report of Independent Auditors

Management and Members of the Authority
New Jersey Schools Development Authority

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and the general fund 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, 2020, 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 opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of 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 opinions.



Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the general fund of the Authority as of December 31, 2020, and the respective changes in financial position for the year then ended in conformity with U.S. generally accepted accounting principles.

Other Matters

Required Supplementary Information

U.S. generally accepted accounting principles require that the 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.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we also have issued our report dated June 30, 2021 on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Authority's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control over financial reporting and compliance.

Ernst + Young LLP

June 30, 2021

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, 2020

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, 2020. 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 (the "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, 2020, the Authority has received \$11.5 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 90.0% 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	\$ 9,026,886,210	\$ 8,022,018,398	88.9%
Regular Operating Districts	3,450,000,000	3,500,222,151	3,269,064,989	93.4%
Vocational Schools	150,000,000	152,007,024	122,188,380	80.4%
Totals	<u>\$ 12,500,000,000</u>	<u>\$ 12,679,115,385</u>	<u>\$ 11,413,271,767</u>	90.0%

¹ Program funding includes the amounts authorized under the respective bonding caps in addition to approximately \$179 million of interest income and miscellaneous revenue earned through December 31, 2020.

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 2020, the SDA celebrated the opening of three capital plan school facilities projects, providing 1,820 new student seats in the SDA Districts. The total State investment in these three projects was more than \$136 million.

As of December 31, 2020, the SDA has 9 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 2 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, 2020, the School Construction Program has completed 698 projects in the SDA Districts. The completed projects consist of: 90 new schools, including 6 demonstration projects; 47 extensive addition, renovation and/or rehabilitation projects; 31 rehabilitation projects; 354 health and safety projects; and 177 Section 13 Grants for SDA District-managed projects. The demonstration projects serve as a cornerstone of revitalization efforts and were 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 partially funded and managed for the districts, including 8 new schools. Also, state funding was provided through Section 15 Grants for 5,136 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				
	2020	2019	2018	2017	2016
EFCFA funding received from State	\$ -	\$ 350,000	\$ 350,000	\$ 350,000	\$ 342,574
Investment earnings, net	2,696	9,341	7,204	3,787	1,730
Administrative and general expenses	13,143	15,910	18,466	19,821	22,256
Capital expenditures	577	628	312	25	124
School facilities project costs	291,279	306,967	333,271	341,480	388,133
Employee count at end of year	174	183	222	211	229

2020 Financial Highlights

- At year end, the Authority’s net position is \$132.5 million.
- At year end, cash and cash equivalents total \$268.6 million.
- For the year, revenues total \$2.7 million, consisting primarily of investment earnings and rental property income. The Authority did not receive revenue from bond sales in 2020 but nevertheless had sufficient cash on hand to meet its current obligations.
- For the year, expenses total \$304.6 million, \$291.3 million (95.6%) of which is for school facilities project costs.
- For the year, general fund expenditures exceed general fund revenues by \$305.0 million. This is due to the fact that the Authority did not receive revenue from bond sales in 2020 as it did not have an urgent need for cash.

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 \$132.5 million at year-end, primarily due to 2020 expenditures for school facilities projects (\$291.3 million) and administrative and general expenses (\$13.1 million) exceeding total revenues (\$2.7 million).

The following table summarizes the Authority's net position at December 31, 2020 and 2019.

	\$ In thousands			
	2020	2019	\$ Increase/ (Decrease)	% Increase/ (Decrease)
Current assets	\$ 268,904	\$ 571,633	\$ (302,729)	(53.0)%
Capital assets-net	1,498	1,083	415	38.3%
Total assets	<u>270,402</u>	<u>572,716</u>	<u>(302,314)</u>	<u>(52.8)%</u>
Deferred outflows of resources	<u>14,692</u>	<u>9,153</u>	<u>5,539</u>	<u>60.5%</u>
Total assets and deferred outflows of resources	<u>\$ 285,094</u>	<u>\$ 581,869</u>	<u>\$ (296,775)</u>	<u>(51.0)%</u>
Current liabilities	\$ 49,894	\$ 47,643	\$ 2,251	4.7%
Non-current liabilities	75,831	72,914	2,917	4.0%
Total liabilities	<u>125,725</u>	<u>120,557</u>	<u>5,168</u>	<u>4.3%</u>
Deferred inflows of resources	<u>26,874</u>	<u>26,973</u>	<u>(99)</u>	<u>(0.4)%</u>
Net position:				
Net investment in capital assets	1,498	1,083	415	38.3%
Restricted for schools construction	130,997	433,256	(302,259)	(69.8)%
Total net position	<u>132,495</u>	<u>434,339</u>	<u>(301,844)</u>	<u>(69.5)%</u>
Total liabilities, deferred inflows of resources and net position	<u>\$ 285,094</u>	<u>\$ 581,869</u>	<u>\$ (296,775)</u>	<u>(51.0)%</u>

Note: All percentages are calculated using unrounded figures.

Significant Account Variances for Net Position

Current assets: The decrease is due to lower cash and cash equivalents, and prepaid expenses.

Capital assets-net: The increase is due to capital asset additions for computer software in development, slightly offset by depreciation expense for assets in service during the year.

Deferred outflows of resources: The increase is due mainly to higher deferred outflows of resources associated with other postemployment benefits (“OPEB”) as a result of the change in assumption related to the decrease in discount rate.

Current liabilities: The increase is due mostly to higher local share deposits received from school districts to fund ineligible project costs.

Non-current liabilities: The increase is due primarily to the higher total other postemployment benefits liability as a result in the decrease in the discount rate assumption.

The following table summarizes the change in net position for the years ended December 31, 2020 and 2019.

	\$ In thousands			
	2020	2019	\$ Increase/ (Decrease)	% Increase/ (Decrease)
Revenues				
EFCFA funding received from State	\$ -	\$ 350,000	\$ (350,000)	(100.0)%
Investment earnings	2,696	9,341	(6,645)	(71.1)%
Rental property income	37	36	1	3.5%
Other revenue	7	3	4	171.9%
Total revenues	2,740	359,380	(356,640)	(99.2)%
Expenses				
Administrative and general expenses	13,143	15,910	(2,767)	(17.4)%
Depreciation	162	180	(18)	(10.0)%
School facilities project costs	291,279	306,967	(15,688)	(5.1)%
Total expenses	304,584	323,057	(18,473)	(5.7)%
Change in net position	(301,844)	36,323	(338,167)	(931.0)%
Beginning net position	434,339	398,016	36,323	9.1%
Ending net position	\$ 132,495	\$ 434,339	\$ (301,844)	(69.5)%

Note: All percentages are calculated using unrounded figures.

Significant Account Variances for the Change in Net Position

EFCFA funding received from State: The Authority did not receive any revenue from bond sales during the year as the Authority had sufficient cash on hand to meet its current obligations.

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 the Treasury. The fund consists of U.S. Treasury obligations, government agencies obligations, certificates of deposit and commercial paper.

The decrease is due to lower investment return rates and a smaller average invested cash balance during 2020.

Administrative and general expenses: The decrease is due primarily to lower employee salaries and benefit costs. Also contributing to the decrease are lower spending for facilities and general office expenses, information systems, and professional and other contracted services.

School facilities project costs: The decrease is due mainly to lower spending in Regular Operating Districts grants, partially offset by an increase in construction costs for SDA Districts.

Contacting the Authority's Financial Management

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

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

Statement of Net Position and General Fund Balance Sheet

December 31, 2020

	General Fund Total	Adjustments (Note 8)	Statement of Net Position
Assets			
Cash and cash equivalents	\$ 268,635,774	\$ -	\$ 268,635,774
Receivables	41,180	-	41,180
Prepaid expenses	227,090	-	227,090
Capital assets-net	-	1,497,713	1,497,713
Total assets	268,904,044	1,497,713	270,401,757
Deferred Outflows of Resources			
Deferred amount for pensions	-	10,104,750	10,104,750
Deferred amount for other postemployment benefits	-	4,587,660	4,587,660
Total deferred outflows of resources	-	14,692,410	14,692,410
Total Assets and Deferred Outflows of Resources	\$ 268,904,044	\$ 16,190,123	\$ 285,094,167
Current Liabilities			
Accrued school facilities project costs	\$ 43,641,482	\$ -	\$ 43,641,482
Other accrued liabilities	1,163,240	-	1,163,240
Escrow deposits	5,089,508	-	5,089,508
Total current liabilities	49,894,230	-	49,894,230
Non-Current Liabilities			
Accrued school facilities project costs	-	1,815,093	1,815,093
Net pension liability	-	42,434,159	42,434,159
Total postemployment benefits liability	-	27,307,940	27,307,940
Other accrued liabilities	-	4,273,651	4,273,651
Total non-current liabilities	-	75,830,843	75,830,843
Deferred Inflows of Resources			
Deferred amount for pensions	-	19,961,760	19,961,760
Deferred amount for other postemployment benefits	-	6,911,992	6,911,992
Total deferred inflows of resources	-	26,873,752	26,873,752
Fund Balance/Net Position			
Net investment in capital assets	-	1,497,713	1,497,713
Nonspendable:			
Prepaid expenses	227,090	(227,090)	-
Restricted for schools construction	218,782,724	(87,785,095)	130,997,629
Total fund balance/net position	219,009,814	(86,514,472)	132,495,342
Total Liabilities, Deferred Inflows of Resources and Fund Balance/Net Position	\$ 268,904,044	\$ 16,190,123	\$ 285,094,167

See accompanying notes.

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

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

For the Year Ended December 31, 2020

	General Fund Total	Adjustments (Note 8)	Statement of Activities
Revenues			
General:			
Investment earnings	\$ 2,696,018	\$ -	\$ 2,696,018
Rental property income	37,150	-	37,150
Other revenue	6,961	-	6,961
Total revenues	2,740,129	-	2,740,129
Expenditures/Expenses			
Administrative and general expenses	13,870,163	(727,632)	13,142,531
Capital expenditures	576,861	(576,861)	-
Depreciation expense	-	162,032	162,032
School facilities project costs	293,273,534	(1,994,637)	291,278,897
Total expenditures/expenses	307,720,558	(3,137,098)	304,583,460
Deficiency of revenues over expenditures/Change in net position	(304,980,429)	3,137,098	(301,843,331)
Fund Balance/Net Position			
Beginning of year, January 1, 2020	523,990,243	(89,651,570)	434,338,673
End of year, December 31, 2020	\$ 219,009,814	\$ (86,514,472)	\$ 132,495,342

See accompanying notes.

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

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 (the “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) EFCFA funding received from the State which monies are restricted to meeting either the operational or capital requirements of the School Construction Program, and (2) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment.

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
(a component unit of the State of New Jersey)

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 by the Authority under various lease occupancy agreements. Additionally, properties acquired for the construction of school facilities projects may 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 2020 is 40.74%.

For the year ended December 31, 2020, employee salary and benefit costs are allocated as follows:

Employee salary and fringe benefits costs:	
Charged to administrative and general expenses	\$ 9,211,005
Charged to school facilities project costs	<u>12,178,570</u>
Total employee salary and benefits costs	<u>\$ 21,389,575</u>

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

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 2020 Series OOO. As of December 31, 2020, 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 the Treasury. It consists of U.S. Treasury Notes and Bills; short-term commercial paper; U.S. Agency Bonds; corporate bonds; and certificates of deposit. NJCMF is stated at fair value, which is measured based on the units of ownership at a value per unit of \$1.

(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 as follows: \$5,000 for equipment; \$30,000 for vehicles; \$100,000 for software; and \$50,000 for leasehold improvements for individual items meeting all other capitalization criterion. As of December

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

Notes to Financial Statements (Continued)

31, 2020, the Authority's capital assets consist of leasehold improvements, automobiles, equipment, computer software and furniture and fixtures. Depreciation is provided by the straight-line method over the shorter of the life of the lease or the useful life of the related asset.

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

(i) Taxes

The Authority is exempt from all federal and state income taxes and real estate taxes 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) New Accounting Standards Adopted

GASB Statement No. 84, *Fiduciary Activities*, was issued in January 2017. The primary objective of this statement is to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. The statement establishes criteria for identifying activities of all state and local governments. The focus of the criteria generally is on (1) whether a government is controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. Separate criteria are included to identify fiduciary component units and postemployment benefit arrangements that are fiduciary activities.

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

Notes to Financial Statements (Continued)

This statement describes four fiduciary funds that should be reported, if applicable: (1) pension (and other employee benefit) trust funds, (2) investment trust funds, (3) private-purpose trust funds, and (4) custodial funds. Custodial funds generally should report fiduciary activities that are not held in a trust or equivalent arrangement that meets specific criteria.

The Authority's adoption of this statement on January 1, 2020 did not have a material impact on the financial statements.

GASB Statement No. 88, *Certain Disclosures Related to Debt, Including Direct Borrowings and Direct Placements*, was issued in April 2018. The primary objective of this statement is to improve the information that is disclosed in notes to government financial statements related to debt, including direct borrowings and direct placements. It also clarifies which liabilities governments should include when disclosing information related to debt.

This statement defines debt for purposes of disclosure in notes to financial statements as a liability that arises from a contractual obligation to pay cash (or other assets that may be used in lieu of cash) in one or more payments to settle an amount that is fixed at the date the contractual obligation is established.

This statement requires that additional essential information related to debt be disclosed in notes to financial statements, including unused lines of credit; assets pledged as collateral for the debt; and terms specified in debt agreements related to significant events of default with finance-related consequences, significant termination events with finance-related consequences, and significant subjective acceleration clauses.

The Authority's adoption of this statement on January 1, 2020 did not have an impact on the financial statements.

GASB Statement No. 90, *Majority Equity Interests – An Amendment of GASB Statements No. 14 and No. 61*, was issued in August 2018. The primary objectives of this statement are to improve the consistency and comparability of reporting a government's majority equity interest in a legally separate organization and to improve the relevance of financial statement information for certain component units. It defines a majority equity interest and specifies that a majority equity interest in a legally separate organization should be reported as an investment if a government's holding of the equity interest meets the definition of an investment. A majority equity interest that meets the definition of an investment should be measured using the equity method, unless it is held by a special-purpose government engaged only in fiduciary activities, a fiduciary fund, or an endowment (including permanent and term endowments) or permanent fund. Those governments and funds should measure the majority equity interest at fair value.

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

Notes to Financial Statements (Continued)

For all other holdings of a majority equity interest in a legally separate organization, a government should report the legally separate organization as a component unit, and the government or fund that holds the equity interest should report an asset related to the majority equity interest using the equity method. This statement establishes that ownership of a majority equity interest in a legally separate organization results in the government being financially accountable for the legally separate organization and, therefore, the government should report that organization as a component unit.

This statement also requires that a component unit in which a government has a 100 percent equity interest account for its assets, deferred outflows of resources, liabilities, and deferred inflows of resources at acquisition value at the date the government acquired a 100 percent equity interest in the component unit. Transactions presented in the statements of the component unit in that circumstance should include only transactions that occurred subsequent to the acquisition. The statement, as amended by GASB 95, is effective for fiscal years beginning after December 15, 2020. The Authority adopted GASB 90 on January 1, 2020 and it had no impact on the financial statements.

GASB Statement No. 95, *Postponement of the Effective Dates of Certain Authoritative Guidance*, was issued in May 2020. The primary objective of this statement is to provide temporary relief to governments and other stakeholders in light of the COVID-19 pandemic. That objective is accomplished by postponing the effective dates of certain provisions in GASB Statements and Implementation Guides that first became effective or are scheduled to become effective for periods beginning after June 15, 2018, and later. The effective dates of certain provisions contained in the previous pronouncements are postponed by one year. The effective date for GASB 87 is postponed by 18 months. The requirements of GASB 95 are effective immediately. The Authority adopted GASB 95 which deferred the adoption of several pronouncements as detailed below.

(m) Accounting Standards Issued But Not Yet Adopted

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 lessee 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.

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

Notes to Financial Statements (Continued)

The statement, as amended by GASB 95, is effective for fiscal years beginning after June 15, 2021. The Authority is in the process of evaluating the impact of its adoption on the financial statements.

GASB Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*, was issued in June 2018. The primary objectives of this statement are (1) to enhance the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period and (2) to simplify accounting for interest cost incurred before the end of a construction period.

This statement establishes accounting requirements for interest cost incurred before the end of a construction period. Such interest cost includes all interest that previously was accounted for in accordance with the requirements of paragraph 5-22 of Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1980 FASB and AICPA Pronouncements*, which are superseded by this statement. This statement requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus. As a result, interest cost incurred before the end of a construction period will not be included in the historical cost of a capital asset reported in a business-type activity or enterprise fund.

The statement, as amended by GASB 95, is effective for fiscal years beginning after December 15, 2020. The Authority is in the process of evaluating the impact of its adoption on the financial statements.

GASB Statement No. 91, *Conduit Debt Obligations*, was issued in May 2019. The primary objectives of this statement are to provide a single method of reporting conduit debt obligations by issuers and eliminate diversity in practice associated with (1) commitments extended by issuers, (2) arrangements associated with conduit debt obligations, and (3) related note disclosures. This statement achieves those objectives by clarifying the existing definition of a conduit debt obligation; establishing that a conduit debt obligation is not a liability of the issuer; establishing standards for accounting and financial reporting of additional commitments and voluntary commitments extended by issuers and arrangements associated with conduit debt obligations; and improving required note disclosures. The statement, as amended by GASB 95, is effective for reporting periods beginning after December 15, 2021. The Authority is in the process of evaluating the impact of its adoption on the financial statements.

GASB Statement No. 92, *Omnibus 2020*, was issued in January 2020. The objectives of this statement are to enhance comparability in accounting and financial reporting and to improve the consistency of authoritative literature by addressing practice issues that have been identified during implementation and application of certain GASB Statements. This

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

Notes to Financial Statements (Continued)

statement addresses a variety of topics and includes specific provisions about the following:

- The effective date of Statement No. 87, *Leases*, and Implementation Guide No. 2019-3, *Leases*, for interim financial reports
- Reporting of intra-entity transfers of assets between a primary government employer and a component unit defined benefit pension plan or defined benefit other postemployment benefit (“OPEB”) plan
- The applicability of Statements No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*, as amended, and No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, as amended, to reporting assets accumulated for postemployment benefits
- The applicability of certain requirements of Statement No. 84, *Fiduciary Activities*, to postemployment benefit arrangements
- Measurement of liabilities (and assets, if any) related to asset retirement obligations (“AROs”) in a government acquisition
- Reporting by public entity risk pools for amounts that are recoverable from reinsurers or excess insurers
- Reference to nonrecurring fair value measurements of assets or liabilities in authoritative literature
- Terminology used to refer to derivative instruments

The requirements related to all other items, as amended by GASB 95, are effective for fiscal years beginning after June 15, 2021. The Authority is in the process of evaluating the impact of its adoption on the financial statements.

GASB Statement No. 93, *Replacement of Interbank Offered Rates*, was issued in March 2020. Some governments have entered into agreements in which variable payments made or received depend on an interbank offered rate (“IBOR”)—most notably, the London Interbank Offered Rate (“LIBOR”). As a result of global reference rate reform, LIBOR is expected to cease to exist in its current form at the end of 2021, prompting governments to amend or replace financial instruments for the purpose of replacing LIBOR with other reference rates, by either changing the reference rate or adding or changing fallback provisions related to the reference rate. The objective of this statement is to address those and other accounting and financial reporting implications that result from the replacement of an IBOR. The removal of LIBOR as an appropriate benchmark interest rate is effective for reporting periods ending after December 31, 2021. All other requirements of this statement, as amended by GASB 95, are effective for reporting periods beginning after June 15, 2021.

GASB Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*, was issued in March 2020. The primary objective of this statement

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

Notes to Financial Statements (Continued)

is to improve financial reporting by addressing issues related to public-private and public-public partnership arrangements (“PPPs”). As used in this statement, a PPP is an arrangement in which a government (the “transferor”) contracts with an operator (a governmental or nongovernmental entity) to provide public services by conveying control of the right to operate or use a nonfinancial asset, such as infrastructure or other capital asset (the underlying PPP asset), for a period of time in an exchange or exchange-like transaction. Some PPPs meet the definition of a service concession arrangement (“SCA”), which the Board defines in this Statement as a PPP in which (1) the operator collects and is compensated by fees from third parties; (2) the transferor determines or has the ability to modify or approve which services the operator is required to provide, to whom the operator is required to provide the services, and the prices or rates that can be charged for the services; and (3) the transferor is entitled to significant residual interest in the service utility of the underlying PPP asset at the end of the arrangement.

This statement also provides guidance for accounting and financial reporting for availability payment arrangements (“APAs”). As defined in this statement, an APA is an arrangement in which a government compensates an operator for services that may include designing, constructing, financing, maintaining, or operating an underlying nonfinancial asset for a period of time in an exchange or exchange-like transaction. The requirements of this Statement are effective for fiscal years beginning after June 15, 2022, and all reporting periods thereafter.

GASB Statement No. 96, *Subscription-Based Information Technology Arrangements*, was issued in May 2020. This statement provides guidance on the accounting and financial reporting for subscription-based information technology arrangements (“SBITAs”) for government end users. This statement (1) defines a SBITA; (2) establishes that a SBITA results in a right-to-use subscription asset—an intangible asset—and a corresponding subscription liability; (3) provides the capitalization criteria for outlays other than subscription payments, including implementation costs of a SBITA; and (4) requires note disclosures regarding a SBITA. To the extent relevant, the standards for SBITAs are based on the standards established in Statement No. 87, *Leases*, as amended. The requirements of this Statement are effective for fiscal years beginning after June 15, 2022, and all reporting periods thereafter.

GASB Statement No. 97, *Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans - an amendment of GASB Statements No. 14 and No. 84, and a supersession of GASB Statement No. 32*, was issued in June 2020. The primary objective of GASB 97 is to require that Internal Revenue Code (“IRC”) Section 457 deferred compensation plans (“Section 457 plans”) be classified as either a pension plan or another employee benefit plan, depending on whether the plan meets the definition of a pension plan and (2) clarifies that GASB 84, as amended, should be applied to all arrangements organized under IRC Section 457 to determine whether those arrangements should be reported as fiduciary activities. The requirements of GASB 97 are effective for either fiscal years or reporting periods beginning after June 15, 2021. Earlier

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

Notes to Financial Statements (Continued)

application is encouraged. 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 \$302.3 million to \$268.6 million as follows:

Cash and cash equivalents, beginning of year	\$ 570,947,546
Changes in cash:	
Investment and interest income	2,696,018
Miscellaneous revenue	44,111
School facilities project costs	(293,539,122)
Administrative and general expenses	(13,265,155)
Capital expenditures	(575,150)
Escrow deposits	2,327,526
Cash and cash equivalents, end of year	<u>\$ 268,635,774</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, 2020, the carrying amount of operating cash is \$2,838,115 and the bank balance is \$3,131,212. Deposits of up to \$250,000 at each commercial banking institution are 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, 2020, 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. Participation in the NJCMF is voluntary. All investments in the NJCMF are governed by the regulations of the State of New Jersey, Department of the Treasury, Division of Investment,

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

Notes to Financial Statements (Continued)

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, 2020, the Authority's investments in the NJCMF total \$265,797,659. Of this amount, \$5,089,508 relates to district local share funding requirements (see Note 5).

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, 2020, the Authority's prepaid expenses are as follows:

Office rents	\$ 105,817
Service contracts	90,976
Other	30,297
Total prepaid expenses	<u>\$ 227,090</u>

5. Escrow Deposits

The Authority has received funds from several local school districts as required by Local Share Agreements for the funding of certain ineligible costs relating to projects in the SDA Districts. These deposits, including investment earnings, are reflected as liabilities in the accompanying financial statements. As of December 31, 2020, deposits held in SDA bank accounts, inclusive of interest earned but not yet refunded to the district, are as follows:

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

Notes to Financial Statements (Continued)

Harrison	\$	8,842
Millville		351,431
Newark		479,422
Orange		29,282
Passaic City		153,811
Pemberton		65,271
Perth Amboy		<u>4,001,449</u>
Total escrow deposits		<u>\$ 5,089,508</u>

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 are 3 years. Total rental expense for the year ended December 31, 2020 amounted to \$1,534,597.

Future rent commitments under operating leases as of December 31, 2020 are as follows:

2021	\$	1,250,629
2022		1,267,041
2023		<u>1,283,699</u>
Total future rent expense		<u>\$ 3,801,369</u>

7. Capital Assets

Capital asset activity for the year ended December 31, 2020 is as follows:

	Beginning Balance	Additions	Retirements	Ending Balance
Depreciable capital assets:				
Leasehold improvements	\$ 134,149	\$ -	\$ -	\$ 134,149
Office furniture and Equipment	5,970,596	28,322	-	5,998,918
Computer software	568,993	-	-	568,993
Automobiles	329,875	-	(13,071)	316,804
Computer software in Development	790,460	548,539	-	1,338,999
Capital assets-gross	<u>7,794,073</u>	<u>576,861</u>	<u>(13,071)</u>	<u>8,357,863</u>
Less: accumulated Depreciation	(6,711,189)	(162,032)	13,071	(6,860,150)
Capital assets-net	<u>\$ 1,082,884</u>	<u>\$ 414,829</u>	<u>\$ -</u>	<u>\$ 1,497,713</u>

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

Notes to Financial Statements (Continued)

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 (\$219,009,814) differs from the “net position” reported on the statement of net position (\$132,495,342). This difference results from the long-term economic focus of the statement of net position versus the current financial resources focus of the fund balance sheet. When capital assets that are to be used in the Authority’s activities are constructed or acquired, the costs of those assets are reported as expenditures in the fund financial statements. However, the statement of net position includes those capital assets among the assets of the Authority as a whole. In addition, expenses associated with depreciation, accrued school facilities project costs not currently due for payment and non-current other postemployment benefits and compensated absences are not recorded in the fund financial statements until paid.

A summary of these differences at December 31, 2020 is as follows:

Fund balances	\$ 219,009,814
Capital assets, net of accumulated depreciation of \$(6,860,150)	1,497,713
Deferred outflows of resources for pensions and other postemployment benefits	14,692,410
Accrued school facilities project costs	(1,815,093)
Net pension liability	(42,434,159)
Total other postemployment benefits liability	(27,307,940)
Accrued compensated absences	(1,427,037)
Accrued pension payable	(2,846,614)
Deferred inflows of resources for pensions and other postemployment benefits	<u>(26,873,752)</u>
Net position	<u>\$ 132,495,342</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

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

Notes to Financial Statements (Continued)

resources and therefore are not reported as expenditures in governmental funds. A summary of these differences for the year ended December 31, 2020 is as follows:

Deficiency of revenues over expenditures	\$ (304,980,429)
School facilities project (costs)/credits	1,994,637
Pension (expense)/credit (GASB 68)	1,681,593
Other postemployment benefits expense (GASB 75)	(746,997)
Compensated absences (expense)/credit	(206,964)
Capital expenditures	576,861
Depreciation expense	(162,032)
Changes in net position	\$ (301,843,331)

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 \$1,628,816 as of December 31, 2020. 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.

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

Notes to Financial Statements (Continued)

	Estimated Cost	Payments to Date	PRO at 12-31-2020
Pre-cleanup activities	\$ 1,387,345	\$ 1,238,662	\$ 148,683
Site remediation work	15,433,879	12,823,853	2,610,026
Post-remediation monitoring	225,121	56,284	168,837
Asbestos and lead based paint removal	4,382,659	4,195,135	187,524
Sub-total	21,429,004	18,313,934	3,115,070
Less: Estimated environmental cost recoveries (ECR) not yet realized	1,486,254	-	1,486,254
Liability for pollution remediation Obligations	\$ 19,942,750	\$ 18,313,934	\$ 1,628,816

The following table summarizes the changes in the Authority's PRO liability during the year ended December 31, 2020:

PRO at 12-31-2019	Increase in Expected Cash Outlays	PRO Payments	Change in ECR Not Yet Realized	PRO at 12-31-2020
\$1,414,460	\$277,516	\$(63,160)	\$ -	\$1,628,816

10. Commitments and Contingencies

(a) Contractual Commitments

At December 31, 2020, the Authority has approximately \$585 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, 2020, the Authority's potential loss from all claims has been estimated at approximately \$0.2 million, which represents a decrease of \$2.2 million from the prior year end accrual. Accordingly, as of December 31, 2020, an accrued liability of \$0.2 million is reflected in the statement of net position as a component of accrued school facilities project costs and, for the year then ended, \$2.2 million is charged to school facilities project costs on the statement of activities.

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

Notes to Financial Statements (Continued)

(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, 2020, 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 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 and an OCIP IV with an effective date of March 1, 2018. Similar to OCIP I, policy limits for OCIP II, III and IV 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 "clash" deductible in the event that both a workers' compensation and general liability claim occur from the same incident. Additionally, OCIPs II, III and IV each provide 10 years of completed operations coverage for claims that arise after the completion of construction. Premiums for each OCIP are adjustable based upon actual construction values for enrolled contractors (not all trades are eligible for enrollment) on insured projects.

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

Notes to Financial Statements (Continued)

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 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. Likewise, the purchase of OCIP IV with a new insurer required the Authority to partially fund a new LRF in the amount of \$4.5 million with a maximum obligation of \$10.9 million. All monies deposited in the respective LRFs are available to pay claim costs arising from construction projects enrolled in a specific OCIP.

As of December 31, 2020, the Authority has open reserves for general liability and workers’ compensation claims totaling approximately \$78,746, \$119,837, \$412,950 and \$349,256, under OCIPs I, II III and IV, respectively. All monies deposited in the LRF and not used to pay claims will be refunded to the Authority along with accrued interest, as applicable. 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 is 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 July 15, 2023 and provides a limit of \$250 million for any one project.

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

Notes to Financial Statements (Continued)

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, 2020. 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, 2020. This policy was extended to expire June 30, 2025 to allow for all projects in the Authority's current portfolio to reach substantial completion.

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, 2020, employees are required to contribute 7.50% of their annual compensation to the Plan. All Plan participants are categorized within membership Tiers in accordance with their enrollment date in the PERS, as follows: Tier 1 includes those members enrolled in 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

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

Notes to Financial Statements (Continued)

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 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, 2020, the Authority reported a liability of \$42.4 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, 2020, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of July 1, 2019. The actuarial valuation was rolled forward to June 30, 2020 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, 2020, the Authority's proportionate share was estimated to be 0.26021%. The change in proportion since the prior measurement date was an increase of 0.01577%.

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

Notes to Financial Statements (Continued)

In accordance with GASB 68, for the year ended December 31, 2020, the Authority recognized pension expense of \$696,142, of which \$2,377,735 (the amount of the Authority's 2020 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, 2021 is \$2,846,614. 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, 2020 was \$2,377,735, 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, 2019 valuation was 7.30% per annum. The Department of the Treasury recommendation also calls for the rate to be reduced further to 7.00% per annum effective with the July 1, 2021 valuation. The actuarially determined employer contribution amount, when combined with employee 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, 2020, 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	\$ 1,450,434	\$ -
Differences between expected and actual experience	772,656	150,066
Changes in assumptions or other inputs	1,376,612	17,767,584
Changes in proportion	3,658,434	2,044,110
Contributions subsequent to the measurement date	2,846,614	-
Total deferred outflows and inflows of resources	\$ 10,104,750	\$ 19,961,760

Deferred outflows of resources of \$2,846,614 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, 2020. 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 (2021)	\$ (4,719,337)
Year 2 (2022)	(4,551,281)
Year 3 (2023)	(2,620,190)
Year 4 (2024)	(654,243)
Year 5 (2025)	(158,573)
Total	\$ (12,703,624)

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

Notes to Financial Statements (Continued)

Actuarial methods and assumptions

The collective total pension liability in the June 30, 2020 measurement date was determined by an actuarial valuation as of July 1, 2019, which was rolled forward to June 30, 2020. The key actuarial assumptions are summarized as follows:

Rate of inflation		
Price		2.75%
Wage		3.25%
Salary increase:		
Through 2026	2.00% - 6.00%	(based on years of service)
Thereafter	3.00% - 7.00%	(based on years of service)
Investment rate of return		7.00%
Cost of living adjustment		None assumed

Mortality rates were based on the SOA's Scale MP-2020 mortality improvement scale.

Discount rate

The discount rate used to measure the total pension liability was 7.00% as of June 30, 2020. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the current member contribution rates and that contributions from employers and the nonemployer contributing entity will be based on 78% of the actuarially determined contributions for the State employer and 100% of actuarially determined contributions for the local employers. Based on those assumptions, the plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on plan investments was applied to all projected benefit payments to determine 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:

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

Notes to Financial Statements (Continued)

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
U.S. equity	27.00%	7.71%
Non-U.S. developed market equity	13.50%	8.57%
Emerging market equity	5.50%	10.23%
Private equity	13.00%	11.42%
Real assets	3.00%	9.73%
Real estate	8.00%	9.56%
High yield	2.00%	5.95%
Private credit	8.00%	7.59%
Investment grade credit	8.00%	2.67%
Cash equivalents	4.00%	0.50%
U.S. Treasuries	5.00%	1.94%
Risk mitigation strategies	3.00%	3.40%

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 7.00% as well as the proportionate share of the net pension liability using a 1.00% increase or decrease from the current discount rate:

	<u>1% Decrease (6.00%)</u>	<u>Discount Rate (7.00%)</u>	<u>1% Increase (8.00%)</u>
PERS	\$53,837,571	\$42,434,159	\$33,374,864

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

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

Notes to Financial Statements (Continued)

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

For the year ending December 31, 2020, the Authority had 4 active employees enrolled in the DCRP and made matching contributions totaling \$3,876. Employer matching contributions relating to 2019, 2018 and 2017 totaled \$3,896, \$5,837, and \$9,705, 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

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

Notes to Financial Statements (Continued)

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.

Retirees and employees covered by OPEB Plan

At December 31, 2020, the following employees were covered by the benefit terms:

Retired employees and/or beneficiaries currently receiving benefit payments	26
Active employees	174
Total	<u>200</u>

Total OPEB liability

The Authority's total OPEB liability of \$27,307,940 was measured as of December 31, 2019, and was based upon an actuarial valuation as of January 1, 2019, which was rolled forward to December 31, 2020. The Authority has fully recognized this liability in the statement of net position as of December 31, 2020 in accordance with GASB 75.

Actuarial methods and assumptions

The total OPEB liability in the January 1, 2020 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	4.50%
Annual salary increases	3.00%
Discount rate	2.92%

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

Notes to Financial Statements (Continued)

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.
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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 Bond Buyer 20 Bond GO, S&P Municipal Bond 20 Year High Grade and Fidelity GA AA-20 Year published yields.

The mortality tables used for this valuation is based on the Society of Actuaries Pub-2010 Public Retirement Plans Healthy Male and Female Total Dataset Headcount-Weighted Mortality tables using Employee and Healthy Annuitant Tables for both pre and post retirement projected with mortality improvements using the most current Society of Actuaries Mortality Improvement Scale MP-2020.

The annual healthcare cost inflation (trend) rate for all retiree health benefits is 7% beginning in 2021 for both pre-65 retirees (pre-Medicare) and post-65 retirees (integrated with Medicare). The trend increase assumption will decrease by 0.25% per year until an ultimate annual trend rate increase assumption of 4.5% in 2031 and later.

This valuation excludes the Cadillac tax in its entirety based on legislation signed into law on December 20, 2019, HR 1865 "Further Consolidated Appropriations Act, 2020" repealing the "Cadillac Tax".

The decrement assumptions (i.e., retirement, turnover and disability) and age-based costs for the Authority were estimated using information from the New Jersey Public Employees Retirement System ("PERS"). Decrement tables are based on the July 1, 2018 Annual Report of the Actuary for PERS.

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.

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

Notes to Financial Statements (Continued)

Changes in total OPEB liability

Service cost	\$ 409,654
Interest cost	813,459
Changes in assumptions	4,844,872
Benefit payments	<u>(221,345)</u>
Net change in total OPEB liability	5,846,640
Total OPEB liability – beginning of year	<u>21,461,300</u>
Total OPEB liability – end of year	<u><u>\$ 27,307,940</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.

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% Decrease (1.92%)	Discount Rate (2.92%)	1% Increase (3.92%)
Total OPEB liability	\$34,926,332	\$27,307,940	\$21,738,766

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% Decrease (6% decreasing to 3%)	Healthcare Cost Trend Rates (7% decreasing to 4%)	1% Increase (8% decreasing to 5%)
Total OPEB liability	\$21,428,851	\$27,307,940	\$35,196,545

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

For the year ended December 31, 2020, the Authority recognized OPEB expense of \$947,734, of which \$200,737 (the amount of contributions for retiree health insurance in

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

Notes to Financial Statements (Continued)

2020) was recorded in the General Fund Revenues, Expenditures and Changes in Fund Balance. 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	\$ 115,470	\$ -
Changes in assumptions	4,472,190	6,911,992
Total deferred outflows and inflows of resources	\$ 4,587,660	\$ 6,911,992

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

Year 1 (2021)	\$ (254,770)
Year 2 (2022)	(254,770)
Year 3 (2023)	(254,770)
Year 4 (2024)	(254,770)
Year 5 (2025)	(254,770)
Year 6 (2026) and thereafter	(1,050,482)
Total	\$ (2,324,332)

12. Compensated Absences

In accordance with GASB Statement No. 16, *Accounting for Compensated Absences*, the Authority has recorded a liability in the amount of \$1,427,037 as of December 31, 2020 in the statement of net position. The liability is the value of employee accrued vacation time as of the statement of net position 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:

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

Notes to Financial Statements (Continued)

	Beginning Balance	Additions	Deductions	Ending Balance
Accrued school facilities project costs	\$ 3,809,730	\$ 214,356	\$ (2,208,993)	\$ 1,815,093
Net pension liability	44,045,377	-	(1,611,218)	42,434,159
Total other postemployment benefits liability	21,461,300	5,846,640	-	27,307,940
Accrued pension payable	2,377,735	2,846,614	(2,377,735)	2,846,614
Compensated absences	1,220,073	206,964	-	1,427,037
Total long-term liabilities	<u>\$ 72,914,215</u>	<u>\$ 9,114,574</u>	<u>\$ (6,197,946)</u>	<u>\$ 75,830,843</u>

For further information, see Notes 11 and 12.

14. Net Position

The Authority's net position is categorized as either invested in capital assets or restricted for schools construction. At December 31, 2020, the Authority's net position is \$132.5 million. Net investment 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 2019 and 2020 are as follows:

	Net Investment in Capital Assets	Restricted for Schools Construction	Totals
Net position, January 1, 2019	\$ 634,982	\$ 397,381,418	\$ 398,016,400
(Loss)/excess before receipt of EFCFA funding and transfers	(180,014)	(6,531,003)	(6,711,017)
Capital expenditures	627,916	(627,916)	-
EFCFA funding received from State	-	350,000,000	350,000,000
School facilities project costs	-	(306,966,710)	(306,966,710)
Net position, December 31, 2019	1,082,884	433,255,789	434,338,673
(Loss)/excess before receipt of EFCFA funding and transfers	(162,032)	(10,402,402)	(10,564,434)
Capital expenditures	576,861	(576,861)	-
School facilities project costs	-	(291,278,897)	(291,278,897)
Net position, December 31, 2020	<u>\$ 1,497,713</u>	<u>\$ 130,997,629</u>	<u>\$ 132,495,342</u>

15. Subsequent Events

(a) On January 14, 2021, EFCFA funding of \$350 million was received from the State related to the issuance of the 2021 Series QQQ Bonds.

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

Notes to Financial Statements (Continued)

(b) On June 24, 2021, New Jersey lawmakers in both the Senate and Assembly voted along party lines to approve a \$46.4 billion budget bill for Fiscal Year 2022, which includes a \$200 million General Fund appropriation in support of the school construction program. This appropriation is directed toward current school facilities projects, therefore, allowing the State to delay the issuance of a portion of the remaining authorized school construction bonds for one year beyond what is planned.

The Fiscal Year 2022 budget also directs \$75 million into the Authority's capital maintenance and emergent needs grants program, with preference being given to projects that would mitigate COVID-related health and safety issues in the SDA Districts and Regular Operating Districts.

Governor Phil Murphy signed the budget bill into law on June 29, 2021.

(c) As the Coronavirus pandemic continues into 2021, forecasts indicate that both good and bad news are on the horizon. Even as infection rates have declined dramatically in recent weeks, the threat of government restrictions on some economic activities remains a risk to economic recovery. However, as vaccines have become more readily available, there is hope that the widespread disruption in the economy caused by the pandemic could subside during the summer of 2021. The recent passage of another Coronavirus relief bill from the U.S. Federal Government, is expected to alleviate some of the current hardship. Due to the fluid nature of the current landscape management will continue to evaluate economic indicators and the potential outcomes it may have on the Authority's financial position.

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

REQUIRED SUPPLEMENTARY INFORMATION

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

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

	2020 *	2019	2018
Authority's proportion of the net pension liability	0.26021%	0.24445%	0.25282%
Authority's proportionate share of the net pension liability	\$ 42,434,159	\$ 44,045,377	\$ 49,778,974
Authority's covered payroll	\$ 16,333,372	\$ 19,098,021	\$ 17,849,263
Authority's proportionate share of the net pension liability as a percentage of covered payroll	259.8%	230.6%	278.9%
Plan fiduciary net position as a percentage of the total pension liability	42.9%	42.0%	40.4%
	2017	2016	2015
Authority's proportion of the net pension liability	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 payroll	\$ 18,573,489	\$ 18,574,888	\$ 18,072,739
Authority's proportionate share of the net pension liability as a percentage of covered	323.5%	390.0%	323.2%
Plan fiduciary net position as a percentage of the total pension liability	36.8%	31.2%	38.2%

Notes to Schedule:

* The amounts presented in the table above were determined as of June 30, 2020.

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

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

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

Mortality

Pre-retirement mortality rates were based on the Pub-2010 General Below-Median Income Employee mortality table with an 82.2% adjustment for males and 101.4% adjustment for females, and with future improvement from the base year of 2010 on a generational basis.

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

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

	2020	2019	2018	2017	2016
Service cost	\$ 409,654	\$ 449,157	\$ 1,606,120	\$ 1,634,702	\$ 1,578,355
Interest cost	813,459	762,995	1,004,490	927,740	849,309
Differences between actual and expected experience	-	-	146,961	-	-
Changes in assumptions	4,844,872	(3,257,030)	(3,947,479)	(1,476,238)	-
Benefit payments	(221,345)	(231,938)	(362,050)	(297,093)	(277,001)
Net change in total OPEB liability	5,846,640	(2,276,816)	(1,551,958)	789,111	2,150,663
Total OPEB liability – beginning of year	21,461,300	23,738,116	25,290,074	24,500,963	22,350,300
Total OPEB liability – end of year	<u>\$ 27,307,940</u>	<u>\$ 21,461,300</u>	<u>\$ 23,738,116</u>	<u>\$ 25,290,074</u>	<u>\$ 24,500,963</u>
Covered payroll	\$ 15,948,280	\$ 15,838,600	\$ 18,487,788	\$ 18,451,700	\$ 17,954,600
Total OPEB liability as a percentage of covered payroll	171.23%	135.50%	128.40%	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:

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

Benefit changes – none.

Changes in assumptions:

Changes in assumptions reflect the effects of changes in the discount rate each period. The following are the discount rates used in each period:

2020	2.92%
2019	3.81%
2018	3.23%
2017	3.76%
2016	3.57%



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Report of Independent Auditors on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

Management and Members of the Authority
New Jersey Schools Development Authority

We have audited, in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities and the general fund 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, 2020, and the related notes to the financial statements, which collectively comprise the Authority’s basic financial statements, and have issued our report thereon dated June 30, 2021.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Authority’s internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority’s internal control. Accordingly, we do not express an opinion on the effectiveness of the Authority’s internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity’s financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Authority’s financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the



financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Ernst + Young LLP

June 30, 2021