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**New Jersey Schools  
Development Authority**

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**Annual Report  
2011**



## About This Report

The 2011 Annual Report on the operations of the New Jersey Schools Development Authority (SDA) is presented pursuant to the provisions of Executive Order No. 37 (Corzine), issued on September 26, 2006. The report provides a comprehensive overview of the SDA's operations—highlighting significant actions taken in 2011—and includes a discussion of the 2011 Capital Program execution as well as the Authority's 2011 financial statements.

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

Since its inception, the program has been authorized to expend up to \$12.5 billion, comprising \$8.9 billion for SDA Districts and \$3.6 billion for Regular Operating Districts (RODs). Of the ROD funding, \$150 million is set aside for vocational schools. Funding is provided through the issuance of bonds by the New Jersey Economic Development Authority (EDA).

For more information, please refer to the SDA website at [www.njsda.gov](http://www.njsda.gov) or the most recent Biannual Report on the School Construction Program (for the period April 1 through September 30, 2011). The Biannual Report can be found at the following link: [http://www.njsda.gov/RP/Biannual\\_Report/2011\\_2.PDF](http://www.njsda.gov/RP/Biannual_Report/2011_2.PDF).

The mission of the New Jersey Schools Development Authority (SDA) is to deliver high-quality educational facilities that best meet the needs of the students of the State of New Jersey.

While providing efficiently designed facilities that enhance the academic environment, we promote fiscal responsibility in the management of taxpayers' resources.

## 2011: SDA Year in Review

	<p style="text-align: center;"><b>January</b></p>	<ul style="list-style-type: none"> <li>• Edward Walsh joins SDA Board as Chairman</li> <li>• SDA, Egg Harbor City Educators Celebrate Opening of Community Middle School</li> </ul>
<ul style="list-style-type: none"> <li>• Governor Christie Releases Recommendations for New Capital Program for SDA Districts</li> </ul>		<p style="text-align: center;"><b>February</b></p> 
	<p style="text-align: center;"><b>March</b></p>	<ul style="list-style-type: none"> <li>• SDA Capital Program Approved by Board; Allocates Additional \$100M for Use Towards Emergent Projects</li> <li>• Reengineered Close Out Process is Adopted Authority wide</li> </ul>
<ul style="list-style-type: none"> <li>• Loren Lemelle Joins SDA Board</li> </ul>		<p style="text-align: center;"><b>June</b></p>
	<p style="text-align: center;"><b>August</b></p>	<ul style="list-style-type: none"> <li>• SDA Kicks off SMWBE Contractor Training Program</li> </ul>
<ul style="list-style-type: none"> <li>• SDA Opens Morgan Village/Creative Arts Academy (Camden), Pemberton Township Early Childhood Center (Pemberton) and Egg Harbor Township High School, Phase II (Egg Harbor Township)</li> </ul>		<p style="text-align: center;"><b>September</b></p> 
	<p style="text-align: center;"><b>October</b></p>	<ul style="list-style-type: none"> <li>• SDA Graduates 16 Small, Minority and Women Owned Businesses from it's 2011 Contractor Training Program</li> <li>• SDA, Neptune Twp. Educators Celebrate Platinum LEED Certification for Midtown Community Elementary School</li> <li>• Christie Administration Announces the Restart of Construction at Victor Mravlag School No. 21 in Elizabeth</li> </ul>
<ul style="list-style-type: none"> <li>• SDA Announces the First Phase Towards Standardization of School Designs</li> <li>• SDA Continues Aggressive Cost Recovery Effort— Nearly \$3 Million Reclaimed for School Construction Program</li> </ul>		<p style="text-align: center;"><b>November</b></p>
	<p style="text-align: center;"><b>December</b></p>	<ul style="list-style-type: none"> <li>• SDA Announces the Second Phase Toward Standardization of School Designs —"Kit of Parts"</li> <li>• SDA Advertises the First Two School Projects of the 2011 Capital Program</li> </ul>

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## MESSAGE FROM CEO MARC LARKINS



Our collective focus and determination over the past year has been to continue to change the course of this organization by pursuing two goals: Transparency and Accountability. The initiatives and accomplishments of the SDA during this time have reflected that purpose. We have instituted policies and conducted business in a way that ensures the prudent use of the State's limited resources while clearly defining our direction to our stakeholders. Governor Christie demanded as much on behalf of the taxpayers and the schoolchildren, and we are responding. This is my continued expectation of the SDA each year moving forward.

In early 2011, with Governor Christie's support, we introduced a revamped SDA Capital Program. The new Capital Program moved away from subjective considerations of the past and objectively identified and prioritized the most critical needs across our SDA school districts. The new program recommended 10 school facility construction projects to be built using reasonable and logical standards that would maximize the State's investment while delivering buildings that would represent state-of-the-art learning environments for our schoolchildren. The 2011 announcement increased the portfolio of active SDA projects to over \$1.6 billion.\*

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\*The \$1.6 billion is derived from the following dollar amounts: 2011 Capital Program \$584M; active Capital projects \$198M; active emergent projects \$50M; and State share of active ROD grants \$792M.

Our evaluation of the operations of the SDA also led to the introduction of new project delivery methods. Chief among them was the creation of an in-house “Design Studio” to oversee the architectural needs of the Authority and develop the SDA Model Schools Program. The Model Schools Program was developed to establish a consistent approach to SDA school facilities project design. The effort accomplishes the objectives of pursuing consistency throughout SDA project delivery by establishing a cost effective approach to constructing SDA schools using a set of defined standards. In doing so, we will be able to provide more facilities for more students.

The idea of accountability was a cornerstone of the new SDA Capital Program. During the announcement in March 2011, we indicated that there were 2 projects of the 10 that would make their way to construction activity in 2011. The SDA met that promise. In December of 2011, the SDA advertised for the procurement of construction related services at Catrambone Elementary School project in Long Branch and the Academic High School project in Elizabeth. As we move through the years to come, our expectation and mandate is that this organization will continue to be accountable to our communities.

In addition to advancing projects timely and in a responsible way, this administration has continued its pursuit of efforts to recover money lost to the old ways of doing business. SDA continued its earnest pursuit of monies owed to the Authority, including an estimated \$9 million in pre-litigation settlement negotiations related to errors and omissions, and an additional \$3 million in reimbursements through state and federal rebate programs. It’s important to note that every dollar the SDA receives through rebates is additional money that is available for use on future school facilities construction projects.

At this two-year point of my tenure with the SDA it is important to reflect upon how far our reform efforts have carried us. Under the leadership of Governor Christie and his administration, the SDA operating budget has decreased by over 24 percent from the time that we arrived. Also, consulting contracts have been scrutinized and slashed. In all the Authority has found direct savings or avoided costs totaling over \$30 million in 2011 alone. Meanwhile, we have continued our aggressive pursuit of growing small business opportunities in the State. In August of 2011, the Authority successfully completed our first fully developed and self-performed, in-house SMWBE Contractor Training Program. Sixteen small businesses completed the inaugural training program. With a few added improvements, this in-house training program will continue for years to come and do so at a mere fraction of the previous, out-sourced costs.

We are moving ever closer to our goal of operating an efficient and effective school construction program. It is clear to us, however, that much work remains. We cannot rest on our accomplishments thus far and must continue to push forward. The transformation that has occurred with this program in such a short period of time inspires us to continue to provide our best efforts on behalf of the taxpayers and our schoolchildren.

Sincerely yours,

A handwritten signature in black ink, appearing to read "Mark A. ...". The signature is fluid and cursive, written over a light blue horizontal line.

## **EXECUTING THE 2011 CAPITAL PROGRAM**

In February 2011, Governor Chris Christie announced a statewide prioritization of SDA school construction projects to bring accountability to the spending of hundreds of millions of taxpayer dollars annually for school improvements and expansion. This new approach reflects a commitment to the efficient and proper use of public funds, an objective prioritization of statewide educational facilities needs and the advancement of sound design and construction principles. The 2011 Capital Program framework will allow the Authority to responsibly advance each project in the most efficient, cost-conscious manner possible.

The SDA's ongoing portfolio of school facilities projects includes hundreds of grant projects in Regular Operating Districts, three active construction projects, ten SDA projects identified as part of the 2011 Project Portfolio and various emergent projects in SDA Districts valued in total at over \$1.6 billion in state investment.

In identifying the ten projects within the 2011 Capital Program for advancement, the SDA recognized that use of a form of standardization in school construction would provide overall process efficiencies. The SDA looked to identify projects for which standardization could impact the greatest number of students, noting that the majority of projects in the 2011 Capital Program portfolio represented elementary schools with approximately 700 students. Nine of the ten projects identified for advancement in 2011 met this standardization criteria.

The strategic framework used in selecting the projects for advancement in 2011 supports the development of design and constructability standards that are recognized to ensure quality and consistency of systems and materials; ease of operations and maintenance; and appropriate and cost-effective design.

## **FOCUS ON DESIGN INNOVATIONS**

### ***The Model Schools Program***

The Capital Program Report released in March 2011 emphasized the use of standardization in all public school facilities projects in the State of New Jersey that are managed by the SDA. Standardization provides a means for the SDA to advance each project more efficiently and cost effectively, provides for greater predictability in the approval process, and reduces the potential for change orders and errors, all of which can lower the cost and expedite the delivery time of school facilities projects. The achievement of financial savings ultimately results in additional dollars available to the Authority for completion of more projects. This is especially critical now given the finite nature of the resources available for school construction.

During 2011, the SDA released several tools for use in advancing standardization, including the two manuals “Materials and Systems Standards Manual” and the “Construction Details Manual,” which serve to help anchor SDA’s Model Schools Program. These manuals reflect SDA’s ongoing internal effort to implement standardized designs for school facility construction projects.

The Materials and Systems Standards and Construction Details manuals simultaneously provide guidance for achieving uniformity in an overall approach to materials and systems selection during the design phase of a project.

### **Materials and Systems Manual**

The SDA has currently drafted over 70 design standards (or approximately 1/3 of the identified materials and systems). Design components include foundations, walls, floors and roofs, stairs, masonry and concrete, flashing, insulation, frames, windows, doors, wallboard, ceilings, toilets and shelving, elevators, HVAC, plumbing, electrical, fire, communications and security, lighting, furnishings, signage, parking, fencing, flagpoles and landscaping, among other categories. The manual was published in September 2011 and can be found here on the SDA website: [http://www.njsda.gov/Design/Design\\_Requirements.pdf](http://www.njsda.gov/Design/Design_Requirements.pdf)

### **Construction Details Manual**

The Construction Details Manual contains select key “Standardized Construction Details” for the materials and systems recommended in the Materials and Systems Standards Manual. A compendium of precise blueprint drawings referenced with the same respective section designations as the materials and standards design requirements, comprise the Construction Details manual. The manual was published in September 2011 and can be found here on the SDA website: [http://www.njsda.gov/Design/Construction\\_Details.pdf](http://www.njsda.gov/Design/Construction_Details.pdf)

### **The Design Studio**

The SDA reviewed existing designs and other benchmarks to identify elements which might serve as the basis for standardized designs. After considering other alternatives, the SDA has completed the development of a “Kit of Parts” based on a set of standardized designs utilizing in-house resources. To develop the Kit of Parts, the Authority established an in-house Design

Studio staffed with SDA-employee architects and planners who are supported in their efforts by in-house engineers, management, and administrative staff. The SDA Design Studio is engaged in the development of standardized Kit of Parts component elements which will be utilized in new project designs. In support of this effort, an SDA-DOE working group also has been formed and has developed standardized programmatic models and educational specifications.

### **Kit of Parts**

The SDA released its Kit of Parts in December of 2011 to be used during the design process for new school facilities. The goal of the Kit of Parts (KOP) Development Team was to develop a prototypical school design, comprised of standardized component elements, which can be easily rearranged to respond to varying site and other conditions for multiple Capital Program projects. Such a prototypical school design provides for greater consistency in school facility projects within and across all SDA districts while responding to varying site conditions. Additionally, KOP promises to provide quality educational facilities more cost effectively, reduce the time and expense required for design of SDA school facilities and serves as a first step toward higher levels of design standardization.

The Model Programs found in the KOP describe the number and type of rooms and spaces to be provided in a school facility. The SDA has thus far developed four basic programmatic models with 16 potential variations, including classrooms, science classrooms/laboratories, instructional and administrative support areas; specialized instructional areas (Art, Music, Technology), physical education, dining, and assembly areas (cafetorium or multi-purpose options); main office, nurse, student services, and media center; and pre-kindergarten classrooms and support.

Application of the KOP prototype to a particular project follows the identification of an appropriate model program based on grade alignment and target capacity; confirmation of required pre-kindergarten capacity, if any; test-fit of model components on the project site; and the evaluation of and comparison with other alternatives for project delivery, including advancement of existing design, if any. Schematic design for the first project to utilize the Kit of Parts delivery approach, New Brunswick's A. Chester Redshaw Elementary School, was completed in February 2012.

In summary, the SDA Model Schools Program was developed to establish a consistent approach to SDA school facilities project design as well as to accomplish goals such as attaining parity amongst all SDA Districts and establishing a cost effective and reliably efficient approach in constructing SDA school facilities projects. In doing so, the SDA will be able to provide more facilities for more students utilizing its limited resources. Standardization also establishes a means for SDA school facilities projects to be built in an educationally appropriate, sustainable, clean and environmentally friendly manner. For more information, please visit [www.njsda.gov/Design/index.html](http://www.njsda.gov/Design/index.html).

## 2011 PORTFOLIO OF WORK

### *Project Completions*

In 2011, the SDA worked to accomplish its mission of providing modern and efficient schools for the students of New Jersey that serve as integral parts of the community. SDA's efforts resulted in the completion of three major projects, including two new facilities and one extensive addition, renovation and/or rehabilitation project. A total of 3,929 New Jersey students were the beneficiaries of these completed projects, which provide the modern classroom spaces, science labs, computers and other technology necessary to help keep the state's educational performance among the best in the United States. These projects represent a state investment of more than \$93.6 million.

2011 SDA PROJECT COMPLETIONS						
	District	School	Construction Type	District Type	Capacity	Total Costs
1	Camden	Morgan Village Middle School	New	SDA	639	\$ 40,097,376
2	Egg Harbor Twp.	High School Phase II	Add/Reno	ROD	2,770	\$ 23,827,527
3	Pemberton	New ECC # 1	New	SDA	520	\$ 29,748,937
<b>Totals</b>					<b>3,929</b>	<b>\$93,673,840</b>

### Emergent Projects

Another focal point of SDA was ensuring the advancement of emergent projects—those deemed necessary by the Department of Education (DOE) due to potential health-and-safety conditions. Emergent projects are SDA-funded and are either managed by the SDA or delegated to the local SDA school districts. In 2011, following Governor Christie's recommendation, the SDA Board allocated an additional \$100 million for emergent projects. A thorough review process for new

projects is underway with results to be announced in 2012. The status of the emergent-project program is as follows:

<b>2011 SDA EMERGENT PROJECTS</b>								
<b>SDA Managed</b>			<b>District Delegated</b>			<b>Total All Projects</b>		
<b>Phase</b>	<b>Number of projects</b>	<b>Estimated Total Project Costs</b>	<b>Phase</b>	<b>Number of projects</b>	<b>Estimated Total Project Costs</b>	<b>Phase</b>	<b>Number of projects</b>	<b>Estimated Total Project Costs</b>
<b>Complete</b>	27	\$21,979,222	<b>Complete</b>	13	\$5,762,494	<b>Complete</b>	40	\$27,741,716
<b>Construction</b>	5	\$3,412,183	<b>Construction</b>	42	\$24,283,816	<b>Construction</b>	47	\$27,695,998
<b>Design</b>	3	\$5,971,160	<b>Design</b>	25	\$11,164,051	<b>Design</b>	28	\$17,135,212
<b>Pre-development</b>	3	\$4,633,524	<b>Pre-development</b>	1	\$190,000	<b>Pre-development</b>	4	\$4,823,524

DOE is actively reviewing new requests from SDA districts for emergent projects, while the SDA works to systematically review and validate the list of DOE-approved emergent projects. The SDA will continue to work in partnership with the DOE to advance and complete as many of the identified emergent projects as funding permits.

### **Regular Operating District (ROD) Grants**

In January 2011, the Christie Administration announced the first recipients of the 2011 ROD Grant program. In all, the 2011 ROD Grant program provided funding for 224 schools in 118 school districts throughout the state. For the year, SDA executed 348 grants in 118 RODs upon the Authority receiving all required school-district documentation and completing its review. These grants represent at least 40 percent of eligible costs for projects that are also funded through local referenda or individual school-district budgets. ROD grant projects are managed locally, with funds disbursed by SDA as project milestones are met.

<b>REGULAR OPERATING DISTRICT GRANTS</b>			
<b>2011 Grant Executions</b>		<b>Grant Executions Since Inception</b>	
No. of Grants Executed	348	No. of Grants Executed	3,796
State Share	\$92.4 million	State Share	\$2,586,632,251
Local Share	\$120.6 million	Local Share	\$5,392,998,277
Total Est. Costs	\$213.1 million	Total Est. Costs	\$7,979,630,528
No. of Districts Impacted	118	No. of Districts Impacted	502
No. of Counties Impacted	20	No. of Counties Impacted	21

### **Project Portfolio**

Over the course of the year, the State expended more than \$547 million to support school construction across New Jersey. The SDA spent nearly \$55.4 million for projects in SDA Districts. More than \$228.6 million in additional expenditures were made to support ROD grant projects, including State funding and the local district's responsibility.

<b>2011 PROJECT EXPENDITURES</b>	
SDA-managed projects (new/addition/renovation) in millions	
• SDA District Projects	\$55.4
• ROD District Projects	\$6.8
• <i>SDA expenditures</i>	\$5.9
• <i>District local Share</i>	\$0.9
SDA- managed emergent projects	\$14.7
SDA District-managed emergent projects	\$6.6
ROD grant projects	\$228.6
• <i>SDA grant expenditures</i>	\$91.5
• <i>District local share</i>	\$137.2
<b>TOTAL</b>	<b>\$547.6</b>

## SUPPORTING ECONOMIC GROWTH IN NEW JERSEY

### *Small Business Enterprise/Minority Initiatives*

The SDA continues to exceed the statewide requirement of awarding at least 25 percent of contracts to Small Business Enterprises (SBE). In 2011, SBE contract awards totaled 79 percent, up from 46 percent a year earlier and representing \$6.5 million of \$8.3 million in contracts awarded overall by the SDA. The table below presents key facts on the segment of SBE contracts awarded to minority- and women-owned firms.

<b>2011 TOTAL SBE CONTRACTS AWARDED*: MINORITY- AND WOMEN-OWNED BUSINESSES (1/1/11-12/31/11)</b>		
<b>Minority</b>	<b>8.84%</b>	<b>\$735,822.00</b>
• Asian	1.62%	\$135,000
• African-American	7.21%	\$600,822
<b>†Women</b>	<b>8.84%</b>	<b>\$735,822</b>

\*Percentages are based on a total of \$8.3 million in contracts awarded overall by SDA.

†Women-owned businesses include totals for minority- and non-minority-owned.

For twelve weeks between August 2011 and October 2011, SDA for the first time offered a SMWBE Contractor Training Program conducted by Authority staff. Participants received expert instruction in such areas as marketing and outreach, scheduling, accounting, project budgeting, bidding and bid package preparation, safety and paperwork.

Following nine instructional sessions, beginning with an orientation workshop and concluding with a graduation/networking event complete with a Certificate of Completion, the 16 initial graduating firms awarded a 100% overall approval rating to the SDA-conducted program and its staff instructors and also suggested a new topic be added to the program specific to Bonding and Access to Capital. Building on the success of this inaugural program, the SDA is making plans to offer the training again during the spring months of 2012, April through June, so as to accommodate more interested firms.

In all, training participants expressed appreciation for the subject-matter and hands-on expertise of the SDA training team members and the structure of the sessions. From a cost prospective, the 2011 SMWBE Program was able to be delivered at 11.5% of the Program Cost of the 2010 program, which had been outsourced. Because the program was run in-house, utilizing SDA personnel and resources, the 2011 in-house program was delivered at a cost of \$9,983.75 compared to the 2010 Memorandum of Understanding (MOU) not-to-exceed amount of \$508,808. The SDA was able to provide its in-house program at a 98% savings to the Authority.

## **STEWARDSHIP OF PUBLIC DOLLARS**

### ***Accountability through an Internal Audit and Assessment Group***

The Authority's most recent funding legislation (P.L. 2008, c. 39) directed the SDA, in consultation with the State Comptroller, "to cause an audit to be conducted of any school facilities project that has a State share that exceeds \$10 million." Accordingly, and in consultation with the Internal Audit Division of the Office of the State Comptroller, SDA developed a contract-based Audit Program, segmented into twelve financial areas and aligned with a school facility construction life cycle. This program was presented to and approved by the Audit Committee of the Board on August 15, 2011.

Historically, the SDA developed its capital plans according to the value of work that could be performed for the funding authorized. The SDA's current capital program is based on the volume of work that the SDA can effectively manage based on planning schedules. Thus, on March 2, 2011 the *2011 Project Portfolio* containing 10 school facilities projects was presented to and approved by the SDA's Board during their meeting. These 10 projects were selected for their high educational priority needs in the districts as well as meeting SDA-criteria requiring efficient construction factors.

In 2011, the SDA's Internal Audit Unit (IAU) began individual audits on each of the 10 schools, beginning with Long Branch's Catrambone Elementary School from its initial capital project selection through to its close-out phase. Each of these 10 audits will include in their scopes background and historical information, project charters and financial planning oversight, pre-

design, real estate, pre-construction, design, construction, furniture, fixtures, equipment & technology, section 13C & 13D agreements, claims, and project close-out. Such audit approach entails considerable time spent on monitoring, tracking and auditing each project as it progresses through the project life cycle/activity phases. In this way, information will be provided and corrective measures can be made as necessary based upon the observations and recommendations noted as the school project progresses.

In summary, this Audit Program stresses a project-management life cycle approach that takes into account the planning, organizing, monitoring, and controlling aspects of a project at various milestones to achieve its final goals— building a school facility that satisfies State and District needs and is completed on time and within budget. The primary objective of this Audit Program is to ensure that State funds utilized for a school facility construction project undertaken by the SDA are expended prudently.

# **MANAGEMENT’S REPORT ON INTERNAL FINANCIAL CONTROLS**

## ***Governance***

Pursuant to P.L.2007, c.137, s.3 (N.J.S.A. 52:18A-237) and Executive Order 122 (2004), the New Jersey Schools Development Authority (the “Authority”) is required to undergo an annual financial statement audit. The Authority’s 2011 financial statements have been audited by Ernst & Young LLP, an independent auditing firm. In performing its audit, Ernst & Young LLP considered the Authority’s internal control structure in determining the extent of audit procedures to be applied. In addition, Ernst & Young LLP was given unrestricted access to all financial records and related data of the Authority, including minutes of all Board and Audit Committee meetings. Ernst & Young LLP has issued an unqualified opinion on the Authority’s 2011 financial statements, which audit report, dated March 7, 2012, is presented on page 1 of the 2011 financial statements.

The Authority is responsible for both the accuracy of the financial data and the completeness and fairness of its presentation, including all disclosures. The financial statements are prepared in accordance with accounting principles generally accepted in the United States. In preparing the financial statements, management makes informed judgments and estimates as to the expected effects of events and transactions that are currently being reported.

The Audit Committee assists the Board in fulfilling its oversight responsibilities for the integrity and quality of the Authority’s financial statements, the financial reporting process, the system of internal controls, the external auditor’s qualifications and independence, the performance of the Authority’s internal audit function and external auditors, the audit process and the Authority’s process for

monitoring compliance with laws, regulations and ethical requirements. The Audit Committee periodically meets with management, as well as the SDA's independent auditors and internal auditors. Both the independent auditors and the internal auditors have unrestricted access to the Audit Committee. At least twice a year, the Audit Committee meets privately with the independent auditors without management present to discuss internal controls and other financial matters. The Audit Committee may request to meet with the Authority's management, internal auditor, or counsel, as necessary to fulfill its responsibilities.

Management considers the internal and external auditors' recommendations concerning the Authority's internal controls and takes appropriate responsive action. Typically on a bi-monthly basis a report showing the status of open audit recommendations is reviewed with the Audit Committee to ensure that appropriate progress is being made to address all audit recommendations. Though corrective actions have been taken in response to certain internal control deficiencies, further management action is required to appropriately address other internal control areas. Management views these types of remedial actions as part of a long-term continuous process to improve internal controls and efficiencies.

### ***Budgetary and Financial Controls***

The Authority maintains a system of internal controls to provide reasonable assurance that transactions are executed in accordance with management's requirements and authority, responsibilities are appropriately segregated, the financial statements are prepared in accordance with accounting principles generally accepted in the United States, and the assets of the Authority are

properly safeguarded. Since internal controls are designed to provide reasonable, but not absolute, assurance that these objectives are met, there are inherent limitations in the effectiveness of any system of internal controls. The concept of reasonable assurance generally recognizes that: (1) the cost of a control should not exceed the benefits likely to be derived; and (2) the valuation of costs and benefits requires estimates and judgments by management. These internal controls are subject to continuous evaluation by the Authority's management.

### **Budgetary Controls**

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

In addition, the Authority develops and maintains comprehensive project budgets and schedules for each of the school facilities projects that it manages. The Authority uses various Primavera software products to plan, record and monitor project budgets and schedules, and various other software products are used for cost estimating, analyses and reporting. Project budgets include all financial aspects of a project and are reviewed and revised monthly, as necessary. The data obtained from regular monthly re-forecasting sessions are used to track the current and anticipated status of projects relative to their approved budgets. The results are then summarized and presented to the Audit Committee in a monthly report.

## **Financial Controls**

The Authority maintains financial controls through the use of an integrated accounting and budgeting system which enables the Authority to access, analyze and report financial data. Furthermore, the Authority uses financial reporting software to: (1) efficiently and effectively monitor its financial performance; (2) identify financial trends; and (3) generate accurate and timely financial data. These capabilities are continuously improved to meet new information needs.

In order to document and evaluate the appropriateness of the Authority's internal controls, policies and procedures are developed and periodically updated to ensure they remain current. These policies and procedures include a Code of Ethics to foster a strong ethical climate, and are communicated to the Authority's employees as deemed appropriate. These policies and procedures provide a system of internal controls and accountability which is designed to safeguard the Authority's assets. The Authority's internal auditors periodically review the Authority's adherence to internal control policies and procedures.

The Authority's Board of Directors periodically reviews and approves modifications to the SDA's Operating Authority policy. The Operating Authority is a key control document as it designates those persons who are required (either generally or in specific transactions) to approve contracts and/or to execute documents legally binding on the Authority, or to sign checks and approve disbursements on behalf of the Authority. Several other policies and procedures (or other analogous documents, including, but not limited to: policy notices, bulletins, standard operating procedures, etc.) have been implemented in the areas of accounting, accounts payable, procurement and program operations.

## Certifications Pursuant to Section 22c of Executive Order 37 (2006)

I certify that, to the best of my knowledge, the financial information provided to the Authority's independent auditors in connection with their audit of the 2011 financial statements is accurate, and that such information fairly presents the financial condition and operational results of the Authority as of December 31, 2011 and for the year then ended.



Donald Guarriello, Jr.  
Chief Financial Officer

I certify that, to the best of my knowledge, the financial information provided to the Authority's independent auditors in connection with their audit of the 2011 financial statements is accurate, and that such information fairly presents the financial condition and operational results of the Authority as of December 31, 2011 and for the year then ended.



Marc Larkins  
Chief Executive Officer

## Certification Pursuant to Section 2 of Executive Order 37 (2006)

In accordance with Executive Order 37 (2006), please find enclosed the New Jersey Schools Development Authority's (the "Authority") 2011 comprehensive report of Authority operations (the "2011 Annual Report"). This report highlights the significant actions of the Authority for the year ending December 31, 2011, including the degree of success the SDA had in promoting the State's economic growth strategies and other policies during the year.

The report of independent auditors, issued by Ernst and Young LLP on March 07, 2012, is included within the financial statements section of the 2011 Annual Report. The completion of the audit report fulfills the Authority's requirements under Executive Order 37 and the audit requirements of Executive Order 122 (2004).

Executive Order 37 Section 2 Certification:

I, Marc Larkins, certify that, from January 1, 2011, to December 31, 2011, the Authority has, to the best of my knowledge, followed all of its standards, procedures and internal controls.



Marc Larkins  
Chief Executive Officer

## SDA BOARD MEMBERS

### Public Members

Edward Walsh  
Chairman  
Managing Principal  
The Walsh Company, L.L.C.

Michael Capelli  
Executive Secretary-Treasurer  
NJ Regional Council of Carpenters

Kevin Egan  
Business Representative, I.B.E.W. Local 456

Karim A. Hutson  
Managing Partner and Founder  
Genesis Companies

Loren P. Lemelle  
Retired Executive, Johnson and Johnson

Lester Lewis-Powder  
Executive Director, Let's Celebrate, Inc.

Michael Maloney  
Business Manager/ Financial Secretary,  
Plumbers & Pipefitters Local Union No. 9  
President, Mercer County Central Labor  
Council

Joseph McNamara  
Director, LECET & Health and Safety

Robert Nixon  
Director of Government Affairs  
NJ State Policeman's Benevolent Association

Martin Perez, Esq.  
President, Latino Leadership Alliance;  
Partner, Perez & Bombelyn

Mario Vargas  
Executive Director  
Puerto Rican Action Board

### Ex-Officio Members

Christopher Cerf  
Acting Commissioner  
New Jersey Department of Education

Caren Franzini  
Chief Executive Officer  
New Jersey Economic Development Authority

Richard E. Constable III, Esq  
Acting Commissioner  
New Jersey Department of Community Affairs

Andrew P. Sidamon-Eristoff  
State Treasurer  
New Jersey Department of the Treasury

## SDA Executive Staff

**Marc D. Larkins**  
*Chief Executive Officer*

**Jason E. Ballard**  
*Chief of Staff*

**Donald R. Guarriello**  
*Vice President – Chief  
Financial Officer*

**Jane F. Kelly**  
*Vice President –  
Corporate Governance  
and Operations*

**Andrew D. Yosha**  
*Vice President – Program  
Operations*

### SDA Offices

**State Street Office** Mailing Address: Post Office Box 991, Trenton, NJ 08625-0991  
Delivery Address: 1 West State Street, Trenton, NJ 08608  
Phone: 609-943-5955

**Front Street Office** Mailing Address: Post Office Box 991, Trenton, NJ 08625-0991  
Delivery Address: 32 East Front Street, Trenton, NJ 08608  
Phone: 609-292-5788 Fax: 609-826-3968

Website: [www.njsda.gov](http://www.njsda.gov)  
Email: [schools@njsda.gov](mailto:schools@njsda.gov)



**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, 2011

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, 2011

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## Report of Independent Auditors

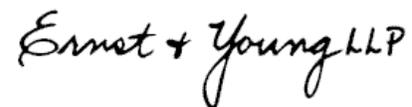
Members of the Authority  
New Jersey Schools Development Authority

We have audited the accompanying basic financial statements of the New Jersey Schools Development Authority (the Authority), a component unit of the State of New Jersey, as of December 31, 2011 and for the year then ended as listed in the table of contents. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the New Jersey Schools Development Authority as of December 31, 2011, and the changes in its financial position for the year then ended in conformity with U.S. generally accepted accounting principles.

Accounting principles generally accepted in the United States require that accompanying required supplementary information, such as management's discussion and analysis and the schedule of funding progress on pages 2 through 7 and page 29 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 who 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.



March 7, 2012

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, 2011

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, 2011. This management discussion and analysis should be read in conjunction with the Authority's financial statements and accompanying notes.

**Nature of the Authority**

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

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

**School Construction Program Authorized Funding and Disbursements**

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

Through December 31, 2011, the Authority has received \$8.645 billion of the designated \$12.5 billion principal amount of bond proceeds authorized for the School Construction Program. In addition, as of that date, the Authority has disbursed 66.8% of the currently authorized program funding, as follows:

	<u>Bonding Cap</u>	<u>Program Funding</u> <sup>1</sup>	<u>Disbursements</u>	<u>% Paid</u>
SDA Districts	\$8,900,000,000	\$9,006,357,884	\$5,869,591,060	65.2%
Regular Operating Districts	3,450,000,000	3,492,672,553	2,479,593,511	71.0%
Vocational Schools	150,000,000	151,705,102	95,361,810	62.9%
Totals	<u>\$12,500,000,000</u>	<u>\$12,650,735,539</u>	<u>\$8,444,546,381</u>	66.8%

<sup>1</sup> Program funding includes the amounts authorized under the respective bonding caps in addition to approximately \$151 million of other income and miscellaneous revenue earned through December 31, 2011.

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 2011, the Authority completed two new school facilities projects in the SDA Districts, which benefited nearly 1,200 students.

From inception through December 31, 2011, the School Construction Program has completed 628 projects in the SDA Districts. The completed projects consist of: 63 new schools, including 6 demonstration projects; 42 extensive additions, renovations and/or rehabilitations; 26 rehabilitation projects; 354 health and safety projects; and 143 Section 13 Grants for SDA District-managed projects under \$500,000. The demonstration projects serve as a cornerstone of revitalization efforts and are funded by the Authority but managed by a municipal redevelopment entity and redeveloper. In addition, in the Regular Operating Districts the Authority has completed 26 projects that it managed for the districts, and state funding was provided through Section 15 Grants for 2,877 school projects throughout the 21 counties of New Jersey.

As of December 31, 2011, the SDA has four 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 five emergent need 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.

In February 2011, Governor Chris Christie announced the results of the first-ever statewide prioritization of SDA school construction projects. The new approach is the result of a comprehensive review conducted over a six-month period by an internal working group consisting of SDA and New Jersey Department of Education officials and reflects a wholesale strategy shift from the SDA’s earlier 2008 Capital Plan. The changes reflect a commitment to the efficient and proper use of public funds, an objective prioritization of statewide educational needs and the advancement of sound design and construction principles. These design principles include new systems and materials standards and “Kit of Parts” prototypical school designs comprised of standardized component elements, which can be rearranged to respond to varying site and other conditions for multiple capital projects. The Authority believes that standardization in school projects will provide the opportunity for significant cost savings, expedited review times and shorter construction schedules. The 2011 Capital Program calls for the construction of 10 new schools in the SDA Districts, representing a state investment of almost \$584 million. Furthermore, an extra \$100 million has been set aside for the advancement of additional emergent projects in the SDA Districts. In February 2012, the Christie Administration announced another 20 projects for advancement in the 2012 Capital Program. These projects were selected due to their high educational needs or because of serious facility deficiencies within existing school buildings.

The following un-audited information provides insight into the activities of the School Construction Program during the last five years and is not intended to be presented in accordance with generally accepted accounting principles.

	\$ In thousands				
	2011	2010	2009	2008	2007
EFCFA funding received from State	\$ -	\$499,200	\$775,000	\$450,000	\$800,000
Investment earnings, net	546	1,299	2,345	12,060	25,697
Administrative and general expenses	35,699	44,332	44,707	41,021	35,750
Capital expenditures	26	52	234	526	1,027
School facilities project costs	154,930	274,584	509,462	922,824	925,665
Employee count at end of year	255	304	332	298	272

### 2011 Financial Highlights

- At year end net assets total \$178.9 million.
- Cash and cash equivalents are \$362.5 million.
- Revenues are \$863 thousand, consisting primarily of investment earnings and rental property income. The Authority did not receive revenue from bond sales in 2011.
- Expenses are \$191.7 million, \$154.9 million (80.8%), of which is for school project costs.
- Excess of general fund expenditures over general fund revenues are \$190.8 million.

## **Overview of the Financial Statements**

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

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

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

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

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

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

## Financial Analysis of the Authority

**Net Assets** - The Authority's net assets decreased to \$178.9 million at year-end, primarily due to 2011 expenditures for school facilities projects (\$154.9 million) exceeding total revenue (\$863 thousand). The following table summarizes the Authority's financial position at December 31, 2011 and 2010.

	\$ In thousands			
	2011	2010	\$ Increase/ (Decrease)	% Increase/ (Decrease)
Current assets	\$365,855	\$573,233	\$ (207,378)	(36.2)%
Capital assets-net	1,469	2,475	(1,006)	(40.6)%
<b>Total assets</b>	<b>\$367,324</b>	<b>\$575,708</b>	<b>\$ (208,384)</b>	<b>(36.2)%</b>
Current liabilities	\$78,271	\$99,733	\$ (21,462)	(21.5)%
Non-current liabilities	110,147	106,271	3,876	3.6%
<b>Total liabilities</b>	<b>188,418</b>	<b>206,004</b>	<b>(17,586)</b>	<b>(8.5)%</b>
Net assets:				
Invested in capital assets	1,469	2,475	(1,006)	(40.6)%
Restricted for schools construction:				
Build America Bond program	258,300	345,003	(86,703)	(25.1)%
Special revenue fund	(80,863)	22,226	(103,089)	(463.8)%
<b>Total net assets</b>	<b>178,906</b>	<b>369,704</b>	<b>(190,798)</b>	<b>(51.6)%</b>
<b>Total liabilities and net assets</b>	<b>\$367,324</b>	<b>\$575,708</b>	<b>\$ (208,384)</b>	<b>(36.2)%</b>

*Note: All percentages are calculated using unrounded figures.*

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

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

The following table summarizes the change in net assets for the years ended December 31, 2011 and 2010.

	\$ In thousands			
	2011	2010	\$ Increase/ (Decrease)	% Increase/ (Decrease)
<b>Revenues</b>				
EFCFA funding received from State	\$ -	\$499,200	\$ (499,200)	(100.0)%
Bidding fees-plans and specs	5	1	4	531.6%
Investment earnings, net	546	1,299	(753)	(58.0)%
Rental property (loss)/income	309	(73)	382	523.9%
Other revenue	3	3	-	(11.9)%
<b>Total revenues</b>	<b>\$863</b>	<b>500,430</b>	<b>(499,567)</b>	<b>(99.8)%</b>

	\$ In thousands			
	2011	2010	\$ Increase/ (Decrease)	% Increase/ (Decrease)
<b>Expenses</b>				
Administrative and general expenses	\$35,699	\$44,332	\$ (8,633)	(19.5)%
Depreciation	1,032	1,308	(276)	(21.1)%
School facilities project costs	154,930	274,584	(119,654)	(43.6)%
Total expenses	191,661	320,224	(128,563)	(40.1)%
Change in net assets	(190,798)	180,206	(371,004)	(205.9)%
Beginning net assets	369,704	189,498	180,206	95.1%
Ending net assets	\$178,906	\$369,704	\$(190,798)	(51.6)%

*Note: All percentages are calculated using unrounded figures.*

### **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](http://www.njsda.gov).

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

Statement of Net Assets and General Fund Balance Sheet

December 31, 2011

	<b>General Fund Total</b>	<b>Adjustments (Note 8)</b>	<b>Statement of Net Assets</b>
<b>Assets</b>			
Cash and cash equivalents	\$362,471,682		\$362,471,682
Receivables	1,859,544	\$558,297	2,417,841
Prepaid expenses	965,346		965,346
Capital assets-net		1,469,503	1,469,503
Total assets	<u>365,296,572</u>	<u>2,027,800</u>	<u>367,324,372</u>
<b>Liabilities</b>			
Accrued school facilities project costs	66,494,545	99,589,555	166,084,100
Other post-employment benefits obligation		9,545,523	9,545,523
Other accrued liabilities	622,437	1,012,091	1,634,528
Deposits	11,153,524		11,153,524
Total liabilities	<u>78,270,506</u>	<u>110,147,169</u>	<u>188,417,675</u>
<b>Fund Balance/Net Assets</b>			
Invested in capital assets		1,469,503	1,469,503
Nonspendable:			
Prepaid expenses	965,346	(965,346)	
Restricted for schools construction	286,060,720	(108,623,526)	177,437,194
Total fund balance/net assets	<u>287,026,066</u>	<u>(108,119,369)</u>	<u>178,906,697</u>
Total liabilities and fund balance/net assets	<u>\$365,296,572</u>	<u>\$2,027,800</u>	<u>\$367,324,372</u>

*See accompanying notes.*

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

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

For the Year Ended December 31, 2011

	<b>General Fund Total</b>	<b>Adjustments (Note 8)</b>	<b>Statement of Activities</b>
<b>Revenues</b>			
School Construction Program:			
Bidding fees-plans and specs	\$ 4,579		\$ 4,579
General:			
Investment earnings	546,039		546,039
Rental property income	309,298		309,298
Other revenue	2,884		2,884
Total revenues	862,800		862,800
<b>Expenditures/Expenses</b>			
Administrative and General:			
Salaries and benefits	28,680,243	\$1,961,108	30,641,351
Other administrative and general	5,057,511		5,057,511
Capital expenditures	26,142	(26,142)	
Capital depreciation		1,031,909	1,031,909
School facilities project costs	153,014,077	1,915,138	154,929,215
Total expenditures/expenses	186,777,973	4,882,013	191,659,986
Excess of expenditures over revenues	(185,915,173)	(4,882,013)	
Change in net assets			(190,797,186)
<b>Fund Balance/Net Assets</b>			
Beginning of year, January 1, 2011	472,941,239	(103,237,356)	369,703,883
End of year, December 31, 2011	\$ 287,026,066	\$ (108,119,369)	\$ 178,906,697

*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 (“State”) for funding. Organizationally, the Authority is situated in, but not of, the New Jersey Department of the Treasury.

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

**2. Summary of Significant Accounting Policies**

**(a) Government-Wide and Fund Financial Statements**

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

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

Separate financial statements are provided for the Authority’s governmental fund (these are also referred to as the “general fund” financial statements). Because the Authority operates a

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

Notes to Financial Statements (continued)

single governmental program, its government-wide and governmental fund financial statements have been combined using a columnar format that reconciles individual line items of general fund financial data to government-wide data in a separate column on the face of the financial statement.

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

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

The Authority's governmental fund is classified as a general fund and its financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Authority considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual basis accounting; however, expenditures related to compensated absences and certain other accruals are recorded only when payment is due. With regard to the Authority's restricted schools construction special revenue fund, restricted amounts are considered to have been spent only after the expenditure is incurred for which there is available restricted fund balance.

**(c) Revenue Recognition**

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

**(d) Rebate Arbitrage**

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

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

Notes to Financial Statements (continued)

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 2010 Series B, CC-1, and CC-2. As of December 31, 2011, no rebate arbitrage liabilities exist.

**(e) Cash Equivalents**

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

**(f) Prepaid Expenses**

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

**(g) Capital Assets**

Capital assets are reported in the governmental activity column in the government-wide financial statements and are recorded at historical cost or estimated historical cost if purchased and constructed. The Authority's current capitalization threshold is \$10,000 for individual items meeting all other capitalization criterion. As of December 31, 2011, the Authority's capital assets consist of leasehold improvements, equipment, computer software and furniture and fixtures. Depreciation is provided by the straight-line method over the shorter of the life of the lease or the useful life of the related asset.

**(h) Taxes**

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

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Notes to Financial Statements (continued)

**(i) Use of Estimates**

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

**(j) Recent Accounting Pronouncement**

In June 2011, the Governmental Accounting Standards Board (“GASB”) issued GASB Statement No. 63, *“Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position.”* GASB Statement No. 63 provides a new statement of net position format to report all assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position (which is the net residual amount of the other elements). It also requires that deferred outflows of resources and deferred inflows of resources be reported separately from assets and liabilities. A deferred outflow of resources is a consumption of net assets that is applicable to a future reporting period. A deferred inflow of resources is an acquisition of net assets that is applicable to a future reporting period. GASB Statement No. 63 amends certain provisions of GASB Statement No. 34, *“Basic Financial Statements—and Management’s Discussion and Analysis—for State and Local Governments.”* The provisions of GASB Statement No. 63 are effective for financial statements for periods beginning after December 15, 2011. The Authority is currently evaluating the impact this new accounting pronouncement will have on its financial statements.

**3. Cash, Cash Equivalents and Investments**

**(a) Cash Flows**

Overall cash and cash equivalents decreased during the year by \$209.1 million to \$362.5 million as follows:

Cash and cash equivalents, beginning of year	\$ 571,627,095
Changes in cash:	
EFCFA funding received from State	-
Investment and interest income	546,039
Miscellaneous revenue	316,761
School facilities project costs	(173,991,754)
Administrative and general expenses	(34,509,603)
Capital expenditures	(26,142)
Deposits	(1,490,714)
Cash and cash equivalents, end of year	<u>\$362,471,682</u>

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Notes to Financial Statements (continued)

**(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, 2011, the carrying amount of operating cash is \$1,738,439 and the bank balance is \$1,871,858. Regarding the amount held by commercial banking institutions, up to \$250,000 at each institution is insured with Federal Deposit Insurance.

Pursuant to GASB Statement No. 40, “*Deposit and Investment Risk Disclosures*,” NOW accounts are profiled in order to determine exposure, if any, to custodial credit risk (risk that in the event of failure of the counterparty the account owner would not be able to recover the value of its deposits or investment). Deposits are considered to be exposed to custodial credit risk if they are: uninsured and uncollateralized (securities not pledged to the depositor); collateralized with securities held by the pledging financial institution; or collateralized with securities held by the financial institution’s trust department or agent but not in the government’s name. At December 31, 2011, all of the Authority’s deposits were insured or collateralized by securities held in its name and, accordingly, not exposed to custodial credit risk. The Authority does not have a policy for custodial credit risk.

As of December 31, 2011, cash and cash equivalents include deposits of \$11,153,524 consisting mainly of district local share funding requirements (see Note 5).

**(c) Investments**

In order to maximize liquidity, the Authority utilizes the NJCMF as its sole investment. The NJCMF invests pooled monies from various State and non-State agencies in primarily short-term investments. These investments include: U.S. Treasuries; short-term commercial paper; U.S. Agency Bonds; Corporate Bonds; and Certificates of Deposit. Agencies that participate in the NJCMF typically earn returns that mirror short-term investment rates. Monies can be freely added or withdrawn from the NJCMF on a daily basis without penalty. At December 31, 2011, the Authority’s investments in the NJCMF total \$360,427,072.

*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.

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Notes to Financial Statements (continued)

**4. Prepaid Expenses**

As of December 31, 2011, the Authority's prepaid expenses are as follows:

Insurance	\$589,723
Office rents	172,845
Service contracts	182,414
Other	20,364
Total prepaid expenses	<u>\$965,346</u>

**5. Local Share Deposits**

The Authority has received funds from several local school districts as required by Local Share Agreements for the funding of the local share portion of Regular Operating District school facility projects, or to cover certain ineligible costs pertaining to projects in the SDA Districts. These deposits, including investment earnings, are reflected as liabilities in the accompanying financial statements.

As of December 31, 2011, local share deposits held in SDA bank accounts, inclusive of interest earned but not refunded to the district, are as follows:

City of Newark	\$7,119,661
Egg Harbor City	1,358,267
Greater Egg Harbor	980,784
Buena Borough	940,323
Other	613,679
Total local share deposits	<u>\$11,012,714</u>

**6. Rental of Office Space**

The Authority rents commercial office space for its headquarters facility in Trenton, as well as rents other office space in Trenton and Newark. The remaining terms of these leases range from approximately two years to over three years. Total rental expense for the year ended December 31, 2011 amounted to \$2,199,911.

Future rent commitments under operating leases are as follows:

2012	\$1,787,312
2013	1,585,479
2014	127,617
Total future rent expense	<u>\$3,500,408</u>

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Notes to Financial Statements (continued)

**7. Capital Assets**

Capital asset activity for the year ended December 31, 2011 is as follows:

	<b>Beginning Balance</b>	<b>Additions</b>	<b>Retirements</b>	<b>Ending Balance</b>
Leasehold improvements	\$7,916,738	\$ -	\$ -	\$7,916,738
Office furniture and equipment	5,094,937	-	-	5,094,937
Computer software	568,993	-	-	568,993
Automobiles	209,331	26,142	-	235,473
Capital assets-gross	13,789,999	26,142	-	13,816,141
Less: accumulated depreciation	11,314,729	1,031,909	-	12,346,638
Capital assets-net	<u>\$2,475,270</u>	<u>(\$1,005,767)</u>	<u>\$ -</u>	<u>\$1,469,503</u>

**8. Reconciliation of Government-Wide and Fund Financial Statements**

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

“Total fund balances” for the Authority’s general fund (\$287,026,066) differs from the “net assets” reported on the statement of net assets (\$178,906,697). This difference results from the long-term economic focus of the statement of net assets versus the current financial resources focus of the fund balance sheet. When capital assets that are to be used in the Authority’s activities are constructed or acquired, the costs of those assets are reported as expenditures in the fund financial statements. However, the statement of net assets includes those capital assets among the assets of the Authority as a whole. In addition, expenses associated with depreciation, accrued school facilities project costs not currently due for payment and non-current other post-employment benefits and compensated absences are not recorded in the fund financial statements until paid.

Fund balances	\$287,026,066
Capital assets, net of related depreciation of \$12,346,638	1,469,503
Accrued school facilities project costs, net of related receivable	(99,031,258)
Accrued other post-employment benefits	(9,545,523)
Accrued compensated absences	(1,012,091)
Net assets	<u>\$178,906,697</u>

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Notes to Financial Statements (continued)

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

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

Excess of expenditures over revenues	(\$185,915,173)
School facilities project costs	(1,915,138)
Other post-employment benefits expense	(1,880,370)
Compensated absences expense	(80,738)
Capital asset acquisitions	26,142
Depreciation expense	(1,031,909)
Changes in net assets	<u>(\$190,797,186)</u>

**9. Pollution Remediation Obligations**

In accordance with GASB Statement No. 49, “*Accounting and Financial Reporting for Pollution Remediation Obligations*,” the Authority has recorded in the statement of net assets a pollution remediation obligation (PRO) liability (net of environmental cost recoveries not yet realized) in the amount of \$37,847,100 as of December 31, 2011. Additionally, as of the same date the Authority has recorded in the statement of net assets a receivable in the amount of \$558,297 for realized environmental cost recoveries. The Authority’s PRO liability and asset are charged or credited to school facilities project costs in the statement of activities. The Authority’s PRO liability is measured based on the current cost of future activities. Also, the PRO liability was estimated using “the expected cash flow technique,” which measures the liability as the sum of probability weighted amounts in a range of possible estimated outcomes.

The Authority owns numerous properties with environmental issues that meet the criteria for “obligating events” and disclosure under GASB Statement No. 49. All of the properties meeting the criteria were acquired by the Authority for the purpose of constructing a school facilities project on behalf of an SDA District and, at the present, the Authority believes it has obligated itself to commence clean-up activities. The Authority will continue to evaluate the applicability of this statement 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,

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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.

<b>Description</b>	<b>Estimated Cost</b>	<b>Payments to Date</b>	<b>PRO at 12-31-2011</b>
Pre-cleanup activities	\$6,057,368	\$4,964,281	\$1,093,087
Site remediation work	74,766,969	40,545,669	34,221,300
Post-remediation monitoring	1,085,129	360,260	724,869
Asbestos and lead based paint removal	19,120,529	14,781,823	4,338,706
Sub-total	101,029,995	60,652,033	40,377,962
Less: Estimated environmental cost recoveries (ECR) not yet realized	2,530,862	-	2,530,862
Liability for pollution remediation obligations	\$98,499,133	\$60,652,033	\$37,847,100
Receivable for realized ECR	\$558,297	\$ -	\$558,297

The following table summarizes the changes in the Authority's PRO liability during the year ended December 31, 2011:

<b>PRO at 12-31-2010</b>	<b>Increase in Expected Cash Outlays</b>	<b>PRO Payments</b>	<b>Increase in ECR Not Yet Realized</b>	<b>PRO at 12-31-2011</b>
\$36,203,483	\$5,356,359	(\$2,980,707)	(\$732,035)	\$37,847,100

## 10. Commitments and Contingencies

### (a) Contractual Commitments

At December 31, 2011, the Authority has approximately \$561 million of unaccrued contractual commitments relating to future expenditures associated with school facilities projects.

### (b) Contractor Claims

Numerous contractor claims, the vast majority of which are not in litigation, have been filed with the Authority by design consultants, general contractors and project management firms relating to disputes concerning school construction matters (e.g., delays, labor and material price increases). The Authority resolves contractor claims by following the administrative process noted in the relevant contract. As of December 31, 2011, the Authority's potential loss from these claims has been estimated at approximately \$61.7 million, which represents

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an increase of \$272 thousand from the prior year end accrual. Accordingly, as of December 31, 2011, an accrued liability of \$61.7 million is reflected in the statement of net assets and, for the year then ended, \$272 thousand is charged to school facilities project costs on the statement of activities.

**(c) Insurance**

The Authority maintains commercial insurance coverage for, among other things, workers' compensation, tort liability (including public liability and automobile) and property damage. Additionally, in support of its construction operations the Authority has implemented an Owner-Controlled Insurance Program (OCIP) and has also purchased Owners Protective Professional Indemnity Insurance (OPPI), both of which are discussed below. As of December 31, 2011, management is not aware of any insurable claim that is expected to exceed its commercial insurance coverage. The Authority is also involved in several lawsuits not covered under its commercial insurance; however, in the opinion of management, none of the claims is expected to have a material effect on the Authority's financial statements.

The Authority has implemented an OCIP that "wraps up" multiple types of insurance coverage into one program. The Authority initially implemented a three-year OCIP, effective December 31, 2003 (OCIP I), to provide workers' compensation, commercial general liability, umbrella/excess liability and builders risk insurance for all eligible contractors performing labor on school facilities projects. OCIP I was subsequently extended to March 31, 2009. Builders risk coverage for OCIP I expired as of December 31, 2009. Policy limits for OCIP I vary depending upon, among other things, the type of insurance coverage; a \$300 million umbrella/excess liability program provides additional protection against potentially catastrophic losses resulting from workers' compensation and commercial general liability claims. Losses are subject to a \$250,000 per claim deductible. Although OCIP I is no longer enrolling new projects into the program since its expiration, completed operations coverage continues for 10 years from the end of construction for all previously enrolled projects. OCIP I premiums are adjustable based upon audited direct labor payroll; the audit for OCIP I was recently completed resulting in a refund of \$2.8 million in 2011, which was credited to school facilities project costs on the statement of activities and general fund revenues, expenditures and changes in fund balances.

In 2009, the Authority purchased a new five-year OCIP (OCIP II). OCIP II, as originally purchased, provides coverage for projects commencing construction between March 31, 2009 and March 31, 2012, and an additional two years is included for the completion of enrolled projects. Builders risk coverage for OCIP II has a three-year term commencing December 31, 2009. Similar to OCIP I, policy limits for OCIP II vary depending upon, among other things, the type of insurance coverage; a \$200 million umbrella/excess liability program provides additional protection against potentially catastrophic losses resulting from workers' compensation and commercial general liability claims. Losses are subject to either a \$250,000 per claim deductible or a \$350,000 deductible in the event that both a workers'

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compensation and general liability claim occur from the same incident. Additionally, OCIP II provides 10 years of completed operations coverage for claims that arise after the completion of construction. Premiums for OCIP II are adjustable based upon actual construction values for enrolled contractors (not all trades are eligible for enrollment) on insured projects, estimated at \$2 billion when the program was purchased. In November 2011, the Authority's Board Members authorized an amendment to the OCIP II contract, which allows for a two year extension of the enrollment period through March 31, 2014. The insurers have offered this two year extension at no additional cost to the Authority.

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

Concurrent with the Authority's purchase of OCIP II, the insurer agreed to transfer the 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. The funds remaining, totaling approximately \$9.9 million, were allocated to fund the LRF for OCIP I. All monies deposited in the LRF accrue interest to the benefit of the Authority and are available to pay claim costs arising from construction projects enrolled within the respective OCIP.

As of December 31, 2011, the Authority has incurred general liability and workers' compensation claims totaling approximately \$12.5 million and \$1 million, respectively, under OCIP I and OCIP II. All monies deposited in the LRF and not used to pay claims will be refunded to the Authority along with accrued interest. Under the terms of the contract, the Authority has no claim or interest in the LRF until six (6) months after the expiration of the program. At this time, and annually thereafter, the LRF for OCIP I shall be reviewed and the deductible obligation re-determined. The first re-determination for the OCIP I LRF was recently completed and resulted in a refund of \$654 thousand being received in February 2012. The \$654 thousand refund is recorded in receivables on the statement of net assets and general fund balance sheet as of December 31, 2011, and for the year then ended as a credit to school facilities project costs on the statement of activities and general fund revenues, expenditures and changes in fund balances.

In connection with the OCIP II extension, discussed above, the maximum deductible obligation for OCIP II was re-determined based upon lower expected losses arising from a reduction in anticipated construction values of insured projects. This re-determination

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established that the maximum deductible obligation should be \$16 million, which resulted in the LRF for OCIP II being overfunded by approximately \$2.2 million. Accordingly, in January 2012 the Authority received a refund from the LRF of \$2.2 million; however, since the OCIP II amendment was not fully executed until January 9, 2012, no entry was made in the 2011 financial statements. A reasonable estimate of future refunds from the OCIP II LRF is not yet known since the majority of covered school facilities projects are in various stages of completion and therefore the Authority's ultimate obligation cannot be immediately determined.

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

## **11. Employee Benefits**

### **(a) Recent Legislative Changes**

Governor Chris Christie signed Chapter 78, P.L. 2011 into law, effective June 28, 2011. This law provides for changes to the State-administered retirement systems and health care programs. Higher employee contribution levels for both pension and health care are being phased in over several years.

In connection with these changes, in October 2011 several new medical and prescription drug plan choices were announced with an effective date of January 1, 2012. The number of plan choices has increased from three to 15, including new high deductible health care plans not previously offered to employees and retirees. Among the changes to the retirement system is the suspension of automatic cost-of-living adjustments to current and future retirees and beneficiaries until reactivated. Other changes in the retirement system, most significantly a new Tier 5 category of participants, are included the section below.

### **(b) Public Employees Retirement System of New Jersey**

All active, full-time employees of the Authority are required as a condition of employment to participate in the Public Employees Retirement System of New Jersey ("PERS" or "Plan"), a cost-sharing, and multiple-employer defined benefit plan administered by the State. Effective July 1, 2011, employees are required to contribute 6.5% (up from 5.5%) of their annual compensation to the Plan. An additional 1% increase will be phased in over the next 7 years, bringing the total pension contribution rate to 7.5%. All Plan participants are categorized within membership Tiers in accordance with their enrollment date in the PERS,

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as follows: Tier 1 includes those members enrolled in PERS prior to July 1, 2007; Tier 2 includes those members enrolled in PERS on or after July 1, 2007 and prior to November 2, 2008; Tier 3 includes those members enrolled in PERS on or after November 2, 2008 and on or before May 21, 2010; Tier 4 includes those members enrolled in PERS after May 21, 2010 and prior to June 28, 2011; and Tier 5 includes those members enrolled in 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 Authority's total payroll for the years ended December 31, 2011, 2010 and 2009, which approximates its covered payroll, was \$19,904,178, \$23,961,013, and \$23,683,663 respectively.

In 2011, 2010 and 2009, the Authority's pension contributions to the PERS totaled \$2,545,016, \$1,793,455, and \$1,400,824 respectively, which amounts were charged to salaries and benefits expense. The Authority's 2012 pension contribution, due on April 1, 2012, is expected to be \$2,673,144.

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

Tier 1 members who have 25 years or more of credited service may elect early retirement without penalty at or after age 55, and receive full retirement benefits; however, the retirement allowance is reduced by 3% per year (1/4 of 1 percent per month) for each year the member is under age 55. For Tier 2 members with 25 years or more of credited service the retirement allowance is reduced by 1% per year (1/12 of 1 percent per month) for each year the member is under age 60 (until age 55) and 3% per year (1/4 of 1 percent per month) for each year the member is under age 55. For Tier 3 and Tier 4 members the retirement allowance is reduced by 1% per year (1/12 of 1 percent per month) for each year the member is under age 62 (until age 55) and 3% per year (1/4 of 1 percent per month) for each year the member is under age 55. Lastly, for Tier 5 members the retirement allowance is reduced by 3% per year (1/4 of 1 percent per month) for each year the member is under age 65.

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The PERS also provides death and disability benefits. The State of New Jersey has the authority to establish and/or amend any of the benefit provisions and contribution requirements. The State of New Jersey, Department of the Treasury, Division of Pension and Benefits, issues publicly available financial reports that include the financial statements and required supplementary information for the PERS. The financial reports may be obtained by writing to the State of New Jersey, Department of the Treasury, Division of Pension and Benefits, P.O. Box 295, Trenton, New Jersey, 08625-0295.

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

The DCRP was established on July 1, 2007 under the provisions of P.L.2007, c.92 and P.L.2007, c.103. The DCRP provides eligible members with a tax-sheltered, defined contribution retirement benefit, along with death and disability benefits. A PERS member who becomes eligible and is enrolled in the DCRP is immediately vested in the DCRP. To be eligible for the DCRP, an employee is required to have enrolled in the PERS on or after July 1, 2007 (Tiers 2 through 5), and they must earn an annual salary in excess of established "maximum compensation" limits. The maximum compensation is based on the annual maximum wage for Social Security and is subject to change at the start of each calendar year. A PERS member who is eligible for the DCRP may voluntarily choose to waive participation in the DCRP for a reduced retirement benefit from the State. If a member waives DCRP participation and later wishes to participate, the member may apply for DCRP enrollment, with membership to be effective January 1 of the following calendar year. PERS members who participate in the DCRP continue to receive service credit and are eligible to retire under the rules of the PERS, with their final salary at retirement limited to the maximum compensation amounts in effect when the salary was earned. The participating member would also be entitled to a supplementary benefit at retirement based on both the employee (above the maximum compensation limit) and employer contributions to the DCRP. For the direct benefit of those participating in the DCRP, the Authority would be required to 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, 2011, the Authority had eight active employees enrolled in the DCRP and made matching contributions totaling \$6,858. Employer matching contributions relating to 2010 and 2009 totaled \$4,853 and \$5,819, respectively.

**(d) 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.

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**(e) Other Post-Employment Benefits**

The Authority provides post-employment healthcare benefits (including Medicare Part B reimbursement) and prescription drug coverage through participation in the New Jersey Health Benefits Program, as sponsored and administered by the State of New Jersey, to retirees having 25 years or more of service in the PERS, or to those individuals approved for disability retirement. These post-employment benefits also extend to the retirees' covered dependents. Upon turning 65 years of age, a retiree must opt for Medicare as their primary coverage, with State benefits providing supplemental coverage. In addition, life insurance is provided to retirees in an amount equal to 3/16 of their average salary during the final 12 months of active employment. These post-employment benefits, referred to as OPEB, are presently provided by the Authority at no cost to the retiree. The State has the authority to establish and amend the benefit provisions offered and contribution requirements. The plan is considered an agent multiple-employer defined benefit plan for financial reporting purposes. The State of New Jersey, Department of the Treasury, Division of Pension and Benefits, issues publicly available financial reports that include the financial statements for the State Health Benefits Program Funds. The financial reports may be obtained by writing to the State of New Jersey, Department of the Treasury, Division of Pension and Benefits, P.O. Box 295, Trenton, New Jersey, 08625-0295.

The Authority accounts for its OPEB obligations in accordance with GASB Statement No. 45, "Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions." The Authority's OPEB cost is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal costs each year and to amortize any unfunded actuarial liabilities over a period not to exceed 30 years.

The Authority's annual OPEB cost for 2011 and 2010 and the related information for the plan are as follows:

	<u>2011</u>	<u>2010</u>
Annual required contribution	\$2,072,654	\$2,747,049
Adjustment to annual required contribution *	<u>(77,840)</u>	<u>847,233</u>
Annual OPEB cost	1,994,814	3,594,282
Contributions made	<u>(114,444)</u>	<u>(89,169)</u>
Increase in net OPEB obligation	1,880,370	3,505,113
Net OPEB obligation – beginning of year	<u>7,665,153</u>	<u>4,160,040</u>
Net OPEB obligation – end of year	<u><u>\$9,545,523</u></u>	<u><u>\$7,665,153</u></u>

\* The adjustment to the ARC includes interest on the net OPEB obligation, less amortization of the net OPEB obligation.

The annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2011, 2010, and 2009 is as follows:

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<u>Year Ended</u>	<u>Annual OPEB Cost</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
12/31/2011	\$1,994,814	5.7%	\$9,545,523
12/31/2010	\$3,594,282	2.5%	\$7,665,153
12/31/2009	\$1,366,200	4.7%	\$4,160,040

As of the most recent valuation date (January 1, 2011), the Authority's actuarial accrued liability was \$15,705,793, all of which was unfunded as of December 31, 2011. The Authority is recognizing this liability over a 30-year period using level dollar amortization, which is representative of amortizing on a level percentage of payrolls on an open basis. The covered payroll (annual payroll of active employees covered by the plan) as of the valuation date was \$22,666,800 and the ratio of the unfunded actuarial accrued liability to the covered payroll was 69.3%. Additionally, as of the valuation date seven active and seven retired employees were eligible for post-employment benefits.

The Authority has elected at this time to finance its annual OPEB cost on a pay-as-you-go basis in view of the fact that the Authority is not authorized to pre-fund an OPEB trust from the proceeds of tax-exempt bonds (nor from the income earned on the investment of those proceeds) from which it presently derives essentially all of its revenue. Payments for retiree post-employment benefits totaled \$114,444 and \$89,169 respectively, in 2011 and 2010.

*Actuarial Methods and Assumptions:* Actuarial valuations of a perpetual plan involve formulating estimates and assumptions about the probability of occurrence of future events, such as employment, mortality and healthcare costs, among other things. Consequently, the amounts derived from an actuarial valuation are subject to continual revision as actual results will undoubtedly differ from past expectations and assumptions. The schedule of funding progress, presented as required supplementary information following the notes to financial statements, presents multi-year trend information that shows whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation date and the historical pattern of benefit cost sharing between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

For the January 1, 2011 actuarial valuation the projected unit credit actuarial cost method was used with a 4.5% discount rate. Pursuant to this method, benefits are recognized from date of hire to the date the employee is first eligible for benefits. No investment return was assumed in the current valuation since there are no OPEB plan assets. The annual healthcare cost inflation rates (trend) for retiree benefits is 10% for 2013, which is assumed to decline 1% per year to an ultimate trend assumption of 5% for the year 2018

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Notes to Financial Statements (continued)

and beyond. The same trend rates are assumed for Medicare Part B premium reimbursement and prescription drug costs. As required in GASB Technical Memorandum 2006 1 on the accounting for the federal Retiree Drug Subsidy (RDS), the Authority's actuarial liabilities are shown without a reduction for the RDS even though the State Health Benefits Program has opted to receive the RDS.

**12. Compensated Absences**

In accordance with GASB Statement No. 16, "Accounting for Compensated Absences," the Authority recorded a liability in the amount \$1,012,091 as of December 31, 2011 in the statement of net assets. The liability is the value of employee accrued vacation time as of the balance sheet date and vested sick leave benefits that are probable of payment to employees upon retirement. The vested sick leave benefit to future retirees for unused accumulated sick leave is calculated at the lesser of ½ the value of earned time or \$15,000. The payment of sick leave benefits, prior to retirement, is dependent on the occurrence of sickness as defined by the Authority's policy; therefore, such unvested benefits are not accrued.

**13. Long-Term Liabilities**

During 2011, the following changes in long-term liabilities are reflected in the statement of net assets:

	<b>Beginning Balance</b>	<b>Additions</b>	<b>Deductions</b>	<b>Ending Balance</b>
Accrued school facilities project costs	\$ 97,674,417	\$5,627,880	(\$3,712,742)	\$99,589,555
Other post-employment benefits obligation	7,665,153	1,994,814	(114,444)	9,545,523
Compensated absences	931,353	80,738	-	1,012,091
<b>Total long-term liabilities</b>	<b>\$106,270,923</b>	<b>\$7,703,432</b>	<b>(\$3,827,186)</b>	<b>\$110,147,169</b>

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

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**14. Net Assets**

The Authority's net assets are categorized as either invested in capital assets, or restricted for schools construction. At December 31, 2011, the Authority's net assets are \$178.9 million. Invested in capital assets includes leasehold improvements, furniture and fixtures, equipment and computer software used in the Authority's operations, net of accumulated depreciation. Restricted for schools construction includes sub-categories for Build America Bond (BAB) proceeds and special revenue fund for all other sources. Net assets arising from BAB proceeds are more restricted than those in the special revenue fund. Additionally, only the portion of the Authority's operating costs deemed capitalizable may be funded from BAB proceeds. The special revenue fund includes all net assets not included in the other categories. When both restricted and unrestricted resources are available for use, it is the Authority's policy to first use restricted resources then unrestricted resources as needed.

The changes during 2010 and 2011 in net assets are as follows:

	<b>Invested in Capital Assets</b>	<b>Restricted for Schools Construction Build America Bond Program</b>	<b>Restricted for Schools Construction Special Revenue Fund</b>	<b>Totals</b>
Net assets,				
December 31, 2009	\$3,730,881	\$ -	\$185,767,198	\$189,498,079
(Loss)/Excess before receipt of EFCFA funding and transfers	(1,307,990)	(10,548,957)	(32,553,367)	(44,410,314)
Capital assets acquired	52,379	-	(52,379)	-
EFCFA funding received from State	-	450,000,000	49,200,000	499,200,000
School facilities project costs	-	(94,448,083)	(180,135,799)	(274,583,882)
Net assets,				
December 31, 2010	2,475,270	345,002,960	22,225,653	369,703,883
(Loss)/Excess before receipt of EFCFA funding and transfers	(1,031,909)	(14,712,814)	(20,123,248)	(35,867,971)
Capital assets acquired	26,142	-	(26,142)	-
School facilities project costs	-	(71,990,189)	(82,939,026)	(154,929,215)
Net assets,				
December 31, 2011	<u>\$1,469,503</u>	<u>\$258,299,957</u>	<u>\$(80,862,763)</u>	<u>\$178,906,697</u>

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**REQUIRED SUPPLEMENTARY INFORMATION**

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Schedule of Funding Progress - Post-Employment Healthcare Benefit Plan

\$ In thousands

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Level Dollar (b)	Unfunded AAL (UAAL) (b) - (a)	Funded Ratio (a) / (b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll (b) - (a) / (c)
1-1-2011	\$ -	\$15,706	\$15,706	- %	\$22,667	69%
1-1-2010	\$ -	\$18,876	\$18,876	- %	\$24,658	77%
1-1-2008	\$ -	\$8,976	\$8,976	- %	\$20,275	44%