

**NEW JERSEY HIGHER EDUCATION  
STUDENT ASSISTANCE AUTHORITY**

**NJCLASS/FFELP LOAN PROGRAMS  
FINANCIAL STATEMENTS**

**Years Ended June 30, 2007 and 2006**

NEW JERSEY HIGHER EDUCATION STUDENT ASSISTANCE AUTHORITY

NJCLASS/FFELP LOAN PROGRAMS

Table of Contents

Years Ended June 30, 2007 and 2006

	<u>Page</u>
INDEPENDENT AUDITORS' REPORT .....	1-2
MANAGEMENT'S DISCUSSION AND ANALYSIS .....	3-8
<b>FINANCIAL STATEMENTS</b>	
STATEMENTS OF NET ASSETS .....	9
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS.....	10
STATEMENTS OF CASH FLOWS .....	11-12
NOTES TO FINANCIAL STATEMENTS.....	13-29
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> .....	30-31
<b>SUPPLEMENTARY INFORMATION</b>	
COMBINING SCHEDULES OF NET ASSETS .....	32-33
COMBINING SCHEDULES OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS .....	34-35

## INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying financial statements of the business-type activities of the New Jersey College Loans to Assist State Students ("NJCLASS") and Federal Family Education Loan Programs ("FFELP") of the New Jersey Higher Education Student Assistance Authority (the "Authority") as of and for the years ended June 30, 2007 and 2006. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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 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.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the NJCLASS/FFELP Loan Programs of the New Jersey Higher Education Student Assistance Authority at June 30, 2007 and 2006, and the respective changes in financial position and cash flows for the years 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 10, 2007 on our consideration of the NJCLASS/FFELP Loan Programs' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, and contracts and other matters. The purpose of that report is to describe the scope of our testing on 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

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## INDEPENDENT AUDITORS' REPORT (CONTINUED)

integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary schedules on pages 32-35 are presented for purposes of additional analysis and are 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.

The management's discussion and analysis on pages 3-8 is not a required part of the basic financial statements but is 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 required supplementary information. However, we did not audit the information and express no opinion on it.

*Mercaderin, P.C.*  
*Certified Public Accountants*

October 10, 2007

**NEW JERSEY HIGHER EDUCATION STUDENT ASSISTANCE AUTHORITY  
NJCLASS/FFELP LOAN PROGRAMS**

**MANAGEMENT'S DISCUSSION AND ANALYSIS**

As financial management of the New Jersey Higher Education Student Assistance Authority's (the "Authority") New Jersey College Loans to Assist State Students ("NJCLASS") Loan Program and the Federal Family Education Loan Program ("FFELP") (collectively, the "Programs"), we offer readers of these financial statements this narrative overview and analysis of the financial activities of the Programs for the fiscal year ended June 30, 2007. 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 readers to consider the information presented herein in conjunction with the financial statements taken as a whole. A comparative analysis of key elements of financial statements is provided in this overview.

**Overview of the Financial Statements**

This discussion and analysis is intended to serve as an introduction to the Programs' financial statements, which are comprised of the basic financial statements and the notes to financial statements. Since the Programs are comprised of a single enterprise fund, no fund-level financial statements are shown. This report also contains other supplementary information concerning the financial position and results of operations broken down by bond issues included in the Programs.

**Basic financial statements.** The basic financial statements are designed to provide readers with a broad overview of the Programs' finances, in a manner similar to a private-sector business.

The statements of net assets present information on all of the Programs' assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Programs is improving or deteriorating. Net assets increase when revenues exceed expenses. Increases to assets without corresponding increases to liabilities result in increased net assets, which indicate an improved financial position.

The statements of revenues, expenses, and changes in net assets present information showing how net assets changed during the fiscal year. All changes in net assets are reported as soon as the underlying event occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will not result in cash flows until future fiscal periods.

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

**NEW JERSEY HIGHER EDUCATION STUDENT ASSISTANCE AUTHORITY  
NJCLASS/FFELP LOAN PROGRAMS**

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

**Other information.** In addition to the basic financial statements and accompanying notes, this report also presents certain *supplementary information* concerning the financial position and results of operations of each bond issue included in the Programs, as well as the auditors' report on internal control over financial reporting and on compliance and other matters.

**Financial Highlights and Analysis**

The Programs' net assets, referring to the difference between assets and liabilities, increased by \$18,425,678, or 67.4%, from the prior fiscal year. The term "Net Assets" is used in accordance with rules promulgated under Governmental Accounting Standards Board ("GASB") Statement No. 34, as amended.

As of June 30, 2007, assets of the Programs exceeded liabilities by \$45,757,123.

The largest portion of the Programs' assets consisted of loans receivable from participating borrowers. Total student loans receivable under both the NJCLASS and FFELP loan programs amounted to \$899,912,194.

The second major asset component was cash and investments, which together totaled \$719,295,968. Of this amount, approximately \$274,290,000 represented the cash balances relating to the 2007 Bonds, which closed on May 17, 2007. At year end, a portion of the 2007 Bonds proceeds, approximately \$535,000, had been used to originate NJCLASS Loans. The remaining 2007 funds, along with cash and investment balances from earlier bond issues, represent the amounts dedicated to student loan origination and acquisition, funding of reserves required by bond covenants, payment of future Program expenses, and future retirements of bonds. Replenishing the funds used for these purposes were cash received from principal repayments and interest income from NJCLASS and FFELP borrowers, amounting to approximately \$121,000,000 during the year. In addition, NJCLASS application/administrative fee income was \$4,849,436, and \$28,924,312 in interest was earned on investments. The main liability of the Programs is the related debt used to originate or acquire these loans. During fiscal year 2007, interest expense on bonds payable was \$54,871,394, and \$27,756,503 funded bond retirements. Of the amount retired, \$21,101,503 was due to excess revenue calls, resulting from better than forecasted cash flows on the related student loans. The remaining \$6,655,000 in retirements was due to scheduled bond maturities.

**NEW JERSEY HIGHER EDUCATION STUDENT ASSISTANCE AUTHORITY  
NJCLASS/FFELP LOAN PROGRAMS**

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

The following tables contain condensed comparative financial information derived from the June 30, 2007 and 2006 financial statements of the NJCLASS/FFELP Loan Programs:

	June 30,		Change
	2007	2006	
<b>Net Assets</b>			
Current Assets	\$ 819,625,054	\$ 745,597,972	\$ 74,027,082
Non-Current Assets	825,229,604	631,673,919	193,555,685
<b>Total Assets</b>	<u>\$ 1,644,854,658</u>	<u>\$ 1,377,271,891</u>	<u>\$ 267,582,767</u>
Current Liabilities	\$ 14,642,535	\$ 12,630,446	\$ 2,012,089
Revenue Bonds Outstanding - Net of Current Portion	1,584,455,000	1,337,310,000	247,145,000
<b>Total Liabilities</b>	<u>1,599,097,535</u>	<u>1,349,940,446</u>	<u>249,157,089</u>
Net Assets, Restricted	45,757,123	27,331,445	18,425,678
<b>Total Liabilities and Net Assets</b>	<u>\$ 1,644,854,658</u>	<u>\$ 1,377,271,891</u>	<u>\$ 267,582,767</u>

	Year Ended June 30,		Change
	2007	2006	
<b>Changes in Net Assets</b>			
Operating Revenues	\$ 59,882,493	\$ 50,245,794	\$ 9,636,699
Operating Expenses	70,542,021	59,160,352	11,381,669
Operating Loss	<u>(10,659,528)</u>	<u>(8,914,558)</u>	<u>(1,744,970)</u>
Non-Operating Revenues (Expenses)			
Income on Investments	28,924,312	21,160,672	7,763,640
NJCLASS/FFELP Program Funding	625,000	850,000	(225,000)
Miscellaneous Income	256,086	-	256,086
Amortization of Financial Instrument Issuance Costs	(112,111)	(114,277)	2,166
Amortization of Bond Issuance Costs	(443,903)	(430,251)	(13,652)
Arbitrage Expense	<u>(164,178)</u>	<u>(59,319)</u>	<u>(104,859)</u>
<b>Net Non-Operating Revenues</b>	<u>29,085,206</u>	<u>21,406,825</u>	<u>7,678,381</u>
Change in Net Assets	18,425,678	12,492,267	5,933,411
Net Assets, beginning of year	27,331,445	14,839,178	12,492,267
Net Assets, end of year	<u>\$ 45,757,123</u>	<u>\$ 27,331,445</u>	<u>\$ 18,425,678</u>

**NEW JERSEY HIGHER EDUCATION STUDENT ASSISTANCE AUTHORITY  
NJCLASS/FFELP LOAN PROGRAMS**

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

**Explanation of Changes in Financial Performance**

Changes in the financial results of the Programs were due to the following major factors:

**Operating Revenues**

- Interest income on NJCLASS student loans increased by approximately \$9,372,000, or 26%, due to NJCLASS originations during the year. NJCLASS application/administration fee income increased by \$528,000, due to the increase in new loans, as well as the 1% loan reserve fee charged on approximately \$29,000,000 in NJCLASS loans consolidated during the year. Interest income on FFELP loans decreased by \$262,682, due to the aging of the portfolio and resultant decrease in FFELP loan balances from the previous fiscal year.

**Operating Expenses**

- Bond interest expense increased by approximately \$10,254,875, due to a full year of interest expense on the \$225,000,000 of bonds issued in April 2006 and the Programs' newest bond issue, which added \$275,000,000 to the bond portfolio on May 17, 2007. In addition, interest rates on auction rate certificates, which comprise all HESAA bonds issued since 2001, were generally higher during fiscal year 2007 than in the previous fiscal year. This has caused increased interest expense on the portion of these bonds not covered by interest rate swaps. As of June 30, 2007, the NJCLASS/FFELP program had entered into interest rate swap agreements that have current nominal amounts that fix the interest rates on \$841,760,000 of variable rate Authority bonds. These swaps are designed to fix the cost of capital used to finance fixed-rate NJCLASS student loans.
- Bad debt expense is recorded when increases to the Allowance for Doubtful Accounts recorded against amounts due from the loan reserve fund to pay default claims become necessary. In fiscal year 2007, an additional \$1,723,000 in bad debt expense was recorded, due to an increase in defaults on NJCLASS loans. Bad debt expense of \$950,000 was recorded in fiscal year 2006. For a full description of the Allowance for Doubtful Accounts, see NOTES TO FINANCIAL STATEMENTS - C. STUDENT LOANS RECEIVABLE – Loan Defaults.
- Other program expenses increased by \$896,789 over the prior year. This was mainly caused by an increase of 59% in loan reserve fee expense, which is a 1% fee paid by the NJCLASS Program to the separate Loan Reserve Fund at the time loans are disbursed. This percentage increase mirrors the growth in NJCLASS loan volume for the year.



**NEW JERSEY HIGHER EDUCATION STUDENT ASSISTANCE AUTHORITY  
NJCLASS/FFELP LOAN PROGRAMS**

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

**Operating Expenses (Continued)**

- Transaction fees decreased by \$513,401, primarily due to the decrease in the broker dealer fee rate charged by the investment firms that perform marketing services for the auctions of the Authority's 2001 through 2007 Bonds. Concurrent with the issuance of the 2006 Bonds, the fee rate was reduced from 25 to 15 basis points for all of these bond issues, which had a full year of impact beginning with fiscal year 2007. For a full description of the characteristics of the 2001 through 2007 Bonds, see NOTES TO FINANCIAL STATEMENTS - E. BONDS PAYABLE – Bonds Outstanding (2).

**Non-Operating Revenues (Expenses)**

- Investment interest income increased significantly, amounting to approximately \$28,924,000, compared to \$21,161,000 in the prior year, due to a higher amount of bonds outstanding and an increase in balances in cash and investments of \$86,842,000. This increase is primarily due to the issuance of the 2007 Bonds in May, 2007.
- During the 2007 fiscal year, NJCLASS/FFELP Program funding was received, consisting of \$625,000 provided by HESAA from sources outside the proceeds of its bond issues, to support the future cash flows of the NJCLASS Fixed Rate Graduate/Professional Loan Program. This amount was deposited to the 2007 Bond Issue. During fiscal year 2006, \$200,000 of HESAA funds was provided for this same purpose, along with \$650,000 to support the cash flows and provide enhanced borrower benefits for the NJLIFE Low Cost FFELP Program for low-income students.

**Significant Events.** At fiscal year end, the Programs had \$1,590,985,000 in bonds outstanding, compared to \$1,343,742,000 in the prior fiscal year - an increase of 18%. The new debt consisted of \$275,000,000 of Student Loan Revenue Bonds issued to originate NJCLASS student loans. The NJCLASS/FFELP 2007 Bonds were issued as Auction Rate Certificates, known as ARCs, which are floating rate securities, with rates set every 35 days at auction and a 35-year maturity. The purpose of these bonds is exclusively to fund NJCLASS loans, including \$203,114,000 of fixed rate NJCLASS loans, \$25,000,000 of NJCLASS graduate/professional loans and \$40,000,000 of NJCLASS consolidation loans, provide \$5,500,000 to fund the required debt service reserve, and pay bond and financial instrument issuance costs, which totaled approximately \$1,386,000.

**NEW JERSEY HIGHER EDUCATION STUDENT ASSISTANCE AUTHORITY  
NJCLASS/FFELP LOAN PROGRAMS**

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

Concurrent with the issuance of the 2007 Bonds, the Authority entered into four separate interest rate swap agreements with a combined initial nominal amount of \$80,000,000 at the issue date. This amount will increase to \$350,000,000 in June 2008 and will amortize to a combined amount of \$1,000,000 before terminating in June 2035. The purpose of these swaps is to enable the Authority to originate a total of \$350,000,000 in NJCLASS loans, including \$203,114,000 of fixed rate NJCLASS loans and \$25,000,000 of graduate/professional loans from the 2007 Bond Issue, as well as a total of \$121,886,000 of fixed rate NJCLASS loans with recycled proceeds from the 2001, 2003, 2004 and 2005 Bond Issues, by converting the variable rate on these funds to a fixed rate.

During fiscal year 2007, in order to improve the level of service to its borrowers and participating educational institutions, HESAA initiated a procurement process for the purpose of engaging the services of a new trustee for the NJCLASS/FFELP Program. This effort resulted in the appointment of a new trustee, Wells Fargo Bank, NA. The starting date for this contract was May 1, 2007.

**Cash Flows:**

	Year Ended June 30,	
	2007	2006
Net cash used in operating activities	\$ (188,142,567)	\$ (80,254,022)
Net cash flows provided by financing activities	246,776,847	188,521,501
Net cash flows used in investing activities	(52,441,781)	(93,140,765)
Net increase in cash	<u>\$ 6,192,499</u>	<u>\$ 15,126,714</u>

**NEW JERSEY HIGHER EDUCATION STUDENT ASSISTANCE AUTHORITY  
NJCLASS/FFELP LOAN PROGRAMS**

**STATEMENTS OF NET ASSETS**

	June 30,	
	2007	2006
<b>ASSETS</b>		
<b>Current Assets</b>		
Cash	\$ 48,499,989	\$ 42,307,490
Investments	670,795,979	590,146,377
NJCLASS Student Loans Receivable	70,445,562	71,484,190
FFELP Student Loans Receivable	12,843,338	27,004,985
Interest Receivable		
Investments	2,121,967	1,405,476
NJCLASS Student Loans	11,242,815	8,329,804
FFELP Student Loans	2,121,453	2,167,816
Due from the Loan Reserve Fund, net of Allowance for Doubtful Accounts of \$2,673,000 and \$950,000 in 2007 and 2006, respectively	1,286,613	2,332,851
Due from the General Fund	1,911	-
Due from Loan Servicing Agents	265,427	418,983
Total Current Assets	819,625,054	745,597,972
<b>Non-Current Assets</b>		
NJCLASS Student Loans Receivable	706,018,327	517,450,328
FFELP Student Loans Receivable	110,604,967	106,490,358
Bond Issuance Costs - Unamortized	8,062,893	7,143,209
Financial Instrument Issuance Costs - Unamortized	543,417	590,024
Total Non-Current Assets	825,229,604	631,673,919
Total Assets	\$ 1,644,854,658	\$ 1,377,271,891
<b>LIABILITIES AND NET ASSETS</b>		
<b>Current Liabilities</b>		
Bonds Payable	\$ 6,530,000	\$ 6,431,503
Accrued Interest Payable - Bonds	6,088,914	4,822,484
Fees Payable	1,142,624	1,003,020
Arbitrage Payable	292,887	128,709
Due to the Loan Reserve Fund	588,110	244,730
Total Current Liabilities	14,642,535	12,630,446
<b>Non-Current Liabilities</b>		
Bonds Payable	1,584,455,000	1,337,310,000
Total Liabilities	1,599,097,535	1,349,940,446
<b>Net Assets</b>		
Restricted	45,757,123	27,331,445
Total Liabilities and Net Assets	\$ 1,644,854,658	\$ 1,377,271,891

**NEW JERSEY HIGHER EDUCATION STUDENT ASSISTANCE AUTHORITY  
NJCLASS/FFELP LOAN PROGRAMS**

**STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS**

	Year Ended June 30,	
	2007	2006
Operating Revenues		
Application/Administrative Fee Income	\$ 4,849,436	\$ 4,321,657
Interest Income		
NJCLASS Student Loans	44,997,655	35,626,053
FFELP Student Loans	10,035,402	10,298,084
Total Operating Revenues	<u>59,882,493</u>	<u>50,245,794</u>
Operating Expenses		
Loan Servicing Fees		
NJCLASS Student Loans	6,066,768	6,099,393
FFELP Student Loans	2,518,912	2,655,309
Program Expenses		
Annual Insurance Expense	839,560	700,132
Transaction Fees	2,018,300	2,531,701
Bad Debt Expense	1,723,000	950,000
Other Program Expenses	2,504,087	1,607,298
Bond Interest Expense	54,871,394	44,616,519
Total Operating Expenses	<u>70,542,021</u>	<u>59,160,352</u>
Operating Loss	<u>(10,659,528)</u>	<u>(8,914,558)</u>
Non-Operating Revenues (Expenses)		
Income on Investments	28,924,312	21,160,672
NJCLASS/FFELP Program Funding	625,000	850,000
Miscellaneous Income	256,086	-
Amortization of Bond Issuance Costs	(443,903)	(430,251)
Amortization of Financial Instrument Issuance Costs	(112,111)	(114,277)
Arbitrage Expense	(164,178)	(59,319)
Total Non-Operating Revenues	<u>29,085,206</u>	<u>21,406,825</u>
Change in Net Assets	18,425,678	12,492,267
Net Assets, beginning of year	<u>27,331,445</u>	<u>14,839,178</u>
Net Assets, end of year	<u>\$ 45,757,123</u>	<u>\$ 27,331,445</u>

**NEW JERSEY HIGHER EDUCATION STUDENT ASSISTANCE AUTHORITY  
NJCLASS/FFELP LOAN PROGRAMS**

**STATEMENTS OF CASH FLOWS**

	Year Ended June 30,	
	2007	2006
Cash Flows from Operating Activities		
Interest Receipts		
NJCLASS Student Loans	\$ 28,418,464	\$ 22,862,533
FFELP Student Loans	8,861,467	8,783,636
Principal Receipts		
NJCLASS Student Loans	56,381,417	49,546,176
FFELP Student Loans	27,338,981	41,535,948
Reimbursements from Loan Reserve Fund	6,838,501	4,707,337
NJCLASS Student Loan Disbursements	(232,576,743)	(136,717,134)
FFELP Student Loan Purchases	(16,094,494)	(13,183,501)
Annual Insurance Expense	(839,560)	(700,132)
Transaction Fees	(1,910,051)	(2,579,229)
Loan Servicing Fees	(8,405,139)	(8,425,044)
Program Expense Payments	(2,550,446)	(1,570,266)
Interest Paid on Bonds	(53,604,964)	(44,514,346)
Net Cash Used in Operating Activities	<u>(188,142,567)</u>	<u>(80,254,022)</u>
Cash Flows from Financing Activities		
Principal Paid on Bonds	(27,756,503)	(36,097,971)
Bond Proceeds	274,307,177	224,429,000
NJCLASS Program Funding	625,000	850,000
Proceeds from Stop Payments on Outstanding Checks	256,086	-
Bond Issuance Costs	(654,913)	(590,395)
Financial Instrument Issuance Costs	-	(69,133)
Net Cash Flows Provided by Financing Activities	<u>246,776,847</u>	<u>188,521,501</u>
Cash Flows from Investing Activities		
Investment Purchases, Sales Proceeds and Maturities, Net	(80,649,602)	(113,062,776)
Interest on Investments	28,207,821	19,922,011
Net Cash Flows Used in Investing Activities	<u>(52,441,781)</u>	<u>(93,140,765)</u>
Net Increase in Cash	6,192,499	15,126,714
Cash at Beginning of Year	42,307,490	27,180,776
Cash at End of Year	<u>\$ 48,499,989</u>	<u>\$ 42,307,490</u>

**NEW JERSEY HIGHER EDUCATION STUDENT ASSISTANCE AUTHORITY  
NJCLASS/FFELP LOAN PROGRAMS**

**STATEMENTS OF CASH FLOWS (CONTINUED)**

	Year Ended June 30,	
	2007	2006
<b>Reconciliation of Operating Loss to Net Cash used in Operating Activities</b>		
<b>Operating loss</b>	\$ (10,659,528)	\$ (8,914,558)
Adjustments to reconcile operating loss to net cash used by operating activities		
Bad Debt Expense	1,723,000	950,000
<b>Net change in assets and liabilities:</b>		
NJCLASS Student Loans Receivable	(187,529,371)	(96,761,872)
FFELP Student Loans Receivable	10,047,038	27,012,532
Interest Receivable		
NJCLASS Student Loans	(2,913,011)	(1,502,727)
FFELP Student Loans	46,363	(159,080)
Due from Loan Reserve Fund	(676,762)	(1,278,706)
Due from General Fund	(1,911)	-
Due from Loan Servicing Agents	153,556	314,514
Accrued Interest Payable - Bonds	1,266,430	102,173
Fees Payable	58,249	(47,528)
Due to Loan Reserve Fund	343,380	31,230
<b>Net cash used in operating activities</b>	<b>\$ (188,142,567)</b>	<b>\$ (80,254,022)</b>
<b>Non-Cash Financing Activities</b>		
Amortization - Bond Issuance Costs	\$ 443,903	\$ 430,251
Amortization - Financial Instrument Issuance Costs	112,111	114,277
Bond Interest Accretion	-	63,685
<b>Total Non-Cash Financing Activities</b>	<b>\$ 556,014</b>	<b>\$ 608,213</b>

**NEW JERSEY HIGHER EDUCATION STUDENT ASSISTANCE AUTHORITY  
NJCLASS/FFELP LOAN PROGRAMS**

**NOTES TO FINANCIAL STATEMENTS**

**A. 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 education beyond high school. Prior to the 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. References herein to the Authority include the predecessor Authority where the context so requires.

**Reporting Entity**

The reporting entity is comprised of the New Jersey College Loans to Assist State Students (“NJCLASS”) Loan Program and the Federal Family Education Loan Program (“FFELP”) (collectively, the “Programs”).

**NJCLASS Program**

The NJCLASS Loan Program is a supplemental loan program initiated by the Authority in September 1991. The NJCLASS Loan Program offers an alternative source of financial support to students and their parents, spouses, legal guardians, or other relatives in meeting the costs of the student’s education at a degree-granting college or university. Since 1991, the Authority has issued bonds to fund student loans through this program.

**FFELP Loan Program**

In 2001, the Authority expanded its use of debt financing by issuing bonds, with a portion of the proceeds allocated to purchase a portfolio of existing loans with a New Jersey nexus issued through the Federal Family Education Loan Program (“FFELP”). Each year since 2001, the Authority has purchased such portfolios of New Jersey nexus FFELP loans or FFELP Consolidation loans from other FFELP loan origination/servicing entities. The Authority is not the servicer on any of the FFELP loans acquired with NJCLASS/FFELP Bond proceeds but is the guarantor on a portion of its FFELP portfolio. In addition to loans purchased from outside servicing organizations, the NJCLASS/FFELP Loan Program has also used bond proceeds to purchase portfolios of rehabilitated FFELP student loans from the portfolio of previously defaulted FFELP student loans held by the Authority as the New Jersey state guaranty agency. The Authority plans to continue to acquire and act as a guarantor and/or holder of FFELP loans.

**NEW JERSEY HIGHER EDUCATION STUDENT ASSISTANCE AUTHORITY  
NJCLASS/FFELP LOAN PROGRAMS**

**NOTES TO FINANCIAL STATEMENTS**

**A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Basis of Accounting**

The Programs prepare their financial statements using the accrual basis of accounting. Revenues are recognized when earned, and expenses are recognized when incurred. Governmental Accounting Standards Board ("GASB") Statement No. 20, *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 Programs have elected to follow GASB pronouncements exclusively after that date.

**Operating Revenues and Expenses**

The Programs' operating revenues consist of application/administrative fees for student loan originations as well as interest income earned on student loans. Operating expenses consist of loan service and transaction fees, bond interest, and other expenses related to NJCLASS and FFELP loans. All other revenues and expenses are reported as non-operating revenues and expenses.

**Cash**

Cash includes time deposits, certificates of deposit, and highly liquid debt instruments with original maturities of three months or less.

**Basis of Investments**

Investments are reflected at fair value. In accordance with the provisions of the bond indentures, the Authority is generally required to invest available monies in qualified investments. The bond indentures define qualified investments as:

- (1) Government obligations and any obligations of any state or political subdivision of a state (collectively, the "Municipal Bonds");
- (2) U.S. Government and certain other governmental agencies' obligations;
- (3) Insured certificates of deposit;
- (4) Other investments acceptable by the State of New Jersey and rated accordingly by either Standard and Poor's ("S&P"), Moody's or A.M. Best, including annuity contracts and repurchase agreements.

**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 disclosure of 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.



**NEW JERSEY HIGHER EDUCATION STUDENT ASSISTANCE AUTHORITY  
NJCLASS/FFELP LOAN PROGRAMS**

**NOTES TO FINANCIAL STATEMENTS**

**A. 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 is 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.

**Bond Issuance Costs**

All costs associated with the issuance of bonds are amortized on a straight-line basis over the life of the bonds, which approximates the effective interest method.

**Financial Instrument Issuance Costs**

All separately identifiable costs associated with the issuance of financial instruments are amortized on a straight-line basis over the life of the financial instruments, which approximates the effective interest method.

**Restricted Net Assets**

In accordance with the terms of the various bond resolutions, cash and equivalents of all funds required under such bond resolutions are classified as restricted assets.

**B. CASH AND INVESTMENTS**

**Cash**

The NJCLASS/FFELP Loan Programs maintain their cash balances in trust accounts at one financial institution. As trust account balances, these funds are not available to the institution to meet its general financial obligations and are restricted under the terms of the Authority's bond resolutions for the payment of bond principal and interest expense, student loan disbursements and Program expenses. These funds are invested in an AAA-rated money market fund secured by U.S. government obligations.

Additionally, the Programs utilize lockbox accounts to clear cash receipts. Amounts on deposit in the NJCLASS lockbox accounts at Wachovia National 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. GASB Statement No. 40 excludes such cash balances from custodial credit risk disclosure.

**NEW JERSEY HIGHER EDUCATION STUDENT ASSISTANCE AUTHORITY  
NJCLASS/FFELP LOAN PROGRAMS**

**NOTES TO FINANCIAL STATEMENTS**

**B. CASH AND INVESTMENTS (CONTINUED)**

**Cash (Continued)**

The amounts on deposit in these cash accounts were as follows:

	June 30,	
	2007	2006
Lockbox Cash (Wachovia Bank)	\$ 1,579,312	\$ 630,044
Trust Accounts invested in		
Wells Fargo Advantage Government Money		
Market Fund	46,920,677	-
First American Government Obligations Fund	-	41,677,446
	\$ 48,499,989	\$ 42,307,490

**Investments**

The Programs' investments consist of annuity contracts, money market funds and pooled cash management funds.

Investment policies are defined in "Basis of Investments," in Footnote A, SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES.

The debt service reserve accounts are restricted by the bond indentures for the payment of principal and/or interest on the bonds, to the extent other available monies held under the indentures are insufficient to pay the interest on the bonds or to meet any sinking fund requirements. The amounts in the debt service reserve accounts for the various bond issues, which are included in investments at June 30, 2007 and 2006, were \$48,175,238 and \$43,660,000, respectively.

The fair value of these investments approximates cost.

**Investments - Custodial Credit Risk**

The Authority invests a portion of its bond proceeds through guaranteed investment contracts with investment providers having a rating of A-1 or A (or the equivalent or better). These contracts have guaranteed rates of return; however, they are uninsured and uncollateralized. All companies in which Authority funds are invested are required by their contracts to notify the trustee in the event that their highest rating is withdrawn by a rating agency. The investment contract provider has the option of posting collateral for the invested funds with a third party until such time as its rating is restored or returning the investment with full accrual of interest and without penalty to the trustee for rebidding.

**NEW JERSEY HIGHER EDUCATION STUDENT ASSISTANCE AUTHORITY  
NJCLASS/FFELP LOAN PROGRAMS**

**NOTES TO FINANCIAL STATEMENTS**

**B. CASH AND INVESTMENTS (CONTINUED)**

**Investments – Custodial Credit Risk (Continued)**

In addition to the fixed-rate contract agreements with investment providers, during part of fiscal year 2006, a major portion of the Programs' investment balance was in the UBS Select Money Market Fund- Institutional Shares, which has an AAA rating from S&P and invests in high quality, short-term US-Dollar-denominated money market instruments, commonly referred to as "First-Tier Securities." During fiscal year 2006, another investment vehicle utilized by the Authority was the New Jersey Cash Management Fund ("NJCMF"). For both of these categories, disclosure of custodial risk is not required, because GASB standards define investments in external investment pools and open-ended mutual funds as not subject to custodial credit risk. This is due to the fact that their existence is not evidenced by securities that exist in physical or book entry form.

The amounts held in each of these investment categories at June 30, 2007 and 2006, respectively, are summarized below:

	June 30,	
	2007	2006
Guaranteed Investment Contracts	\$ 670,795,979	\$ 590,134,212
New Jersey Cash Management Fund	-	12,165
	\$ 670,795,979	\$ 590,146,377

**Investments - Concentrations of Credit Risk**

"Concentration of Credit Risk" is the risk that relates to the amount of investment at any one entity. The disclosure requirement of this risk factor is limited to investments in excess of 5% of the total. Guaranteed investment contracts are the only category held by NJCLASS/FFELP subject to concentration of credit risk disclosure. Of all amounts invested in guaranteed investment contracts, the balances held by the following investment providers exceed this threshold as follows:

Rabobank	51%
Bayern LB	24%
NATIXIS Funding Corp	18%

These risks are mitigated by the collateral provisions of the Guaranteed Investment Contracts that govern these investments.

**NEW JERSEY HIGHER EDUCATION STUDENT ASSISTANCE AUTHORITY  
NJCLASS/FFELP LOAN PROGRAMS**

**NOTES TO FINANCIAL STATEMENTS**

**B. CASH AND INVESTMENTS (CONTINUED)**

**Investments – Interest Rate Risk**

NJCLASS/FFELP investment policies, as described in footnote A, SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Basis of Investments, require balances to be maintained in high-quality, low-risk investment options. All investment vehicles used by the Authority seek to maintain a stable price of \$1.00 per share. In these types of investments, it is highly unlikely that normal fluctuations in interest earnings on the underlying securities would cause a loss of principal. Consequently, NJCLASS/FFELP investments are not subject to interest rate risk.

**C. STUDENT LOANS RECEIVABLE**

The terms and conditions of the FFELP loans held by the Authority are governed by the federal rules and regulations of FFELP and various benefit programs extended by the original lender of these purchased loans.

NJCLASS loans originated by the Authority to eligible borrowers, as defined in the bond indentures and NJCLASS Program regulations, have the following repayment options:

- (1) To pay principal and interest monthly, beginning within sixty days of disbursement;
- (2) To pay only interest, quarterly, while the student is in school and thereafter to pay principal and interest monthly; or
- (3) To defer principal and interest payments while the student is in school and thereafter to pay principal and interest monthly.

Under options (1) and (2) as defined above, the NJCLASS loans originated from 1991 through 2007 generally bear interest at rates ranging from 5.25% to 8.95%.

Under option (3), deferred interest payments on loans funded from the 1991 through 1996 Bond Issues are added to the original loan balance on a quarterly basis. Deferred interest on loans funded from the 1997 through 2007 Issues is added to the original loan balance on an annual basis. Under this option, rates range from 5.55% to 9.25%.

Loans originally funded from the 1997 Series B and 1999 Series B Bonds that have been refunded by the 2003 Series E Bonds, as well as new loans funded from 2003 Series E Bonds, allow for the issuance of non-credit-based variable rate loans. Any loans funded from these issues that were disbursed on June 1, 2001, or later are subject to an interest rate cap of 9.00%.

For NJCLASS fixed rate loans approved after June 1, 2001, borrowers who have entered full repayment have the option to receive a .50% interest rate reduction in exchange for making Automated Clearing House payments.

**NEW JERSEY HIGHER EDUCATION STUDENT ASSISTANCE AUTHORITY  
NJCLASS/FFELP LOAN PROGRAMS**

**NOTES TO FINANCIAL STATEMENTS**

**C. STUDENT LOANS RECEIVABLE (CONTINUED)**

Beginning in June 2005, HESAA initiated an NJCLASS Consolidation Loan Program that allows existing NJCLASS borrowers who are out of school or withdrawn to consolidate their existing NJCLASS loans. The NJCLASS Consolidation Loan offers terms of either 25 or 30 years, depending on the dollar amount. The interest rate is a blended rate derived from the rates on the underlying loans being consolidated. As of June 30, 2007, the amount of NJCLASS Consolidation Loans outstanding was \$49,960,988.

In order to better meet the needs of student loan borrowers, effective June 1, 2006, HESAA made several changes to the NJCLASS Loan program, beginning during the 2006-2007 academic year. The repayment term for its Fixed Rate Standard NJCLASS Loans was increased from 15 years to 20 years, the application fee for Fixed Rate Standard NJCLASS Loans and Graduate/Professional NJCLASS Loans was reduced from 3% to 2%, and new Graduate/Professional NJCLASS Loans were originated at a fixed interest rate, as opposed to the variable rate subject to annual reset that was applied to loans originated in previous years.

**Loan Servicing**

In conjunction with the Authority's servicing of the student loans, the NJCLASS Loan Program remits to the Authority certain fees for Program administration, which are paid from Program revenues. For the years ended June 30, 2007 and 2006, \$6,066,768 and \$6,099,393 of servicing fees, respectively, were included in loan servicing fees charged to the NJCLASS Loan Program. In connection with the purchases of portfolios of existing loans, FFELP pays certain fees for Program administration, which are payable from Program revenues. For the years ended June 30, 2007 and 2006, the fees include administrative expenses of \$646,753 and \$719,398, respectively, paid to the Authority and fees paid to servicing agents of \$736,403 and \$839,265, respectively. In addition, for the years ended June 30, 2007 and 2006, loan consolidation rebate fees of \$942,646 and \$1,006,927, respectively, were paid to the United States Department of Education. Premium expense on purchases of FFELP loans for the years ended June 30, 2007 and 2006 amounted to \$174,581 and \$89,722, respectively.

**Loan Defaults/ Loan Reserve Fund**

Under the NJCLASS Loan Program, when a student loan payable in monthly installments reaches 180 days of delinquency or when a student loan payable in installments less frequent than monthly reaches 240 days of delinquency, the Authority will declare the respective loan "in default."

The Authority has established loan default reserve funds to stabilize the impact of loan defaults in the NJCLASS Loan Program. These are funded from sources other than the proceeds of the bonds in the dollar amounts or percentage of original loan principal specified by the appropriate master indenture.

**NEW JERSEY HIGHER EDUCATION STUDENT ASSISTANCE AUTHORITY  
NJCLASS/FFELP LOAN PROGRAMS**

**NOTES TO FINANCIAL STATEMENTS**

**C. STUDENT LOANS RECEIVABLE (CONTINUED)**

**Loan Defaults/Loan Reserve Fund (Continued)**

The Loan Reserve Fund is a separate fund established by the Authority to protect the interests of NJCLASS bondholders by reimbursing the various HESAA bond issues when loans default. This fund is not part of the NJCLASS Loan Program, thus it is not included in the accompanying financial statements. Amounts subsequently received relative to defaulted student loans are used to replenish the Loan Reserve Fund to the extent of 70% of recoveries. The Authority retains the remaining 30% as a collection fee.

During fiscal years ended 2007 and 2006, claims paid by the loan reserve funds totaled \$6,658,913 and \$4,839,230, respectively. As of June 30, 2007 and 2006, the balances due from the Loan Reserve Fund to cover defaulted loans totaled \$3,959,613 and \$3,282,851, respectively.

The Authority considers most of the amount due from its NJCLASS Loan Reserve Fund to be collectible. However, because the ability to pay claims from the Loan Reserve Fund is partially dependent on collections on defaulted loans, management continually evaluates the cash flows of this Fund to determine its ability to reimburse the bond issues on a timely basis. During the fiscal years 2006 and 2007, based on past collections experience and an analysis of the current receivable from the Loan Reserve Fund, management recorded allowances for doubtful accounts in the amount of \$2,673,000 and \$950,000, respectively, against the June 30, 2007 and 2006 amounts due from the Loan Reserve Fund.

In addition, the Loan Reserve Fund receives 1% of the loans disbursed from the 2% application fee paid by the borrower. During the years ended June 30, 2007 and 2006, amounts of \$2,550,446 and \$1,570,266, respectively, were paid to the Loan Reserve Fund maintained by the Authority from loan application fees. As of June 30, 2007 and 2006, the balances due to the Loan Reserve Fund from loan application fees and default collections totaled \$588,110 and \$244,730, respectively.

**NEW JERSEY HIGHER EDUCATION STUDENT ASSISTANCE AUTHORITY  
NJCLASS/FFELP LOAN PROGRAMS**

**NOTES TO FINANCIAL STATEMENTS**

**D. USE OF FINANCIAL INSTRUMENTS**

The Authority has entered into financial instrument contracts with various counterparties in connection with its Tax Exempt Variable Rate Bonds, also known as Auction Rate Certificates (“ARCs”), issued between 2001 and 2007 to support its NJCLASS loan program. These include sixteen (16) floating to fixed interest rate swaps (“Swaps”) and two (2) interest rate caps (“Caps”).

Under the terms of the Swap contracts, the Authority pays a fixed rate of interest on pre-established notional amounts. In return, the Authority receives the USD-SIFMA Index rate as calculated weekly, which historically has closely tracked the variable interest rates generated in the ARC market. The purpose of the Swaps is to provide an asset/liability match for the Authority’s fixed-rate NJCLASS loans being funded through the proceeds of the variable rate ARC bonds.

The purpose of the interest rate Cap agreements is to allow the Authority to cap the variable rate of interest on NJCLASS variable rate loans funded at 9%, a benefit comparable with maximum rates of the federal PLUS program. The Cap agreement initiated on May 29, 2001, provides for payment to the Authority if market interest rates, as determined by the floating index, which is 65% of the 12-Month LIBOR, increase above 6.40%. The Cap agreement initiated on May 27, 2003, provides for payment to the Authority if market interest rates, as determined by the floating index, which is 72% of USD LIBOR, increase above 6.15%.

As governed by the amortization schedules contained in each of these agreements, the notional amount of each Swap or Cap increases to a maximum, then amortizes to a minimum value before a fixed termination date, to match the anticipated changes in the outstanding balances of the related student loans.

No amounts relating to these agreements are recorded in the financial statements other than the net interest expense resulting from the agreements.

The interest rates, notional amounts, provider (or counterparty), fair values and termination dates for each ARC bond issue and financial instrument agreement at June 30, 2007 and 2006 are detailed in the attached schedules.

The Swap agreements for certain bond years contain a feature that gives HESAA the option to terminate either or both Swaps on or after a predetermined date. This financial instrument is classified as a “Swaption.” The fair values of these Swaptions are separately listed on the following schedules if separately reported by the swap provider, otherwise they are included in the fair market value of the Swap.

**NEW JERSEY HIGHER EDUCATION STUDENT ASSISTANCE AUTHORITY  
NJCLASS/FFELP LOAN PROGRAMS**

**NOTES TO FINANCIAL STATEMENTS**

**D. USE OF FINANCIAL INSTRUMENTS (CONTINUED)**

Values as of June 30, 2007									
Transaction Type	Bond Issue	Fixed Rate	Notional Amount	Fair Value (1)	Provider	Settlements Occur	Termination Date	Amortize to	
Swap	2001	4.6830%	\$ 47,115,000	1,746,327.95	UBS AG	semi-annually	06/01/16	3,995,000	
Swap		4.0175%	42,140,000	354,428.62	UBS AG	semi-annually	06/01/16	3,565,000	
Cap		6.4000%	4,650,000	(5,013.57)	UBS AG	5/19/2001	06/01/19	1,300,000	
Total			<u>93,905,000</u>	<u>2,095,743.00</u>					
Swap	2002	4.2005%	58,100,000	956,878.00	Bear Stearns	semi-annually	06/01/17	5,100,000	
Swap		3.2970%	35,655,000	(921,081.00)	Bear Stearns	semi-annually	06/01/17	2,760,000	
Total			<u>93,755,000</u>	<u>35,797.00</u>					
Swap	2003	3.1710%	66,000,000	(2,291,016.91)	UBS AG	semi-annually	12/01/18	3,000,000	
Swap		3.1710%	66,000,000	(2,271,744.00)	Citigroup	semi-annually	12/01/18	3,000,000	
Cap		0.3930%	14,850,000	289,060.08	UBS AG	annually	06/01/28	-	
Total			<u>146,850,000</u>	<u>(4,273,700.83)</u>					
Swap	2004	4.1480%	72,625,000	965,929.82	UBS AG	semi-annually	12/01/19	3,250,000	
Swap		4.1480%	72,625,000	986,649.00	Citigroup	semi-annually	12/01/19	3,250,000	
Swaption			-	(346,395.36)	UBS AG				
Swaption			-	(340,353.00)	Citigroup				
Total			<u>145,250,000</u>	<u>1,265,830.46</u>					
Swap	2005	4.0100%	68,500,000	292,935.91	UBS AG	semi-annually	06/01/21	3,000,000	
Swap		4.0100%	68,500,000	306,749.00	Citigroup	semi-annually	06/01/21	3,000,000	
Swaption			-	(303,585.73)	UBS AG				
Swaption			-	(299,334.00)	Citigroup				
Total			<u>137,000,000</u>	<u>(3,234.82)</u>					
Swap	2006	4.4750%	72,500,000	2,566,741.52	UBS AG	semi-annually	06/01/31	1,000,000	
Swap		4.4750%	72,500,000	2,570,382.00	Citigroup	semi-annually	06/01/31	1,000,000	
Swaption			-	(767,980.97)	UBS AG				
Swaption			-	(767,792.00)	Citigroup				
Total			<u>145,000,000</u>	<u>3,601,350.55</u>					
Swap	2007	4.0970%	10,665,000	(84,262.00)	Citigroup	semi-annually	06/01/36	135,000	
Swap		4.0970%	10,665,000	(581,736.00)	Goldman Sachs	semi-annually	06/01/36	135,000	
Swap		4.0970%	10,665,000	(570,638.00)	MSCS	semi-annually	06/01/36	135,000	
Swap		4.0970%	48,005,000	(364,252.30)	UBS AG	semi-annually	06/01/36	595,000	
Swaption			-	(520,575.00)	Citigroup				
Swaption			-	(2,379,901.66)	UBS AG				
Total			<u>80,000,000</u>	<u>(4,501,364.96)</u>					
Grand Total			<u>\$ 841,760,000</u>	<u>\$ (1,779,580)</u>					

(1) All fair values that result in a positive value to the swap provider are shown as positive amounts. All fair values that result in a positive value to HESAA are shown as negative amounts.



**NEW JERSEY HIGHER EDUCATION STUDENT ASSISTANCE AUTHORITY  
NJCLASS/FFELP LOAN PROGRAMS**

**NOTES TO FINANCIAL STATEMENTS**

**D. USE OF FINANCIAL INSTRUMENTS (CONTINUED)**

Values as of June 30, 2006								
Transaction Type	Bond Issue	Fixed Rate	Notional Amount	Fair Value (1)	Provider	Settlements Occur	Termination Date	Amortize to
Swap	2001	4.6830%	\$ 51,505,000	1,636,397.00	UBS AG	semi-annually	06/01/16	3,995,000
Swap		4.0175%	46,070,000	31,662.00	UBS AG	semi-annually	06/01/16	3,565,000
Cap		6.4000%	4,650,000	(10,132.00)	UBS AG	5/19/2001	06/01/19	1,300,000
Total			<u>102,225,000</u>	<u>1,657,927.00</u>				
Swap	2002	4.2005%	62,100,000	527,577.00	Bear Stearns	semi-annually	06/01/17	5,100,000
Swap		3.2970%	38,145,000	(1,424,766.00)	Bear Stearns	semi-annually	06/01/17	2,760,000
Total			<u>100,245,000</u>	<u>(897,189.00)</u>				
Swap	2003	3.1710%	66,500,000	(3,261,870.00)	UBS AG	semi-annually	12/01/18	3,000,000
Swap		3.1710%	66,500,000	(3,266,529.00)	Citigroup	semi-annually	12/01/18	3,000,000
Cap		0.3930%	16,350,000	287,700.00	UBS AG	annually	06/01/28	-
Total			<u>149,350,000</u>	<u>(6,240,699.00)</u>				
Swap	2004	4.1480%	72,625,000	258,060.00	UBS AG	semi-annually	12/01/19	3,250,000
Swap		4.1480%	72,625,000	250,746.00	Citigroup	semi-annually	12/01/19	3,250,000
Swaption			-	(343,101.00)	UBS AG			
Swaption			-	(334,178.00)				
Total			<u>145,250,000</u>	<u>(168,473.00)</u>				
Swap	2005	4.0100%	51,000,000	(600,394.00)	UBS AG	semi-annually	06/01/21	3,000,000
Swap		4.0100%	51,000,000	(305,408.00)	Citigroup	semi-annually	06/01/21	3,000,000
Swaption			-	(306,907.00)	UBS AG			
Swaption			-	(300,217.00)				
Total			<u>102,000,000</u>	<u>(1,512,926.00)</u>				
Swap	2006	4.4750%	500,000	1,056,205.00	UBS AG	semi-annually	06/01/31	1,000,000
Swap		4.4750%	500,000	1,028,250.00	Citigroup	semi-annually	06/01/31	1,000,000
Swaption			-	(744,817.00)	UBS AG			
Swaption			-	(746,043.00)	Citigroup			
Total			<u>1,000,000</u>	<u>593,595.00</u>				
Grand Total			<u>\$ 600,070,000</u>	<u>(6,567,765.00)</u>				

(1) All fair values that result in a positive value to the swap provider are shown as positive amounts. All fair values that result in a positive value to HESAA are shown as negative amounts.

**E. BONDS PAYABLE**

The Authority has issued bonds to support its loan programs. All bonds described herein are limited obligations of the Authority, payable solely from the assets of the NJCLASS/FFELP Trust Estate, as described in the official statement of each issue. In addition to the assets or funds of the Trust Estate, all bonds issued from 1997 through 2007 are covered by municipal bond insurance policies guaranteeing payment of principal and interest in the event of default by the Authority. None of the Authority's assets or funds (other than the Trust Estate) is pledged as security for the bonds.

**Bonds Outstanding**

The following schedules present summarized information relating to the interest rates and future maturities of the bonds outstanding as of June 30, 2007 and 2006:

**NEW JERSEY HIGHER EDUCATION STUDENT ASSISTANCE AUTHORITY  
NJCLASS/FFELP LOAN PROGRAMS**

**NOTES TO FINANCIAL STATEMENTS**

**E. BONDS PAYABLE (CONTINUED)**

**Bonds Outstanding (Continued)**

Bond Title, Issue Year/Series	Interest Rate Range as of June 30, 2007	Maturity Dates	Bonds		Reductions	Bonds		Amounts Due within One Year
			Outstanding (in thousands) June 30, 2006	Additions		Outstanding (in thousands) June 30, 2007	Due within One Year	
1991, Series B								
Subordinated Student Loan Revenue Bonds (1)	N/A - See (1), (4)	7/1/2010	\$ 582	\$ -	\$ (582)	\$ -	\$ -	\$ -
1992, Series A								
Student Loan Revenue Bonds	See (4)	7/1/2009	2,560	-	(2,560)	-	-	-
1993, Series A								
Student Loan Revenue Bonds	5.30%	7/1/2010	3,025	-	(925)	2,100	-	-
1995, Series A								
Student Loan Revenue Bonds	5.7%-6.00%	7/1/07-7/1/12	3,005	-	(905)	2,100	320	320
1996, Series A								
Student Loan Revenue Bonds	5.65%-6.125%	7/1/07-7/1/15	5,745	-	(1,055)	4,690	455	455
1997, Series A								
Student Loan Revenue Bonds	5.4%-5.80%	12/1/07-6/1/16	9,495	-	(1,250)	8,245	850	850
1998, Series A								
Serial Student Loan Revenue Bonds	4.8%-5.30%	6/1/08-6/1/17	37,475	-	(8,840)	28,635	2,060	2,060
1999, Series A								
Student Loan Revenue Bonds	4.70%-5.25%	6/1/08-6/1/18	26,720	-	(5,000)	21,720	870	870
2000, Series A								
Student Loan Revenue Bonds	5.7%-6.15%	6/1/08-6/1/19	37,135	-	(6,640)	30,495	1,975	1,975
2001, Series A through D								
Student Loan Revenue Bonds (2)	3.85%-3.90% (ARCs)	6/1/2036	190,000	-	-	190,000	-	-
2002, Series A through D								
Student Loan Revenue Bonds (2)	3.86%-3.90% (ARCs)	6/1/2037	166,000	-	-	166,000	-	-
2003, Series A through E								
Student Loan Revenue Bonds (2) (3)	3.80%-3.90% (ARCs)	5/28/2038	212,000	-	-	212,000	-	-
2004, Series A through D								
Student Loan Revenue Bonds (2)	3.85%-4.05% (ARCs)	4/1/2039	200,000	-	-	200,000	-	-
2005, Series A through D								
Student Loan Revenue Bonds (2)	3.82%-3.938% (ARCs)	5/1/2040	225,000	-	-	225,000	-	-
2006, Series A through D								
Student Loan Revenue Bonds (2)	3.83%-3.94% (ARCs)	12/1/2040	225,000	-	-	225,000	-	-
2007, Series A through D								
Student Loan Revenue Bonds (2)	3.81%-3.85% (ARCs)	12/1/2041	-	275,000	-	275,000	-	-
Totals			\$ 1,343,742	\$ 275,000	\$ (27,757)	\$ 1,590,985	\$ 6,530	\$ 6,530

**NEW JERSEY HIGHER EDUCATION STUDENT ASSISTANCE AUTHORITY  
NJCLASS/FFELP LOAN PROGRAMS**

**NOTES TO FINANCIAL STATEMENTS**

**E. BONDS PAYABLE (CONTINUED)**

**Bonds Outstanding (Continued)**

- (1) The 1991 Series B Bonds were capital appreciation bonds. The bonds outstanding amount included original principal plus accumulated accretion of the issue price. Interest was not paid on the 1991 Series B Bonds; however, the implied interest rate was 8.14%.
- (2) All 2001, 2002, 2003, 2004, 2005, 2006 and 2007 Series A through D Student Loan Revenue Bonds are Auction Rate Certificates. These Bonds carry floating interest rates. After a uniform initial rate and varying durations by series were set at the issue date, rates are reset every 35 days at a separate auction for each series. The interest rate ranges stated in the table are as of June 30, 2007.
- (3) All 2003 Series E Student Loan Revenue Bonds are Auction Rate Certificates. After the initial rate is set, rates are reset annually. The interest rate for Series E was 3.80% as of June 30, 2007.
- (4) Bond issue is fully retired.

**Extraordinary Redemption Provisions**

Provisions governing the extraordinary redemption of bonds prior to maturity are included in the redemption provisions sections of the indentures for all bonds issued during the years 1991 through 2000. Where applicable, these early redemptions are permitted under the Extraordinary Redemption from Unexpended Proceeds, the Special Redemption, and the Extraordinary Redemption from Excess Revenues sections of the indentures. All bonds retired under the Extraordinary Redemption provisions are redeemable at par.

As of June 30, 2007 and 2006, the Authority had redeemed \$202,708,935 and \$181,607,432, respectively, of bonds from the 1991, 1992, 1993, 1995, 1996, 1997, 1998, 1999 and 2000 Issues under the Extraordinary Redemption from Unexpended Proceeds and the Extraordinary Redemption from Excess Revenues sections of the redemption provisions of each bond issue's indenture.

**Optional Redemption Provisions**

Each indenture also contains provisions for the optional redemptions of NJCLASS fixed rate bonds. For the 1991 through 2000 Bond Issues, the Authority is precluded from doing optional redemptions for the first 10 years of each issue. From the eleventh to thirteenth years, the prices for optional redemptions by the Authority range from 102% to 100% (par) of the face amount, with the premium amounts decreasing to par in annual decrements over this two-year period.

All 2001, 2002, 2003, 2004, 2005, 2006 and 2007 Bonds are eligible for redemption prior to maturity at any time upon 10 days notice at par plus accrued interest, as long as they remain outstanding as ARCs or are converted to variable rate bonds. If they are converted to a fixed rate, they can be redeemed at any time following the tenth anniversary date of conversion to a fixed rate upon not less than 30 days notice. If redeemed in the eleventh and twelfth years at the fixed rate, redemption prices include premium amounts of 102% and 101%, respectively, decreasing to par after twelve years.

**NEW JERSEY HIGHER EDUCATION STUDENT ASSISTANCE AUTHORITY  
NJCLASS/FFELP LOAN PROGRAMS**

**NOTES TO FINANCIAL STATEMENTS**

**E. BONDS PAYABLE (CONTINUED)**

**Optional Redemption Provisions (Continued)**

No redemptions under the Optional Redemptions section of the indentures have been made by the Authority to date.

**Scheduled Maturities**

Since inception of the NJCLASS/FFELP Programs in 1991, \$40,865,000 of bonds have been redeemed as scheduled maturities under the supplemental indentures applicable to the 1991 through 2000 Bond Issues.

**Conversion of 2001, 2002, 2003, 2004, 2005 2006 and 2007 Bonds – Auction Rate Certificates - to Fixed Interest Rate or Variable Interest Rate**

As required by the Fourth (for 2001), Fifth (for 2002), Sixth (for 2003), Seventh (for 2004), Eighth (for 2005), Ninth (for 2006) or Tenth (for 2007) Supplemental Indentures, the ARCs may be converted to fixed rate or variable rate bonds prior to their final maturities. More than one fixed rate may be established to apply to the 2001, 2002, 2003, 2004, 2005 2006 and/or 2007 Bonds, taking into account the scheduled maturity dates. The fixed rate selected must cause the converted bonds to sell at par. For conversions to a variable rate, the interest rate period must be one year or less.

Any 2001, 2002, 2003, 2004, 2005 2006 and/or 2007 Bonds to be converted to fixed rate or variable rate bonds shall be subject to mandatory tender for purchase on the fixed or variable rate conversion date, at par plus accrued interest.

The Fourth, Fifth, Sixth, Seventh, Eighth, Ninth and/or Tenth Supplemental Indentures may be amended by supplemental indentures to modify the provisions for optional redemption of the 2001, 2002, 2003, 2004, 2005, 2006 and/or 2007 Bonds.

**NEW JERSEY HIGHER EDUCATION STUDENT ASSISTANCE AUTHORITY  
NJCLASS/FFELP LOAN PROGRAMS**

**NOTES TO FINANCIAL STATEMENTS**

**E. BONDS PAYABLE (CONTINUED)**

**Future Maturities and Sinking Fund Requirements**

Future maturities of bonds payable, including interest, are as follows:

Year Ending June 30,	Principal	Interest	Total
2008	\$ 6,530,000	\$ 63,807,757	\$ 70,337,757
2009	7,705,000	63,461,128	71,166,128
2010	7,735,000	63,056,620	70,791,620
2011	9,710,000	62,547,655	72,257,655
2012	6,380,000	62,094,496	68,474,496
2013-2017	46,960,000	302,976,301	349,936,301
2018-2022	24,965,000	293,214,470	318,179,470
2023-2027	-	290,511,350	290,511,350
2028-2032	-	290,511,350	290,511,350
2033-2037	356,000,000	281,802,587	637,802,587
2038-2042	1,125,000,000	130,055,295	1,255,055,295
Total	<u>\$ 1,590,985,000</u>	<u>\$ 1,904,039,008</u>	<u>3,495,024,008</u>
Less amount representing interest			<u>1,904,039,008</u>
Net minimum principal payments			<u>\$ 1,590,985,000</u>

As governed by the indenture for each issue and series for the years 1993 through 2000 and for the 2003 Series E Bonds, mandatory sinking fund redemptions prior to maturity, in part, by lot are required. The amounts of sinking fund redemptions for the fiscal years 2008 through 2012 and thereafter are included in the maturity schedule shown above.

**F. ARBITRAGE REBATES**

Pursuant to current federal income tax law and in accordance with the bond indentures, certain income earned on non-purpose investments (investments other than student loans) attributable to the Authority's outstanding tax-exempt bonds is subject to payment to the U.S. Treasury as arbitrage rebates.

The arbitrage rebates are determined and calculated annually based upon the percentage of yield realized on the non-purpose investments compared to the percentage of yield on the tax-exempt bonds and is cumulative over the lives and terms of the applicable bond series. Accordingly, the determined amount for any one-year could be reduced in subsequent years based on changes in yield differentials. The following arbitrage profits were subject to rebate and were included in arbitrage payable on the NJCLASS/FFELP program financial statements:

**NEW JERSEY HIGHER EDUCATION STUDENT ASSISTANCE AUTHORITY  
NJCLASS/FFELP LOAN PROGRAMS**

**NOTES TO FINANCIAL STATEMENTS**

**F. ARBITRAGE REBATES (CONTINUED)**

	June 30,	
	2007	2006
Bond Issue		
1995	\$ 648	\$ 22,684
1997	29,940	45,326
1998	147,095	-
2000	115,204	60,699
	\$ 292,887	\$ 128,709

**G. CONCENTRATIONS OF CREDIT RISK**

**Financial Instruments**

As disclosed in Note A, Summary of Significant Accounting Policies, the Authority's loan programs use financial instruments. These agreements are structured to enable variable rate bond proceeds to meet specific needs of the student loan market by reducing the risk associated with changes in interest rates.

As of June 30, 2007 and 2006, the liability associated with financial instruments specified in Note A totalled \$246,023 and \$254,223, respectively. This amount is included in accrued interest payable.

In order to enhance the security of these financial instruments, the Authority has included provisions in the contracts that govern these agreements requiring the counterparty to post collateral in the form of negotiable debt obligations of the U.S. Treasury if its long-term senior unsecured debt rating from S&P is withdrawn, suspended or falls to or below "A+"; if its rating from Moody's is withdrawn, suspended or falls to or below "A1"; or if its rating from Fitch is withdrawn, suspended or falls to or below "A+."

As an additional safeguard, the Authority has the option to terminate the agreements regarding these financial instruments at any time, subject to the settlement of market value amounts due to the issuer or HESAA at the time of termination.

**Student Loans Receivable**

The Authority provides student loans to New Jersey residents and out-of-state residents attending college in New Jersey, who use the proceeds for the purpose of pursuing higher education. The Authority assesses eligibility of loan applicants using criteria equal to the established guidelines for comparable loans in the banking industry. Management performs ongoing evaluations of its loan recipients and maintains an insurance fund, separate from the

**NEW JERSEY HIGHER EDUCATION STUDENT ASSISTANCE AUTHORITY  
NJCLASS/FFELP LOAN PROGRAMS**

**NOTES TO FINANCIAL STATEMENTS**

**G. CONCENTRATIONS OF CREDIT RISK (CONTINUED)**

**Student Loans Receivable (Continued)**

bond issues, which is capitalized by a fee charged at disbursement and partially replenished by collections on defaulted loans, to reimburse the bond issues when defaults occur. This policy is in conformity with the reserve amount requirements of the trust indentures between the Authority and Wells Fargo Bank. As a means of ensuring that cash flows generated from NJCLASS Student Loans will be sufficient to cover and protect the interests of the bondholders, management considers the insurance fund cash flows adequate in light of actual loan default experience.

**H. ROUNDING**

Some schedules in the financial statements may have dollar differences due to rounding.

**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 Members of  
 New Jersey Higher Education Student Assistance Authority

We have audited the financial statements of the NJCLASS/FFELP Loan Programs of the New Jersey Higher Education Student Assistance Authority as of and for the year ended June 30, 2007, and have issued our report thereon dated October 10, 2007. 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.

Internal Control over Financial Reporting

In planning and performing our audit, we considered NJCLASS/FFELP Loan Programs' 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 NJCLASS/FFELP Loan Programs' internal control over financial reporting.

A control deficiency 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 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.

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.

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**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***

Internal Control over Financial Reporting (Continued)

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 that might be 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 NJCLASS/FFELP Loan Programs' 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 non-compliance 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 audit committee, trustees, 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 those specified parties.

*Arcadio, P.C.*  
*Certified Public Accountant*

October 10, 2007

**SUPPLEMENTARY INFORMATION**





**NEW JERSEY HIGHER EDUCATION STUDENT ASSISTANCE AUTHORITY  
NJCLASS/FFELP LOAN PROGRAMS**

**COMBINING SCHEDULE OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS  
YEAR ENDED JUNE 30, 2007**

	1991	1992	1993	1995	1996	1997-A	1998	1999-A	2000	2001	2002	2003	2004	2005	2006	2007	Combined
	Bond Issue	Bond Issue	Bond Issue	Bond Issue	Bond Issue	Bond Issue	Bond Issue	Bond Issue	Bond Issue	Bond Issue	Bond Issue	Bond Issue	Bond Issue	Bond Issue	Bond Issue	Bond Issue	Bond Issues
Operating Revenues																	
Application/Administrative Fee Income	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ (163)	\$ (538)	\$ 31,149	\$ (700)	\$ 1,639,672	\$ 3,169,342	\$ 10,675	\$ 4,849,436
NJCLASS Student Loans																	
Interest Income on NJCLASS																	
Student Loans Receivable	15,613	40,591	100,652	149,504	233,468	427,193	2,034,274	1,449,275	2,176,115	5,281,347	5,024,193	7,237,068	7,829,085	6,930,868	6,066,837	1,573	44,997,655
FFELP Student Loans																	
Total Operating Revenues	15,613	40,591	100,652	149,504	233,468	427,193	2,034,274	1,449,275	2,176,115	4,257,824	3,613,998	1,520,153	611,702	31,726			10,035,402
Operating Expenses																	
Fees Paid to Servicing Agents																	
NJCLASS Student Loans	10,780	36,572	36,416	33,662	41,192	64,695	326,656	223,295	225,870	438,271	415,227	637,834	450,498	1,239,298	1,881,315	5,185	6,066,767
FFELP Student Loans																	
Total Fees Paid to Servicing Agents	10,780	36,572	36,416	33,662	41,192	64,695	326,656	223,295	225,870	1,551,606	1,278,226	1,029,533	558,473	1,282,204	1,881,315	5,185	2,518,912
Program Expenses																	
Annual Insurance Expense						7,000	22,908	16,000	22,000	123,500	107,900	159,002	145,000	157,500	78,750	-	839,560
Transaction Fees										313,500	265,600	339,200	325,000	360,000	360,000	55,000	2,018,300
Bad Debt Expense		(12,100)	6,400	3,800	1,800	(26,000)	120,100	104,100	80,900	254,800	363,400	532,000	225,400	68,400	-	-	1,723,000
Other Program Expenses										(79)	(182)	15,320	(238)	771,659	1,712,739	4,868	2,504,087
Total Program Expenses		(12,100)	6,400	3,800	1,800	(19,000)	143,008	120,100	102,900	691,721	736,718	1,045,522	695,162	1,357,559	2,151,489	4,868	7,084,947
Bond Interest Expense		68,477	132,145	146,154	308,001	508,320	1,757,854	1,257,258	2,108,400	7,766,143	6,431,370	7,278,125	8,218,794	8,768,413	8,800,767	1,321,173	54,871,394
Total Operating Expenses	10,780	92,949	174,962	183,616	350,993	554,015	2,227,518	1,600,654	2,437,170	10,009,470	8,446,314	9,353,180	9,472,428	11,408,176	12,833,571	1,386,226	70,542,021
Operating Income (Loss)	4,833	(52,358)	(74,310)	(34,112)	(117,525)	(126,822)	(193,244)	(151,379)	(261,055)	(470,462)	191,338	(564,810)	(1,032,341)	(2,805,910)	(3,597,393)	(1,373,978)	(10,659,527)
Non Operating Revenues (Expenses)																	
Income on Investments	155,507	206,231	134,407	129,845	87,438	285,284	567,316	325,864	582,324	2,956,870	1,827,418	3,477,182	3,409,299	6,408,262	6,639,053	1,732,010	28,924,312
Other Income	2,215	-	-	-	-	-	-	-	5,612	23,132	26,719	77,487	14,526	59,317	47,078	625,000	881,086
Amortization of Interest Rate Cap	-	-	-	-	-	-	-	-	-	-	-	(78,830)	-	-	-	-	(78,830)
Amortization of Bond Issuance Cost	-	(29,199)	(8,422)	(9,385)	(11,193)	(31,019)	(72,097)	(42,479)	(62,772)	(23,231)	(23,938)	(27,868)	(30,041)	(32,756)	(32,668)	(4,833)	(443,903)
Amortization of Swap Fees	-	-	-	-	-	-	-	-	-	-	(21,079)	(3,662)	(4,505)	(4,034)	-	-	(33,280)
Arbitrage Expense	-	-	-	22,036	-	15,387	(147,095)	-	(54,506)	-	-	-	-	-	-	-	(164,178)
Total Non Operating Revenues (Expenses)	157,722	177,032	125,984	142,496	76,245	269,652	348,125	283,385	470,659	2,954,771	1,809,120	3,444,309	3,389,279	6,430,788	6,653,463	2,352,176	29,085,206
Change in Net Assets	162,555	124,674	51,675	108,383	(41,280)	142,830	154,880	132,006	209,603	2,484,309	2,600,458	2,879,499	2,356,938	3,624,878	3,056,070	978,199	18,425,678
Net Assets, Beginning of Year	2,458,068	3,567,795	1,681,582	1,555,285	944,247	1,228,861	4,241,930	1,574,539	2,077,692	3,910,201	834,355	1,206,659	(1,216,071)	2,568,964	697,338	-	27,331,445
Net Assets, End of Year	\$ 2,620,623	\$ 3,692,469	\$ 1,733,257	\$ 1,663,668	\$ 902,967	\$ 1,371,691	\$ 4,396,810	\$ 1,706,545	\$ 2,287,296	\$ 6,394,511	\$ 2,834,813	\$ 4,086,158	\$ 1,140,866	\$ 6,193,843	\$ 3,753,409	\$ 978,199	\$ 45,757,123

**NEW JERSEY HIGHER EDUCATION STUDENT ASSISTANCE AUTHORITY  
NJCLASS/FFELP LOAN PROGRAMS**

**COMBINING SCHEDULE OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS  
YEAR ENDED JUNE 30, 2006**

	1991	1992	1993	1995	1996	1997-A	1998	1999-A	2000	2001	2002	2003	2004	2005	2006	Combined
	Bond Issue	Bond Issue	Bond Issue	Bond Issue	Bond Issue	Bond Issue	Bond Issue	Bond Issue	Bond Issue	Bond Issue	Bond Issue	Bond Issue	Bond Issue	Bond Issue	Bond Issue	Bond Issues
<b>Operating Revenues</b>																
Application/Administrative Fee Income	\$ -	\$ -	\$ -	\$ -	\$ -	\$ (353)	\$ (282)	\$ -	\$ -	\$ 854,336	\$ 580,746	\$ 173,258	\$ 1,684,811	\$ 1,027,826	\$ 1,315	\$ 4,321,657
Interest Income																
NJCLASS Student Loans	45,259	184,840	195,741	248,979	337,759	561,405	2,634,477	1,805,357	2,706,932	5,447,849	5,256,197	7,696,269	7,029,426	1,475,425	138	35,626,053
FFELP Student Loans	-	-	-	-	-	-	-	-	-	4,247,899	3,615,889	1,663,008	771,288	-	-	10,298,084
Total Operating Revenues	45,259	184,840	195,741	248,979	337,759	561,052	2,634,195	1,805,357	2,706,932	10,550,084	9,452,832	9,352,535	9,485,525	2,503,251	1,453	50,245,794
<b>Operating Expenses</b>																
Loan Servicing Fees																
NJCLASS Student Loans	25,180	55,696	49,519	43,045	51,221	77,387	392,036	265,819	266,031	1,030,014	818,542	765,380	1,651,596	607,218	709	6,099,393
FFELP Student Loans	-	-	-	-	-	-	-	-	-	1,098,860	938,483	456,908	161,058	-	-	2,655,309
Total Fees Paid to Servicing	25,180	55,696	49,519	43,045	51,221	77,387	392,036	265,819	266,031	2,128,874	1,757,025	1,222,288	1,812,654	607,218	709	8,754,702
<b>Program Expenses</b>																
Annual Insurance Expense	-	-	-	-	-	9,000	29,980	20,000	27,000	123,500	107,900	159,002	145,000	78,750	-	700,132
Transaction Fees	-	-	-	-	-	-	-	-	-	487,667	408,933	522,851	486,667	552,583	-	2,531,701
Bad Debt Expense	-	25,800	19,800	15,400	30,000	73,000	117,400	84,400	133,500	171,800	135,500	100,700	42,700	-	-	950,000
Other Program Expenses	-	-	-	-	-	(120)	(96)	-	-	284,756	193,721	57,841	562,020	508,519	657	1,607,298
Total Program Expenses	-	25,800	19,800	15,400	30,000	81,880	147,284	104,400	160,500	1,067,723	846,054	840,394	1,236,387	1,139,852	73,657	5,789,131
Bond Interest Expense	63,685	200,120	188,713	205,664	382,537	614,762	2,240,227	1,559,177	2,641,000	7,303,289	5,962,690	6,795,551	7,861,413	6,962,718	1,634,973	44,616,519
Total Operating Expenses	88,865	281,616	258,032	264,109	463,758	774,029	2,779,547	1,929,396	3,067,531	10,499,886	8,565,769	8,858,233	10,910,454	8,709,788	1,709,339	59,160,352
Operating (Loss) Income	(43,606)	(96,776)	(62,291)	(15,130)	(125,999)	(212,977)	(145,352)	(124,039)	(360,599)	50,198	887,063	674,302	(1,424,929)	(6,206,537)	(1,707,886)	(8,914,558)
<b>Non-Operating Revenues (Expenses)</b>																
Income on Investments	175,662	250,977	133,817	131,086	170,238	283,070	619,828	342,803	672,476	1,932,351	1,128,829	2,053,968	2,713,510	8,340,138	2,211,919	21,160,672
NJCLASS Program Funding	-	-	-	-	-	-	-	-	-	-	-	-	-	650,000	200,000	850,000
Amortization of Interest Rate Cap	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(80,959)
Amortization of Bond Issuance Cost	(10,367)	(13,556)	(11,492)	(12,091)	(13,284)	(36,504)	(71,743)	(42,478)	(71,016)	(25,231)	(21,742)	(30,074)	(30,041)	(33,937)	(6,695)	(430,251)
Amortization of Swap Fees	-	-	-	-	-	-	-	-	-	-	(21,079)	(3,667)	(4,523)	(4,049)	-	(33,318)
Arbitrage Expense	-	-	-	-	-	(9,237)	-	-	(50,082)	-	-	-	-	-	-	(59,319)
Total Non-Operating Revenues	165,295	237,421	122,325	118,995	156,954	237,329	548,085	300,325	551,378	1,907,120	1,086,008	1,939,268	2,678,946	8,952,152	2,405,224	21,406,825
Change in Net Assets	121,689	140,645	60,034	103,865	30,955	24,352	402,733	176,286	190,779	1,957,318	1,973,071	2,613,570	1,254,017	2,745,615	697,338	12,492,267
Net Assets (Deficit), beginning of year	2,336,379	3,427,149	1,621,547	1,451,419	913,293	1,204,507	3,839,196	1,398,254	1,886,913	1,952,883	(1,138,715)	(1,406,910)	(2,470,088)	(176,649)	-	14,839,178
Net Assets (Deficit), end of year	\$ 2,458,068	\$ 3,567,794	\$ 1,681,581	\$ 1,555,284	\$ 944,248	\$ 1,228,859	\$ 4,241,929	\$ 1,574,540	\$ 2,077,692	\$ 3,910,201	\$ 834,356	\$ 1,206,660	\$ (1,216,071)	\$ 2,568,966	\$ 697,338	\$ 27,331,445

Note: Differences of \$1-\$2 are due to rounding.