

**NEW JERSEY HIGHER EDUCATION
STUDENT ASSISTANCE AUTHORITY**
Trenton, New Jersey

**OTHER HESAA PROGRAMS AND FUNDS
COMBINED FINANCIAL STATEMENTS**
June 30, 2012 and 2011

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CliftonLarsonAllen

Independent Auditors' Report

To the Board Members of
New Jersey Higher Education Student Assistance Authority State of New Jersey
Trenton, New Jersey

We have audited the accompanying combined statements of fiduciary net assets as of June 30, 2012 and 2011 of New Jersey Higher Education Student Assistance Authority (the Authority) Other HESAA Programs and Funds (the Funds) and the related combined statements of changes in fiduciary net assets for the years then ended. These combined financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these combined financial statements based on our audit.

We conducted our audits 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 combined financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the 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 audits provide a reasonable basis for our opinion.

The financial statements present only the fiduciary – type activities of Other HESAA Programs and Funds of the Authority and do not purport to, and do not present the financial position of the Authority as a whole as of June 30, 2012 and 2011, and its changes in fiduciary net assets for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the combined financial statements referred to above present fairly, in all material respects, the financial position of New Jersey Higher Education Student Assistance Authority Other HESAA Programs and Funds at June 30, 2012, and the changes in fiduciary net assets for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 15, 2012 on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and other matters. The purpose of that report is 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 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.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 6 presented to supplement the basic financial statements, such information although not a part of the basic financial statements is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. However, we did not audit the information and express no opinion on it.

Our audit was made for the purpose of forming an opinion on the combined financial statements of the Funds, taken as a whole. The supplementary information as listed in the table of contents as of and for the year ended June 30, 2012, is presented for purposes of additional analysis and is not a required part of the combined financial statements. Such information, has been subjected to the auditing procedures applied in our audit of the combined financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the combined financial statements or to the combined financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the combined financial statements taken as a whole.

CliftonLarsonAllen LLP

Mount Laurel, New Jersey
October 15, 2012

**NEW JERSEY HIGHER EDUCATION STUDENT ASSISTANCE AUTHORITY
OTHER HESAA PROGRAMS AND FUNDS
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2012**

As the financial management of the Other HESAA Programs and Funds (the Funds) of the New Jersey Higher Education Student Assistance Authority (the Authority or HESAA), we offer readers of these financial statements this discussion and analysis of the financial activities of the Funds for the fiscal year ended June 30, 2012. This narrative is designed to assist the reader in focusing on the significant financial issues and activities. We encourage readers to consider the information presented here in conjunction with the financial statements taken as a whole.

These separate audited financial statements have been produced for the Funds in compliance with State of New Jersey Executive Orders #122 and #37, which are more fully described in Note 1 to the Combined Financial Statements.

The largest portions of HESAA's financial activities involve its roles as the New Jersey State Guaranty Agency for the Federal Family Education Loan Program (FFELP) and as the lender under the New Jersey College Loans to Assist State Students (NJCLASS) Program, both of which are referenced in these financial statements. All amounts earned through these programs are restricted for use by the respective programs in accordance with federal or state regulations and legal agreements.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the Funds' financial statements, which are comprised of the combined fiduciary financial statements, the notes to the combined financial statements, and the supplementary combining schedules.

The Funds are engaged only in various fiduciary-type activities on behalf of the Authority, and accordingly, only the financial statements required for fiduciary funds are presented. More detailed information concerning the financial statement presentation is contained in Note 1 to the Combined Financial Statements.

Fiduciary Financial Statements

These fiduciary financial statements are designed to provide the reader with a broad overview of the entity's finances, in a manner similar to a private-sector business.

The combined statements of fiduciary net assets present information on all of the Funds' assets and liabilities, with the difference between the two reported as fiduciary net assets.

The combined statements of changes in fiduciary net assets present information showing how the Funds' net assets changed during the fiscal year. All changes in fiduciary net assets are reported as the underlying events occur, regardless of timing of related cash flows. Thus, additions and deductions are reported in these statements for some items that will only result in cash flows in future fiscal periods.

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OTHER HESAA PROGRAMS AND FUNDS
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2012**

Fiduciary Financial Statements (CONTINUED)

Over time, increases and decreases in fiduciary net assets may serve as a useful indicator of whether the financial position of the Funds is improving or deteriorating. Fiduciary net assets increase when additions exceed deductions. Increases to assets without corresponding increases to liabilities result in increased fiduciary net assets, which indicates an improved financial position.

Financial Highlights and Analysis

Complete financial data for each of the funds included in the combined financial statements of the HESAA Other Programs and Funds is presented in the supplemental schedules, Combining Schedules of Fiduciary Net Assets and Combining Schedules of Changes in Fiduciary Net Assets.

The Funds' total assets of \$19,866,169, \$26,392,093, and \$24,491,552 at June 30, 2012, 2011 and 2010, respectively, consist principally of amounts invested in the New Jersey Cash Management Fund.

The NJBEST Administrative Fund had \$9,902,378, \$14,668,065, and \$11,723,997 at June 30, 2012, 2011 and 2010, respectively, invested in the New Jersey Cash Management Fund. The NJBEST Administrative Fund is reserved to pay for future scholarship obligations of the NJBEST program and program expenses not covered by Franklin Templeton, the Fund. The reduction in the cash balance during the 2012 Fiscal Year is due to the use of \$7,886,000 in NJBEST Administrative Fund Reserves to Fund a capital contribution to the Authority's 2012-1 Bond Issue, which closed on June 28, 2012. This contribution will be repaid with interest from the NJCLASS Life of Loan Servicing Reserve Fund and any available excess parity in the 2012-1 Bond Issue in annual installments over the life of the 2012-1 Bonds.

In addition, \$5,735,692, \$8,130,247, and \$7,008,450 at June 30, 2012, 2011 and 2010, respectively, was in the Life of Loan Servicing Reserve Fund, which is used to invest the accumulated restricted net assets from administration of the NJCLASS Loan Program. This amount is restricted for payment of future NJCLASS administrative and servicing expenses, for which the Authority is responsible under the terms of the NJCLASS/FFELP bond indentures.

At June 30, 2012, 2011 and 2010, the Funds' liabilities totalled \$44,480,701, \$38,039,773, and \$29,928,563, respectively, and consisted primarily of amounts due to HESAA programs not represented on these financial statements. The largest liabilities in all three periods were the net amounts due to the NJCLASS/FFELP Bond Trusts from the NJCLASS Loan Reserve Fund for payment of default claims. At June 30, 2012, 2011 and 2010, this net liability totalled \$41,604,202, \$34,687,435, and \$27,368,954, respectively. However, it is expected that the liabilities of the NJCLASS Loan Reserve Fund to the NJCLASS/FFELP bond trusts will be significantly reduced over time as a result of HESAA's ongoing collection activities on defaulted NJCLASS loans.

**NEW JERSEY HIGHER EDUCATION STUDENT ASSISTANCE AUTHORITY
OTHER HESAA PROGRAMS AND FUNDS
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2012**

Financial Highlights and Analysis (CONTINUED)

At June 30, 2012, liabilities exceeded assets by \$24,614,532 as compared to June 30, 2011 and 2010 where liabilities exceeded assets by \$11,647,680 and \$5,431,011, respectively. The declines in net assets between periods were due primarily to decreases in net assets in the NJCLASS Loan Reserve Fund and the NJCLASS Life of Loan Servicing Fund. The net asset

deficit balance is restricted in accordance with the Federal Higher Education Act, related U.S. Department of Education regulations, the terms of the NJCLASS/FFELP bond indentures, and other State laws and regulations regarding the permissible uses of funds reported within these Financial Statements.

Total additions to the Funds for the fiscal years ended June 30, 2012, 2011 and 2010, were \$51,263,340, \$45,301,644, and \$51,983,241, respectively. The largest source of collections was on defaulted FFELP and NJCLASS student loans, which totalled \$44,228,967 (86%), \$41,191,543 (91%), and \$47,262,318 (91%) for the fiscal years ended June 30, 2012, 2011 and 2010, respectively. These accounts serve solely as conduit clearing accounts for the Authority's Guaranty Agency Operating Trust Fund, the Federal Student Loan Reserve Trust Fund, and the NJCLASS/FFELP Bond Indenture Loan Reserve Funds. Amounts collected in connection with HESAA's role as the New Jersey FFELP Guaranty Agency and the NJCLASS/FFELP Loan Programs are restricted for use by these programs in accordance with the Federal Higher Education Act, related U.S. Department of Education regulations and the terms of the NJCLASS/FFELP bond indentures.

The Federal Collections Escrow is the conduit for receipts of defaulted FFELP student loan payments, established in accordance with FFELP regulations requiring the prompt investment of funds. As such, receipts are subsequently transferred out to the related trust funds. In fiscal years 2012, 2011 and 2010, \$39,569,164, \$36,884,689, and \$43,435,208 respectively, was recorded, representing the transfer of the collections received to the two HESAA/FFELP Trust Funds, as required by the FFELP regulations promulgated by the U.S. Department of Education.

The second largest source of collections, fee income, consists of restricted receipts earned by HESAA from the administration and servicing of the NJCLASS Loan Program, administrative fees of the NJBEST 529 College Savings Plan and revenue from the Direct Loan Servicing Fund. Total net fee receipts for the fiscal years ended June 30, 2012, 2011, and 2010 were \$7,005,599 (14%), \$4,046,180 (9%), and \$4,624,155 (9%), respectively, of total additions in the respective years. All fees are reserved for funding current and future administrative expenses of the respective programs, including reserves for funding the NJBEST Scholarship Program, reimbursing the HESAA bond issues for NJCLASS defaulted loans and providing a source of capital to support the parity of NJCLASS Bond Issues at the date of issuance, subject to later reimbursement from fee revenues and/or excess bond parity.

The NJCLASS Loan Reserve Fund was established to reimburse the NJCLASS Loan Program Bond Funds when student loan defaults occur. The NJCLASS Loan Reserve Fund recorded default expense of \$12,261,221, \$13,930,778, and \$15,149,939 for the years ended June 30, 2012, 2011, and 2010, respectively, representing amounts paid and accrued for this purpose during the year.

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MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2012**

Notes to Combined Financial Statements

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

Other Information

In addition to the basic combined financial statements and accompanying notes, this report also presents the auditors' reports regarding internal controls and compliance with certain provisions of laws, regulations and agreements.

For further detail visit the Authority's website www.hesaa.org for more information about Authority programs and activities and management contact information.

COMBINED FINANCIAL STATEMENTS

**NEW JERSEY HIGHER EDUCATION STUDENT ASSISTANCE AUTHORITY
OTHER HESAA PROGRAMS AND FUNDS
COMBINED STATEMENTS OF FIDUCIARY NET DEFICIT
June 30, 2012 and 2011**

	ASSETS	
	2012	2011
ASSETS		
Cash	\$ 217,576	\$ 388,883
New Jersey Cash Management Fund	17,005,714	24,687,268
Fees receivable	1,617,454	312,629
Due from NJCLASS/FFELP loan program	854,750	844,252
Default collections receivable	170,675	159,061
TOTAL ASSETS	\$ 19,866,169	\$ 26,392,093
LIABILITIES AND NET DEFICIT		
LIABILITIES		
Accrued expenses	\$ 36,015	\$ 76,852
Due to NJCLASS/FFELP loan program	41,604,202	34,687,435
Due to NJCLASS Administrative Fund	1,921,801	2,320,242
Due to Guaranty Agency Trust Fund	918,683	955,244
TOTAL LIABILITIES	44,480,701	38,039,773
NET DEFICIT	(24,614,532)	(11,647,680)
TOTAL LIABILITIES AND NET DEFICIT	\$ 19,866,169	\$ 26,392,093

The accompanying notes are an integral part of the combined financial statements

**NEW JERSEY HIGHER EDUCATION STUDENT ASSISTANCE AUTHORITY
OTHER HESAA PROGRAMS AND FUNDS
COMBINED STATEMENTS OF CHANGES IN FIDUCIARY NET DEFICIT
Years Ended June 30, 2012 and 2011**

	2012	2011
REVENUES		
Trust Receipts		
Defaulted FFELP loan receipts	\$ 39,399,838	\$ 37,065,663
Fee income	7,005,599	4,046,180
Defaulted NJCLASS loan receipts	4,829,129	4,125,880
Total trust receipts	51,234,566	45,237,723
Income on investments	28,774	63,921
TOTAL REVENUES	51,263,340	45,301,644
EXPENSES		
Transfers to Guaranty Agency Trust Funds	39,569,164	36,884,689
NJCLASS defaulted loans expense	12,261,221	13,930,778
NJCLASS bond issue closing costs	11,747,475	5,000
Program expense	690,000	670,000
Administrative expense (income), net	(37,668)	21,846
TOTAL EXPENSES	64,230,192	51,512,313
Changes in net deficit	(12,966,852)	(6,210,669)
NET DEFICIT, BEGINNING OF YEAR	(11,647,680)	(5,437,011)
NET DEFICIT, END OF YEAR	\$ (24,614,532)	\$ (11,647,680)

The accompanying notes are an integral part of the combined financial statements.

**NEW JERSEY HIGHER EDUCATION STUDENT ASSISTANCE AUTHORITY
OTHER HESAA PROGRAMS AND FUNDS
NOTES TO COMBINED FINANCIAL STATEMENTS
June 30, 2012 and 2011**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of the Authority

The New Jersey Higher Education Student Assistance Authority (the Authority or HESAA) is a public body corporate and politic that is in, but not of, the Department of State of the State of New Jersey (the "State") and is an instrumentality of the State.

The Authority was established by State legislation in 1999, to provide students and families with the financial and informational resources for students to pursue their educations beyond high school. Prior to this act, the New Jersey Higher Education Assistance Authority, created by legislation in 1959, served as lender and guarantor of federally guaranteed student loans for New Jersey students.

Nature of Other HESAA Programs and Funds

The funds and accounts included in the accompanying financial statements were established by HESAA in accordance with legal, regulatory and operational requirements of its programs, to enable it to fulfill its mission. Amounts reported in these financial statements are "off-system," meaning they are not recorded on the New Jersey Comprehensive Financial System. However, all funds included or referenced in these financial statements, along with funds included in other audited financial statements that report other components of the Authority, are also included in the consolidated HESAA financial information reported in the Combining Statements of Net Assets and Revenues and Expenses of Non-Major Component Units – Authorities within the New Jersey Comprehensive Annual Financial Report. The financial statements present only the fiduciary – type activities of the Other HESAA Programs and Funds of the Authority and do not purport to, and do not present the financial position of the Authority as a whole as of June 30, 2012 and 2011, and its changes in financial position for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Executive Order #122 and #37

This financial report on "Other HESAA Programs and Funds" provides audited financial statements of all HESAA funds and accounts not already included in other audited financial statement reports containing data on Authority Programs. The purpose is to ensure full compliance with the requirements of State of New Jersey Executive Orders #122 and #37, which requires an audit of the financial statements of each Authority by a certified public accounting firm in compliance with generally accepted government auditing standards issued by the Comptroller General of the United States.

Basis of Accounting

Basis of accounting refers to the point at which receipts and disbursements are recognized in the accounts and reported in the financial statements. The accompanying combined financial statements have been prepared using the economic resources measurement focus and the accrual basis of accounting, in accordance with accounting principles generally accepted in the

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NOTES TO COMBINED FINANCIAL STATEMENTS
June 30, 2012 and 2011**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Basis of Accounting (Continued)

United States of America applicable to governmental fiduciary-type funds. Receipts are recognized when earned, and expenditures are recognized when incurred. The specific fund types included within the general classification of fiduciary funds are defined by their purposes. Those included in these combined financial statements are *private - purpose trust funds*, which are used to report trust arrangements in which principal and income benefit individuals and other private or governmental organizations, and *agency funds*, which are used to report resources held in a purely custodial capacity (assets equal liabilities). The fiduciary funds and accounts included within this financial report are classified as follows:

<u>Fund Name</u>	<u>Type</u>
Federal Collections – Escrow	Agency Fund
NJCLASS Loan Reserve Fund	Private Purpose Trust Fund
NJBEST Administrative Fund	Private Purpose Trust Fund
Direct Loan Servicing Fund	Private Purpose Trust Fund
NJCLASS Life of Loan Servicing Reserve Fund	Private Purpose Trust Fund
Higher Education Assistance – Capital Reserves	Private Purpose Trust Fund
NJ Governor’s World Class Economy Scholarship Program	Private Purpose Trust Fund

The required financial statements of these fiduciary funds include the Combined Statement of Fiduciary Net Assets and the Combined Statement of Changes in Fiduciary Net Assets. Also required are the supplemental schedules - Combining Schedule of Fiduciary Net Assets and Combining Schedule of Changes in Fiduciary Net Assets.

All net assets of the funds reported in these financial statements are restricted for purposes of the Authority.

Operating Revenues and Expenses by Reporting Entity

1. Federal Collections – Escrow is the conduit for collections received from defaulted borrowers in the Federal Family Education Loan Program (FFELP). The Higher Education Student Assistance Authority (HESAA) is authorized to receive these collections as the designated FFELP guaranty agency for the State of New Jersey. Funds are received daily into either the Federal Student Loan Depository Account or the Federal Attorney Depository Accounts maintained at Wells Fargo Bank and Bank of America. The receipts to the Federal Student Loan Depository Account result from student loan payments received on a daily basis into these two accounts and at HESAA. Funds received in the Federal Attorney Depository Account are “swept” daily into the Federal Student Loan Depository Account. On a daily basis, available funds are transferred from the Federal Student Loan Depository Account to a New Jersey Cash Management Fund (NJCMF) account. Twice each month, funds are transferred from the NJCMF account to the Federal Fund and Operating Fund in proportions mandated by US Department of Education regulations.

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NOTES TO COMBINED FINANCIAL STATEMENTS
June 30, 2012 and 2011**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Operating Revenues and Expenses by Reporting Entity (Continued)

2. NJCLASS Loan Reserve Fund - receives a 1% fee on all New Jersey College Loans to Assist State Students (NJCLASS) loans disbursed from the 2008 and earlier bond issues and a percentage of collections on defaulted loan accounts. The NJCLASS Loan Reserve Fund reimburses the various 2008 and earlier HESAA bond issues for NJCLASS defaulted loans. The Fund had a net deficit at June 30, 2012 and 2011, caused by the excess of the defaulted loans over the fees and default collections to date. The deficit is expected to be reduced in future years as the defaulted loans are collected
3. NJBEST Administrative Fund - receives fee income from the Fund managers, Franklin Templeton Investments. Income is used to pay any NJBEST program expenses not covered by Franklin Templeton, as well as NJBEST scholarships.
4. Direct Loan Servicing Fund (formerly HESAA as a FFELP Sponsor Fund) – receives fee income from Federal Direct Loan (DL) servicing revenue earned through the Teaming Contract Arrangement with the Higher Education Loan Authority of Missouri (MOHELA). MOHELA serves as HESAA's "Remote Site Third Party Direct Lending Servicing Partner" under the terms of the Health Care and Education Reconciliation Act of 2010, which provides that the Secretary of the USDE will contract with not-for-profit ("NFP") servicers to service certain federally owned loans originated through the DL program. The fund also holds a nominal balance from the discontinued HESAA as a FFELP Sponsor Program.
5. NJCLASS Life of Loan Servicing Reserve Fund - receives the net unexpended balances, after deducting program expenses, of program revenues earned by HESAA from administration of the NJCLASS Loan Program. These receipts include application, servicing and administrative fee income. In addition, the Fund receives a share of collections on defaulted NJCLASS loans. This fund is held as a reserve against the expense of administering and servicing NJCLASS loans in future years.
6. Higher Education Assistance – Capital Reserves - consists of residual Authority reserves available for loan capital and future depository accounts for bond proceeds remaining after retirement of bonds.
7. NJ Governor's World Class Economy Scholarship Program - consists of private donations previously being held for incorporation into the Teacher's Loan Forgiveness program that have been re-designated by the donor to fund Dana Christmas Scholarships for Heroism.

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 the reported amounts of assets and liabilities and to disclose contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

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NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Federal Income Taxes

The Authority, which is a body corporate and politic that is in, but not of, the Department of State of the State of New Jersey and an instrumentality of the State of New Jersey exercising public and essential governmental functions of the State of New Jersey, is deemed to be an essential governmental function of the State and, as such, is exempt from federal income taxes. Accordingly, no provision for federal income taxes has been made in the accompanying financial statements.

NOTE 2 – FEES RECEIVABLE

Under program regulations and contractual terms, the NJBEST Administrative Fund receives fee income from the fund managers of the NJBEST 529 College Savings Program, Franklin Templeton Investments. This income is received on a monthly basis. The amounts of fees receivable at June 30, 2012 and 2011, of \$314,784 and \$312,629, respectively, which represents the June fee income received in July 2012 and 2011, respectively.

As described in Note 1, During FY 2012 HESAA entered into a contract whereby the Authority receives monthly revenues from the servicing of Federal Direct Student Loans serviced by MOHELA on behalf of the HESAA and the USDE. The amount of fees receivable at June 30, 2012 of \$1,302,670 represents the May and June fee income received in July and August 2012, respectively.

NOTE 3 – CASH AND INVESTMENTS

Custodial Credit Risk

The Federal Collections Escrow Fund, a component of Other HESAA Programs and Funds, utilizes lockbox accounts to clear cash receipts on behalf of FFELP. Amounts on deposit in the FFELP lockbox accounts at Wells Fargo Bank (formerly Wachovia Bank) and Bank of America are collateralized by direct obligations of or obligations guaranteed by the United States or the State of New Jersey in accordance with New Jersey Statute 52:18-16 and New Jersey Department of Treasury policy.

All investments held by Other HESAA Programs and Funds are on deposit in the NJCMF. The Fund is governed by regulations of the State Investment Council, who prescribe standards designed to insure the quality of investments in order to minimize risk to the Funds participants. Assets of the NJCMF are reported at fair value and consist of the following categories:

- Money Market Instruments (including short-term U.S. Government and Agency obligations)
- Other U.S. Government Agency and Corporate Obligations

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NOTE 3 – CASH AND INVESTMENTS (CONTINUED)

Custodial Credit Risk (Continued)

Investments with the New Jersey Cash Management Fund are not subject to custodial credit risk as defined above. The Fund does not have a credit rating.

The amounts on deposit in cash and investment accounts at June 30, 2012 and 2011, were as follows:

	2012	2011
Lockbox Cash (Wells Fargo Bank/Bank of America)	\$ 217,576	\$ 388,883
New Jersey Cash Management Fund	17,005,714	24,687,268
	\$ 17,223,290	\$ 25,076,151

Interest Rate Risk

The Authority's investments are in the NJCMF. In this type of investment, it is highly unlikely that normal fluctuations in interest earnings on the underlying securities would cause a loss of principal. Consequently, investments are not subject to interest rate risk.

NOTE 4 – DUE TO/FROM OTHER FUNDS

Amount Due To/From NJCLASS and NJCLASS Loan Reserve Fund

Under the terms of the various indentures of trust regulating the NJCLASS/FFELP loan program, the NJCLASS Loan Reserve Fund receives 70% of collections from defaulted NJCLASS loans that were disbursed from the 2008 and earlier bonds issues. At June 30, 2012 and 2011, the amounts due to the NJCLASS Loan Reserve Fund from the NJCLASS/FFELP Loan Program for default collections were \$299,338 and \$395,600, respectively.

The purpose of the NJCLASS Loan Reserve Fund is to protect the interests of NJCLASS/FFELP bond holders by reimbursing the various HESAA bond issues when loans default. At June 30, 2012 and 2011, the amounts due to the NJCLASS/FFELP bond issues as a result of loan defaults were \$41,903,540 and \$35,083,035, respectively.

The Combined Statements of Fiduciary Net Assets present the "Net" amounts of \$41,604,202 at June 30, 2012, and \$34,687,435 at June 30, 2011, due to the NJCLASS/FFELP loan program from the Loan Reserve Fund. This netting is presented via an elimination column on the Combining Schedules of Fiduciary Net Assets at June 30, 2012 and 2011, which are included in the Supplementary Information to these financial statements.

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NOTE 4 – DUE TO/FROM OTHER FUNDS (CONTINUED)

Due from NJCLASS/FFELP Loan Program

At June 30, 2012 and 2011, \$854,750 and \$844,252, respectively, was due to the Life of Loan Servicing Reserve Fund from the NJCLASS/FFELP program for administrative fees and the Fund's share of collections on defaulted NJCLASS loans.

Due to Guaranty Agency Trust Fund

The amounts due to Guaranty Agency Trust Fund represent collections from defaulted FFELP borrowers that are scheduled for transfer from the Federal Collections Escrow New Jersey Cash Management Fund account to the guaranty agency trust fund on the next transfer date. At June 30, 2012 and 2011, these amounts were \$918,683 and \$955,244, respectively.

Due to NJCLASS Administrative Fund

At June 30, 2012 and 2011, \$1,921,801 and \$2,320,242, respectively, were due to the NJCLASS Administrative Fund appropriation unit within the State General Fund, (the General Fund) from the Life of Loan Servicing Reserve Fund. These amounts were transferred to the General Fund during July 2012 and 2011, respectively, as the final installment of the \$10,610,350 and \$11,600,403, respectively, in transfers made during the year to reimburse expenses initially paid from the General Fund for administration of the NJCLASS Loan Program.

NOTE 5 – CONCENTRATIONS OF CREDIT RISK

At June 30, 2012 and 2011, approximately 99% and 98%, respectively, of all funds within the HESAA Other Programs and Funds were invested in the NJCMF, a fund not subject to custodial credit risk as discussed in Note 3 above.

NOTE 6 – TRANSACTIONS WITH THE NJCLASS/FFELP LOAN PROGRAM

During the year ended June 30, 2012, the Life of Loan Servicing Reserve Fund incurred bond closing costs of \$11,747,475 relating to the NJCLASS/FFELP 2011-1 and 2012-1 bond issues.

In June 2012, the NJBEST Admin Fund advanced \$7,886,000 on behalf of the Life of Loan Servicing Fund for bond costs relating to the NJCLASS/FFELP 2012-1 bond issue. This amount will be repaid to the NJBEST Admin Fund by the Life of Loan Servicing Fund, with interest, over the life of the 2012-1 Bond Issue.

During the year ended June 30, 2011, the Life of Loan Servicing Reserve Fund incurred bond closing costs of \$5,000 relating to the NJCLASS/FFELP 2010 bond issues.

The balances in the Authority's Life of Loan Servicing Reserve Fund will be replenished over time through origination, administrative and servicing fees collected from the NJCLASS program.

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NOTES TO COMBINED FINANCIAL STATEMENTS
June 30, 2012 and 2011**

NOTE 7 – SUBSEQUENT EVENTS

Management evaluated subsequent events through October 15, 2012, the date the financial statements were available to be issued. Events or transactions occurring after June 30, 2012, but prior to October 15, 2012, that provided additional evidence about conditions that existed at June 30, 2012, have been recognized in the financial statements for the year ended June 30, 2012. Events or transactions that provided evidence about conditions that did not exist at June 30, 2012 but arose before the financial statements were available to be issued have not been recognized in the financial statements for the year ended June 30, 2012.

Management did not identify any subsequent events that required adjustment to or disclosure in the financial statements for the year ended June 30, 2012.

SUPPLEMENTARY INFORMATION

**NEW JERSEY HIGHER EDUCATION STUDENT ASSISTANCE AUTHORITY
OTHER HESAA PROGRAMS AND FUNDS
COMBINING SCHEDULE OF FIDUCIARY NET ASSETS
June 30, 2012**

	Federal Collections - Escrow	Direct Loan Servicing Fund	NJBEST Administrative Fund	NJ Governor's World Class Economy Scholarship Program	NJCLASS Loan Reserve Fund	Higher Education Assistance- Capital Reserves	NJCLASS Life of Loan Servicing Reserve Fund	Elimination	Combined Programs and Funds
ASSETS									
Current Assets									
Cash	\$ 217,576	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 217,576
New Jersey Cash Management Fund	918,683	159,197	9,902,378	1,191	12,705	275,868	5,735,692	-	17,005,714
Fees receivable	-	1,302,670	314,784	-	-	-	-	-	1,617,454
Due from NJCLASS/FFELP loan program	-	-	-	-	299,338	-	854,750	299,338	854,750
Due from Life of Loan - current	-	-	162,848	-	-	-	-	162,848	-
Default collections receivable	-	-	-	-	115,176	-	55,499	-	170,675
Total Current Assets	1,136,259	1,461,867	10,380,010	1,191	427,219	275,868	6,645,941	462,186	19,866,169
Other Assets									
Due from Life of Loan - non-current	-	-	7,723,152	-	-	-	-	7,723,152	-
TOTAL ASSETS	\$ 1,136,259	\$ 1,461,867	\$ 18,103,162	\$ 1,191	\$ 427,219	\$ 275,868	\$ 6,645,941	\$ 8,185,338	\$ 19,866,169
LIABILITIES									
Current Liabilities									
Accrued expenses	\$ -	\$ -	\$ -	\$ -	\$ 555	\$ -	\$ 35,460	\$ -	\$ 36,015
Due to NJCLASS/FFELP loan program	-	-	-	-	41,903,540	-	-	299,338	41,604,202
Due to NJBEST Admin Fund - current	-	-	-	-	-	-	162,848	162,848	-
Due to NJCLASS Administrative Fund	-	-	-	-	-	-	1,921,801	-	1,921,801
Due to Guaranty Agency Trust Fund	918,683	-	-	-	-	-	-	-	918,683
Total Current Liabilities	918,683	-	-	-	41,904,095	-	2,120,109	462,186	44,480,701
Other Liabilities									
Due to NJBEST Admin Fund - non-current	-	-	-	-	-	-	7,723,152	7,723,152	-
TOTAL LIABILITIES	918,683	-	-	-	41,904,095	-	9,843,261	8,185,338	44,480,701
NET ASSETS (DEFICIT) - RESTRICTED	217,576	1,461,867	18,103,162	1,191	(41,476,876)	275,868	(3,197,320)	-	(24,614,532)
TOTAL LIABILITIES AND NET ASSETS (DEFICIT)	\$ 1,136,259	\$ 1,461,867	\$ 18,103,162	\$ 1,191	\$ 427,219	\$ 275,868	\$ 6,645,941	\$ 8,185,338	\$ 19,866,169

**NEW JERSEY HIGHER EDUCATION STUDENT ASSISTANCE AUTHORITY
OTHER HESAA PROGRAMS AND FUNDS
COMBINING SCHEDULE OF FIDUCIARY NET ASSETS
June 30, 2011**

	Federal Collections - Escrow	HESAA as a FFELP Sponsor Fund	NJBEST Administrative Fund	NJ Governor's World Class Economy Scholarship Program	NJCLASS Loan Reserve Fund	Higher Education Assistance- Capital Reserves	NJCLASS Life of Loan Servicing Reserve Fund	Elimination	Combined Programs and Funds
ASSETS									
Cash	\$ 388,883	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 388,883
New Jersey Cash Management Fund	955,244	118,901	14,668,065	31,188	507,880	275,743	8,130,247	-	24,687,268
Fees receivable	-	-	312,629	-	-	-	-	-	312,629
Due from NJCLASS/FFELP loan program	-	-	-	-	395,600	-	844,252	395,600	844,252
Default collections receivable	-	-	-	-	135,305	-	23,756	-	159,061
TOTAL ASSETS	\$ 1,344,127	\$ 118,901	\$ 14,980,694	\$ 31,188	\$ 1,038,785	\$ 275,743	\$ 8,998,255	\$ 395,600	\$ 26,392,093
LIABILITIES									
Liabilities									
Accrued expenses	\$ -	\$ -	\$ -	\$ -	\$ 555.00	\$ -	\$ 76,297	\$ -	\$ 76,852
Accrued Bond Closing Costs	-	-	-	-	-	-	-	-	-
Due to NJCLASS/FFELP loan program	-	-	-	-	35,083,035	-	-	395,600	34,687,435
Due to General Fund	-	-	-	-	-	-	2,320,242	-	2,320,242
Due to Guaranty Agency Trust Fund	955,244	-	-	-	-	-	-	-	955,244
TOTAL LIABILITIES	955,244	-	-	-	35,083,590	-	2,396,539	395,600	38,039,773
NET ASSETS (DEFICIT) - RESTRICTED	388,883	118,901	14,980,694	31,188	(34,044,805)	275,743	6,601,716	-	(11,647,680)
Total net assets (deficit)	388,883	118,901	14,980,694	31,188	(34,044,805)	275,743	6,601,716	-	(11,647,680)
TOTAL LIABILITIES AND NET ASSETS (DEFICIT)	\$ 1,344,127	\$ 118,901	\$ 14,980,694	\$ 31,188	\$ 1,038,785	\$ 275,743	\$ 8,998,255	\$ 395,600	\$ 26,392,093

**NEW JERSEY HIGHER EDUCATION STUDENT ASSISTANCE AUTHORITY
OTHER HESAA PROGRAMS AND FUNDS
COMBINING SCHEDULE OF CHANGES IN FIDUCIARY NET ASSETS
Year Ended June 30, 2012**

	Federal Collections - Escrow	Direct Loan Servicing Fund	NJBEST Administrative Fund	NJ Governor's World Class Economy Scholarship Program	NJCLASS Loan Reserve Fund	Higher Education Assistance- Capital Reserves	NJCLASS Life of Loan Servicing Reserve Fund	Elimination	Combined Programs and Funds
ADDITIONS									
Trust Receipts									
Defaulted FFELP loan receipts	\$ 39,399,838	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 39,399,838
Fee income	-	1,342,911	3,758,031	-	-	-	12,515,007	10,610,350	7,005,599
Defaulted NJCLASS loan receipts	-	-	-	-	4,829,129	-	-	-	4,829,129
Total trust receipts	39,399,838	1,342,911	3,758,031	-	4,829,129	-	12,515,007	10,610,350	51,234,566
Income on investments	1,086	55	24,437	3	123	125	2,945	-	28,774
TOTAL ADDITIONS	<u>39,400,924</u>	<u>1,342,966</u>	<u>3,782,468</u>	<u>3</u>	<u>4,829,252</u>	<u>125</u>	<u>12,517,952</u>	<u>10,610,350</u>	<u>51,263,340</u>
DEDUCTIONS									
Transfers to Guaranty Agency Trust Funds	39,569,164	-	-	-	-	-	-	-	39,569,164
Transfer to NJCLASS Administrative Fund	-	-	-	-	-	-	10,610,350	10,610,350	-
NJCLASS defaulted loans expense	-	-	-	-	12,261,221	-	-	-	12,261,221
NJCLASS bond issue closing costs	-	-	-	-	-	-	11,747,475	-	11,747,475
Program expense	-	-	660,000	30,000	-	-	-	-	690,000
Administrative expense - net	3,067	-	-	-	102	-	(40,837)	-	(37,668)
TOTAL DEDUCTIONS	<u>39,572,231</u>	<u>-</u>	<u>660,000</u>	<u>30,000</u>	<u>12,261,323</u>	<u>-</u>	<u>22,316,988</u>	<u>10,610,350</u>	<u>64,230,192</u>
CHANGES IN NET ASSETS HELD IN TRUST (DEFICIT)	(171,307)	1,342,966	3,122,468	(29,997)	(7,432,071)	125	(9,799,036)	-	(12,966,852)
NET ASSETS, BEGINNING OF YEAR (DEFICIT)	<u>388,883</u>	<u>118,901</u>	<u>14,980,694</u>	<u>31,188</u>	<u>(34,044,805)</u>	<u>275,743</u>	<u>6,601,716</u>	<u>-</u>	<u>(11,647,680)</u>
NET ASSETS, END OF YEAR (DEFICIT)	<u>\$ 217,576</u>	<u>\$ 1,461,867</u>	<u>\$ 18,103,162</u>	<u>\$ 1,191</u>	<u>\$ (41,476,876)</u>	<u>\$ 275,868</u>	<u>\$ (3,197,320)</u>	<u>\$ -</u>	<u>\$ (24,614,532)</u>

**NEW JERSEY HIGHER EDUCATION STUDENT ASSISTANCE AUTHORITY
OTHER HESAA PROGRAMS AND FUNDS
COMBINING SCHEDULE OF CHANGES IN FIDUCIARY NET ASSETS
Year Ended June 30, 2011**

	Federal Collections - Escrow	HESAA as a FFELP Sponsor Fund	NJBEST Administrative Fund	NJ Governor's World Class Economy Scholarship Program	NJCLASS Loan Reserve Fund	Higher Education Assistance- Capital Reserves	NJCLASS Life of Loan Servicing Reserve Fund	Elimination	Combined Programs and Funds
ADDITIONS									
Trust Receipts									
Defaulted FFELP loan receipts	\$ 37,065,663	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 37,065,663
Fee income	-	-	3,581,369	-	369	-	12,064,845	11,600,403	4,046,180
Defaulted NJCLASS loan receipts	-	-	-	-	4,125,880	-	-	-	4,125,880
Total trust receipts	37,065,663	-	3,581,369	-	4,126,249	-	12,064,845	11,600,403	45,237,723
Income on investments	4,304	238	38,933	77	4,893	552	14,924	-	63,921
TOTAL ADDITIONS	<u>37,069,967</u>	<u>238</u>	<u>3,620,302</u>	<u>77</u>	<u>4,131,142</u>	<u>552</u>	<u>12,079,769</u>	<u>11,600,403</u>	<u>45,301,644</u>
DEDUCTIONS									
Transfers to Guaranty Agency Trust Funds	36,884,689	-	-	-	-	-	-	-	36,884,689
Transfer to NJCLASS Administrative Fund	-	-	-	-	-	-	11,600,403	11,600,403	-
NJCLASS defaulted loans expense	-	-	-	-	13,930,778	-	-	-	13,930,778
NJCLASS bond issue closing costs	-	-	-	-	-	-	5,000	-	5,000
Program expense	-	-	620,000	50,000	-	-	-	-	670,000
Administrative expense - net	3,083	-	-	-	-	-	18,763	-	21,846
TOTAL DEDUCTIONS	<u>36,887,772</u>	<u>-</u>	<u>620,000</u>	<u>50,000</u>	<u>13,930,778</u>	<u>-</u>	<u>11,624,166</u>	<u>11,600,403</u>	<u>51,512,313</u>
CHANGES IN NET ASSETS HELD IN TRUST (DEFICIT)	<u>182,195</u>	<u>238</u>	<u>3,000,302</u>	<u>(49,923)</u>	<u>(9,799,636)</u>	<u>552</u>	<u>455,603</u>	<u>-</u>	<u>(6,210,669)</u>
NET ASSETS, BEGINNING OF YEAR (DEFICIT)	<u>206,688</u>	<u>118,663</u>	<u>11,980,392</u>	<u>81,111</u>	<u>(24,245,169)</u>	<u>275,191</u>	<u>6,146,113</u>	<u>-</u>	<u>(5,437,011)</u>
NET ASSETS, END OF YEAR (DEFICIT)	<u>\$ 388,883</u>	<u>\$ 118,901</u>	<u>\$ 14,980,694</u>	<u>\$ 31,188</u>	<u>\$ (34,044,805)</u>	<u>\$ 275,743</u>	<u>\$ 6,601,716</u>	<u>\$ -</u>	<u>\$ (11,647,680)</u>



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INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

To the Board Members of
New Jersey Higher Education Assistance Authority
Trenton, New Jersey

We have audited the combined financial statements of Other HESAA Programs and Funds of New Jersey Higher Education Student Assistance Authority (the Authority) as of and for the year ended June 30, 2012, and have issued our report thereon dated October 15, 2012. 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, and audit requirements prescribed by the State of New Jersey.

Internal Control over Financial Reporting

Management of the Authority is responsible for establishing and maintaining effective 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.

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 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.

Our consideration of 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 internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

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 and contracts, 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*.

This report is intended solely for the information and use of the Authority's Board Members, management, and the State of New Jersey and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink that reads "CliftonLarsonAllen LLP". The signature is written in a cursive, flowing style.

Mt. Laurel, New Jersey
October 15, 2012