Financial Statements

New Jersey Economic Development Authority
Years Ended December 31, 2018 and 2017
With Report of Independent Auditors

Ernst & Young LLP

Building a better working world

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

Financial Statements

Years Ended December 31, 2018 and 2017

Contents

Building a better working world

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Report of Independent Auditors

The Management and Members of the Authority
New Jersey Economic Development Authority

We have audited the accompanying financial statements of the New Jersey Economic Development Authority (the "Authority"), a component unit of the State of New Jersey, as of and for the years ended December 31, 2018 and 2017, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Authority as of December 31, 2018 and 2017, and the changes in its financial position and its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

Required Supplementary Information

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

Ernst & Young LLP

August 5, 2019

Management's Discussion and Analysis

Years Ended December 31, 2018 and 2017

This section of the New Jersey Economic Development Authority's ("Authority" or "NJEDA") annual financial report presents management's discussion and analysis of the Authority's financial performance during the fiscal years ended on December 31, 2018 and 2017. Please read it in conjunction with the Authority's financial statements and accompanying notes.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual financial report consists of three parts: Management's Discussion and Analysis, the basic financial statements, and required supplementary information. The Authority is a self-supporting entity and follows enterprise fund reporting; accordingly, the financial statements are presented using the economic resources measurement focus and the accrual basis of accounting. Enterprise fund statements offer short- and long-term financial information about the activities and operations of the Authority. These statements are presented in a manner similar to a private business engaged in such activities as real estate development, investment banking, commercial lending, construction management and consultation. While detailed sub-fund information is not presented, separate accounts are maintained for each program or project to control and manage money for particular purposes or to demonstrate that the Authority is properly using specific appropriations, grants and bond proceeds.

2018 FINANCIAL HIGHLIGHTS

- The Authority's total net position decreased $2.8 million (or 0.5%).
- The net pension liability decreased $9.1 million (or 16.5%) due to a change in the Authority's proportionate share of the State of New Jersey's net pension liability.
- Finance fees decreased $10.7 million (or 51.4%) due largely to declining volume of activity in the Grow NJ incentive program the Authority administers.
- Other revenue decreased $3.3 million (or 22.6%) as one-time distributions received in 2017 from specific venture fund investments in which the Authority is a limited partner did not recur in the current year.
- Interest income from investments increased $1.4 million (or 44.6%) due to an increase in interest rates, coupled with the maturity and roll-off of specific investments being replaced by similar investments at higher rates.

- Salaries and benefits expenses decreased $0.4 million (or 1.4%) due to a reduction in recognized pension expense from the prior year.

- Program costs increased $5.0 million (or 66.1%) due largely to consultative expenses related to the demolition and remediation of property at Fort Monmouth, as well as disbursements related to an economic development strategic planning initiative.

- Program payments decreased $30.8 million (or 40.1%) due largely to the volume of disbursements declining within the Superstorm Sandy program.

2017 FINANCIAL HIGHLIGHTS

- The Authority's total net position decreased $11.0 million (or 2.1%).

- The net pension liability decreased $11.9 million (or 17.8%) due to a change in the Authority's proportionate share of the State of New Jersey's net pension liability.

- Finance fees increased $8.0 million (or 61.9%) due largely to an increased volume of activity in the Grow NJ incentive program the Authority administers.

- Other revenue decreased $20.4 million (or 58.4%) as one-time distributions received in 2016 from specific venture fund investments in which the Authority is a limited partner did not recur in the current year.

- Salaries and benefits expenses decreased $2.1 million (or 6.4%) due to a reduction in recognized pension expense from the prior year.

- Loss provisions expense – net increased $13.2 million (or 224.8%) as new loan disbursements exceeded repayments during the year, including financings related to the Sandy Business Loan Program, as well as the Fort Monmouth Economic Revitalization Authority.

- State appropriations increased $7.3 million (or 37.1%) due largely to receipt of funding to administer the Hazardous Discharge Site Remediation Fund program offerings.

- The Authority early adopted GASB 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, during fiscal year 2017. The Authority's Net Position as of January 1, 2016 and December 31, 2016, and the Statement of Revenues, and Expenses and Changes in Net Position for December 31, 2016, have been restated to reflect the required adjustments.

FINANCIAL ANALYSIS OF THE AUTHORITY

Net Position. The following table summarizes the changes in Net Position at December 31, 2018, 2017 and 2016:

	2018	2017	2016* (As Restated)	% Increase/(Decrease) 2018/2017	% Increase/(Decrease) 2017/2016
Assets:					
Other assets	**$ 517,908,736**	$ 519,821,772	$ 519,596,570	(0.4)%	0.0%
Capital assets, net	**56,654,856**	61,964,015	67,308,976	(8.6)%	(7.9)%
Total assets	**574,563,592**	581,785,787	586,905,546	(1.2)%	(0.9)%
Deferred outflows of resources:					
Deferred outflow related to pension	**16,891,150**	24,053,182	29,472,454	(29.8)%	(18.4)%
Deferred outflow related to OPEB	**1,868,724**	1,160,185	694,594	61.1%	67.0%
Total deferred outflows of resources	**18,759,874**	25,213,367	30,167,048	(25.6)%	(16.4)%
Liabilities:					
Current liabilities	**11,784,097**	15,162,524	12,509,607	(22.3)%	21.2%
Net pension liability	**46,021,947**	55,148,355	67,068,246	(16.5)%	(17.8)%
Other noncurrent liabilities	**8,451,469**	15,121,883	16,009,456	(44.1)%	(5.5)%
Total liabilities	**66,257,513**	85,432,762	95,587,309	(22.4)%	(10.6)%
Deferred inflows of resources:					
Deferred inflow related to pension	**15,972,223**	11,069,760	–	44.3%	100.0%
Deferred inflow-OPEB	**3,356,627**	-	–	100.0%	0.0%
	19,328,850	11,069,760	–	74.6%	0.0%
Net position:					
Net investment in capital assets	**56,654,856**	59,699,588	58,100,060	(5.1)%	2.8%
Restricted	**34,125,434**	33,454,700	33,287,850	2.0%	0.5%
Unrestricted	**416,956,813**	417,342,344	430,097,375	(0.1)%	(3.0)%
Total net position	**$ 507,737,103**	$ 510,496,632	$ 521,485,285	(0.5)%	(2.1)%

* Restated based on implementation of GASB 75 in 2017.

During 2018, the Authority's combined net position decreased $2.8 million (or 0.5%) due to:

$ 0.3	Million	Hazardous Discharge Site Remediation Fund ("HDSRF") disbursements – net of appropriations received
$ (5.3)	Million	Decline in Capital Assets from scheduled depreciation
$ (1.9)	Million	Municipal Economic Recovery Initiative grant award payments
$ 12.0	Million	Net receipts from CDBG-Disaster Recovery funds for the Stronger NJ Business programs
$ (5.2)	Million	Program costs related to new Authority Strategic Plan and related initiatives
$ (2.8)	Million	Net disbursements relating to other Authority programs

During 2017, the Authority's combined net position decreased $11.0 million (or 2.1%) due to:

$	(9.6)	Million	Hazardous Discharge Site Remediation Fund ("HDSRF") disbursements – net of appropriations received
$	(6.0)	Million	Return of unused program payments to State for discontinued programs
$	(3.3)	Million	Municipal Economic Recovery Initiative grant award payments
$	11.7	Million	Net receipts from CDBG-Disaster Recovery funds for the Stronger NJ Business programs
$	(3.8)	Million	Net disbursements relating to other Authority programs

Operating Activities. The Authority charges financing fees that may include an application fee, commitment fee, closing fee, document execution fee and an annual servicing fee. The Authority also charges an agency fee for the administration of financial programs for various government agencies; a program service fee for the administration of Authority programs that are service-provider based, rather than based on the exchange of assets such as the commercial lending program; and a real estate development fee for real estate activities undertaken on behalf of governmental entities and commercial enterprises. The Authority may also generate a return on investments in venture capital funds which invest, in whole or in part, in New Jersey based businesses. Interest income on investments, notes and intergovernmental obligations is recognized as earned. Grant revenue is earned when the Authority has complied with the terms and conditions of the grant agreements. The Authority also earns income from operating leases and interest income on lease revenue from capital lease financings. Late fees are charged to borrowers delinquent in their monthly loan payments. All forms of revenue accrue to the benefit of the program for which the underlying source of funds is utilized. The Authority considers all activity to be operating activities, except as described in the following section.

Non-Operating Activities. The Authority earns interest on idle cash and investments, and may derive income from the sale of capital assets, as well as the receipt of state and federal appropriations which are used to administer specific programs on behalf of the State of New Jersey, and which directly benefit New Jersey based businesses. The Authority considers this activity to be non-operating in nature.

The following table summarizes the changes in operating and non-operating activities between fiscal years 2018, 2017 and 2016:

	2018	2017	2016* (As Restated)	% Increase/(Decrease) 2018/2017	% Increase/(Decrease) 2017/2016
Operating revenues:					
Financing fees	**$ 10,158,909**	$ 20,885,394	$ 12,900,490	(51.4)%	61.9%
Lease revenue	**9,391,891**	9,499,357	10,195,935	(1.1)%	(6.8)%
Interest income:					
Notes	**5,226,030**	5,133,351	5,148,779	1.8%	(0.3)%
Other	**11,281,138**	14,584,475	35,033,121	(22.6)%	(58.4)%
Total operating revenues	**36,057,968**	50,102,577	63,278,325	(28.0)%	(20.8)%
Operating expenses:					
Administrative expenses	**34,832,148**	35,798,608	37,918,707	(2.7)%	(5.6)%
Interest expense	**38,375**	120,438	198,803	(68.1)%	(39.4)%
Depreciation	**5,180,660**	5,318,830	6,013,587	(2.6)%	(11.6)%
Loss (recovery) provisions – net	**7,121,995**	7,340,180	(5,879,419)	(3.0)%	224.8%
Program costs	**12,541,276**	7,550,307	7,297,282	66.1%	3.5%
Total operating expenses	**59,714,454**	56,128,363	45,548,960	6.4%	23.2%
Operating (loss) income	**(23,656,486)**	(6,025,786)	17,729,365	(292.6)%	(134.0)%
Nonoperating revenues and (expenses):					
Interest income – investments	**4,593,548**	3,175,991	2,324,584	44.6%	36.6%
State appropriations	**22,391,323**	27,008,772	19,703,582	(17.1)%	37.1%
Program payments	**(46,047,970)**	(76,876,079)	(73,268,795)	(40.1)%	4.9 %
Federal appropriations	**39,097,632**	42,618,873	44,240,190	(8.3)%	(3.7)%
Gain on sale of assets	**217,110**	–	5,642,596	100.0%	(100.0)%
Other revenue (expense)	**645,314**	(890,424)	(209,574)	(172.5)%	(324.9)%
Total nonoperating revenues and (expenses), net	**20,896,957**	(4,962,867)	(1,567,417)	521.1%	216.6%
Income before special item	**(2,759,529)**	(10,988,653)	16,161,948	74.9%	(168.0)%
CCURLP dissolution	–	–	(6,373,105)	0.0%	100.0%
Change in net position	**(2,759,529)**	(10,988,653)	9,788,843	74.9%	(212.3)%
Beginning net position	**510,496,632**	521,485,285*	511,696,442*		
Ending net position	**$ 507,737,103**	$ 510,496,632	$ 521,485,285		

* Restated for implementation of GASB 75 in 2017.

Operating Revenues

In 2018, the Authority's operating revenues were adversely impacted by a decrease in financing fees of $10.7 million, as the volume of activity in the Grow NJ incentive program declined. Other operating revenues were impacted by a decline in venture fund distributions, compared to the prior year. In 2017, the Authority's operating revenues were positively impacted by the receipt of $20.9 million in financing fees, led by activity in the bond and incentive programs. Other operating revenues were favorably impacted by the receipt of $7.3 million in venture fund distributions and warrants resulting from the Authority's capital investments.

Operating Expenses

In 2018, total operating expenses increased by $3.6 million, due largely to an increase in program costs related to the completion of a new strategic business plan for the Authority, as well as disbursements to businesses for new initiatives. Additional costs were incurred related to the remediation and reuse of parcels of land located at the former Fort Monmouth military base. In 2017, total operating expenses increased by $10.6 million as a decrease of $2.1 million in administrative expenses, coupled with a decrease of $0.7 million in depreciation expense offset an increase of $13.2 million in loss provision expense.

Non-Operating Revenues and Expenses – Net

In 2018, non-operating revenues and expenses – net, increased favorably by $25.9 million. In 2017, non-operating revenues and expenses – net, decreased by $3.4 million. This is largely due to the fluctuation in, and timing of, Federal and State appropriations offset by program payments. In 2018, the Authority disbursed $46.0 million in program payments to qualified applicants, primarily under the Stronger NJ Business programs; in 2017, total program payments were $76.9 million, for a reduction in expenses of approximately $30.8 million.

Allowance for Credit Losses

Allowances for doubtful notes and guarantee payments are determined in accordance with guidelines established by the Office of the Comptroller of the Currency. The Authority accounts for its potential loss exposure through the use of risk ratings. These specifically assigned risk ratings are updated to account for changes in financial condition of the borrower or guarantor, delinquent payment history, loan covenant violations, and changing economic conditions.

The assigned risk rating classifications are consistent with the ratings used by the Office of the Comptroller of the Currency. Each risk rating is assigned a specific loss factor in accordance with the severity of the classification. Each month an analysis is prepared using the current loan balances, existing exposure on guarantees, and the assigned risk rating to determine the adequacy of the reserve. Any adjustments needed to adequately provide for potential credit losses (recoveries) are reported as a Loss Provision (Recovery).

The following table summarizes the Loan Allowance activity for the end of the period from December 31, 2016, through December 31, 2018:

2016 Provision for credit losses-net	$ 1,685,744	
2016 Write-offs	(5,884,943)	$ (4,199,199)
December 31, 2016		
Allowance for loan losses	20,197,740	
Accrued guarantee losses	1,176,274	
Total allowance		21,374,014
2017 Provision for credit losses-net	5,934,409	
2017 Write-offs	(1,147,121)	4,787,288
December 31, 2017		
Allowance for loan losses	25,276,561	
Accrued guarantee losses	884,741	
Total allowance		26,161,302
2018 Provision for credit losses-net	5,985,375	
2018 Write-offs	(3,402,424)	2,582,951
December 31, 2018		
Allowance for loan losses	28,316,644	
Accrued guarantee losses	427,609	
Total allowance		$ 28,744,253

The Authority's write-down and loan loss reserve policies closely align with the reporting requirements of the banking industry. When management determines that the probability of collection is less than 50% of the remaining balance, it is the policy to assign a loss rating to the account. For an account rated as loss, a loss provision is recognized for the entire loan balance.

Loans are written-off against the loss allowance when it is determined that the probability of collection within the near term is remote. The recognition of a loss does not automatically release the borrower from the obligation to pay the debt. Should the borrower, guarantors, or collateral position improve in the future, any and all steps necessary to preserve the right to collect these obligations will be taken.

Aggregate gross loan and guarantee exposure at December 31, 2018, was $215,872,203, of which $208,977,158 or 97% is for loans and $6,895,045 for issued loan guarantees.

Aggregate gross loan and guarantee exposure at December 31, 2017, was $213,927,006, of which $199,204,002 or 93% is for loans and $14,723,004 for issued loan guarantees.

At December 31, 2018, the Authority maintained a Credit Loss Allowance of $28,744,253 or 13.3% of total exposure to cover potential losses in the loan and guaranty portfolio. Total write-offs for the year ended December 31, 2018, were $3,402,424 or 1.6% of the loan and guaranty exposure.

At December 31, 2017, the Authority maintained a Credit Loss Allowance of $26,161,302 or 12.2% of total exposure to cover potential losses in the loan and guaranty portfolio. Total write-offs for the year ended December 31, 2017, were $1,147,121 or 0.5% of the loan and guaranty exposure.

The Authority is a limited partner in various early stage venture funds with the purpose of providing venture capital to exceptionally talented entrepreneurs to facilitate the growth of these companies. These investments are accounted for using the cost basis as they do not have a readily determinable market value. The Authority will establish a valuation allowance for these investments when they determine through a series of events that an other-than-temporary decrease in value has occurred.

The 2018 Loss Provisions – Net, of $6.5 million, are related to the following detailed information:

$	5,985,375	Loan and Guarantee Program activity
$	506,514	Venture Capital Funds and Capital Investments

The 2017 Loss Provisions – Net, of $6.6 million, are related to the following detailed information:

$	5,934,408	Loan and Guarantee Program activity
$	677,507	Venture Capital Funds and Capital Investments

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets. The Authority independently, or in cooperation with a private or governmental entity, acquires, invests in and/or develops vacant industrial sites, existing facilities, unimproved land, equipment and other real estate for private or governmental use. Sites developed, and equipment purchased for private use are marketed or leased to businesses that will create new job opportunities and tax ratables for the municipalities. Sites are developed for governmental use for a fee and also may be leased to the State or State entities. For the majority of these leases, future minimum lease rental payments are equal to the debt service payments related to the bonds or notes issued for the applicable property.

The following table summarizes the change in Capital Assets-Net between fiscal year 2018, 2017 and 2016:

	2018	2017	2016	% Increase/(Decrease) 2018/2017	2017/2016
Land	**$ 28,818,065**	$ 28,983,065	$ 28,983,065	(0.6)%	0.0%
Construction in progress	**–**	240,951	–	(100.0)%	100.0%
Total non-depreciable capital assets	**28,818,065**	29,224,016	28,983,065	(1.4)%	0.8%
Building	**81,722,446**	81,722,446	86,479,970	0.0%	(5.5)%
Leasehold improvements	**35,210,658**	34,933,205	34,933,205	0.8%	0.0%
Total depreciable capital assets	**116,933,104**	116,655,651	121,413,175	0.2%	(3.9)%
Less accumulated depreciation	**(89,096,313)**	(83,915,652)	(83,087,264)	6.2%	1.0%
Capital assets – net	**$ 56,654,856**	$ 61,964,015	$ 67,308,976	(8.6)%	(7.9)%

More detailed information about the Authority's capital assets is presented in the Notes to the financial statements.

Capital Debt. At year end, the Authority had no gross note principal outstanding; a net decrease of 100.0%, due to the paydown of notes related to two properties in the City of Camden, New Jersey. More detailed information about the Authority's capital debt is presented in the Notes to the financial statements.

The following table summarizes the changes in capital debt between fiscal year 2018, 2017 and 2016:

	2018	2017	2016	% (Decrease) 2018/2017	2017/2016
Notes payable	**$ –**	$ 1,126,654	$ 2,264,426	(100.0)%	(50.2)%

CONTACTING THE AUTHORITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide New Jersey citizens, and our customers, clients, investors and creditors, with a general overview of the Authority's finances and to demonstrate the Authority's accountability for the appropriations and grants that it receives. If you have questions about this report or need additional information, contact Customer Care at (609) 858-6700, CustomerCare@njeda.com, NJEDA, P.O. Box 990, Trenton, NJ 08625-0990, or visit our web site at: www.njeda.com.

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

Statements of Net Position

	December 31 2018	December 31 2017
Assets		
Current assets:		
Cash and cash equivalents – restricted	**$ 46,617,392**	$ 55,193,210
Cash and cash equivalents – unrestricted	**35,456,930**	35,574,883
Investments	**52,153,868**	75,898,430
Receivables:		
Notes	**12,067,867**	12,267,946
Accrued interest on notes	**208,330**	188,041
Accrued interest on investments	**1,122,110**	909,859
Leases	**100,000**	100,000
Other receivables	**3,599,028**	5,690,651
Total receivables	**17,097,335**	19,156,497
Prepaids and other current assets	**979,563**	1,029,538
Total current assets	**152,305,088**	186,852,558
Noncurrent assets:		
Investments – unrestricted	**174,535,126**	148,847,798
Venture capital partnerships	**9,198,636**	9,797,772
Receivables:		
Notes	**196,909,291**	186,936,056
Accrued interest on notes	**5,794,786**	5,439,144
Unamortized discount	**(256,082)**	(338,891)
Total notes receivables	**202,447,995**	192,036,309
Allowance for doubtful notes	**(28,316,644)**	(25,276,561)
Net notes receivable	**174,131,351**	166,759,748
Leases receivable, net	**6,810,074**	6,791,060
Total receivables	**180,941,425**	173,550,808
Prepaids and other noncurrent assets	**928,461**	772,836
Non-depreciable capital assets	**28,818,065**	29,224,016
Depreciable capital assets, net	**27,836,791**	32,739,999
Total capital assets, net	**56,654,856**	61,964,015
Total noncurrent assets	**422,258,504**	394,933,229
Total assets	**574,563,592**	581,785,787
Deferred outflows of resources		
Deferred outflows from pension	**16,891,150**	24,053,182
Deferred outflows from OPEB	**1,868,724**	1,160,185
Total deferred outflows of resources	**18,759,874**	25,213,367

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

Statements of Net Position (continued)

	December 31	
	2018	**2017**
Liabilities		
Current liabilities:		
Accrued liabilities	**$ 4,613,625**	$ 6,706,864
Pension payable	**2,324,943**	2,194,698
Unearned lease revenues	**1,272,288**	1,430,185
Escrow deposits	**3,573,241**	3,704,123
Notes payable	**–**	1,126,654
Total current liabilities	**11,784,097**	15,162,524
Noncurrent Liabilities:		
Net pension liability	**46,021,947**	55,148,355
Other postemployment benefits liability	**–**	5,306,586
Unearned lease revenues	**6,850,011**	7,903,859
Accrued guarantee losses	**427,609**	884,741
Compensated absences	**1,173,849**	1,026,697
Total noncurrent liabilities	**54,473,416**	70,270,238
Total liabilities	**66,257,513**	85,432,762
Deferred inflows of resources		
Deferred inflows from pension	**15,972,223**	11,069,760
Deferred inflows from OPEB	**3,356,627**	–
Total deferred outflows of resources	**19,328,850**	11,069,760
Net position		
Net investment in capital assets	**56,654,856**	59,699,588
Restricted by Federal agreement	**34,125,434**	33,454,700
Unrestricted	**416,956,813**	417,342,344
Total net position	**$ 507,737,103**	$ 510,496,632

See accompanying notes.

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

Statements of Revenues, Expenses and Changes in Net Position

	Year Ended December 31	
	2018	**2017**
Operating revenues		
Financing fees	**$ 10,158,909**	$ 20,885,394
Interest income – notes	**5,226,030**	5,133,351
Financing lease revenue	**119,014**	119,014
Operating lease revenue	**9,272,877**	9,380,343
Agency fees	**1,931,824**	2,169,292
Program services	**3,518,762**	1,845,350
Real estate development	**880,486**	1,392,300
Distributions and warrants	**2,833,359**	7,312,048
Grant revenue	**–**	134,453
Other	**2,116,707**	1,731,032
Total operating revenue	**36,057,968**	50,102,577
Operating expenses		
Salaries and benefits	**29,798,735**	30,235,225
General and administrative	**5,033,413**	5,563,383
Interest	**38,375**	120,438
Program costs	**12,541,276**	7,550,307
Depreciation	**5,180,660**	5,318,830
Loss provisions – net	**7,121,995**	7,340,180
Total operating expenses	**59,714,454**	56,128,363
Operating loss	**(23,656,486)**	(6,025,786)
Nonoperating revenues and expenses		
Interest income – investments	**4,593,548**	3,175,991
Unrealized gain (loss) in investment securities	**645,314**	(890,424)
Gain on sale of assets – net	**217,110**	–
State appropriations	**22,391,323**	27,008,772
Federal appropriations	**39,097,632**	42,618,873
Program payments	**(46,047,970)**	(76,876,079)
Nonoperating revenues (expenses) – net	**20,896,957**	(4,962,867)
Change in net position	**(2,759,529)**	(10,988,653)
Net position – beginning of year	**510,496,632**	521,485,285
Net position – end of year	**$ 507,737,103**	$ 510,496,632

See accompanying notes.

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

Statements of Cash Flows

	Year Ended December 31 2018	2017
Cash flows from operating activities		
Cash receipts from financing fees	**$ 8,543,486**	$ 20,895,019
Interest from notes	**4,568,876**	4,321,647
Lease rents	**7,697,468**	8,579,473
Grants	**–**	134,453
Agency fees	**1,923,743**	2,169,292
Program services	**5,347,156**	3,469,997
Distributions	**273,793**	4,213
Real estate development	**1,092,435**	1,060,579
General and administrative expenses paid	**(33,922,843)**	(29,784,588)
Program costs paid	**(9,079,546)**	(10,593,565)
Collection of notes receivable	**26,645,273**	20,788,490
Loans disbursed	**(39,872,183)**	(34,128,137)
Guarantee payments	–	(32,348)
Deposits received	**12,126,963**	29,606,908
Deposits released	**(12,257,845)**	(27,470,967)
Net cash used in operating activities	**(26,913,224)**	(10,979,534)
Cash flows from noncapital financing activities		
Interest paid on notes and revenue bonds	–	(23,736)
Appropriations received	**61,698,055**	65,123,434
Program payments	**(48,419,872)**	(69,215,432)
Net cash provided by (used in) noncapital financing activities	**13,278,183**	(4,115,734)
Cash flows from capital and related financing activities		
Payment of bonds and notes	**(1,126,654)**	(1,137,772)
Interest paid on bonds and notes	**(38,375)**	(126,312)
Purchase of capital assets	**(36,502)**	(240,951)
Sale of capital assets	**382,110**	–
Net cash used in capital and related financing activities	**(819,421)**	(1,505,035)
Cash flows from investing activities		
Interest from investments	**4,381,297**	3,025,219
Return on capital investments	**2,676,845**	5,739,280
Purchase of investments	**(3,559,720)**	(2,604,320)
Proceeds from sales and maturities of investments	**2,262,269**	166,669
Net cash provided by investing activities	**5,760,691**	6,326,848
Net decrease in cash and cash equivalents	**(8,693,771)**	(10,273,455)
Cash and cash equivalents – beginning of year	**90,768,093**	101,041,548
Cash and cash equivalents – end of year	**$ 82,074,322**	$ 90,768,093

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

Statements of Cash Flows (continued)

	Year Ended December 31 2018	2017
Reconciliation of operating loss to net cash used in operating activities		
Operating loss	**$ (23,656,486)**	$ (6,025,786)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Loss provisions-net	**7,121,995**	7,340,180
Depreciation	**5,180,660**	5,318,830
Amortization of discounts	**(610,226)**	(741,227)
Cash provided by nonoperating activities	**38,374**	150,048
Change in assets and liabilities:		
Notes receivables	**(13,223,407)**	(13,365,073)
Accrued interest receivables-notes	**(378,566)**	54,549
Lease payment receivables	**100,000**	100,000
Other receivables	**2,039,790**	(3,778,227)
Prepaids and other noncurrent assets	**(20,407)**	(163,123)
Capital investments	**(2,559,566)**	(7,307,835)
Accrued liabilities	**606,342**	6,031,864
Unearned lease revenues	**(1,211,745)**	(889,088)
Accrued interest payables	–	(29,610)
Deposits	**(130,882)**	2,135,941
Other liabilities	**(209,100)**	189,023
Net cash used in operating activities	**$ (26,913,224)**	$ (10,979,534)
Noncash investing activities		
Unrealized gain (loss) in investment securities	**$ 645,314**	$ (890,424)

See accompanying notes.

Note 1: Nature of the Authority

The New Jersey Economic Development Authority ("Authority") is a public body corporate and politic, constituting an instrumentality and component unit of the State of New Jersey ("State"). The Authority was established by Chapter 80, P.L. 1974 ("Act") on August 7, 1974, as amended and supplemented, primarily to provide financial assistance to companies for the purpose of maintaining and expanding employment opportunities in the State and increasing tax ratables in underserved communities. The Act prohibits the Authority from obligating the credit of the State in any manner. The Authority assists for-profit and non-profit enterprises with access to capital and primarily offers the following products and services:

(a) Bond Financing

The Authority issues tax-exempt private activity bonds and taxable bonds. The proceeds from these single issue or composite series bonds are used to provide long-term, below-market interest loans to eligible entities, which include certain 501(c)(3) nonprofit organizations, manufacturers, exempt public facilities, solid waste facilities, and local, county, and State governmental agencies for capital improvements including real estate acquisition, equipment, machinery, building construction and renovations. All such bonds are special conduit debt obligations of the Authority, are payable solely from the revenues pledged with respect to the issue, and do not constitute an obligation against the general credit of the Authority.

(b) Loans/Guarantees/Investments and Tax Incentives

The Authority directly provides loans, loan participations, loan guarantees and line of credit guarantees to for-profit and not-for-profit enterprises for various purposes to include: the acquisition of fixed assets; building construction and renovation; financing for working capital; technological development; and infrastructure improvements. The Authority also may provide financial assistance in the form of convertible debt, and take an equity position in technology and life sciences companies through warrant options. In addition to lending and investing its own financial resources, the Authority administers several business growth programs supported through State appropriation/allocation, including the technology business tax certificate transfer program, the angel investor tax credit program, tax credits for film industry and digital media projects, job creation and retention incentive grants and tax credits, tax credits for capital investment in urban areas, and reimbursement grants based on incremental revenues generated by redevelopment projects. Other state mandated programs include loans/grants to support hazardous discharge site remediation and petroleum underground storage tank remediation.

(c) Real Estate Development

The Authority independently, or in cooperation with a private or another governmental entity, acquires, invests in and/or develops vacant industrial sites, existing facilities, unimproved land, equipment and other real estate for private or governmental use. Sites developed, and equipment purchased for private use are marketed or leased to businesses that will create new job opportunities and tax ratables for municipalities. Sites are developed for governmental use for a fee and also may be leased to the State or State entities.

(d) Stronger NJ Business Programs

In 2013, the Authority was awarded a sub-grant from the New Jersey Department of Community Affairs for the purpose of administering a portion of the State's Community Development Block Grant Disaster Recovery allocation to support the recovery of businesses impacted by Superstorm Sandy. To achieve this, the Authority may provide grants and loans to eligible businesses, as well as financial assistance to governmental entities to support community development, neighborhood revitalization and other public improvement projects.

Component Units

The Authority's financial statements do not include the accounts of New Jersey Community Development Entity ("NJCDE"), a component unit. NJCDE is a separate legal entity whose primary mission is to provide investment capital for low-income communities, on behalf of the Authority, through the allocation of federal New Markets Tax Credits. The Authority does not deem the operations of the NJCDE to be significant to the operations of the Authority. On December 21, 2017, substantially all of the NJCDE's assets (cash), at the direction of a resolution passed by the NJCDE's Board of Director's on September 20, 2017, was distributed to the Authority and the Corporation for Business Assistance in New Jersey ("CBA") proportionate to their respective interests in NJCDE, effectively ceasing operations and dissolving NJCDE. All remaining liabilities were transferred to the Authority and will be paid when due. As of December 20, 2017 (prior to distribution), total NJCDE assets were $1,948,451. As of December 31, 2018 and 2017, there were no assets remaining.

Related-Party Transactions

The Authority has contracted with several other State entities to administer certain loan programs on their behalf for a fee. In order for the Authority to effectively administer the programs, the Authority has custody of the cash accounts for each program. The cash in these accounts, however, is not an asset of the Authority and, accordingly, the balances in these accounts have not been included in the Authority's statements of net position. The cash balances total $42,608,070 and $47,243,943 at December 31, 2018 and 2017, respectively. The following is a summary of the programs that the Authority manages on behalf of other State entities:

Department/Board	Program	2018	2017
Treasury	Local Development Financing Fund	**$ 41,192,516**	$ 43,941,235
Board of Public Utilities	BPU Clean Energy Program	**1,415,554**	3,302,708

Note 2: Summary of Significant Accounting Policies

(a) Basis of Accounting and Presentation

The Authority is a self-supporting entity and follows enterprise fund reporting; accordingly, the accompanying financial statements are presented using the economic resources measurement focus and the accrual basis of accounting. While detailed sub-fund information is not presented, separate accounts are maintained for each program and include certain funds that are legally designated as to use. Administrative expenses are allocated to the various programs.

In its accounting and financial reporting, the Authority follows the pronouncements of the Governmental Accounting Standards Board ("GASB").

(b) Revenue Recognition

The Authority charges various program financing fees that may include an application fee, commitment fee, closing fee, issuance fee, annual servicing fee and a document execution fee. The Authority also charges a fee for the administration of financial programs for various government agencies and for certain real estate development and management activities. Fees are recognized when earned. Grant revenue is recognized when the Authority has complied with the terms and conditions of the grant agreements. The Authority recognizes interest income on lease revenue by amortizing the discount over the life of the related agreement. Operating lease revenue is recognized pursuant to the terms of the lease.

When available, it is the Authority's policy to first use restricted resources for completion of specific projects.

(c) Cash Equivalents

Cash equivalents are highly liquid debt instruments with original maturities of three months or less and units of participation in the State of New Jersey Cash Management Fund ("NJCMF").

(d) Investments

All investments, except for investment agreements, are stated at fair value. The fair value of investment securities is the market value based on quoted market prices, when available, or market prices provided by recognized broker dealers. The Authority also invests in various types of joint ventures and uses the cost method to record the acquisition of such investments, as the Authority lacks the ability to exercise significant control in the ventures. Under the cost method, the Authority records the investment at its historical cost and recognizes as income dividends received from net earnings of the Fund. Dividends received in excess of earnings are considered a return of investment and reduce the cost basis. These investments typically have a long time horizon from when the Authority makes its initial investment to when it may receive any return on the investment. The Authority maintains a valuation allowance on specific investments when there is either a series of taxable losses or other factors may indicate that a decrease in value has occurred that is other than temporary. Capital investments are reported net of this valuation allowance.

(e) Guarantees Receivable

Payments made by the Authority under its various guarantee programs are reported as Guarantees Receivable. These receivables are expected to be recovered either from the lender, as the lender continues to service the loan, or from the liquidation of the underlying collateral. Recoveries increase Worth (the amount on deposit and available for payment) (see Note 8).

(f) Allowance for Doubtful Notes and Accrued Guarantee Losses

Allowances for doubtful notes and accrued guarantee losses are determined in accordance with guidelines established by the Office of Comptroller of Currency. These guidelines include classifications based on routine portfolio reviews of various factors that impact collectability.

(g) Pensions

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

(h) Postemployment Benefits Other than Pensions (OPEB)

For purposes of measuring the net OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense, information about the fiduciary net position of the Employee Benefit Trust (the "Trust") and additions to/deductions from the Trust's fiduciary net position have been determined on the same basis as they are reported by the Trust. For this purpose, the Trust recognizes benefit payments when due and payable in accordance with the benefit terms. Investments are reported at fair value.

(i) Operating and Non-Operating Revenues and Expenses

The Authority defines operating revenues and expenses as relating to activities resulting from providing bond financing, direct lending, incentives, and real estate development to commercial businesses, certain not-for-profit entities, and to local, county and State governmental entities. Non-operating revenues and expenses include income earned on the investment of funds, proceeds from the sale of certain assets, State and Federal appropriations and program payments.

(j) Net Position

The Authority classifies its Net Position into three categories: net investment in capital assets; restricted; and unrestricted. Net investment in capital assets includes capital assets net of accumulated depreciation used in the Authority's operations as well as capital assets that result from the Authority's real estate development and operating lease activities. Restricted net position include net position that have been restricted in use in accordance with State law, as well as Federal grant proceeds intended for specific projects, such as the State Small Business Credit Initiative ("SSBCI"). Unrestricted net position include all net position not included above.

(k) Taxes

The Authority is exempt from all Federal and State income taxes and real estate taxes.

(l) Capitalization Policy

Unless material, it is the Authority's policy to expense all expenditures of an administrative nature. Administrative expenditures typically include expenses directly incurred to support staff operations, such as automobiles, information technology hardware and software, office furniture, and equipment.

With the exception of immaterial tenant fit-out costs of retail space that is sublet from the State of New Jersey, the Authority capitalizes all expenditures related to the acquisition of land, construction and renovation of buildings.

(m) Depreciation Policy

Capital assets are stated at cost. Depreciation is computed using the straight-line method over the following estimated economic useful lives of the assets:

Building	20 years
Building improvements	20 years
Leasehold improvements	Term of the lease
Tenant fit-out	Term of the lease
Vehicles	Expensed
Furniture and equipment	Expensed

(n) Recent and Upcoming Accounting Pronouncements

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

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

The Statement is effective for fiscal years beginning after December 15, 2018. The Authority is in the process of evaluating the impact of its adoption on the financial statements.

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

The Statement is effective for fiscal years beginning after June 15, 2017. The adoption of this Statement in 2018 did not have an impact on the Authority's financial statements.

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

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

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

The Statement is effective for fiscal years beginning after June 15, 2018. The Authority is in the process of evaluating the impact of its adoption on the financial statements.

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

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

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

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

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

This Statement also requires that a component unit in which a government has a 100 percent equity interest account for its assets, deferred outflows of resources, liabilities, and deferred inflows of resources at acquisition value at the date the government acquired a 100 percent equity interest in the component unit. Transactions presented in flows statements of the component unit in that circumstance should include only transactions that occurred subsequent to the acquisition.

The Statement is effective for fiscal years beginning after December 15, 2018. The Authority is in the process of evaluating the impact of its adoption on the financial statements.

GASB Statement No. 91, *Conduit Debt Obligations,* was issued in May 2019. The primary objectives of this Statement are to provide a single method of reporting conduit debt obligations by issuers and eliminate diversity in practice associated with (1) commitments extended by issuers, (2) arrangements associated with conduit debt obligations, and (3) related note disclosures. This Statement achieves those objectives by clarifying the existing definition of a conduit debt obligation; establishing that a conduit debt obligation is not a liability of the issuer; establishing standards for accounting and financial reporting of additional commitments and voluntary commitments extended by issuers and arrangements associated with conduit debt obligations; and improving required note disclosures.

The Statement is effective for fiscal years beginning after December 15, 2020. The Authority is in the process of evaluating the impact of its adoption on the financial statements.

Note 3: Deposits and Investments

(a) Deposits

Operating cash is held in the form of Negotiable Order of Withdrawal ("NOW") accounts and money market accounts. At December 31, 2018, the Authority's bank balance was $20,967,727. Of the bank balance, $750,000 was insured with Federal Deposit Insurance.

Pursuant to GASB Statement No. 40, *Deposit and Investment Risk Disclosures* ("GASB 40"), the Authority's NOW accounts, as well as money market accounts and certificates of deposit, are profiled in order to determine exposure, if any, to Custodial Credit Risk (risk that in the event of failure of the counterparty the Authority would not be able to recover the value of its deposit or investment). Deposits are considered to be exposed to Custodial Credit Risk if they are: uninsured, uncollateralized (securities are not pledged to the depositor), collateralized with securities held by the pledging financial institution, or collateralized with securities held by the pledging financial institution's trust department or agent but not in the government's (NJEDA) name. At December 31, 2018 and 2017, all of the Authority's deposits were collateralized by securities held in its name and, accordingly, not exposed to custodial credit risk.

Cash deposits at December 31, 2018 and 2017, were as follows:

Deposit Type	2018	2017
NOW Accounts	**$ 10,057,615**	$ 13,851,759
Money Market Accounts	**9,267,940**	9,192,734
Total deposits	**$ 19,325,555**	$ 23,044,493

(b) Investments

Pursuant to the Act, the funds of the Authority may be invested in any direct obligations of, or obligations as to which the principal and interest thereof is guaranteed by, the United States of America or other obligations as the Authority may approve. Accordingly, the Authority directly purchases permitted securities and enters into interest-earning investment contracts.

As of December 31, 2018, the Authority's total investments, excluding capital investments, amounted to $226,688,994. The Authority's investment portfolio ("Portfolio") is comprised of short to medium term bonds and is managed by a financial institution for the Authority. These investments include obligations guaranteed by the U.S. Government, Government Sponsored Enterprises, Money Market Funds, Corporate Debt rated at least A- by Standard & Poors or equivalent by Moody's and Repurchase Agreements. The Portfolio is managed with the investment objectives of: preserving capital, maintaining liquidity, achieving superior yields, and providing consistent returns over time. In order to limit interest rate risk, investments are laddered, with maturities ranging from several months to a maximum of five years.

Investment of bond proceeds is made in accordance with the Authority's various bond resolutions. The bond resolutions generally permit the investment of funds held by the trustee in the following: (a) obligations of, or guaranteed by, the State or the U.S. Government; (b) repurchase agreements secured by obligations noted in (a) above; (c) interest-bearing deposits, in any bank or trust company, insured or secured by a pledge of obligations noted in (a) above; (d) State of New Jersey Cash Management Fund (NJCMF); (e) shares of an open-end diversified investment company which invests in obligations with maturities of less than one year of, or guaranteed by, the U.S. Government or Government Agencies; and (f) non-participating guaranteed investment contracts.

In order to maximize liquidity, the Authority utilizes the NJCMF as an investment. All investments in the NJCMF are governed by the regulations of the State of New Jersey, Department of Treasury, Division of Investment, which prescribes specific standards designed to ensure the quality of investments and to minimize the risks related to investments. The NJCMF invests pooled monies from various State and non-State agencies in primarily short-term investments. These investments include: U.S. 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, 2018 and 2017, the Authority's balance in the NJCMF is $60,486,499 and $67,556,931, respectively. The fair value is measured based on net asset value ("NAV") which approximates $1 per share.

Custodial Credit Risk

Pursuant to GASB 40, the Authority's investments are profiled to determine if they are exposed to Custodial Credit Risk. Investment securities are exposed to custodial credit risk if the securities are uninsured, are not registered in the name of the government (NJEDA), and are held by either: the counterparty (institution that pledges collateral to government or that buys/sells investments for government) or the counterparty's trust department or agent but not in the name of the government. Investment pools such as the NJCMF and open ended mutual funds including Mutual Bond Funds are deemed not to have custodial credit risk. As of December 31, 2018 and December 31, 2017, no investments are subject to custodial credit risk as securities in the Portfolio are held in the name of the Authority.

Concentration of Credit Risk

The Authority does not have an investment policy regarding concentration of credit risk, however, the Authority's practice is to limit investments in certain issuers. No more than 5% of the Authority funds may be invested in individual corporate and municipal issuers; and no more than 10% in individual U.S. Government Agencies. At December 31, 2018, more than 5% of the Authority's investments are in: Federal National Mortgage Association ("FNMA"). This investment is 6.65% ($15,696,414), of the Authority's total investments. This investment is included in the U.S. Agencies category of investments. Investments issued by or guaranteed by the U.S. Government, mutual fund investments, and pooled investments are exempt from this requirement.

Credit Risk

The Authority does not have an investment policy regarding the management of Credit Risk, as outlined above. GASB 40 requires that disclosure be made as to the credit rating of all debt security investments except for obligations of the U.S. government or investments guaranteed by the U.S. government. All investments in U.S. Agencies are rated Aaa by Moody's and AA+ by Standard & Poor's ("S&P"). The mutual bond fund was rated AAA by S&P. Corporate bonds were rated BBB+/A-/A/A+/AA-/AA/AAA, by S&P. Municipal bonds were rated AAA by S&P and Aa1 by Moody's. The certificate of deposit was rated A by S&P. The NJCMF is not rated.

Interest Rate Risk

The Authority does not have a policy to limit interest rate risk, however, its practice is to hold investments to maturity.

Fair Value Measurements

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the financial statement measurement date. The fair value hierarchy categorizes the inputs to valuation techniques used to measure fair value into three levels as follows:

- Level 1 – unadjusted quoted prices in active markets for identical assets;
- Level 2 – quoted prices other than those included within Level 1 and other inputs that are observable for the asset or liability, either directly or indirectly;
- Level 3 – unobservable inputs for an asset or liability.

As of December 31, 2018 and 2017, the Authority had the following investments and maturities:

Investment Type	Level	December 31, 2018 Fair Value	Investments Less than 1 Year	Maturities 1–5 Years	Fair Value as of December 31, 2017
Investments by fair value level					
Debt Securities:					
U.S. Treasuries	2	**$ 120,521,188**	$ 21,202,374	$ 99,318,814	$ 97,552,733
U.S. Agencies	2	**36,961,662**	11,916,834	25,044,828	56,886,771
Corporate Bonds	2	**59,676,460**	14,038,260	45,638,200	62,043,324
Municipal Bonds	2	**6,206,924**	4,996,400	1,210,524	8,263,400
Certificate of deposit	2	**3,322,760**	–	3,322,760	–
Mutual Bond Funds	1	**2,262,269**	2,262,269	–	166,669
Total investments by fair value level		**228,951,263**	$ 54,416,137	$ 174,535,126	224,912,897
Investment Pool at NAV					
State of NJ Cash Management Fund		**60,486,499**			67,556,931
Total investments measured at fair value		**289,437,762**			292,469,828
Less amounts reported as cash equivalents		**(62,748,768)**			(67,723,600)
Total investments		**$ 226,688,994**			$ 224,746,228

Debt securities classified in Level 2 of the fair value hierarchy are valued using a matrix pricing technique.

(c) Special Purpose Investments

Pursuant to the Authority's mission, from time to time, in order to expand employment opportunities in the State and to spur economic development opportunities, the Authority, with the authorization of the Board, will make special purpose investments. These special purpose investments include the Authority's participation as a limited partner in various venture funds formed with the primary purpose of providing venture capital to exceptionally talented entrepreneurs dedicated to the application of proprietary technologies or unique services in emerging markets and whose companies are in the expansion stage. At December 31, 2018 and 2017, the aggregate value of the Authority's investment in these funds is $9,198,636 and $9,797,772, respectively. As a limited partner, the Authority receives financial reports from the managing partner of the funds, copies of which may be obtained by contacting the Authority. For the purpose of financial reporting, the ownership in stock or equity interest in connection with economic development activities, such as providing venture capital, does not meet the definition of an investment because the asset is held primarily to further the economic development objectives of the Authority. Accordingly, the Authority uses the cost method as the measurement basis.

At December 31, 2018, the Authority also held other equity investments of $186,928. The investments were held in the form of stock.

Note 4: Notes Receivable

Notes receivable consist of the following:

	December 31	
	2018	2017
Economic Development Fund ("EDF") loan program; interest ranging up to 7.5%; maximum term of 11 years	**$ 54,626,351**	$ 55,968,511
Economic Recovery Fund ("ERF") loan and guarantee programs; interest ranging up to 9.8%; maximum term of 15 years	**78,060,270**	72,174,951
Hazardous Discharge Site Remediation ("HDSR") loan program; interest ranging up to 5.0%; maximum term of 3 years	**2,156,333**	2,668,589
Municipal Economic Recovery Initiative ("MERI") loan program; interest ranging up to 3.0%; maximum term of 8 years	**254,647**	278,939
Stronger NJ Business (SNJ) loan program; interest ranging up to 3.09%; maximum term of 30 years	**73,879,557**	68,113,012
	$ 208,977,158	$ 199,204,002

Aggregate Notes Receivable activity for the year ended December 31, 2018, was as follows:

	Beginning Balance	Loan Disbursements	Loan Receipts	Write-offs, Adjustments, Restructures – Net	Ending Balance	Amounts Due Within One Year
EDF/ERF	$ 128,143,462	$ 28,295,892	$ (23,611,133)	$ (141,600)	$ 132,686,621	$ 9,137,820
HDSR	2,668,589	211,049	(439,926)	(283,379)	2,156,333	28,638
MERI	278,939	–	(24,292)	–	254,647	27,270
SNJ	68,113,012	11,365,242	(2,569,922)	(3,028,775)	73,879,557	2,874,139
	$ 199,204,002	$ 39,872,183	$ (26,645,273)	$ (3,453,754)	$ 208,977,158	$ 12,067,867

Note 5: Leases

(a) Leases Receivable

The Authority has a financing lease relating to the issuance of Bonds and Notes Payable. Bond and Note proceeds finance specific projects. The financing lease provides for basic rental payments, by the tenant to the Authority, in an amount at least equal to the amount of debt service on the Bonds and Notes. In the event of default by the tenant to make rental payments, the Authority generally has recourse, including, but not limited to, taking possession and selling or subletting the leased premises and property.

The outstanding lease is as follows:

Lease Description	2018	2017
NY Daily News, through January 23, 2021	**$ 7,148,102**	$ 7,248,102
Unamortized discount	**(238,028)**	(357,042)
Aggregate lease payments receivable – net	**$ 6,910,074**	$ 6,891,060

Aggregate lease receipts due through 2021 are as follows:

2019	$ 100,000
2020	100,000
2021	6,948,102
	$ 7,148,102

Lease payments receivable activity for the year ended December 31, 2018, was as follows:

	Beginning Balance	Reductions	Ending Balance	Amount Receivable Within One Year
Gross receivable	$ 7,248,102	$ (100,000)	$ 7,148,102	$ 100,000
Discount	(357,042)	119,014	(238,028)	
Net receivable	$ 6,891,060	$ 19,014	$ 6,910,074	

(b) Operating Leases

(i) Authority as Lessor

At December 31, 2018, capital assets with a carrying value of $134,818,468 and accumulated depreciation of $80,271,235 are leased to commercial enterprises. These leases generally provide the tenant with renewal and purchase options. Aggregate minimum lease receipts are expected as follows:

2019	$ 6,011,609
2020	4,608,498
2021	4,216,077
2022	3,893,161
2023	3,097,567
2024–2028	5,755,230
2029–2033	420,300
2034–2038	420,300
2039–2043	420,300
2044	84,060
	$ 28,927,102

(ii) Authority as Lessee

The Authority leases commercial property, buildings, and office space for use by Authority staff. Aggregate rental expense for the current year amounted to $114,487. Aggregate future lease obligations are as follows:

2019	$ 148,689
2020	414,497
2021	418,756
2022	407,498
2023	383,786
2024-2028	431,237
	$ 2,204,463

Note 6: Capital Assets

Capital asset activity for the years ended December 31, 2018 and 2017, was as follows:

	December 31, 2017	Additions	Reductions	December 31, 2018
Capital assets not being depreciated:				
Land	$ 28,983,065	$ –	$ (165,000)	**$ 28,818,065**
Construction in progress	240,951	–	(240,951)	–
Capital assets being depreciated:				
Buildings	81,722,446	–	–	**81,722,446**
Leasehold improvements	34,933,205	277,453	–	**35,210,658**
Capital assets – gross	145,879,667	277,453	(405,951)	**145,751,169**
Less: accumulated depreciation	83,915,652	5,180,661	–	**89,096,313**
Capital assets – net	$ 61,964,015	$ (4,903,208)	$ (405,951)	**$ 56,654,856**

	December 31, 2016	Additions	Reductions	December 31, 2017
Capital assets not being depreciated:				
Land	$ 28,983,065	$ –	$ –	$ 28,983,065
Construction in progress	–	240,951	–	240,951
Capital assets being depreciated:				
Buildings	86,479,970	–	(4,757,524)	81,722,446
Leasehold improvements	34,933,205	–	–	34,933,205
Capital assets – gross	150,396,240	240,951	(4,757,524)	145,879,667
Less: accumulated depreciation	83,087,264	5,318,830	(4,490,442)	83,915,652
Capital assets – net	$ 67,308,976	$ (5,077,879)	$ (267,082)	$ 61,964,015

In 2018, the Authority sold a parcel of land in Logan Township, Gloucester County, which it had acquired as collateral on a commercial loan several years earlier.

In 2017, the Authority began fit-out work on its Biotech Development Center, within the Authority's Technology Centre of New Jersey, located in the Township of North Brunswick. Additionally, the Authority began demolition of an existing, obsolete structure, known as the Premier Building, also located in the Township of North Brunswick. Those improvements were completed in 2018.

Note 7: Notes Payable

Generally, Notes Payable are special obligations of the Authority payable solely from loan payments, lease rental payments and other revenues, funds and other assets pledged under the notes and do not constitute obligations against the general credit of the Authority. Note proceeds are used to fund specific programs and projects and are not commingled with other Authority funds.

The outstanding notes are as follows:

	December 31 2018	December 31 2017
Community Development Investments, LLC; interest at 5%; principal and interest due monthly with payments based solely on receipt of surcharge revenue. The note was scheduled to mature on 5/12/14; however, full repayment was subject to receipt of surcharge revenue and finalized in 2018.	**$ –**	$ 1,126,654
	$ –	$ 1,126,654

Notes payable activity for the years ended December 31, 2018 and 2017, was as follows:

December 31, 2017	Additions	Reductions	December 31, 2018	Amounts Due Within One Year
$ 1,126,654	$ –	$ 1,126,654	**$ –**	$ –

December 31, 2016	Additions	Reductions	December 31, 2017	Amounts Due Within One Year
$ 2,264,426	$ –	$ (1,137,772)	$ 1,126,654	$ 1,126,654

Note 8: Commitments and Contingencies

(a) Loan and Bond Guarantee Programs

The Authority has a special binding obligation regarding all guarantees to the extent that funds are available in the guarantee accounts as specified in the guarantee agreements. Guarantees are not, in any way, a debt or liability of the State.

(1) Economic Recovery Fund

The guarantee agreements restrict the Authority from approving any loan or bond guarantee if, at the time of approval, the Debt (exposure and commitments) to Worth (the amount on deposit and available for payment) ratio is greater than 5 to 1. At any time, payment of the guarantee is limited to the amount of Worth within the guarantee program account. Principal payments on guaranteed loans and bonds reduce the Authority's exposure. At December 31, 2018, Debt was $4,368,611 and Worth was $183,636,913, with a ratio of 0.02 to 1.

(2) New Jersey Business Growth Fund

The Authority guarantees between 25% and 50% of specific, low-interest loans to New Jersey companies, made by one of its preferred lenders, with a maximum aggregate exposure to the Authority not to exceed $10 million and, at no time will the Authority pay more than $10 million, net, of guarantee demands. At December 31, 2018, aggregate exposure and related Worth within the Business Growth Fund account are both $2,174,935.

(3) New Jersey Global Growth Fund

The Authority guarantees up to 50% of any approved term loan or line of credit to New Jersey companies, made by one of its premier lenders, with a maximum aggregate exposure to the Authority not to exceed $10 million and, at no time will the Authority pay more than $10 million, net, of guarantee demands. At December 31, 2018, aggregate exposure and related Worth within the NJ Global Growth Fund account are both $10,000,000.

(4) State Small Business Credit Initiative Fund

The Federal grant agreement restricts the Authority from approving any loan or bond guarantee if, at the time of approval, the Debt to Worth ratio is greater than 1 to 1. At any time, payment of the guarantee is limited to the amount of Worth within the State Small Business Credit Initiative Fund. At December 31, 2018, Debt was $351,500 and Worth was $1,978,369, with a ratio of 0.18 to 1.

(b) Loan Program Commitments and Project Financings

At December 31, 2018, the Authority has $13,677,616 of loan commitments not yet closed or disbursed and $69,699,785 of project financing commitments.

(c) New Markets Tax Credit Program

On December 28, 2005, the Authority loaned $31,000,000 to a limited liability company (“company”), to facilitate their investment in a certified community development entity (“entity”) whose primary mission is to provide loan capital for commercial projects in low-income areas throughout New Jersey. The company also received an equity investment from a private corporation (“corporation”). The company then invested the combined proceeds in the entity, which was awarded an allocation in Federal tax credits under the New Markets Tax Credit Program.

During 2007, the Authority made two additional New Markets commitments. On September 24, 2007, the Authority facilitated a transaction in which $3,500,000 in credits were allocated (no Authority funds were utilized). On September 26, 2007, the Authority loaned $20,296,000 to another company with terms similar to the first transaction.

During 2008, the Authority closed three additional New Markets commitments. A total of $37,000,000 in credits were allocated (no Authority funds were utilized).

In 2009, one New Markets commitment was closed. A total of $12,419,151 in credits were allocated (no Authority funds were utilized).

On February 28, 2013, the first New Markets loan pool, created in 2005, ceased operations, as the investor exercised its option to sell its membership interest.

On September 29, 2014, the second New Markets loan pool, created in 2007, ceased operations, as that investor also exercised its option to sell its membership interest.

On September 20, 2017, the entity ceased operations and substantially all of the entity's assets (cash) were distributed to the Authority and the Corporation for Business Assistance, proportionate to their respective interests in the entity, and all remaining liabilities were transferred to the Authority to be paid when due.

As part of the remaining agreements, the corporation will claim the Federal tax credits in exchange for their investment. Claiming these credits carries the risk of recapture, whereby an event occurs that would negate the credit taken, causing it to be returned with interest. Based on the agreements between the Authority and the respective companies, the Authority will provide a guaranty to the corporation against adverse consequences caused by a recapture event. As of December 31, 2018, the aggregate exposure to the Authority for the remaining transactions described above is none. The Authority has determined the likelihood of paying on the guaranty, at this time, is remote.

Note 9: State and Federal Appropriations and Program Payments

The Authority receives appropriations from the State of New Jersey, as part of the State's annual budget, for purposes of administering certain grant programs enacted by State statute, and has also received appropriations from the United States Department of Housing and Urban Development, as well as the Federal Emergency Management Agency, via the State of New Jersey, for purposes of administering certain loan and grant programs for businesses in connection with the aftermath of Superstorm Sandy in October 2012. The Authority recognizes the disbursement of these funds to grantees as program payments. For the year ended December 31, 2018, state and federal appropriations and program payments were $22,391,323, $39,097,632, and $46,047,970, respectively.

Note 10: Litigation

The Authority is involved in several lawsuits that, in the opinion of the management of the Authority, will not have a material effect on the accompanying financial statements.

Note 11: Employee Benefits

(a) Public Employees Retirement System of New Jersey ("PERS")

The Authority's employees participate in the PERS, a cost sharing multiple-employer defined benefit plan administered by the State. The Authority's contribution is based upon an actuarial computation performed by the PERS. Employees of the Authority are required to participate in the PERS and contribute 7.50% in 2018 (7.34% in 2017) of their annual compensation. The PERS also provides death and disability benefits. All benefits and contribution requirements are established, or amended, by State statute.

Benefits Provided

The vesting and benefit provisions are set by N.J.S.A. 43:15A. PERS provides retirement, death and disability benefits. All benefits vest after ten years of service, except for medical benefits, which vest after a minimum of 25 years of service or under the disability provisions of PERS.

The following represents the membership tiers for PERS:

Tier	Definition
1	Members who were enrolled prior to July 1, 2007
2	Members who were eligible to enroll on or after July 1, 2007, and prior to November 2, 2008
3	Members who were eligible to enroll on or after November 2, 2008, and prior to May 22, 2010
4	Members who were eligible to enroll on or after May 22, 2010, and prior to June 28, 2011
5	Members who were eligible to enroll on or after June 28, 2011

Service retirement benefits of 1/55th of final average salary for each year of service credit is available to tiers 1 and 2 members upon reaching age 60, and to tier 3 members upon reaching age 62. Service retirement benefits of 1/60th of final average salary for each year of service credit is available to tier 4 members upon reaching age 62, and tier 5 members upon reaching age 65. Early retirement benefits are available to tiers 1 and 2 members before reaching age 60, tiers 3 and 4 before age 62, and tier 5 with 30 or more years of service credit before age 65. Benefits are reduced by a fraction of a percent for each month that a member retires prior to the retirement age of his/her respective tier. Deferred retirement is available to members who have at least 10 years of service credit and have not reached the service retirement age for the respective tier.

Contributions Made

The contribution policy is set by N.J.S.A. 43:15A and requires contributions by active members and contributing employers. Members contribute at a uniform rate. Pursuant to the provisions of Chapter 78, P.L. 2011, the active member contribution rate increased from 5.5% of annual compensation to 6.5% plus an additional 1% phased-in over 7 years beginning in July 2012. The member contribution rate was 7.34% in State fiscal year ended June 30, 2018, and is 7.50% as of December 31, 2018. The phase-in of the additional incremental member contribution rate takes place in July of each subsequent State fiscal year. Employers' contribution amounts are based on an actuarially determined rate. The annual employer contributions include funding for basic retirement allowances and noncontributory death benefits. The Authority's contractually required contribution rate for the year ended December 31, 2018 and 2017, was 14.12% and 13.56%, respectively, of annual payroll, actuarially determined as an amount that, when combined with employee contributions, is expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. Contractual contributions to the pension plan from the Authority were $2,194,698 and $2,011,757 for the years ended December 31, 2018 and 2017, respectively.

Based on the recommendation of the State of New Jersey Department of the Treasury, the investment rate of return used to calculate the actuarially determined contribution effective with the July 1, 2017, valuation was 7.50% per annum. The Department of the Treasury recommendation also calls for the rate to be reduced further to 7.30% per annum effective with the July 1, 2019, valuation, and to 7.00% per annum effective with the July 1, 2021, valuation. The actuarially determined employer contribution amount, when combined with employee contributions, is expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability.

Pension Liabilities, Pension Expense, Deferred Outflows of Resources, and Deferred Inflows of Resources

GASB 68 requires the Authority to recognize a net pension liability for the difference between the present value of the projected benefits for past service, known as the Total Pension Liability ("TPL"), and the restricted resources held in trust for the payment of pension benefits, known as the Fiduciary Net Position ("FNP").

At December 31, 2018 and 2017, the Authority reported a liability of $46.0 million and $55.1 million for its proportionate share of the net pension liability for PERS, respectively. The net pension liability was measured as of June 30, 2018 and June 30, 2017, respectively, and the total pension liability used to calculate the net pension liability was determined by actuarial valuations as of July 1, 2017 and July 1, 2016. The actuarial valuations were rolled forward to June 30, 2018 and June 30, 2017, using update procedures. The Authority's proportion of the net pension liability was based on a projection of the long-term share of contribution to the pension plans relative to the projected contributions of all participating State agencies, actuarially determined. At December 31, 2018, the Authority's proportion was .23374% which was a decrease of .00317% from its proportion measured as of December 31, 2017.

For the years ended December 31, 2018 and 2017, the Authority recognized pension expense of $5,263,030 and $6,763,821 for PERS, respectively. Pension expense is reported in the Authority's financial statements as part of salaries and benefits expense.

At December 31, 2018 and 2017, the Authority reported deferred outflows of resources and deferred inflows of resources related to pension from the following sources:

	2018		2017	
	Deferred Outflows of Resources	**Deferred Inflows of Resources**	**Deferred Outflows of Resources**	**Deferred Inflows of Resources**
Net difference between projected and actual earnings on pension plan investments	$ –	$ 431,688	$ 375,523	$ –
Changes of assumptions or other inputs	7,583,655	14,715,371	11,110,493	11,069,760
Changes in proportion	6,104,907	587,860	9,073,915	–
Difference between expected and actual experience	877,645	237,304	1,298,553	–
Contributions subsequent to the measurement date	2,324,943	–	2,194,698	–
	$ 16,891,150	$ 15,972,223	$ 24,053,182	$ 11,069,760

Deferred outflows of resources of $2,324,943 resulting from contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending December 31, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year 1 (2019)	$ 2,739,961
Year 2 (2020)	1,935,616
Year 3 (2021)	(2,515,559)
Year 4 (2022)	(2,594,022)
Year 5 (2023)	(972,012)
	$ (1,406,016)

Actuarial Methods and Assumptions

The total pension liability in the June 30, 2018, actuarial valuation was determined based on an actuarial valuation as of July 1, 2017, which was rolled forward to June 30, 2018, using update procedures. The key actuarial assumptions are summarized as follows:

Inflation:	2.25%
Salary increase:	1.65%–5.15%
Investment rate of return:	7.00%
Cost of living adjustment	No cost of living adjustment is assumed

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

Discount Rate

The discount rate used to measure the total pension liability was 5.66% and 5.00% at June 30, 2018 and June 30, 2017, respectively. This single blended discount rate was based on the long-term rate of return of 7.00% and the municipal bond rates of 3.87% and 3.58% as of June 30, 2018 and 2017, respectively, based on the Bond Buyer Go 20-Bond Municipal Bond Index which includes tax-exempt general obligation municipal bonds with an average rating of AA/Aa or higher. The contribution percentage is the average percentage of the annual actual contribution paid over the annual actuarially determined contribution during the most recent fiscal year. Based on those assumptions, the pension Plan's fiduciary net position was projected to be available to make projected future benefit payments of current Plan members through fiscal year 2046.

Expected Rate of Return on Investments

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

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

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
PERS:		
Risk mitigation	5.00%	5.51%
Cash	5.50	1.00
U.S Treasuries	3.00	1.87
Investment Grade Credit	10.00	3.78
High Yield	2.50	6.82
Global Diversified Credit	5.00	7.10
Credit Oriented Hedge Funds	1.00	6.60
Debt Related Private Equity	2.00	10.63
Debt Related Real Estate	1.00	6.61
Private Real Estate	2.50	11.83
Equity Related Real Estate	6.25	9.23
U.S. Equity	30.00	8.19
Non-US Developed Markets Equity	11.50	9.00
Emerging Markets Equity	6.50	11.64
Buyouts/Venture Capital	8.25	13.08

Sensitivity of the Authority's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate

The following presents the Authority's proportionate share of the net pension liability calculated using the discount rate of 5.66% and 4.00% for PERS as well as the proportionate share of the net pension liability using a 1.00 percent increase or decrease from the current discount rate as of December 31, 2018 and 2017, respectively:

	1% Decrease (4.66%)	Discount Rate (5.66%)	1% Increase (6.66%)
2018	**$ 57,867,296**	**$ 46,021,947**	**$ 36,084,457**

	1% Decrease (3.0%)	Discount Rate (4.0%)	1% Increase (5.0%)
2017	$ 68,415,277	$ 55,148,355	$ 44,095,365

Detailed information about the Plan's fiduciary net position is available in a separately issued financial report. The State of New Jersey, Department of the Treasury, Division of Pension and Benefits, issues publicly available financial reports that include the financial statements and required supplementary information for the PERS. Information on the total Plan funding status and progress, required contributions and trend information is available on the State's web site at www.state.nj.us/treasury/pensions/annrprts.shtml in the Comprehensive Annual Financial Report of the State of New Jersey, Division of Pensions and Benefits.

(b) Postemployment Health Care and Insurance Benefits

General Information about the Postemployment Health Care Plan

Plan Description and Benefits Provided: The Authority sponsors a single employer postemployment benefits plan that provides benefits in accordance with State statute, through the State Health Benefits Bureau, to its retirees having 25 years or more of service in the PERS, and 30 years or more of service if hired after June 28, 2011, or to employees approved for disability retirement. Health benefits and prescription benefits provided by the plan are at no cost to eligible retirees who had accumulated 20 years of service credit as of June 30, 2010. All other future retirees will contribute to a portion of their health and prescription premiums. Upon turning 65 years of age, a retiree must utilize Medicare as their primary coverage, with State Health Benefits providing supplemental coverage. In addition, life insurance is provided at no cost to the Authority and the retiree in an amount equal to 3/16 of their average salary during the final 12 months of active employment.

Since the Authority is a participating employer in the State Health Benefits Bureau, the Authority does not issue a separate stand-alone financial report regarding other postemployment benefits. The Authority participates in the State Health Benefits Plan solely on the benefits side and not in a cost-sharing capacity, in order to leverage more affordable premium costs. The Authority maintains all plan assets within the Employee Benefit Trust. 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 State has the authority to establish and amend the benefit provisions offered and contribution requirements.

Employees Covered by Benefit Terms. At December 31, 2018 and 2017, the following employees were covered by the benefit terms:

	2018	**2017**
Active employees	**181**	163
Inactive employees and/or beneficiaries currently receiving benefit payments	**36**	35
Total membership	**217**	198

Contributions. The Authority's Board grants the Authority the right to establish and amend the contribution requirements. The Board establishes rates based on an actuarially determined rate. For the year ended December 31, 2018 and 2017, the Authority's average contribution rate was 36.64 percent and 8.65 percent of covered payroll, respectively. Employees are not required to contribute to the plan. The Authority's annual OPEB cost for the plan is calculated based on the Entry Age Normal level percentage cost method, an amount actuarially determined in accordance with the parameters of GASB Statement 75. The Authority has established and funded an irrevocable trust for the payments required by this obligation.

Net OPEB Liability

The Authority's net OPEB (asset) liability was measured at December 31, 2018, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of January 1, 2017. Update procedures were used to roll forward the total OPEB liability to the Authority's year end of December 31, 2018.

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

Inflation	2.3% per annum, compounded annually
Salary increases	3.5% per annum, compounded annually
Investment rate of return	4.00%
Healthcare cost trend rates	8.6% grading down to an ultimate rate of 4.7% for <65, 4.7% grading down to an ultimate rate of 4.7% for >65

Mortality rates were based on the RPH-2014 Healthy Lives Mortality Tables adjusted to reflect Mortality Improvement Scale MP-2017 from 2006 base year and projected forward on a generational basis.

The actuarial assumptions used in the January 1, 2017, valuation were based on information provided by the Authority for the period of January 1, 2017, through December 31, 2017. Update procedures were used to roll forward the total OPEB liability to the Authority's year end of December 31, 2018.

The long-term expected rate of return on OPEB plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of OPEB plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation of 2.3%. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table for 2018:

Asset Class	**Index**	**Target Allocation**	**Long-Term Expected Real Rate of Return**
US cash	BAML 3-month treasury	5.21%	0.34%
US government bonds	Barclays government	40.57%	1.56%
US credit bonds	Barclays credit	36.71%	2.86%
US municipal bonds	Barclays muni index	4.19%	1.78%
US Large Caps	S&P 500	0.64%	4.70%
US Large & Mid Caps	Russel 1000	0.00%	4.90%
US Equity Market	Russel 3000	12.08%	4.97%
US Small Caps	Russel 2000	0.60%	5.89%
Total		100.00%	

Discount Rate. The discount rate used to measure the total OPEB liability was 4.5 percent at December 31, 2018, and 4.0 percent at December 31, 2017. The projection of cash flows used to determine the discount rate assumed that Authority contributions will be made at rates equal to the actuarially determined contribution rates. Based on those assumptions, the OPEB plan's fiduciary net position was projected to be available to make all projected OPEB payments for current active and inactive employees. Therefore, the long-term expected rate of return on OPEB plan investments was applied to all periods of projected benefit payments to determine the total OPEB liability.

Changes in Net OPEB Liability

For the year ended December 31, 2018:

	Increase (Decrease)		
	Total OPEB Liability	**Plan Fiduciary Net Position**	**Net OPEB Liability(Asset)**
Net OPEB liability at beginning of the year	**$ 38,468,306**	**$ 33,161,720**	**$ 5,306,586**
Changes for the year:			
Service cost	**1,966,628**	–	**1,966,628**
Interest	**1,605,750**	–	**1,605,750**
Changes of assumptions	**(3,729,586)**	–	**(3,729,586)**
Employer Contributions	–	**5,306,586**	**(5,306,586)**
Net investment income	–	**85,812**	**(85,812)**
Benefit payments	**(588,098)**	**(588,098)**	–
Administrative expense	–	**(21,063)**	**21,063**
Net changes	**(745,306)**	**4,783,237**	**(5,528,543)**
Net OPEB (asset) liability at end of the year	**$ 37,723,000**	**$ 37,944,957**	**$ (221,957)**

For the year ended December 31, 2017:

	Increase (Decrease)		
	Total OPEB Liability	Plan Fiduciary Net Position	Net OPEB Liability
Net OPEB liability at beginning of the year	$ 35,719,078	$ 32,119,769	$ 3,599,309
Changes for the year:			
Service cost	1,900,124	–	1,900,124
Interest	1,492,035	–	1,492,035
Changes of assumptions	–	–	–
Employer contributions	–	1,220,006	(1,220,006)
Net investment income	–	485,676	(485,676)
Benefit payments	(642,931)	(642,931)	–
Administrative expense	–	(20,800)	20,800
Net changes	2,749,228	1,041,951	1,707,277
Net OPEB liability at end of the year	$ 38,468,306	$ 33,161,720	$ 5,306,586

Sensitivity of the Net OPEB (Asset) Liability to Changes in the Discount Rate. The following presents the net OPEB (asset) liability of the Authority as of December 31, 2018 and 2017, as well as what the Authority's net OPEB (asset) liability would be if it were calculated using a discount rate that is 1-percentage-point lower (3.5% for 2018 and 3.0% for 2017) or 1-percentage-point higher (5.5% for 2018 and 5% for 2017) than the current discount rate:

	1% Decrease (3.5%)	Discount Rate (4.5%)	1% Increase (5.5%)
2018	**$ 7,103,043**	**$ (221,957)**	**$ (5,999,957)**

	1% Decrease (3.0%)	Discount Rate (4.0%)	1% Increase (5.0%)
2017	$ 13,125,869	$ 5,306,586	$ (821,413)

Sensitivity of the Net OPEB (Asset) Liability to Changes in the Healthcare Cost Trend Rates. The following presents the net OPEB (asset) liability of the Authority as of December 31, 2018 and 2017, as well as what the Authority's net OPEB (asset) liability would be if it were calculated using healthcare cost trend rates that are 1-percentage-point lower (7.6% decreasing to 3.7% in 2018 and 2017) or 1-percentage-point higher (9.6% decreasing to 5.7% in 2018 and 2017) than the current healthcare cost trend rates (8.6% decreasing to 4.7% in 2018 and 2017):

	1% Decrease (7.6% decreasing to 3.7%)	Healthcare Cost Trend Rates (8.6% decreasing to 4.7%)	1% Increase (9.6% decreasing to 5.7%)
2018	**$ (7,291,957)**	**$ (221,957)**	**$ 9,110,043**
2017	$ (1,892,275)	$ 5,306,586	$ 14,835,557

OPEB Plan Fiduciary Net Position. Detailed information about the OPEB plan's fiduciary net position is available in the separately issued NJEDA Employee Benefit Trust financial report, which is available on the Authority's website at www.njeda.com/public_information/annual_reports.

OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

For the year ended December 31, 2018 and 2017, the Authority recognized OPEB expense of $2,426,131 and $2,461,692, respectively. OPEB expense is reported in the Authority's financial statements as part of salaries and benefits expense. At December 31, 2018, the Authority reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	2018		2017	
	Deferred Inflows	Deferred Outflows	Deferred Inflows	Deferred Outflows
Difference in experience	$ (84,227)	$ –	$ –	$ –
Changes in assumptions	(3,272,400)	–	–	–
Net difference between projected and actual earnings on OPEB plan investments	–	1,868,724	–	1,160,185
Totals	$ (3,356,627)	$ 1,868,724	$ –	$ 1,160,185

Amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense (income) as follows:

Year Ended December 31:	
2019	$ 220,998
2020	221,000
2021	47,349
2022	(112,459)
2023	(372,959)
Thereafter	(1,491,832)
Total	$ (1,487,903)

Note 12: Compensated Absences

In accordance with GASB Statement No. 16, *Accounting for Compensated Absences*, the Authority recorded current liabilities in the amount of $1,173,849 and $1,026,697 as of December 31, 2018 and 2017, respectively. The liability as of those dates is the value of employee accrued vacation time and vested estimated sick leave benefits that are probable of payment to employees upon retirement. The vested sick leave benefit to eligible 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 Authority policy; therefore, such non-vested benefits are not accrued.

Note 13: Long-Term Liabilities

During 2018 and 2017, the following changes in long-term liabilities are reflected in the statement of net position:

	2018			
	Beginning Balance	**Additions**	**Deductions**	**Ending Balance**
Net pension liability	**$ 55,148,355**	**$ –**	**$ (9,126,408)**	**$ 46,021,947**
Other postemployment benefits liability	**5,306,586**	**–**	**(5,306,586)**	**–**
Unearned lease revenue	**7,903,859**	**–**	**(1,053,848)**	**6,850,011**
Accrued guarantee losses	**884,741**	**34,097**	**(491,229)**	**427,609**
Compensated absences	**1,026,697**	**230,615**	**(83,463)**	**1,173,849**
Total long-term liabilities	**$ 70,270,238**	**$ 264,712**	**$ (16,061,534)**	**$ 54,473,416**

	2017			
	Beginning Balance	**Additions**	**Deductions**	**Ending Balance**
Net pension liability	$ 67,068,246	$ –	$ (11,919,891)	$ 55,148,355
Other postemployment benefits liability	3,599,309	1,707,277	–	5,306,586
Notes payable	1,291,011	–	(1,291,011)	–
Unearned lease revenue	8,957,707	–	(1,053,848)	7,903,859
Accrued guarantee losses	1,176,274	285,774	(577,307)	884,741
Compensated absences	985,155	75,001	(33,459)	1,026,697
Total long-term liabilities	$ 83,077,702	$ 2,068,052	$ (14,875,516)	$ 70,270,238

For further information, see Notes 7 and 11.

Required Supplementary Information

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

Schedule of Changes in the Authority's Net OPEB Liability and Related Ratios

	2018	2017	2016
	(In Thousands)		
Service cost	**$ 1,967**	$ 1,900	$ 1,836
Interest	**1,606**	1,492	1,387
Change in assumptions	**(3,730)**	–	–
Benefit payments	**(588)**	(643)	(655)
Net change in total OPEB liability	**(745)**	2,749	2,568
Total OPEB liability – beginning	**38,468**	35,719	33,151
Total OPEB liability – ending (a)	**$ 37,723**	$ 38,468	$ 35,719
Plan fiduciary net position			
Contributions – employer	**$ 5,307**	$ 1,220	$ 1,162
Net investment income	**86**	486	382
Benefit payments	**(588)**	(643)	(655)
Administrative expenses	**(21)**	(21)	(21)
Net change in plan fiduciary net position	**4,784**	1,042	868
Plan fiduciary net position – beginning	**33,161**	32,119	31,251
Plan fiduciary net position – ending (b)	**$ 37,945**	$ 33,161	$ 32,119
Authority's net OPEB liability – ending (a)-(b)	**$ (222)**	$ 5,307	$ 3,600
Plan fiduciary net position as a percentage of the total OPEB liability	**100.59%**	86.20%	89.92%
Covered payroll	**$ 14,483**	$ 14,108	$ 16,246
Authority's net OPEB liability as a percentage of covered payroll	**(1.53)%**	37.62%	22.16%

Notes to Schedule:
Changes of assumptions: Investment rate of return was increased from 4.0% in 2017 to 4.5% in 2018.

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

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

Schedule of the Authority's OPEB Contributions

($ in thousands)	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009
Actuarial determined contribution	**$ 5,307**	$ 1,220	$ 1,162	$ 9,014	$ 891	$ 850	$ 3,327	$ 806	$ 768	$ 3,666
Employer contribution	**5,307**	1,220	1,162	9,014	891	850	3,327	806	768	3,666
Contribution deficiency (excess)	**$ –**	$ –	$ –	$ –	$ –	$ –	$ –	$ –	$ –	$ –
Authority's covered-employee payroll	**$ 14,483**	$ 14,108	$ 16,246	$ 15,819	$ 14,535	$ 10,971	$ 10,472	$ 12,062	$ 13,183	$ 13,770
Contributions as percentage of covered-employee payroll	**36.64%**	8.65%	7.15%	56.98%	6.13%	7.75%	31.77%	6.68%	5.83%	26.62%

New Jersey Economic Development Authority
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Notes to Schedule of the Authority's OPEB Contributions

Notes to Schedule:

Valuation Date	January 1, 2017 for years 2018, 2017 and 2016, January 1, 2015 for 2015; January 1, 2012, for years 2012-2014; January 1, 2009, for years 2009-2011; January 1, 2006 for 2008.

Methods and assumptions used to determine the actuarially determined contribution rates:

Actuarial Cost Method	Entry Age Normal for 2018, 2017 and 2016, Project Unit Credit Cost Method for 2015-2008
Amortization Method	Full recognition of unfunded liability as of December 31 for 2018, 2017 and 2016, Level Dollar Open (1 year) for 2015-2008
Asset Valuation Method	Market value
Inflation Rate	2.3% for 2018, 2017 and 2016, not indicated for 2015-2008
Investment Rate of Return	4.5% for 2018, 4.0% for all years prior

New Jersey Economic Development Authority
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Schedule of the Authority's Proportionate Share of the Net Pension Liability

	2018 PERS	**2017 PERS**	**2016 PERS**	**2015 PERS**	**2014 PERS**
Authority's proportion of the net pension liability	**0.23374%**	0.23691%	0.22645%	0.21713%	0.15290%
Authority's proportionate share of the net pension liability	**$ 46,021,947**	$ 55,148,355	$ 67,068,246	$ 48,740,925	$ 28,627,890
Authority's covered payroll	**$ 16,464,640**	$ 16,199,280	$ 16,245,862	$ 15,434,227	$ 12,440,364
Authority's proportionate share of the net pension liability as a percentage as a percentage of its covered payroll	**279.52%**	340.44%	412.83%	315.80%	230.12%
Plan fiduciary net position as a percentage of the total pension liability	**40.45%**	36.78%	31.20%	38.21%	42.74%

The amounts presented for each fiscal year were determined as of June 30.

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

New Jersey Economic Development Authority
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Schedule of the Authority's Contributions to the Public Employees' Retirement System (PERS)

	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009
Contractually required contribution	**$ 2,324,943**	$ 2,194,698	$ 2,011,757	$ 1,866,720	$ 1,260,522	$ 1,137,100	$ 1,188,900	$ 1,262,300	$ 1,292,500	$ 1,029,900
Contributions in relation to the contractually required contribution	**2,324,943**	2,194,698	2,011,757	1,866,720	1,260,522	1,137,100	1,188,900	1,262,300	1,292,500	1,029,900
Contribution deficiency (excess)	**$ –**	$ –	$ –	$ –	$ –	$ –	$ –	$ –	$ –	$ –
Authority's covered payroll	**$ 16,464,640**	$ 16,184,953	$ 16,245,862	$ 15,818,820	$ 14,535,358	$ 10,970,510	$ 10,472,305	$ 12,062,333	$ 13,183,135	$ 13,769,583
Contributions as a percentage of covered payroll	**14.12%**	13.56%	12.38%	11.80%	8.67%	10.37%	11.35%	10.46%	9.80%	7.48%

New Jersey Economic Development Authority
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Notes to Schedule of the Authority's Contributions to the Public Employees' Retirement System (PERS)

Notes to Schedule

Valuation Date	Actuarially determined contribution rates are calculated as of July 1, one year prior to the end of the fiscal year in which the contributions are reported.

Methods and assumptions used to determine the actuarially determined employer contributions are as follows:

Actuarial Cost Method	Projected Unit Credit Method
Amortization Method	Level Dollar Amortization
Remaining Amortization Period	30 years
Asset Valuation Method	A five year average of market value
Investment Rate of Return	7.00% for 2018 and 2017, 7.65% for 2016, 7.9% for 2015, 2014 and 2013, 7.95% for 2012, 8.25% for 2011, 2010, 2009 and 2008
Inflation	2.25%
Salary Increases	1.65% –5.15% for 2018, 2017 and 2016, 2.15% – 5.40% for 2015 through 2013, 4.52% for 2012, 5.45% for 2011, 2010, 2009 and 2008
Mortality	RP-2000 Employee Preretirement Mortality Table for male and female active participants. Mortality tables are set back 2 years for males and 7 years for females. In addition, the tables provide for future improvements in mortality from the base year of 2013 using a generational approach based on the plan actuary's modified MP-2014 projection scale.

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