

**NEW JERSEY HIGHER EDUCATION  
STUDENT ASSISTANCE AUTHORITY**

**OTHER HESAA PROGRAMS AND FUNDS  
COMBINED FINANCIAL STATEMENTS**

**June 30, 2008 and 2007**

**NEW JERSEY HIGHER EDUCATION STUDENT ASSISTANCE AUTHORITY**

**OTHER HESAA PROGRAMS AND FUNDS**

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## INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying combined financial statements of the governmental activities of Other HESAA Programs and Funds of the New Jersey Higher Education Student Assistance Authority (the "Authority") as of and for the years ended June 30, 2008 and 2007. 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 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 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.

In our opinion, the combined financial statements referred to above present fairly, in all material respects, the financial position of Other HESAA Programs and Funds of the New Jersey Higher Education Student Assistance Authority at June 30, 2008 and 2007, and the changes in financial position 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 29, 2008 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.

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## INDEPENDENT AUDITORS' REPORT (CONTINUED)

Our audits were conducted for the purpose of forming an opinion on the combined financial statements of the Authority, taken as a whole. The supplementary schedules, as listed in the table of contents under Supplementary Schedules, are presented for the purpose of additional analysis and are not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the combined financial statements and, in our opinion, is fairly stated in all material respects in relation to the combined financial statements taken as a whole.

Management's discussion and analysis on pages 3-5 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.

*Amercador, PC*  
*Certified Public Accountants*

October 29, 2008

**NEW JERSEY HIGHER EDUCATION STUDENT ASSISTANCE AUTHORITY  
OTHER HESAA PROGRAMS AND FUNDS**

**MANAGEMENT'S DISCUSSION AND ANALYSIS**

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 years ended June 30, 2008 and 2007. 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 A 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 A 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, revenues and expenses are reported in these statements for some items that will only result in cash flows in future fiscal periods.

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

**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 revenues exceed expenses. Increases to assets without corresponding increases to liabilities result in increased fiduciary net assets, which indicate 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 \$35,926,547 and \$28,936,530 at June 30, 2008 and 2007, respectively, consist principally of amounts invested in the New Jersey Cash Management Fund. The largest component of this balance, \$24,696,235 and \$21,101,309 at June 30, 2008 and 2007, respectively, is 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 life-of-loan administrative and servicing expenses, for which the Authority is responsible under the terms of the NJCLASS/FFELP bond indentures. In addition, the NJBEST Administrative Fund had \$7,324,333 and \$4,797,836 at June 30, 2008 and 2007, respectively, invested in the New Jersey Cash Management Fund. This amount is reserved to pay for future scholarship obligations of the program.

At June 30, 2008 and 2007, the Funds' liabilities totaled \$12,071,754 and \$6,614,398, respectively, and consisted of amounts due to HESAA programs not represented on these financial statements. The largest liabilities in both periods were the net amounts due to the NJCLASS/FFELP Loan Program from the NJCLASS Loan Reserve Fund for payment of default claims, which were partially offset by the amounts due to the reserve fund for origination fees. At June 30, 2008 and 2007, this net liability totaled \$9,003,643 and \$3,371,504, respectively.

As of June 30, 2008 and 2007, assets exceeded liabilities by \$23,854,793 and \$22,322,132, respectively. This net asset balance is restricted in accordance with the Federal Higher Education Act, related U.S. Department of Education regulations and the terms of the NJCLASS/FFELP bond indentures.

Total operating revenues of the Funds for the fiscal years ended June 30, 2008 and 2007, were \$63,336,837 and \$54,898,370, respectively. The largest revenue source was collections on defaulted FFELP and NJCLASS student loans, which totaled \$53,430,837 and \$44,798,080, for the fiscal years ended June 30, 2008 and 2007, respectively, and represented 84% and 82% of total operating revenues in 2008 and 2007, respectively. Accounts within this revenue source 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

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

**Financial Highlights and Analysis (Continued)**

Loan Reserve Funds. Amounts collected in connection with the HESAA as the New Jersey FFELP Guaranty Agency and NJCLASS/FFELP 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 receipt of defaulted FFELP student loan payments, established in accordance with FFELP regulations requiring the prompt investment of funds. As such, the income it receives is subsequently transferred out to the related trust funds. In fiscal years 2008 and 2007, \$49,914,781 and \$41,006,113, respectively, of expense was recorded, representing the transfer of the revenues 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 revenue source, fee income, consists of restricted revenues earned by HESAA from the administration and servicing of the NJCLASS Loan Program and administrative fees of the NJBEST 529 College Savings Plan. Also included are the fees paid by NJCLASS to the Loan Reserve Fund for future loan defaults. Total fee income for the fiscal years ended June 30, 2008 and 2007, was \$9,906,000 and \$10,100,290, respectively, or 16% and 18% of total operating revenues, respectively. All fee revenues are reserved for funding current and future administrative expenses of the respective programs, including reserves for funding the NJBEST Scholarship Program and reimbursing the HESAA bond issues for NJCLASS defaulted loans.

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 \$12,804,433 and \$7,175,524 for the years ended June 30, 2008 and 2007, respectively, representing amounts paid and accrued for this purpose during the year.

**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](http://www.hesaa.org) for more information about authority programs and activities and management contact information.

**NEW JERSEY HIGHER EDUCATION STUDENT ASSISTANCE AUTHORITY  
OTHER HESAA PROGRAMS AND FUNDS**

COMBINED STATEMENTS OF FIDUCIARY NET ASSETS

	June 30,	
ASSETS	2008	2007
Current Assets		
Cash	\$ 286,723	\$ 214,088
New Jersey Cash Management Fund	34,685,852	27,911,675
Fees Receivable	231,045	206,717
Due from NJCLASS/FFELP Loan Program	477,693	444,212
Default Collections Receivable	245,234	155,439
Total Current Assets	35,926,547	28,932,131
Non-Current Assets		
Fixed Assets, net	-	4,399
Total Assets	\$ 35,926,547	\$ 28,936,530
<b>LIABILITIES AND NET ASSETS</b>		
Current Liabilities		
Accrued Expenses	\$ 63,090	\$ 66,743
Due to NJCLASS/FFELP Loan Program	9,003,643	3,371,504
Due to General Fund	1,070,968	1,824,001
Due to Guaranty Agency Trust Fund	1,934,053	1,352,150
Total Current Liabilities	12,071,754	6,614,398
Net Assets		
Restricted	23,854,793	22,322,132
Total Liabilities and Net Assets	\$ 35,926,547	\$ 28,936,530



**NEW JERSEY HIGHER EDUCATION STUDENT ASSISTANCE AUTHORITY  
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COMBINED STATEMENTS OF CHANGES IN FIDUCIARY NET ASSETS

	Years Ended June 30,	
	2008	2007
Operating Revenues		
Defaulted FFELP Loan Receipts	\$ 49,870,442	\$ 40,637,671
Fee Income	9,906,000	10,100,290
Defaulted NJCLASS Loan Receipts	3,560,395	4,160,409
Total Operating Revenues	<u>63,336,837</u>	<u>54,898,370</u>
Operating Expenses		
Transfers to Guaranty Agency Trust Funds	49,914,781	41,006,113
NJCLASS Defaulted Loans Expense	12,804,433	7,175,524
Program Expenses	373,923	372,413
Depreciation Expense	4,399	10,518
Administrative Expenses	(3,176)	7,621
Total Operating Expenses	<u>63,094,360</u>	<u>48,572,189</u>
Operating Income	242,477	6,326,181
Non-Operating Revenues		
Income on Investments	1,290,184	1,341,481
Change in Net Assets	1,532,661	7,667,662
Net Assets, beginning of year	22,322,132	14,654,470
Net Assets, end of year	<u><u>\$ 23,854,793</u></u>	<u><u>\$ 22,322,132</u></u>

**NEW JERSEY HIGHER EDUCATION STUDENT ASSISTANCE AUTHORITY  
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**NOTES TO COMBINED 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 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.

**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 revenues and expenses 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 United States of America applicable to governmental fiduciary-type funds. Revenues are recognized when earned, and expenses 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:

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NOTES TO COMBINED FINANCIAL STATEMENTS

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

**Basis of Accounting (Continued)**

<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
HESAA as a FFELP Sponsor 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 Account maintained at Wachovia Bank. 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.
  
2. NJCLASS Loan Reserve Fund - receives a 1% fee on all New Jersey College Loans to Assist State Students (“NJCLASS”) loans disbursed and a percentage of collections on defaulted loan accounts. The NJCLASS Loan Reserve Fund reimburses the various HESAA bond issues for NJCLASS defaulted loans.
  
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.

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**NOTES TO COMBINED FINANCIAL STATEMENTS**

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

**Operating Revenues and Expenses by Reporting Entity (continued)**

4. HESAA as a FFELP Sponsor Fund - holds a nominal balance from this discontinued program in an NJCMF account for use as a funding source for a future payroll account should the Authority discontinue using the State payroll system.
5. NJCLASS Life of Loan Servicing Reserve Fund - receives the net unexpended balance, after deducting program expenses, of program revenues earned by HESAA from administration of the NJCLASS Loan Program. These revenue sources include application, servicing and administrative fee income. 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 being held for incorporation into the Teacher’s Loan Forgiveness program.

**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.

**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.

**B. 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 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.

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NOTES TO COMBINED FINANCIAL STATEMENTS

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

**Custodial Credit Risk (Continued)**

The balance of the HESAA as a FFELP Sponsor Fund, another component of the HESAA Other Programs and Funds, included amounts on deposit in a checking account at Commerce Bank. This account was closed during the year ended June 30, 2008. On June 30, 2007, the balance in this account was \$31,925. Funds in this account were fully insured up to \$100,000 by the Federal Deposit Insurance Corporation.

All investments held by Other HESAA Programs and Funds are on deposit in the NJCMF. 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 and Agency and Corporate Obligations

For balances in the NJCMF, 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. The reason is that “their existence is not evidenced by securities that exist in physical or book entry form.”

The amounts on deposit in cash and investment accounts at June 30, 2008 and 2007, were as follows:

	June 30,	
	2008	2007
Lockbox Cash (Wachovia Bank/Bank of America)	\$ 286,723	\$ 182,163
Cash (Commerce Bank)	-	31,925
New Jersey Cash Management Fund	34,685,852	27,911,675
	\$ 34,972,575	\$ 28,125,763

**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.

**C. 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, 2008 and 2007, of \$231,045 and \$206,717, respectively, which represents the June fee income received in July 2008 and 2007, respectively.

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**NOTES TO COMBINED FINANCIAL STATEMENTS**

**D. 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 revenues from the proceeds of the 1% loan reserve fee charged to borrowers upon disbursement of all NJCLASS loans, and 70% of collections from defaulted NJCLASS loans. At June 30, 2008 and 2007, the amounts due to the NJCLASS Loan Reserve Fund from the NJCLASS/FFELP Loan Program were \$231,414 and \$588,212, 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, 2008 and 2007, the amounts due to the NJCLASS/FFELP bond issues as a result of loan defaults were \$9,235,057 and \$3,959,716, respectively.

The Combined Statements of Fiduciary Net Assets present the “Net” amounts of \$9,003,643 at June 30, 2008 and \$3,371,504 at June 30, 2007, respectively, 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, 2008 and 2007, which are included in the Supplementary Information to these financial statements.

At June 30, 2008 and 2007, \$477,693 and \$444,212, 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, 2008 and 2007, these amounts were \$1,934,053 and \$1,352,150, respectively.

**Due to General Fund**

At June 30, 2008 and 2007, \$1,070,968 and \$1,824,001, respectively, was due to the NJCLASS Administrative Fund appropriation unit within the State General Fund, (the “General Fund”) from the Life of Loan Servicing Reserve Fund, (the “NJCMF” account). These amounts were transferred to the General Fund during the July 2008 and 2007, respectively, State fiscal year closing process as the final installment of the \$5,145,126 and \$4,284,002, respectively, in transfers made during the year to reimburse expenses initially paid from the General Fund for administration of the NJCLASS Loan Program.

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NOTES TO COMBINED FINANCIAL STATEMENTS

**E. CONCENTRATIONS OF CREDIT RISK**

At June 30, 2008 and 2007, approximately 99% of all funds within the HESAA Other Programs and Funds were invested in the NJCMF, a fund not subject to custodial credit risk.

**F. CAPITAL ASSETS**

Capital assets are stated at original cost and consist primarily of vehicles and technology equipment used in the HESAA as a FFELP Sponsor Fund Program. The Authority defines capital assets as assets with an initial individual cost of more than \$5,000 and an estimated useful life of five years or more.

**Depreciation**

Fixed assets are depreciated on a straight-line basis over the estimated useful lives of the various classes, as follows:

Vehicles	5 years
Technology Equipment	5 years

**Activity**

Fixed asset activity for the years ended June 30, 2008 and 2007 was as follows:

	2007			2008
	Beginning			Ending
	Balance	Additions	Retirements	Balance
Fixed assets				
Vehicles	\$ 54,688	\$ -	\$ -	\$ 54,688
Technology Equipment	6,497	-	-	6,497
Total capital assets	61,185	-	-	61,185
Less Accumulated Depreciation	56,786	4,399	-	61,185
Fixed Assets - net	<u>\$ 4,399</u>	<u>\$ (4,399)</u>	<u>\$ -</u>	<u>\$ -</u>
	2006			2007
	Beginning			Ending
	Balance	Additions	Retirements	Balance
Fixed assets				
Vehicles	\$ 54,688	\$ -	\$ -	\$ 54,688
Technology Equipment	6,497	-	-	6,497
Total capital assets	61,185	-	-	61,185
Less Accumulated Depreciation	46,268	10,518	-	56,786
Fixed Assets - net	<u>\$ 14,917</u>	<u>\$ (10,518)</u>	<u>\$ -</u>	<u>\$ 4,399</u>

**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 Assistance Authority

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, 2008, and have issued our report thereon dated October 29, 2008. 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

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 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.

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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* (CONTINUED)**

Internal Control over Financial Reporting (Continued)

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

Our consideration of 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 described 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 their 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.

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

October 29, 2008

## **SUPPLEMENTARY INFORMATION**

**NEW JERSEY HIGHER EDUCATION STUDENT ASSISTANCE AUTHORITY  
OTHER HESAA PROGRAMS AND FUNDS**

**COMBINING SCHEDULE OF FIDUCIARY NET ASSETS**

JUNE 30, 2008

	NJ										Elimination	Combined Programs and Funds	
	Federal Collections - Escrow	HESAA as a FFELP Sponsor Fund	NJBEST Administrative Fund	Governor's World Class Economy Scholarship Program	NJCLASS Loan Reserve Fund	Higher Education Assistance-Capital Reserves	NJCLASS Life of Loan Servicing Reserve Fund						
<b>ASSETS</b>													
Current Assets													
Cash	\$ 286,723	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 286,723
New Jersey Cash Management Fund	1,934,053	116,599	7,324,333	79,700	264,527	270,405	24,696,235						34,685,852
Fees Receivable	-	-	231,045	-	231,414	-	477,693						231,045
Due from NJCLASS/FFELP Loan Program	-	-	-	-	214,436	-	30,798						477,693
Default Collections Receivable	-	-	-	-	-	-	-						245,234
Total Current Assets	2,220,776	116,599	7,555,378	79,700	710,377	270,405	25,204,726						35,926,547
Non-Current Assets													
Fixed Assets - net	-	-	-	-	-	-	-						-
Total Assets	\$ 2,220,776	\$ 116,599	\$ 7,555,378	\$ 79,700	\$ 710,377	\$ 270,405	\$ 25,204,726						\$ 35,926,547
<b>LIABILITIES AND NET ASSETS</b>													
Current Liabilities													
Accrued Expenses	\$ -	\$ -	\$ -	\$ -	\$ 555	\$ -	\$ 62,535						\$ 63,090
Due to NJCLASS/FFELP Loan Program	-	-	-	-	9,235,057	-	-						9,003,643
Due to General Fund	-	-	-	-	-	-	1,070,968						1,070,968
Due to Guaranty Agency Trust Fund	1,934,053	-	-	-	-	-	-						1,934,053
Net Assets (Deficit)	1,934,053	-	-	-	9,235,612	-	1,133,503						12,071,754
Restricted	286,723	116,599	7,555,378	79,700	(8,525,235)	270,405	24,071,223						23,854,793
Total Liabilities and Net Assets	\$ 2,220,776	\$ 116,599	\$ 7,555,378	\$ 79,700	\$ 710,377	\$ 270,405	\$ 25,204,726						\$ 35,926,547

**NEW JERSEY HIGHER EDUCATION STUDENT ASSISTANCE AUTHORITY  
OTHER HESAA PROGRAMS AND FUNDS**

**COMBINING SCHEDULE OF FIDUCIARY NET ASSETS**

JUNE 30, 2007

	NJ										Combined Programs and Funds	
	HESAA as a Sponsor Fund		NJBEST Administrative Fund		Governor's World Class Economy Scholarship Program		NJCLASS Loan Reserve Fund		Higher Education Assistance-Capital Reserves			NJCLASS Life of Loan Servicing Reserve Fund
<b>ASSETS</b>												
<b>Current Assets</b>												
Cash	\$ 182,163	\$ 31,925	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 214,088
New Jersey Cash Management Fund	1,352,420	112,043	4,797,836	76,586	211,644	259,837	21,101,309	588,212	588,212	20,281	21,565,802	27,911,675
Fees Receivable	-	79	206,638	-	588,212	-	-	-	-	-	-	206,717
Due from NJCLASS/FFELP Loan Program	-	-	-	-	135,158	-	-	-	-	-	-	444,212
Default Collections Receivable	-	-	-	-	935,014	-	-	-	-	-	-	155,439
Total Current Assets	1,534,583	144,047	5,004,474	76,586	935,014	259,837	21,565,802	588,212	588,212	20,281	21,565,802	28,932,131
<b>Non-Current Assets</b>												
Fixed Assets - net	-	4,399	-	-	-	-	-	-	-	-	-	4,399
Total Assets	\$ 1,534,583	\$ 148,446	\$ 5,004,474	\$ 76,586	\$ 935,014	\$ 259,837	\$ 21,565,802	\$ 588,212	\$ 588,212	\$ 20,281	\$ 21,565,802	\$ 28,936,530
<b>LIABILITIES AND NET ASSETS</b>												
<b>Current Liabilities</b>												
Accrued Expenses	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 66,743
Due to NJCLASS/FFELP Loan Program	-	-	-	-	3,959,716	-	-	-	-	-	-	3,371,504
Due to General Fund	-	-	-	-	-	-	1,824,001	-	-	-	-	1,824,001
Due to Guaranty Agency Trust Fund	1,352,150	-	-	-	-	-	-	-	-	-	-	1,352,150
Net Assets (Deficit)	1,352,150	-	-	-	3,959,716	-	1,890,744	588,212	588,212	-	1,890,744	6,614,398
<b>Restricted</b>												
Total Liabilities and Net Assets	182,433	148,446	5,004,474	76,586	(3,024,702)	259,837	19,675,058	-	-	-	19,675,058	22,322,132
	\$ 1,534,583	\$ 148,446	\$ 5,004,474	\$ 76,586	\$ 935,014	\$ 259,837	\$ 21,565,802	\$ 588,212	\$ 588,212	\$ 20,281	\$ 21,565,802	\$ 28,936,530

**NEW JERSEY HIGHER EDUCATION STUDENT ASSISTANCE AUTHORITY  
OTHER HESAA PROGRAMS AND FUNDS**

**COMBINING SCHEDULE OF CHANGES IN FIDUCIARY NET ASSETS**

YEAR ENDED JUNE 30, 2008

	NJ									
	HESAA as		Governors		Higher		NJCLASS		Combined	
	Federal	a	NJBEST	World Class	Education	NJCLASS	Life of Loan	Reserve Fund	Elimination	Programs
	Escrow	Sponsor	Administrative	Economy	Assistance-	Reserve Fund	Servicing	Reserve Fund	and Funds	and Funds
	Collections -	Fund	Fund	Scholarship	Capital	Reserve Fund	Reserve Fund	Reserves	Elimination	Programs
	Escrow	Fund	Fund	Program	Reserves	Reserve Fund	Reserve Fund	Reserves	Elimination	Programs
	\$	-	\$	-	\$	-	\$	-	\$	-
Operating Revenues										
Defaulted FFELP Loan Receipts	\$ 49,870,442	-	-	-	-	-	-	-	-	\$ 49,870,442
Fee Income	-	-	2,686,941	-	-	3,722,405	8,641,780	-	5,145,126	9,906,000
Defaulted NJCLASS Loan Receipts	-	-	-	-	-	3,560,395	-	-	-	3,560,395
Total Operating Revenues	49,870,442	-	2,686,941	-	-	7,282,800	8,641,780	-	5,145,126	63,336,837
Operating Expenses										
Transfers to Guaranty Agency Trust Funds	49,882,131	32,650	-	-	-	-	-	-	-	49,914,781
Transfer to NJCLASS Administrative Fund	-	-	-	-	-	-	5,145,126	-	5,145,126	-
NJCLASS Defaulted Loans Expense	-	-	-	-	-	12,804,433	-	-	-	12,804,433
Program Expense	-	-	373,923	-	-	-	-	-	-	373,923
Depreciation Expense	-	4,399	-	-	-	-	-	-	-	4,399
Administrative Expense	1,032	-	-	-	-	-	(4,208)	-	-	(3,176)
Total Operating Expenses	49,883,163	37,049	373,923	-	-	12,804,433	5,140,918	-	5,145,126	63,094,360
Operating (Loss) Income	(12,721)	(37,049)	2,313,018	-	-	(5,521,633)	3,500,862	-	-	242,477
Non-Operating Revenues										
Income on Investments	117,011	5,202	237,886	3,114	10,568	21,100	895,303	-	-	1,290,184
Changes in Net Assets	104,290	(31,847)	2,550,904	3,114	10,568	(5,500,533)	4,396,165	-	-	1,532,661
Net Assets (Deficit), beginning of year	182,433	148,446	5,004,474	76,586	2,59,837	(3,024,702)	19,675,058	-	-	22,322,132
Net Assets (Deficit), end of year	\$ 286,723	\$ 116,599	\$ 7,555,378	\$ 79,700	\$ 270,405	\$ (8,525,235)	\$ 24,071,223	\$	-	\$ 23,854,793

**NEW JERSEY HIGHER EDUCATION STUDENT ASSISTANCE AUTHORITY  
OTHER HESAA PROGRAMS AND FUNDS**

**COMBINING SCHEDULE OF CHANGES IN FIDUCIARY NET ASSETS**

YEAR ENDED JUNE 30, 2007

	NJ									
	Federal Collections - Escrow	HESAA as a FPELP Sponsor Fund	NJBEST Administrative Fund	Governors 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	
Operating Revenues										
Defaulted FPELP Loan Receipts	\$ 40,637,671	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 40,637,671	
Fee Income	-	-	2,125,446	-	2,554,087	-	9,704,759	4,284,002	10,100,290	
Defaulted NJCLASS Loan Receipts	-	-	-	-	4,160,409	-	-	-	4,160,409	
Total Operating Revenues	40,637,671	-	2,125,446	-	6,714,496	-	9,704,759	4,284,002	54,898,370	
Operating Expenses										
Transfers to Guaranty Agency Trust Funds	41,006,113	-	-	-	-	-	-	-	41,006,113	
Transfer to NJCLASS Administrative Fund	-	-	-	-	-	-	4,284,002	4,284,002	-	
NJCLASS Defaulted Loans Expense	-	-	-	-	7,175,524	-	-	-	7,175,524	
Program Expense	-	-	372,413	-	-	-	-	-	372,413	
Depreciation Expense	-	10,518	-	-	-	-	-	-	10,518	
Administrative Expense	201	12,294	-	-	-	-	(4,874)	-	7,621	
Total Operating Expenses	41,006,314	22,812	372,413	-	7,175,524	-	4,279,128	4,284,002	48,572,189	
Operating (Loss) Income	(368,643)	(22,812)	1,753,033	-	(461,028)	-	5,425,631	-	6,326,181	
Non-Operating Revenues										
Income on Investments	113,936	19,786	191,928	3,839	29,589	13,025	969,378	-	1,341,481	
Changes in Net Assets	(254,707)	(3,026)	1,944,961	3,839	(431,439)	13,025	6,395,009	-	7,667,662	
Net Assets (Deficit), beginning of year	437,140	151,472	3,059,513	72,747	(2,593,263)	246,812	13,280,049	-	14,654,470	
Net Assets (Deficit), end of year	\$ 182,433	\$ 148,446	\$ 5,004,474	\$ 76,586	\$ (3,024,702)	\$ 259,837	\$ 19,675,058	\$ -	\$ 22,322,132	