

**NEW JERSEY PUBLIC
BROADCASTING AUTHORITY**

Combining Financial Statements

June 30, 2009

NEW JERSEY PUBLIC BROADCASTING AUTHORITY

Table of Contents

June 30, 2009

	<u>Page Number</u>
MANAGEMENT'S DISCUSSION AND ANALYSIS - Unaudited (Required Supplementary Information)	1-6
INDEPENDENT AUDITORS' REPORT	7-8
FINANCIAL STATEMENTS	
COMBINING STATEMENT OF NET ASSETS.....	9
COMBINING STATEMENT OF SUPPORT, REVENUES AND EXPENSES, AND CHANGES IN NET ASSETS	10
COMBINED STATEMENT OF CASH FLOWS	11
NOTES TO COMBINING FINANCIAL STATEMENTS.....	12-19
SUPPLEMENTARY INFORMATION	
COMBINED SCHEDULES OF FUNCTIONAL EXPENSES	20
SUMMARY SCHEDULE OF PRIOR AUDIT FINDING.....	21
SCHEDULE OF FINDING AND RESPONSE	22
INDEPENDENT AUDITORS' REPORT 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>	23-24

NEW JERSEY PUBLIC BROADCASTING AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

Financials

The financial management of the New Jersey Public Broadcasting Authority (alone, the "Authority") and its related non-profit entity, the Foundation for New Jersey Public Broadcasting, Inc. (alone, the "FNJPB" or "Foundation"), (together, the "NJPBA"), has prepared this narrative overview and analysis of the individual and combined financial activities for the fiscal year ended June 30, 2009, for the readers of these financial statements. This discussion and analysis is designed to assist the reader in focusing on the significant financial issues and activities and to identify any significant changes in financial position. We encourage the readers to consider the information presented here in conjunction with the financial statements as a whole.

Although the financial statements presented here are a combination of the financial statements of the Authority and the FNJPB, an independent audit of the FNJPB activities was conducted in conjunction with that of the Authority.

Financial Highlights

At June 30, 2009, on a combined basis, the change in NJPBA net assets was a deficit of \$5,006,279 a decrease of \$3,712,256 compared to the prior year. This was primarily due to significant decreases in support from the State of New Jersey, ("State"), Foundation fundraising, grants and partner agency fee for service contracts attributable to the economy. The revenue and support shortfall was partially offset by reductions in general operating costs and salary costs (including attrition).

Overview of the Combining Financial Statements

This discussion and analysis is intended to serve as an introduction to the NJPBA combining financial statements, which are comprised of the basic financial statements and the accompanying notes to the financial statements of both the Authority and the FNJPB. Since the Authority is comprised of a single enterprise fund, no fund-level financial statements are shown. This report also contains footnote disclosures concerning the Authority's related-party transactions and "in-kind" revenue and expense.

Basic Combining Financial Statements

The basic combining financial statements are designed to provide readers with a broad overview of the NJPBA's finances in a manner similar to that which would be provided for a private sector business.

The combining statement of net assets presents information on all of the NJPBA assets and liabilities, with the difference between the two reported as net assets. Over time, an increase or decrease in net assets may serve as a useful indicator of whether or not the financial positions of the Authority and the FNJPB are improving or deteriorating.

Net assets increase when revenues exceed expenses. An increase in liabilities without corresponding increases to assets results in a decrease to net assets and a deteriorating financial position. A poor economy and steadily decreasing state support, together with increases in fixed state obligations over the past three years has resulted in a decrease in the net assets of NJPBA.

NEW JERSEY PUBLIC BROADCASTING AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED) (UNAUDITED)

Basic Combining Financial Statements (Continued)

The combining statement of support, revenues and expenses and changes in net assets presents information showing how a government entity's net assets changed during the fiscal year. Changes in net assets are reported as soon as the underlying event occurs, regardless of timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (*e.g. earned but unused vacation leave and deferred revenue*).

Though not required, included in the financial statements is a combined schedule of functional expenses for purposes of additional analysis. The 2006 Pension Protection Act increased focus on functional expense allocations of non-profit organizations. Presenting this information on a combined basis provides a more meaningful depiction of operating expenditures as a whole, rather than separately, given the interdependence of the two organizations.

As required, the NJPBA files an annual financial report with the Corporation for Public Broadcasting ("CPB") and participates in an annual public broadcasting system station activity benchmark survey (SABS). In comparison to other public broadcasters that have operations combined, the ratios for administrative, fundraising and production costs are vastly different from the ratio allocations of the two organizations comprising NJPBA reported separately. Please refer to the supplemental combining statement of functional expenses included in this report, which displays a more accurate and comparable report of operating expenditures when compared to other public broadcasters or nonprofits.

Notes to the Combining Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the basic financial statements.

Other Information

In addition to the basic financial statements and accompanying notes, this report also presents certain footnote disclosures concerning the Authority's treatment of the State-owned building it occupies and the treatment of the related in-kind occupancy value and debt service interest on the facility associated with the debt, as well as information on related party transactions with the FNJPB.

Included in the notes to the financial statements is a discussion of the Authority's progress in meeting FCC mandates for all commercial and public broadcasters relating to the conversion from analog to digital transmission and the estimated completion costs.

The NJPBA holds non-commercial, educational television and radio licenses, as well as several educational broadband service ("EBS") licenses. These licenses were granted to the NJPBA by the FCC for public service purposes. In the past some licenses have been leased for other purposes, with resulting revenues helping to fund public service activities.

NEW JERSEY PUBLIC BROADCASTING AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED) (UNAUDITED)

Financial Analysis and Capital Assets

Net assets may serve, over time, as a useful indicator of a government's financial position. On a combined basis, the NJPBA's assets exceeded liabilities by \$6,441,646 at the close of fiscal year 2009, a decrease from the previous year of \$3,138,692.

Of this amount, \$5,831,299 represents the Authority's net asset balance, a decrease of \$766,221, attributable to network operations. The FNJPB net asset balance of \$610,347 is a decrease of \$2,372,471 of which \$872,471 is attributable to Foundation operations.

The largest portions of the Authority's assets reflect its investment in capital assets (*i.e. transmission towers and studio broadcasting equipment less accumulated depreciation*), and amounts due from the State of New Jersey and the FNJPB. The Authority uses these assets to provide public broadcasting services, operate as the State's emergency broadcaster, to liquidate current liabilities and for any other essential spending necessary to maintain transmission of its signal twenty-four hours per day, seven days a week.

The NJPBA's combined investment in capital assets as of June 30, 2009, net of total accumulated depreciation equals \$5,699,720. This represents a decrease of \$858,318 from the prior fiscal year most of which is attributable to the Authority's asset depreciation. During fiscal year 2009 Authority asset acquisitions amounted to \$24,026.

Federal NTIA grant matching funds and other capital grants have provided the Authority with the necessary funds to acquire the equipment needed to comply with the minimum FCC requirements. It is estimated that approximately another \$10,000,000 is required to complete the full digital conversion of the NJN infrastructure. In light of the State's fiscal difficulties, future funding from this source is uncertain. In response, the FNJPB has been working with professional counsel on seeking the major funding necessary to meet the Authority's future capital needs as well as future federal matching grants.

The following are the condensed combined statements of net assets as of June 30, 2009 and 2008:

Balance Sheets

	2009	2008
Current and other assets	\$ 3,993,794	\$ 5,772,159
Capital assets	5,699,720	6,558,038
Total assets	\$ 9,693,514	\$ 12,330,197
 Current liabilities	 \$ 3,251,868	 \$ 882,272
 Net assets:		
Unrestricted	6,391,646	11,397,925
Temporarily restricted	-	-
Restricted	50,000	50,000
Total net assets	6,441,646	11,447,925
Total liabilities and net assets	\$ 9,693,514	\$ 12,330,197

NEW JERSEY PUBLIC BROADCASTING AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED) (UNAUDITED)

Balance Sheets (Continued)

Of the \$3,993,794 in current assets, \$567,362 represents the Authority's cash balances held by the State of New Jersey and \$1,776,322 in FNJPB cash and short-term liquid investments, a decrease of \$1,188,992 from the prior year, mostly due to \$1,500,000 in supplemental award payments to the Authority.

Of the \$5,699,720 in net capital assets, \$5,668,470 represents the Authority's investment in digital equipment and infrastructure at its transmission tower sites in Trenton, Montclair, Camden and New Brunswick in compliance with FCC digital requirements, a decrease of \$838,327 on a net basis over the prior year. Another \$341,711 represents amortizable program rights. Previously, all program rights purchased were expensed in the year acquired.

Of the NJPBA's \$3,251,868 in current liabilities, \$480,829 represents the Authority's deferred revenue from a distribution agreement, a decrease of \$874,981, mainly due to the use of deferred capital funds in fiscal year 2009 to balance the Authority's budget.

The following are the condensed combined statements of support, revenues and expenses and changes in net assets at June 30, 2009 and 2008.

Statements of Support, Revenue and Expenses, and Changes in Net Assets

	<u>2009</u>	<u>2008</u>
Support and revenues	\$ 14,786,210	\$ 21,297,573
Operating expenses	<u>31,469,582</u>	<u>34,563,423</u>
Excess of expenses over revenue before general appropriations, re-appropriations, and contributed services and facilities from State of New Jersey	<u>(16,683,372)</u>	<u>(13,265,850)</u>
General appropriations, re-appropriations and contributed services and facilities from State of New Jersey	<u>11,677,093</u>	<u>13,839,414</u>
Change in net assets	<u>(5,006,279)</u>	<u>573,564</u>
Net assets, beginning of year	<u>11,447,925</u>	<u>10,874,361</u>
Net assets, end of year	<u>\$ 6,441,646</u>	<u>\$ 11,447,925</u>

Support and revenues decreased \$6,511,363 primarily due to reductions in State of New Jersey funding, contributions and underwriting, grants and partner agency fee for service contracts.

Programming, production and broadcasting costs decreased \$2,263,515 including depreciation while total support services decreased by \$243,677. The Authority received \$492,321 less in contributed State-allocated benefit, facility and occupancy costs in 2009. In addition, the Authority incurred an increased State charge for in-kind services of \$526,000 for utilities, security and building maintenance. Excluding this charge, administrative expenses declined by \$343,000 in 2009.

NEW JERSEY PUBLIC BROADCASTING AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED) (UNAUDITED)

Significant Events

During fiscal year 2009 the Authority implemented a change in the way it accounts for acquired programming licenses. The Authority now capitalizes and amortizes program material license agreements in accordance with Statement of Financial Accounting Standard 63, Financial Reporting by Broadcasters. Prior to fiscal 2009, the Authority expensed the full cost of acquired rights in the year they were acquired. As of June 30, 2009, the Authority had a balance of \$341,711 remaining in capitalized program rights, including fiscal year 2008 acquisitions of \$106,408 recorded as a prior period adjustment.

The Authority received \$1,670,000 less in State appropriated funds for operations in fiscal year 2009, and utilized cash balances held at the State of \$1,761,179 to cover the decline in State funding. Over the past four fiscal years the Authority has seen total reductions of \$4,460,000 in State funding. The FNJPB, due to poor economic conditions, experienced significant declines in contributions and underwriting revenues.

The FNJPB realized a net excess of expenses over revenue of \$872,471 in unrestricted support during the year, before a supplemental grant of \$1,500,000 to the Authority. While the FNJPB implemented cost cutting measures amounting to nearly \$1,700,000, the poor economy lead to a decline in revenue of over \$2,550,000.

During fiscal year 2009 the Authority was unable to purchase any new transmitting and broadcasting equipment related to the digital conversion as capital funds were needed to finance operations.

Cash Flows

On a combined net basis, net cash used in operating activities (before general appropriations) in fiscal year 2009 was \$6,330,875, compared to 2008 net cash used in operating activities of \$8,009,963 (before general appropriations).

Net cash provided by capital and related financing activities was \$881,739, due primarily to the conversion of FNJPB investments into cash equivalents, as compared to net cash used of \$1,871,460 in 2008 related to digital equipment acquisitions.

Budgetary Highlights

The budget adopted prior to the beginning of fiscal year 2009 was not amended during the year; however, revenue and expenditure projections were periodically adjusted and revised forecasts issued as new data became available.

NEW JERSEY PUBLIC BROADCASTING AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED) (UNAUDITED)

Budgetary Highlights (Continued)

On a combined basis for fiscal year 2009, exclusive of in-kind support, operating revenues (total support and revenues of \$14,786,210 plus general state appropriations of \$4,260,000), was \$19,046,210 as opposed to the combined budget of \$21,099,000. The difference between actual versus budgeted revenue are highlighted by the following:

- The Authority received \$20,000 less than budgeted in State Appropriations for operations.
- The Authority needed all the budgeted \$1,500,000 drawdown of FNJPB reserve balances to reduce an operating deficit.
- Media productions and facility rental income was \$297,000 less than budget as statewide cuts resulted in further reductions in State agency billings.
- An unbudgeted \$628,000 was realized from the re-negotiation of a cable carriage rights agreement with the Food Channel.
- CPB Grants were \$120,000 higher than budgeted.
- Tower rental income exceeded budget by \$120,000.
- Revenue from FNJPB membership support and special member concert events declined by \$1,250,000 due to the poor economy but in line with system wide trends in public broadcasting.
- A \$220,000 shortfall in educational grants.
- The FNJPB benefit event fell \$300,000 short of its goal in a poor economy.
- General corporate support, due to the poor economy and the same factors impacting media production and facility rentals, was \$544,000 under budget.
- Local production revenue was \$56,000 higher than budgeted.

Combined NJPBA operations, production and support service expenses, excluding donated and in-kind services were \$24,052,000 versus the budgeted amount of \$21,062,000, mainly due to unbudgeted Authority payroll, benefits and expenses for repairs and maintenance.

A \$2,800,000 revenue shortfall in the FNJPB due to economic conditions was significantly offset by \$1,900,000 in expense reductions, mainly as a result of lower fundraising and development costs of \$1,300,000, marketing, communication and educational expenses in support of the Authority of \$300,000, direct awards to the Authority of \$200,000, and transition related costs of \$100,000.

Authority programming, production and broadcasting costs were over budget by \$2,338,000 due mainly to unbudgeted payroll benefits which were partly offset by lower administrative expenses of \$220,000 due to lower maintenance and information technology costs.

Requests for Information

This financial report is designed to provide a general overview of the NJPBA's finances for all those with an interest therein. Questions concerning any of the information presented in this report or requests for additional financial information should be addressed to the Interim Executive Director of the New Jersey Public Broadcasting Authority, 25 South Stockton Street, Trenton, NJ 08608.

INDEPENDENT AUDITORS' REPORT

To The Board of Commissioners of
New Jersey Public Broadcasting Authority

We have audited the accompanying combining statement of net assets of the New Jersey Public Broadcasting Authority (the "Authority") and the Foundation for New Jersey Public Broadcasting, Inc. (the "FNJPB") (combined herein and referred to as "NJPBA") as of June 30, 2009, and the related combining statement of support, revenues and expenses, and changes in net assets and combined statement of cash flows for the year then ended. These financial statements are the responsibility of the Authority's and the FNJPB's respective managements. Our responsibility is to express an opinion on these combining financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America 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 combining financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the combining financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the combined financial position of the Authority and the FNJPB as of June 30, 2009, and the combining results of their operations and combined statement of cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Management's Discussion and Analysis and the budgetary comparison information on pages 1 through 6 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

INDEPENDENT AUDITORS' REPORT (CONTINUED)

In accordance with *Government Auditing Standards*, we have also issued our report dated March 25, 2010 on our consideration of Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is to decide the scope of our testing of internal control over financial reporting and compliance and the results of the testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Our audit was performed for the purpose of forming an opinion on the basic financial statements of the Authority taken as a whole. The combined schedule of functional expenses on page 20 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

March 25, 2010

NEW JERSEY PUBLIC BROADCASTING AUTHORITY

COMBINING STATEMENT OF NET ASSETS

June 30, 2009

	New Jersey Public Broadcasting Authority	Foundation for New Jersey Public Broadcasting, Inc.	Eliminations	Combined Totals
ASSETS				
Current assets				
Cash and cash equivalents	\$ 567,362	\$ 1,776,322	\$ -	\$ 2,343,684
Due from Foundation for NJ Public Broadcasting, Inc.	1,670,138	-	(1,670,138)	-
Accounts receivable, net	564,595	669,880	-	1,234,475
Programming rights	106,408	-	-	106,408
Total current assets	<u>2,908,503</u>	<u>2,446,202</u>	<u>(1,670,138)</u>	<u>3,684,567</u>
Non-current assets				
Capital assets	5,668,470	31,250	-	5,699,720
Prepays and other assets	-	23,924	-	23,924
Programming rights long-term	235,303	-	-	235,303
Permanently restricted investments	-	50,000	-	50,000
Total non-current assets	<u>5,903,773</u>	<u>105,174</u>	<u>-</u>	<u>6,008,947</u>
Total assets	<u>\$ 8,812,276</u>	<u>\$ 2,551,376</u>	<u>\$ (1,670,138)</u>	<u>\$ 9,693,514</u>
LIABILITIES AND NET ASSETS				
Current liabilities				
Accounts payable and accrued expenses	\$ 1,707,375	\$ 210,891	\$ -	\$ 1,918,266
Refundable advance	172,753	-	-	172,753
Due to the Authority	-	1,670,138	(1,670,138)	-
Due to the State of NJ	620,020	-	-	620,020
Deferred revenue	-	60,000	-	60,000
Deferred capital funding	480,829	-	-	480,829
Total current liabilities	<u>2,980,977</u>	<u>1,941,029</u>	<u>(1,670,138)</u>	<u>3,251,868</u>
Net Assets				
Unrestricted	5,831,299	560,347	-	6,391,646
Permanently restricted	-	50,000	-	50,000
Total net assets	<u>5,831,299</u>	<u>610,347</u>	<u>-</u>	<u>6,441,646</u>
Total liabilities and net assets	<u>\$ 8,812,276</u>	<u>\$ 2,551,376</u>	<u>\$ (1,670,138)</u>	<u>\$ 9,693,514</u>

NEW JERSEY PUBLIC BROADCASTING AUTHORITY

**COMBINING STATEMENT OF SUPPORT, REVENUES AND EXPENSES,
AND CHANGES IN NET ASSETS**

Year Ended June 30, 2009

	New Jersey Public Broadcasting Authority	Foundation for New Jersey Public Broadcasting, Inc.	Eliminations	Combined
Support and revenues				
Contributions and grants	\$ -	\$ 3,532,139	\$ -	\$ 3,532,139
Underwriting	-	2,907,692	-	2,907,692
Community service grants from Corporation for Public Broadcasting	3,082,296	-	-	3,082,296
Programming rights	628,570	-	-	628,570
Workforce development	665,170	-	-	665,170
Grants	3,348,057	-	(3,280,459)	67,598
Telecasting production/other rental income	395,000	-	-	395,000
Tower rentals	1,369,920	-	-	1,369,920
Trade agreements	8,700	-	-	8,700
Facilities rentals/contract productions	2,056,762	-	-	2,056,762
Program and video sales and rentals	29,247	-	-	29,247
Investment return	-	43,116	-	43,116
Total support and revenues	<u>11,583,722</u>	<u>6,482,947</u>	<u>(3,280,459)</u>	<u>14,786,210</u>
Expenses				
Program services				
Programming and production	12,827,953	-	-	12,827,953
Awards	-	4,515,358	(3,280,459)	1,234,899
Broadcasting	9,261,724	-	-	9,261,724
Total program services	<u>22,089,677</u>	<u>4,515,358</u>	<u>(3,280,459)</u>	<u>23,324,576</u>
Supporting Services				
Underwriting and grant solicitations	855,070	-	-	855,070
Fundraising and membership development	-	2,263,456	-	2,263,456
General and administrative	4,449,876	576,604	-	5,026,480
Total supporting services	<u>5,304,946</u>	<u>2,840,060</u>	<u>-</u>	<u>8,145,006</u>
Total expenses before supplemental award	<u>27,394,623</u>	<u>7,355,418</u>	<u>(3,280,459)</u>	<u>31,469,582</u>
Excess of expenses over revenues before general appropriations and contributed services and facilities	(15,810,901)	(872,471)	-	(16,683,372)
General appropriations and contributed services and facilities from State of New Jersey	<u>11,677,093</u>	<u>-</u>	<u>-</u>	<u>11,677,093</u>
Change in net assets before supplemental award	(4,133,808)	(872,471)	-	(5,006,279)
Supplemental award	<u>1,500,000</u>	<u>(1,500,000)</u>	<u>-</u>	<u>-</u>
Change in net assets	<u>(2,633,808)</u>	<u>(2,372,471)</u>	<u>-</u>	<u>(5,006,279)</u>
Net assets, beginning of year	6,597,520	2,982,818	-	9,580,338
Prior period adjustment	1,867,587	-	-	1,867,587
Net assets, beginning of year, restated	<u>8,465,107</u>	<u>2,982,818</u>	<u>-</u>	<u>11,447,925</u>
Net assets, end of year	<u>\$ 5,831,299</u>	<u>\$ 610,347</u>	<u>\$ -</u>	<u>\$ 6,441,646</u>

See notes to combining financial statements.

NEW JERSEY PUBLIC BROADCASTING AUTHORITY

COMBINED STATEMENT OF CASH FLOWS

Year Ended June 30, 2009

Cash Flows from Operating Activities	
Support and revenues	\$ 16,245,636
Investment return	43,116
Program support services	<u>(22,619,627)</u>
Net cash used in operating activities	<u>(6,330,875)</u>
Cash Flows from Non-Capital Financing Activities	
General appropriations	<u>4,260,000</u>
Cash Flows from Capital and Related Financing Activities	
Acquisition of equipment (net of retirements)	(24,026)
Net increase in due from State of New Jersey	<u>905,765</u>
Net cash provided by capital and related financing activities	<u>881,739</u>
Cash Flows provided by Investing Activities	
Proceeds from sale of investments, net of purchases	<u>429,109</u>
Net decrease in cash and cash equivalents	(760,027)
Cash and cash equivalents, beginning of year	<u>3,103,711</u>
Cash and cash equivalents, end of year	<u>\$ 2,343,684</u>
Reconciliation of Excess of Expenses over Revenues before General Appropriations and Contributed Services and Facilities to Net Cash Used in Operating Activities	
Excess of expenses over revenues before general appropriations and contributed services and facilities	\$ (16,683,372)
Adjustments	
Net realized and unrealized investment losses	(144)
Bad debts	338,768
Contributed services and facilities from State of New Jersey	7,417,093
Depreciation	882,341
Change in assets and liabilities	
Accounts receivable	288,939
Prepays and other assets	(324,076)
Accounts payable and accrued expenses	874,595
Deferred revenue	<u>874,981</u>
Net cash used in operating activities	<u>\$ (6,330,875)</u>

NEW JERSEY PUBLIC BROADCASTING AUTHORITY

NOTES TO COMBINING FINANCIAL STATEMENTS

A. NATURE OF ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES

Nature of Activities

The New Jersey Public Broadcasting Authority (the "Authority"), located in Trenton, New Jersey, is an agency "in but not of" the Department of State of the State of New Jersey. The Authority is responsible for providing non-commercial educational television, radio, internet and public broadcasting services and coordinating advisory assistance to state, local and regional agencies on matters pertaining to public broadcasting. The Authority holds authorizations and licenses from the Federal Communications Commission. Programs are produced at its Trenton and Newark studios and on location. Through memberships and affiliations, the Authority has access to programs from the Public Broadcasting Service, the American Program Service, National Public Radio, Public Radio International, and various audio and videotape libraries.

The Foundation for New Jersey Public Broadcasting, Inc. (the "FNJPB") was established to develop broad community interest in, involvement with, and volunteer service to public broadcasting and to generate financial support, sponsorship and/or assistance with fundraising projects for the benefit of the Authority and its several purposes. The FNJPB solicits funds in the name of, and with approval from, the Authority.

Significant Accounting Policies

Basis of Combination

The accompanying combining financial statements of the New Jersey Public Broadcasting Authority include the accounts of the Authority (single entity) and the FNJPB (together, "NJPBA"). Inter-entity balances and transactions have been eliminated in the combined totals. Combining financial statements are presented based on economic interest. The Authority has economic interest in the FNJPB, since the FNJPB holds significant resources to be used for the benefit of the Authority.

Basis of Accounting

The combining financial statements of Authority have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. Revenues are recognized when earned, and expenses are recognized when incurred.

Governmental Accounting Standards Board ("GASB") Statement No. 20 (as amended), *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that Use Proprietary Fund Accounting*, provides proprietary activities with a choice of authoritative guidance issued after November 30, 1989. The Authority has elected to exclusively follow GASB pronouncements after that date.

Financial statement presentation for the FNJPB follows the recommendations of the Financial Accounting Standards Board in its *Statements of Financial Accounting Standards*. The FNJPB is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

The combining totals present the combining financial position, changes in net assets and cash flows of the Authority and the FNJPB.

NEW JERSEY PUBLIC BROADCASTING AUTHORITY

NOTES TO COMBINING FINANCIAL STATEMENTS

A. NATURE OF ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Public Support and Revenue Recognition

Contributions and underwriting are recognized when the donor makes an unconditional promise to give to the FNJPB that is, in substance, unconditional. Unconditional promises to give due in the next year are reflected as current promises to give (underwriting) and are recorded at their net realizable values. Unconditional promises to give due in subsequent years are reflected as long-term promises to give and are recorded at the present values of their net realizable values, using risk-free interest rates applicable to the years in which the promises are received to discount the amounts.

Conditional promises to give are recognized by the FNJPB when the conditions on which they are dependent are substantially satisfied.

Support that is restricted by the donor is reported by the FNJPB as an increase in unrestricted net assets if the restriction expires in the reporting period in which the support is recognized. All other donor-restricted support is reported as an increase in temporarily or permanently restricted net assets, depending on the nature of the restriction. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of support, revenues and expenses, and changes in net assets as net assets released from restrictions.

Revenues for services and capital funding are classified as deferred revenues and deferred capital funding until expended for their purposes since they are conditional. Revenue received from federal or state grants are recorded as refundable advances until spent at which time the revenue is recognized.

Cash and Cash Equivalents

For the purpose of the combined statement of cash flows, cash equivalents includes highly liquid debt instruments with original maturities of three months or less. In addition, the statement of cash flows excludes permanently restricted cash.

Accounts Receivable

The change in net assets is charged with an allowance for estimated uncollectible amounts based on past experience and an analysis of current amounts receivable collectibility. Accounts deemed uncollectible are charged to the allowance in the years they are deemed uncollectible.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

NEW JERSEY PUBLIC BROADCASTING AUTHORITY

NOTES TO COMBINING FINANCIAL STATEMENTS

A. NATURE OF ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Program Licenses

The Authority purchases and capitalizes programming licenses for certain programs from the Public Broadcasting Service and other sources. These costs are expensed based on the estimated useful lives of the programs using an accelerated method since the first broadcast of the program is more valuable than its reruns.

Capital Assets

Transmission antenna and towers, studio and other equipment, and furniture and fixtures are recorded at cost, except for donated items, which are recorded at their fair market values on the dates of donation, except for buildings (see Note E). Depreciation is provided over the estimated useful lives of the assets using the straight-line method. The estimated useful lives are as follows:

Transmission antenna and towers	7-20 years
Studio and other equipment	5-10 years
Furniture and fixtures	5-10 years

Repairs and maintenance which do not extend the useful lives of the related assets are expensed as incurred.

Deferred Revenue

Deferred revenue is recognized for program initiatives that will begin in the subsequent fiscal year.

Income Taxes

The FNJPB has received a determination letter from the Internal Revenue Service concluding that it is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code. It has been classified as an organization that is a public charity under Section 509(a)(1) of the Internal Revenue Code and qualifies for deductible contributions as provided in Section 170(b)(1)(A). In addition, since the Authority is an entity of the State of New Jersey, it is exempt from federal and state income taxes.

Functional Allocation of Expenses

The costs of providing programming, broadcasting and support services for the Authority have been summarized on a functional basis in the combining statement of support, revenues and expenses, and changes in net assets. Accordingly, certain operating costs have been allocated among functional categories. On a combining basis, the Authority is comprised of two organizations. The Authority's primary services are programming, production and broadcasting while the FNJPB is primarily a fundraising organization – virtually all fundraising costs are incurred by FNJPB. Expenses reported by the Authority and the FNJPB as underwriting and grant solicitation costs, as well as general and administrative costs, are incurred in the support and promotion of the Authority and its several purposes.

NEW JERSEY PUBLIC BROADCASTING AUTHORITY

NOTES TO COMBINING FINANCIAL STATEMENTS

B. CONCENTRATIONS, RISK, AND UNCERTAINTIES

The Authority is a state agency and, for the year ended June 30, 2009, received a significant portion of its revenue and support, aggregating approximately \$13,760,000, from State of New Jersey agencies and a State of New Jersey commission, including donated services for administrative support and occupancy costs (see Note H).

For the year ended June 30, 2009, the FNJPB received 6% of its support and revenues from New Jersey state agencies.

Revenues received from Federal and New Jersey state agencies and expenditures made by the Authority may be subject to financial compliance requirements and possible audits by various Federal and State of New Jersey offices. In addition, amounts due from the State of New Jersey can change based on governmental determinations not within management's control.

The FNJPB maintains cash and cash equivalent balances which may exceed federally insured limits. The FNJPB has not historically experienced any credit-related losses. The investments are primarily financial instruments which are monetary in nature as required by the guidelines of the FNJPB investment policy. Accordingly, interest rates have a more significant impact on performance than do the effects of general levels of inflation. Interest rates generally do not move in the same direction or with the same magnitude as prices of goods and services as measured by the consumer price index. The investments are subject to risk conditions of the investments' objectives, stock market performance, interest rates, economic conditions and world affairs. The ongoing support from the state agencies is subject to risk conditions of the current economic climate.

Approximately 81% of the Authority's labor force is covered by collective bargaining agreements, which expire on June 30, 2011.

C. ACCOUNTS RECEIVABLE

The majority of underwriting receivables (pledges to give) are due from a broad base of corporate contributors, nonprofit organizations and various state entities.

Accounts receivable as of June 30, 2009, represent tower rental and media services receivables of the Authority and contributions and underwriting receivables of the FNJPB due in less than one year, as follows:

	Authority	FNJPB	Combined Totals
Tower rental	\$ 257,131	\$ -	\$ 257,131
Media services	297,303	-	297,303
DCLA/DOL receivable	349,161	-	349,161
Contributions and underwriting	-	749,174	749,174
Allowances for uncollectible amounts	<u>(339,000)</u>	<u>(79,294)</u>	<u>(418,294)</u>
Net amounts receivable	<u>\$ 564,595</u>	<u>\$ 669,880</u>	<u>\$ 1,234,475</u>

NEW JERSEY PUBLIC BROADCASTING AUTHORITY

NOTES TO COMBINING FINANCIAL STATEMENTS

D. RESTRICTIONS ON NET ASSETS

Permanently restricted net assets of \$50,000 represent endowment funds restricted in perpetuity to continue the purpose of the FNJPB. Income generated by these assets can be used for operating activities.

E. CAPITAL ASSETS

The combined activity in capital assets for the year ended June 30, 2009, was as follows:

	Beginning <u>Balance</u>	<u>Additions</u>	<u>Retirements</u>	Ending <u>Balance</u>
Studio and other equipment	\$22,548,631	\$ 24,026	\$ -	\$22,572,657
Furniture and fixtures	2,026,880	-	-	2,026,880
Transmission antenna and towers	<u>13,829,841</u>	<u>-</u>	<u>-</u>	<u>13,829,841</u>
Totals at historical cost	<u>38,405,352</u>	<u>24,026</u>	<u>-</u>	<u>38,429,378</u>
Less accumulated depreciation for studio and other equipment	20,405,128	447,136	-	20,852,264
Furniture and fixtures	1,838,615	54,247	-	1,892,862
Transmission antenna and towers	<u>9,603,570</u>	<u>380,962</u>	<u>-</u>	<u>9,984,532</u>
Total accumulated depreciation	<u>31,847,313</u>	<u>882,345</u>	<u>-</u>	<u>32,729,658</u>
Total capital assets	<u>\$ 6,558,039</u>	<u>\$ (858,319)</u>	<u>\$ -</u>	<u>\$ 5,699,720</u>

The NJPBA occupies a building and uses equipment in Trenton, New Jersey to which the State of New Jersey holds title. Occupancy and equipment use values have been calculated using the annual in-kind debt service interest for the facility paid by the State of New Jersey and the annual depreciation expense for the equipment calculated on acquisition price over the estimated useful lives of 39 and 10 years, respectively. For the year ended June 30, 2009, the value has been estimated at \$1,318,163 (see Note H).

Any disposal of Authority capital assets must be approved by the State of New Jersey.

F. PROGRAMMING LICENSES

Programming licenses paid to the Public Broadcasting Service, ("PBS") and other program providers are reflected as assets and amortized over their estimated useful lives on accelerated basis, since the first broadcast of the program is more valuable than its reruns. At June 30, 2009, the value of programming rights was \$341,711. During June 30, 2008, programming rights were expensed as incurred. (See Footnote L).

NEW JERSEY PUBLIC BROADCASTING AUTHORITY

NOTES TO COMBINING FINANCIAL STATEMENTS

G. PENSION PLAN

Employees of the Authority are state employees. As such, they participate in the state retirement plan. The Authority has no liability for unfunded plan benefits. Employees of the FNJPB have the option of participating in a FNJPB-sponsored defined contribution retirement plan.

As a condition of employment, all Authority full-time employees are required to be members of Public Employees' Retirement System ("PERS"). A member may retire on a service retirement allowance as early as age 60; no minimum service is required. The formula for benefits is an annual allowance in the amount equal to years of service, divided by 55, times the final average salary. For a few employees hired after July 1, 2008, the formula changes and their years of service is divided by 62, times the final average salary. Final average salary means the average of the salaries received by the member for the last three years of creditable membership service preceding retirement or the highest three fiscal years of membership service, whichever provides the largest benefit. Pension benefits fully vest on reaching 10 years of service. Vested employees who have established 25 years or more of creditable service may retire without penalty at or after age 55 and receive full retirement benefits. PERS also provides death and disability benefits. Benefits are established by State statute.

Covered Authority employees are required by PERS to contribute 5.5% of their salaries. State statute requires the Authority to contribute the remaining amounts necessary to pay benefits when due. The amount of the Authority's contribution is certified each year by PERS on the recommendation of the actuary, who makes an annual actuarial valuation. The valuation is based on a determination of the financial condition of the retirement system. It includes the computation of the present dollar value of benefits payable to former and present members and the present dollar value of future employer and employee contributions, giving effect to mortality among active and retired members and also to the rates of disability, retirement, withdrawal, former service, salary and interest.

H. GASB STATEMENT NUMBER 45 - ACCOUNTING AND FINANCIAL REPORTING BY EMPLOYERS FOR POST-RETIREMENT BENEFITS OTHER THAN PENSION

The Authority is a member of the State of New Jersey's cost sharing multiple-employer plan for health and post-retirement medical benefits. Thus, pursuant to the Authority's implementation of GASB Statement Number 45 on June 30, 2009, their portion of this liability and cost will be included in the State of New Jersey's CAFR on an annual basis.

As such, the liability of Authority's employees' is covered under the State plan.

Please refer to State website www.state.nj.us for more information regarding the plan.

NEW JERSEY PUBLIC BROADCASTING AUTHORITY

NOTES TO COMBINING FINANCIAL STATEMENTS

I. CONTRIBUTED SERVICES AND FACILITIES

For the year ended June 30, 2009, the Authority received donated services from the State of New Jersey of \$6,098,930 for administrative support and \$1,318,163 for occupancy and equipment costs (see Note E), which are included in non-operating revenues and programming and production expenses.

J. RELATED PARTY TRANSACTIONS

The FNJPB solicits funds for membership, projects and general underwriting for the Authority throughout the year. Funds are paid by the FNJPB to the Authority under a Memorandum of Understanding between the FNJPB and the Authority. For the year ended June 30, 2009, the FNJPB solicited general underwriting funds totaling \$1,826,192. During the year ended June 30, 2009, the Authority's Board of Commissioners authorized the FNJPB to retain general underwriting funds in excess of \$1,550,000 amounting to \$276,192.

Throughout the year, the FNJPB collects specific television and radio project underwriting that it subsequently provides to the Authority. For the year ended June 30, 2009, project underwriting revenues and awards of \$1,276,459 were recorded and awarded to the Authority.

The FNJPB paid the Authority an unrestricted general grant of \$500,000 and an additional unrestricted supplemental award of \$1,500,000. In addition, the FNJPB paid dues of \$302,248 to the Public Broadcasting Service on behalf of the Authority during fiscal year 2009.

Certain services, such as the production of on-air pledge campaigns, data processing services, and facility space and utilities, are provided to FNJPB by the Authority under the general grant.

The Authority's Acting Executive Director serves as Acting President of the FNJPB. The President is not a board member, has no voting privileges and received no compensation from FNJPB in fiscal year 2009.

During the audit period, the Authority's Deputy Executive Director of Finance and Administration served as the elected Assistant Treasurer of the FNJPB. The Assistant Treasurer is not a board member, receives no compensation from FNJPB, and has no voting privileges. These positions were vacated during the year ended June 30, 2009.

K. DIGITAL TELEVISION ("DTV") CONVERSION

The Authority has met the Federal Communications Commission's (the "FCC"), minimum mandate for broadcasting television in digital format. The Authority is planning to invest an estimated \$10,000,000 to update analog equipment in order to broadcast digital television throughout New Jersey. This conversion is dependent upon future federal, state and other funding source.

NEW JERSEY PUBLIC BROADCASTING AUTHORITY

NOTES TO COMBINING FINANCIAL STATEMENTS

L. PRIOR PERIOD ADJUSTMENT

Prior to 2009, Authority did not capitalize and amortize program material license agreements in accordance with generally accepted accounting principles. Starting in fiscal year 2009, the Authority changed its accounting method to capitalize the license costs and amortize the cost as described in Note F. This change resulted in a correction to capitalized license costs in the amount of \$106,408 not recorded as of July 1, 2008.

In addition, certain contract revenues were earned but not reflected as revenue in prior years. This resulted in a correction to opening net assets in the amount of \$1,761,179.

Accordingly, the total prior period adjustment of \$1,867,587 was recorded to adjust net assets as of July 1, 2008.

M. SUBSEQUENT EVENTS

In March 2010, the Authority entered into an agreement to lease excess capacity bandwidth on some of the channels owned by the Authority, for an initial payment of \$3,000,000 and additional monthly payments for the next 30 years, which payments commence upon FCC approval of the transaction.

On March 16, 2010, the Governor of New Jersey announced that NJPBA would become an independent entity. The impact of this announcement may affect several FNJPB revenue activities, notably an event in early June that generates a significant portion of FNJPB's annual budget.

SUPPLEMENTARY INFORMATION

NEW JERSEY PUBLIC BROADCASTING AUTHORITY

COMBINED SCHEDULES OF FUNCTIONAL EXPENSES

Years Ended June 30,

	2009			2008	
	Supporting Services		Program Services		
	Fundraising, Grant Solicitation & Development	General and Administrative	Programming & Production	Broadcasting	
				Total	
Payroll	\$ 1,187,194	\$ 1,907,063	\$ 5,330,375	\$ 4,180,002	\$ 12,604,634
Benefits (direct and in-kind)	290,508	610,521	1,755,205	1,431,030	4,087,264
On-air fundraising and member development	843,721	-	-	-	843,721
Public relations and promotion	33,886	1,864	232,584	-	268,334
Special projects	219,770	-	7,752	-	227,522
Vehicles/utilities	-	779	48,354	706,341	755,474
Travel and conference	63,974	2,692	3,536	475	70,677
Telephone/postage - allocated	41,054	65,798	184,069	144,787	435,708
Occupancy (in-kind) - allocated	70,954	113,721	638,314	249,260	1,072,249
Information systems/OTIS	-	84,142	22,250	9,975	116,367
Technical/professional services	116,360	212,941	507,811	134,954	972,066
Transition costs	-	92,140	-	-	92,140
PBS and NPR services	-	-	855,025	-	855,025
Program acquisition	-	-	872,864	-	872,864
Building and vehicle maintenance	-	935,980	11,796	62,638	1,010,414
Maintenance, grounds and equipment (direct and in-kind)	115,914	446,718	1,327,683	1,291,618	3,181,933
WFD and digital classroom	-	-	396,007	-	396,007
NJN radio	-	-	223,551	-	223,551
Media productions	-	-	400,134	-	400,134
Local production	-	-	960,086	-	960,086
Interest expense (in-kind) - allocated	53,454	85,673	239,461	187,782	566,370
Depreciation	-	19,991	-	862,350	882,341
Other administrative costs	81,737	446,457	45,995	512	574,701
Totals, year ended June 30, 2009	\$ 3,118,526	\$ 5,026,480	\$ 14,062,852	\$ 9,261,724	\$ 31,469,582
Totals, year ended June 30, 2008	\$ 4,125,491	\$ 4,849,465	\$ 15,241,806	\$ 10,298,257	\$ 34,563,423

NEW JERSEY PUBLIC BROADCASTING AUTHORITY

SUMMARY SCHEDULE OF PRIOR AUDIT FINDING Year Ended June 30, 2009

Identifying Number: 2008-1

Finding: The State's transaction-based financial reporting process does not enable the Authority to report revenue, expenses, assets, liabilities, or net assets in the form of a trial balance supported by a double entry general ledger accounting system. Accordingly, the Authority cannot produce an accrual "GAAP" basis balance sheet or statement of activities at any reporting period, nor can it efficiently monitor its financial position and activities on a monthly or cumulative basis as a quasi-independent entity. This finding is exclusive of the FNJPB.

Corrective Action Taken: As indicated in the Schedule of Finding and Response, the Authority acknowledged that under the constraints of its present financial reporting system, it cannot produce accrual basis financial statements in accordance with accounting principles generally accepted in the United States of America on a monthly basis; which our auditors have previously noted. In response to a July 31, 2008, letter from the State Treasurer and at the direction of the audit committee, the Authority will work with the Treasury Department and the state's Office of Information Technology ("OIT") in the interest of developing a GAAP compliant reporting system as well as to the feasibility of implementing the Great Plains Dynamics general ledger and cost accounting system, which is the accounting system the FNJPB uses, in meeting the needs of the Authority.

NEW JERSEY PUBLIC BROADCASTING AUTHORITY

SCHEDULE OF FINDING AND RESPONSE

Year Ended June 30, 2009

Section II - Financial Statement Findings

2009-1

Criteria: The State's transaction-based financial reporting process does not enable the Authority to report revenue, expenses, assets, liabilities, or net assets in the form of a trial balance supported by a double entry general ledger accounting system. Accordingly, the Authority cannot produce an accrual "GAAP" basis statement of net assets or statement of activities at or for any reporting period, nor can it efficiently monitor its financial position and activities on a monthly or cumulative basis as a quasi-independent entity. This finding is exclusive of the FNJPB.

Condition: The Authority does not post transactions to a general ledger system; instead it posts State system generated activity to spreadsheets and revises them as new transactions occur.

Cause: The Authority has recognized for several years that a general ledger package is desirable and has researched and identified appropriate software packages. However, due to budget and staffing constraints, the Authority has not been able to obtain and implement a general ledger package with the capability to provide timely periodic financial information both in report form and by export to spreadsheets.

Effect: The current system is cumbersome and time consuming for audits and reconciliations. It is susceptible to errors because it is not self balancing in a double entry format; it does not include all reportable activity. Expenses are also susceptible to misclassifications and thus may result in discrepancies with comparative information.

Recommendation: The Authority should implement a general ledger package with the capability to provide timely periodic financial information.

Response: The Authority acknowledges that under the constraints of its present financial reporting system, it cannot produce an accrual, GAAP basis statement of net assets and annual financial report per the auditor's findings. Our auditors have previously identified, and the Authority has previously acknowledged this deficiency during past audit periods.

At the direction of the audit committee, the Authority has done research on several financial reporting options offered through the State's Office of Information Technology ("OIT") and has considered utilizing the FNJPB existing general ledger system. The Authority is working with the Department of Treasury and OIT to implement a payroll management and financial reporting system that will report financial data reliability in accordance with GAAP.

INDEPENDENT AUDITORS' REPORT 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*

To the Board of Commissioners of
New Jersey Public Broadcasting Authority

We have audited the financial statements of New Jersey Public Broadcasting Authority (the "Authority") as of and for the year ended June 30, 2009, and have issued our report thereon dated March 25, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and audit requirements prescribed by the State of New Jersey.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the Authority's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control over financial reporting.

Our consideration of the internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However as discussed below, we identified a deficiency in internal control over financial reporting that we consider to be a significant deficiency.

A control deficiency exists when the design or operation of control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiency described in the accompanying schedule of finding and response to be a significant deficiency that gives rise to a material weakness in internal control over financial reporting as per 2009-1.

INDEPENDENT AUDITORS' REPORT 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* (CONTINUED)

Internal Control over Financial Reporting (Continued)

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. As discussed above, we identified a deficiency in internal control over financial reporting that is significant and which results in a material weakness.

Compliance and Other Matters

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

The Authority's response to the finding identified in our audit is described in the accompanying schedule of finding and response. We did not audit the Authority's response accordingly, we express no opinion on them.

This report is intended solely for the information and use of management, the Board of Commissioners, the audit committee, others within the entity, State of New Jersey, and federal awarding agency and is not intended to be and should not be used by anyone other than these specified parties.

March 25, 2010