

BASIC FINANCIAL STATEMENTS AND REQUIRED  
SUPPLEMENTARY INFORMATION

New Jersey Economic Development Authority  
Employee Benefit Trust  
December 31, 2017 and 2016  
With Report of Independent Auditors

Ernst & Young LLP



Building a better  
working world

New Jersey Economic Development Authority  
Employee Benefit Trust

Basic Financial Statements and Required Supplementary Information

December 31, 2017 and 2016

**Contents**

Report of Independent Auditors.....	1
Report of Independent Auditors on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i> .....	3
Management’s Discussion and Analysis .....	5
Basic Financial Statements	
Statements of Fiduciary Net Position .....	9
Statements of Changes in Fiduciary Net Position.....	10
Notes to Financial Statements.....	11
Required Supplementary Information	
Schedule of Changes in the Authority’s Net OPEB Liability and Related Ratios .....	22
Schedule of the Authority’s OPEB Contributions .....	23
Schedule of Investment Returns .....	24



Ernst & Young LLP  
99 Wood Avenue South  
Metropark  
P.O. Box 751  
Iselin, NJ 08830-0471

Tel: +1 732 516 4200  
Fax: +1 732 516 4429  
ey.com

## Report of Independent Auditors

The Management and the Members  
New Jersey Economic Development Authority

### Report on the Financial Statements

We have audited the accompanying financial statements of the New Jersey Economic Development Authority Employee Benefit Trust (the “Trust”), as of and for the years ended December 31, 2017 and 2016, and the related notes to the financial statements, which collectively comprise the Trust’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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

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

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

### *Opinion*

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Trust as of December 31, 2017 and 2016, and the changes in its financial position for the years then ended in conformity with U.S. generally accepted accounting principles.

### *Adoption of New Accounting Pronouncement*

As discussed in Note 2 to the financial statements, as of January 1, 2016, the Trust adopted Governmental Accounting Standards Board Statement No. 74, *Financial Reporting for Postemployment Plans Other Than Pension Plans*. Our opinion is not modified with respect to this matter.

### *Required Supplementary Information*

U.S. generally accepted accounting principles require that supplementary information, such as management's discussion and analysis, the schedule of changes in the Authority's net OPEB liability and related ratios, the schedule of the Authority's OPEB contributions and the schedule of investment returns, 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.

### **Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we also have issued our report dated July 16, 2018 on our consideration of the Trust's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Trust's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Trust's internal control over financial reporting and compliance.



July 16, 2018



Ernst & Young LLP  
99 Wood Avenue South  
Metropark  
P.O. Box 751  
Iselin, NJ 08830-0471

Tel: +1 732 516 4200  
Fax: +1 732 516 4429  
ey.com

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

The Management and the Members  
New Jersey Economic Development Authority

We have audited, in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the New Jersey Economic Development Authority Employee Benefit Trust (the “Trust”), which comprise the Statement of Fiduciary Net Position as of December 31, 2017, and the related Statement of Changes in Fiduciary Net Position for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated July 16, 2018.

### **Internal Control Over Financial Reporting**

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

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

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

## **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Trust's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

## **Purpose of this Report**

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

*Ernst + Young LLP*

July 16, 2018

New Jersey Economic Development Authority  
Employee Benefit Trust

Management's Discussion and Analysis

December 31, 2017 and 2016

This section presents Management's Discussion and Analysis ("MD&A") of the New Jersey Economic Development Authority Employee Benefit Trust ("Trust") financial activity and performance as of December 31, 2017 and 2016, and for the years then ended. The MD&A is unaudited and is intended to serve as an introduction to the Trust's basic financial statements, as well as to offer readers of the Trust's financial statements a narrative view and analysis of the Trust's financial activities.

The New Jersey Economic Development Authority (the "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 rates in underserved communities. The Act prohibits the Authority from obligating the credit of the State in any manner.

The Trust was established in October 2006 for the sole purpose of providing funding for post-employment health care insurance premiums and other benefits ("OPEB benefits") for the participants and beneficiaries of the Authority's postemployment defined benefit healthcare plan. The Trust was created as an irrevocable trust and in no event shall any part of the principal or income of the Trust be paid or revert to the Authority or be used for any purpose whatsoever other than for the exclusive benefit of the participants and beneficiaries. The Trust was created pursuant to the Authority's Enabling Act and other applicable law, and therefore constitutes a governmental trust. The Trust consists of the contributions made by the Authority, all investments made or held under this Trust, and all income there from, and any other property which may be received or held by reason of this Trust.

**Financial Highlights**

The net position of the Trust increased to \$33,161,720 from \$32,119,769, a \$1,041,951 or 3.2% increase, due to contributions from the Authority and a positive return earned in investment markets. The Trust's assets are held in trust to meet future benefit obligations.

Total Trust additions of \$1,705,681 are comprised of \$1,220,006 in contributions from the Authority and \$485,675 in investment income which were recognized for the year ended December 31, 2017. In comparison, the Trust experienced total additions of \$1,543,965 for the year ended December 31, 2016, which was primarily due to additional Trust contributions of \$1,162,390 and investment earnings of \$381,575.

For the year ended December 31, 2017, the Trust's deductions of \$663,731, comprised of health care premium payments, accounting fees, and other fees, represented an overall decrease of \$11,723 or 1.74% from 2016. Comparatively, total deductions were \$675,454 for the year ended December 31, 2016, comprised of health care premium payments and accounting and other fees.

## Overview of the Financial Statements

The Statements of Fiduciary Net Position report the Trust's assets, liabilities, and net position available for OPEB benefits at the end of the fiscal year. The Statements of Fiduciary Net Position report the financial position of the Trust at a given point in time, in this case, December 31. Over time, the increase or decrease in net position serves as a useful indicator of the Trust's financial health.

The Statements of Changes in Fiduciary Net Position report additions to and deductions from the Trust during the fiscal year. The Statements of Changes in Fiduciary Net Position report activity over a specific period of time; in this case, the fiscal year beginning January 1 and ending December 31.

The Notes to the Financial Statements provide additional information that is essential to a full understanding of the data provided in the Trust's financial statements.

The Required Supplementary Information following the notes to the Financial Statement consists of three schedules and related notes on the changes in the net OPEB liability, contributions and investment returns.

## Financial Analysis

The following table summarizes the Net Position at December 31, 2017, 2016 and 2015:

	Net Position			Current Year	Previous Year
	2017	2016	2015	% Change	% Change
	<i>(In Thousands)</i>				
<b>Assets</b>					
Cash and cash equivalents	\$ 663	\$ 518	\$ 530	28.0%	(2.3)%
Investments	32,368	31,438	30,621	3.0	2.7
Receivables	148	172	109	(14.0)	57.8
Total assets	<b>33,179</b>	32,128	31,260	<b>3.3</b>	2.8
<b>Liabilities</b>					
Total liabilities	18	9	9	100	—
Net position	<b>\$ 33,161</b>	\$ 32,119	\$ 31,251	<b>3.2%</b>	2.8%

Total assets as of December 31, 2017 were \$33,179,220 and were comprised of cash, cash equivalents, investments and receivables. Total assets increased by \$1,050,701 or 3.3% from

\$32,128,519 as of December 31, 2016, due to contributions from the Authority and investment income. Total assets as of December 31, 2016 were \$32,128,519 and were comprised of cash, cash equivalents, investments and receivables. Total assets increased by \$868,511 or 2.8% from \$31,260,008 as of December 31, 2015, due to contributions from the Authority and investment income.

### Changes in Fiduciary Net Position

The following table summarizes the change in the Trust's net position for the years ended December 31, 2017, 2016 and 2015:

	2017	2016	2015	%	%
	<i>(In Thousands)</i>			Change	Change
Total additions	\$ 1,706	\$ 1,544	\$ 9,287	10.5%	(83.4)%
Total deductions	664	676	602	(1.8)	12.3
Change in Fiduciary Net Position	<u>\$ 1,042</u>	<u>\$ 868</u>	<u>\$ 8,685</u>	<u>20.0%</u>	<u>(90.0)%</u>

Changes in net position for the year ended December 31, 2017 were \$1,041,951, which represents an increase of \$173,440 or 20.0% from the changes in net position for the year ended December 31, 2016. The increase is the result of increased net investment income and increased contributions from the Authority.

Changes in net position for the year ended December 31, 2016 were \$868,511, which represents a decrease of \$7,816,543 or negative 90.0% from the changes in net position for the year ended December 31, 2015. This decrease is the result of increased net investment income more than offset by decreased contributions from the Authority.

### Revenues – Additions to Fiduciary Net Position

Additions to Trust net position include Authority contributions and investment income. Contributions and investment income for fiscal year 2017 totaled \$1,705,681 as compared to total additions of approximately \$1,543,965 in 2016.

The Authority contributed \$1,220,006 in fiscal year 2017, an increase of \$57,616 or 5.0% from fiscal year 2016 due to an increase in the annual actuarial contribution as determined by the Trust's actuary. Net investment income for fiscal year 2017 was \$485,675 versus \$381,575 in fiscal year 2016; the increase was due to increased interest income due to higher interest rates and a higher investment balance.

Contributions and investment income for fiscal year 2016 totaled approximately \$1,543,965 as compared to total additions of approximately \$9,286,765 in 2015.

The Authority contributed \$1,162,390 in fiscal year 2016, a decrease of \$7,851,829 or 87.1% from fiscal year 2015 due to a decrease in the annual actuarial employer contribution as determined by the Trust's actuary. Net investment income for fiscal year 2016 was \$381,575 versus \$272,546 in fiscal year 2015; the increase was due to increased interest income due to higher interest rates and a higher investment balance.

### **Expenses – Deductions from Fiduciary Net Position**

Deductions from the Trust include the payment of insurance premiums for members of the Plan and administrative costs, related to the administration of the Trust.

Premium payments for fiscal year 2017 totaled \$642,931 a decrease of \$11,723 or 1.8% from fiscal year 2016 as the result of little change in premium rates and the timing of payments.

Premium payments for fiscal year 2016 totaled \$654,654, an increase of \$73,743 or 12.7% from fiscal year 2015 as the result of premium rate increases and a greater number of retirees.

### **Requests for Information**

This financial report is designed to provide an overview of the Trust's finances. If you have questions about this report or need additional information, contact Customer Care at (609) 858-6700, [CustomerCare@njeda.com](mailto:CustomerCare@njeda.com), NJEDA, P.O. Box 990, Trenton, NJ 08625-0990, or visit our web site at: [www.njeda.com/public\\_information/annual\\_reports](http://www.njeda.com/public_information/annual_reports).

New Jersey Economic Development Authority  
Employee Benefit Trust

Statements of Fiduciary Net Position

	<b>December 31</b>	
	<b>2017</b>	<b>2016</b>
	<i>(In Thousands)</i>	
<b>Assets</b>		
Cash and cash equivalents	\$ 663	\$ 518
Investments:		
U.S. Treasury securities	11,948	12,373
U.S. Agency securities	3,958	6,076
Corporate bonds	13,193	11,579
Commercial paper	1,869	-
Municipal bonds	1,400	1,410
Total investments	32,368	31,438
Accrued interest receivable	148	172
Total assets	33,179	32,128
<b>Liabilities</b>		
Accounts payable and accrued expenses	18	9
Total liabilities	18	9
<b>Net position-restricted for OPEB</b>	<b>\$ 33,161</b>	<b>\$ 32,119</b>

*See accompanying notes.*

New Jersey Economic Development Authority  
Employee Benefit Trust

Statements of Changes in Fiduciary Net Position

	<b>Year Ended December 31</b>	
	<b>2017</b>	<b>2016</b>
	<i>(In Thousands)</i>	
<b>Additions</b>		
Employer contributions	\$ 1,220	\$ 1,162
Total contributions	<u>1,220</u>	<u>1,162</u>
Investment income:		
Interest and dividends	596	530
Net decrease in fair value of investments	<u>(110)</u>	<u>(148)</u>
Net investment income	<u>486</u>	<u>382</u>
Total additions	<u>1,706</u>	<u>1,544</u>
<b>Deductions</b>		
Insurance premiums	643	655
Administrative expense	18	18
Other fees	3	3
Total deductions	<u>664</u>	<u>676</u>
Net increase in Fiduciary Net Position	<u>1,042</u>	<u>868</u>
<b>Net position – restricted for OPEB</b>		
Beginning of year	<u>32,119</u>	<u>31,251</u>
End of year	<u>\$ 33,161</u>	<u>\$ 32,119</u>

*See accompanying notes.*

New Jersey Economic Development Authority  
Employee Benefit Trust

Notes to Financial Statements

December 31, 2017 and 2016

**1. Plan Description**

*Plan administration.* In 1988, the New Jersey Economic Development Authority (“Authority”) established a single-employer post-employment defined benefit healthcare plan (“Plan”) whereby the Authority provides the full cost of group health insurance and prescription coverage to those retirees and surviving spouses (and qualifying dependents) who have retired under the Authority’s retirement system.

In October 2006, the Authority created the Employee Benefits Trust (“Trust”), an irrevocable trust to fund its Plan obligations. In no event shall any part of the principal or income of the Trust be paid or revert back to the Authority or be used for any purpose whatsoever other than for the exclusive benefit of retirees and their beneficiaries as defined by the Members of the Authority (the “Board”). No part of the assets of the Trust may inure to the exclusive benefit of any retiree or beneficiary other than by benefit payments for services provided in the administration of the Trust.

The State has the authority to establish and amend the benefit provisions offered and contribution requirements. There is no separate Board for the Trust as the Trust is administered by the Authority’s management.

*Contributions.* The Authority’s Board grants the Authority the right to establish and amend the contribution requirements. The basis for contributions made by the Authority is based on amounts required to be funded as determined by an annual actuarial valuation and are designed to fund the Trust on a level cost basis and to fund operating costs of the Trust. For the year ended December 31, 2017, the Authority’s annual required contribution was \$1,220,006. Contributions received totaled \$1,220,006. The Authority bears the risk that the Trust’s net position might decline due to fluctuations in the fair value of the Trust’s investments and contributions by the Authority may need to increase. For the year ended December 31, 2017 and 2016, the Authority’s average contribution rate was 8.65 percent and 7.15 percent of covered payroll. Employees are not required to contribute to the plan.

*Benefits provided.* The Plan is a single-employer plan that provides healthcare benefits in accordance with State statute, through the State Health Benefits Bureau, to its retirees having 25 years or more of service in the Public Employees Retirement System, 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

New Jersey Economic Development Authority  
Employee Benefit Trust

Notes to Financial Statements (continued)

**1. Plan Description (continued)**

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. The Plan is a liability of the Authority, and no liabilities associated with the Plan are recorded by the Trust based on the premise that the legal obligation to pay for these post-employment retiree benefits resides with the Authority.

*Plan Membership.* At December 31, 2017 and 2016, the Plan's membership consisted of:

	<u>2017</u>	<u>2016</u>
Active employees	163	158
Inactive employees and/or beneficiaries currently receiving benefit payments	<u>35</u>	<u>35</u>
Total membership	<u>198</u>	<u>193</u>

Benefits are paid by the Trust from net position available for plan benefits. Plan participants are entitled at normal retirement age to benefits based upon length of service. Vesting occurs after 25 years of service.

**2. Summary of Significant Accounting Policies**

**Basis of Accounting**

These financial statements have been prepared using the accrual basis of accounting in accordance with U.S. generally accepted accounting principles.

In its accounting and financial reporting, the Authority follows the pronouncements of the GASB.

**Investment Valuation**

Investments are reported at fair value. Securities traded on a national or international securities exchange are valued at the last reported sales price on the last business day of the plan year; investments traded on a national securities exchange for which no sale was reported on that date and investments in common and preferred stocks traded in over-the-counter markets are valued at the mean of the last reported bid and asked prices, or the last reported bid price.

New Jersey Economic Development Authority  
Employee Benefit Trust

Notes to Financial Statements (continued)

**2. Summary of Significant Accounting Policies (continued)**

**Benefits**

Benefits are recorded when due and payable in accordance with the terms of the Trust.

**Other**

Interest income is recorded as earned on an accrual basis.

**New Accounting Standards Adopted**

GASB Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, was issued in June 2015. The objective of this Statement is to improve the usefulness of information about postemployment benefits other than pensions (other postemployment benefits or OPEB) included in the general purpose external financial reports of state and local governmental plans for making decisions and assessing accountability. This statement replaces statements No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans, as amended*, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*. Statement 74 addresses the financial reports of defined benefit OPEB plans that are administered through trusts that meet specified criteria. The Statement follows the framework for financial reporting of defined benefit OPEB plans in Statement 45 by requiring a statement of fiduciary net position and a statement of changes in fiduciary net position. The Statement requires more extensive note disclosures and Required Supplementary Information related to the measurement of the OPEB liabilities for which assets have been accumulated, including information about the annual money-weighted rates of return on plan investments. Statement 74 also sets forth note disclosure requirements for defined contribution OPEB plans. The requirements of this Statement are effective for financial statements for periods beginning after June 15, 2016. The Trust adopted this Statement in 2017 effective January 1, 2016 and the disclosures required by this Statement are included in Note 5 and the Required Supplementary Information schedules.

GASB Statement No. 85, *Omnibus 2017*, was issued in March 2017. The primary objective of this Statement is to address practice issues that have been identified during implementation and application of certain GASB Statements. This Statement addresses a variety of topics including

New Jersey Economic Development Authority  
Employee Benefit Trust

Notes to Financial Statements (continued)

**2. Summary of Significant Accounting Policies (continued)**

issues related to blending component units, goodwill, fair value measurement and application, and OPEB. Among the various topics that may pertain to the Trust financial reporting include: blending a component unit in circumstances in which the primary government is a business-type activity that reports in a single column for financial statement presentation, measuring certain money market investments and participating interest-earning investment contracts at amortized cost, timing of the measurement of pension or OPEB liabilities and expenditures recognized in financial statements prepared using the current financial resources measurement focus, and classifying employer-paid member contributions for OPEB. The Statement is effective for fiscal years beginning after June 15, 2017. The adoption of this Statement in 2017 did not have a significant impact on the Trust's financial statements.

**3. Investments**

**Investment Policy**

The Trust's investments are made in accordance with the provisions of the Authority's Investment Policy (the "Investment Policy"). The goals of the Investment Policy are to invest for the sole purpose of funding the OPEB Plan obligation of the Authority in a prudent manner, and to conserve and enhance the value of the Trust assets through appreciation and income generation while maintaining a moderate investment risk.

The Trust has retained an investment consultant to ensure that strategic investment diversification is attained, to employ investment managers with expertise in their respective asset classes, and to closely monitor the implementation and performance of the respective investment strategies.

The Trust is currently invested in the following fixed income securities within the current investment policy limitations.

<u>Asset Class</u>	<u>2017 Exposure</u>	<u>2016 Exposure</u>
U.S. Treasury	36.2%	38.7%
U.S. Agency	12.0	19.0
Corporate bonds	40.0	36.3
Commercial paper	5.6	—
Municipal	4.2	4.4
Cash and cash equivalents	2.0	1.6

New Jersey Economic Development Authority  
Employee Benefit Trust

Notes to Financial Statements (continued)

**3. Investments (continued)**

The current investment policy restricts the investments to U.S. Treasury obligations, federal instrumentality securities, corporate debt, taxable municipal bonds, commercial paper, repurchase agreements and money market mutual funds.

The Trust does not have an investment policy regarding concentration of credit risk, however, the Trust's practice is to limit investments in certain issuers. The current investment philosophy represents a long-term perspective. When asset weightings fall outside the Investment Policy range, the investment advisor shall advise the Trust on potential investment courses of action and the Trust may elect to rebalance the Trust asset mix.

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 – value based on quoted prices in active markets for identical assets.

Level 2 – value based on significant other observable inputs such as a matrix pricing technique. Matrix pricing is used to value securities based on the securities' relationship to benchmark quoted prices.

Level 3 – value based on inputs that are unobservable and significant to the fair value measurement such as discounted cash flows.

New Jersey Economic Development Authority  
Employee Benefit Trust

Notes to Financial Statements (continued)

**3. Investments (continued)**

The following summarizes the Trust's investments by type held at December 31, 2017 and 2016 (in thousands):

Investment Type	Level	December 31, 2017				Fair Value as of December 31, 2016
		Fair Value	Investments Less than 1 Year	Maturities 1–5 Years	Maturities 6–10 Years	
<b>Investments by fair value level</b>						
U.S. Treasuries	2	\$ 11,948	\$ 6,706	\$ 5,242	\$ –	\$ 12,373
U.S. Agencies	2	3,958	674	3,284	–	6,076
Corporate Bonds	2	13,193	1,798	10,411	984	11,579
Commercial Paper	2	1,869	1,869	–	–	–
Municipal Bonds	2	1,400	–	1,400	–	1,410
Dreyfus Cash Management Fund	1	663	663	–	–	518
<b>Total investments by fair value level</b>		<b>33,031</b>	<b>\$ 11,710</b>	<b>\$ 20,337</b>	<b>\$ 984</b>	<b>\$ 31,956</b>
Less amounts reported as cash equivalents per the financial statements		(663)				
Total investments per the financial statements		<u><u>\$ 32,368</u></u>				

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

The following discusses the Trust's exposure to common deposit and investment risks related to custodial credit, credit, concentration of credit, interest rate and foreign currency risks as of December 31, 2017.

**Custodial Credit Risk**

Custodial credit risk is the risk that, in the event of a failure of a depository financial institution, the Trust's deposits may not be returned. Investment securities are exposed to custodial credit risk if the securities are uninsured, are not registered in the name of the Trust and are held by either the depository financial institution or the depository financial institution's trust department or agent but not in the Trust's name.

The Trust manages custodial credit risk by limiting its investments to highly rated institutions and or requiring high quality collateral be held by the trustee in the name of the Trust.

New Jersey Economic Development Authority  
Employee Benefit Trust

Notes to Financial Statements (continued)

**3. Investments (continued)**

**Credit Risk**

Credit risk exists when there is a possibility the issuer or other counterparty to an investment may be unable to fulfill its obligations. The Trust has an investment policy regarding the management of Credit Risk, as outlined above. GASB Statement No. 40, *Deposit and Investment Risk Disclosures*, 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 (\$3,958,000) and U.S. Treasuries (\$11,948,000) are rated AA+ by Standard & Poor's ("S&P"). Corporate bonds were rated AAA/AA+/AA/AA-/A+/A/A- (\$13,193,000) by S&P. Municipal bonds were rated AAA (\$706,000) by S&P, and Aa1 (\$694,000) by Moody's. The Dreyfus Cash Management Fund (\$663,000) was rated AAA by S&P.

At December 31, 2017, the Trust's fixed income investments totaled \$32,368,000.

Corporate debt, when purchased, must be rated no less than A- or the equivalent by at least two Nationally Recognized Statistical Rating Organizations ("NRSRO"). Taxable municipal bonds should be rated at least A- or the equivalent at the time of purchase by at least two NRSROs. Commercial paper and repurchase agreements should have the ratings of at least A-1 by two or more NRSROs. Money market mutual funds and local government investment pools must have a rating of AAA by one or more NRSROs.

**Concentration of Credit Risk**

Concentration of credit risk is the risk of loss that may be attributed to the magnitude of the Trust's investment in a single issuer. Investments of Trust assets are diversified in accordance with the Authority's investment policy that defines guidelines for the investment holdings. The asset allocation in the investment portfolio should be flexible depending upon the outlook for the economy and the securities markets. At December 31, 2017 more than 5% of the Trust's investments were in Federal Home Loans Banks comprising 5.4% (\$1,747,753) of total investments (included in U.S. Agency category). U.S. Government issued securities (U.S. Treasury securities) are exempt from this requirement.

New Jersey Economic Development Authority  
Employee Benefit Trust

Notes to Financial Statements (continued)

**3. Investments (continued)**

**Interest Rate Risk**

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. This risk is confined to the fixed income and cash portions of the portfolio and is managed within the portfolio using the effective duration methodology. This methodology is widely used in the management of fixed income portfolios in that it quantifies with greater precision the amount of risk due to interest rate changes. The weighted duration of the fixed income portfolio at December 31, 2017 is 2.1 years.

**Rate of Return**

As required by GASB Statement 74, the annual money weighted rate of return on trust investments, net of investment expenses was 1.50% and 1.22% for the years ended December 31, 2017 and 2016 respectively. The calculation is based on monthly income and average monthly investment balances.

**4. Operating Expenses**

Operating expenses from the Trust include the payment of insurance premiums for members of the Plan and administrative costs related to the administration of the Trust.

**5. Net OPEB Liability**

The components of the net OPEB liability of the Authority as of December 31, 2017 and 2016 are as follows (\$ in thousands):

	<b>2017</b>	<b>2016</b>
Total OPEB liability	<b>\$ 38,468</b>	\$ 35,719
Plan fiduciary net position	<b>33,161</b>	32,119
Authority's net OPEB liability	<b>\$ 5,307</b>	\$ 3,600
 Plan's fiduciary net position as a percentage of the total OPEB liability	 <b>86.20%</b>	 89.92%

New Jersey Economic Development Authority  
Employee Benefit Trust

Notes to Financial Statements (continued)

**5. Net OPEB Liability (continued)**

The Authority's net OPEB liability was measured as of December 31, 2017 and December 31, 2016 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 Trust's year end of December 31, 2017.

*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%, net of OPEB plan investment expenses
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 White Collar 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 Trust's year end of December 31, 2017.

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

New Jersey Economic Development Authority  
Employee Benefit Trust

Notes to Financial Statements (continued)

**5. Net OPEB Liability (continued)**

Asset Class	Index	Target Allocation	Long-Term Expected Real Rate of Return
US cash	BAML 3-month treasury	6.86%	0.18%
US government bonds	Barclays government	49.14%	1.26%
US credit bonds	Barclays credit	39.67%	2.83%
US municipal bonds	Barclays muni index	4.33%	1.75%
Total		<u>100.00%</u>	

*Discount Rate.* The discount rate used to measure the total OPEB liability was 4.0 percent at December 31, 2017 and December 31, 2016. 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.

*Sensitivity of the Net OPEB Liability to Changes in the Discount Rate.* The following presents the net OPEB liability of the Authority, as well as what the Authority's net OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower (3.0 percent) or 1-percentage-point higher (5.0 percent) than the current discount rate:

	<b>1% Decrease (3%)</b>	<b>Discount Rate (4%)</b>	<b>1% Increase (5%)</b>
<b>Net OPEB liability</b>	\$ 13,125,869	\$ 5,306,586	\$ (821,413)

New Jersey Economic Development Authority  
Employee Benefit Trust

Notes to Financial Statements (continued)

**5. Net OPEB Liability (continued)**

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

	<b>1% Decrease (7.6% Decreasing to 3.7%)</b>	<b>Healthcare Cost Trend Rates (8.6% Decreasing to 4.7%)</b>	<b>1% Increase (9.6% Decreasing to 5.7%)</b>
<b>Net OPEB liability</b>	\$ (1,892,275)	\$ 5,306,586	\$ 14,835,557

## Required Supplementary Information

New Jersey Economic Development Authority  
Employee Benefit Trust

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

	2017	2016
Total OPEB liability		
Service cost	\$ 1,900	\$ 1,836
Interest	1,492	1,387
Benefit payments	(643)	(655)
Net change in total OPEB liability	2,749	2,568
Total OPEB liability – beginning	35,719	33,151
Total OPEB liability – ending (a)	\$ 38,468	\$ 35,719
Plan fiduciary net position		
Contributions – employer	\$ 1,220	\$ 1,162
Net investment income	486	382
Benefit payments	(643)	(655)
Administrative expenses	(21)	(21)
Net change in plan fiduciary net position	1,042	868
Plan fiduciary net position – beginning	32,119	31,251
Plan fiduciary net position – ending (b)	\$ 33,161	\$ 32,119
Authority's net OPEB liability-ending (a)-(b)	\$ 5,307	\$ 3,600
Plan fiduciary net position as a percentage of the total OPEB liability	86.20%	89.92%

**Notes to Schedule:**

Changes of assumptions: None

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

New Jersey Economic Development Authority  
Employee Benefit Trust

Schedule of the Authority's OPEB Contributions

	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
Actuarial determined contribution	\$ 1,220	\$ 1,162	\$ 9,014	\$ 891	\$ 850	\$ 3,327	\$ 806	\$ 768	\$ 3,666	\$ 633
Employer contribution	1,220	1,162	9,014	891	850	3,327	806	768	3,666	633
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -

**Notes to Schedule:**

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

New Jersey Economic Development Authority  
Employee Benefit Trust

Schedule of Investment Returns

	<u>2017</u>	<u>2016</u>
Annual money-weighted rate of return, net of investment expense	1.50%	1.22%

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

**About EY**

EY is a global leader in assurance, tax, transaction and advisory services. The insights and quality services we deliver help build trust and confidence in the capital markets and in economies the world over. We develop outstanding leaders who team to deliver on our promises to all of our stakeholders. In so doing, we play a critical role in building a better working world for our people, for our clients and for our communities.

EY refers to the global organization, and may refer to one or more, of the member firms of Ernst & Young Global Limited, each of which is a separate legal entity. Ernst & Young Global Limited, a UK company limited by guarantee, does not provide services to clients. For more information about our organization, please visit [ey.com](http://ey.com).

© 2018 Ernst & Young LLP.  
All Rights Reserved.

**[ey.com](http://ey.com)**

