

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

**NJCLASS/FFELP LOAN PROGRAMS
FINANCIAL STATEMENTS
June 30, 2012 and 2011**

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Independent Auditor's Report

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

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) (collectively, the Programs) of the New Jersey Higher Education Student Assistance Authority (the Authority) as of and for the years ended June 30, 2012 and 2011. These financial statements are the responsibility of the Programs' 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 consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Program's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

The financial statements present only the business-type activities of the NJCLASS and FFELP Loan Programs of the Authority and do not purport to, and do not present the financial position of the Authority as of June 30, 2012 and 2011, and its changes in financial position and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Programs at June 30, 2012 and 2011, and the changes in financial position and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 15, 2012 on our consideration of the Programs' 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 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 integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis as listed in the table of contents be presented to supplement the basic financial statements. Such information although not a part of the basic financial statements is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

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

CliftonLarsonAllen LLP

Mt. Laurel, New Jersey
October 15, 2012

NEW JERSEY HIGHER EDUCATION STUDENT ASSISTANCE AUTHORITY
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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, 2012. 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 the 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 Financial Statements

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

Other Information

In addition to the basic financial statements and accompanying notes, this report also presents certain *supplementary information* concerning the financial position and results of operations of

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Other Information (Continued)

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 \$3,392,257 and \$2,929,834 from the prior fiscal years ended 2011 and 2010, respectively. 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, 2012, 2011, and 2010, assets of the Programs exceeded liabilities by \$150,252,419, \$146,930,328, and \$143,930,328, respectively.

Changes in Student Loans Receivable Balances

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 \$2,085,828,725, \$1,998,362,478, and \$1,799,674,501 at June 30, 2012, 2011, and 2010, respectively. This represents an increase of \$87,466,247 and \$198,687,976, respectively, due to loan originations during the years, reduced by loan principal repayments.

Changes in Cash and Investments Balances

The second major asset component was cash and investments, which together totaled \$523,655,055, \$199,794,103, and \$542,375,090 at June 30, 2012, 2011, and 2010, respectively. The cash and investment balances 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.

The increase in cash and investments for fiscal year 2012 was primarily due to the receipt of the 2012-1 Bond Issue proceeds on June 28, 2012. Partially offsetting this was the use of cash to originate new NJCLASS loans, as well as bond principal redemptions during the fiscal year, as described below in Changes in Liabilities – Bonds Payable.

The decrease in Cash and Investments for fiscal year 2011 was partially due to the use of cash to originate new NJCLASS loans, as well as bond principal redemptions during the fiscal year, as described below in Changes in Liabilities – Bonds Payable.

- Cash and investments balances were replenished from principal repayments and interest income from NJCLASS and FFELP borrowers, amounting to \$273,306,513 and \$234,877,543, during fiscal years 2012 and 2011, respectively. In addition, NJCLASS application/administrative and loan reserve fee income was \$9,844,266 and \$7,058,955, and \$332,383 and \$1,151,706 in interest was earned on investments for 2012 and 2011, respectively.

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Changes in Liabilities – Bonds Payable

The main liability of the Programs is the debt used to originate or acquire student loans. Bonds payable increased in fiscal year 2012 by \$410,190,000 , due to bond issuances, which provided \$606,293,988 in cash, partially offset by retirements, which utilized a total of \$174,751,250 in cash. In fiscal year 2011, bonds payable decreased from the prior year by \$133,825,000, due to bond principal redemptions, which utilized a total of \$123,434,812 in cash

Of the amount retired in fiscal year 2012:

- \$14,345,000 in retirements was due to scheduled bond maturities.
- \$15,505,000 was due to quarterly Excess Revenue Redemptions of the 2010-FFELP Bonds, in accordance with the terms of that Indenture.
- \$17,510,000 was due to the Optional Redemption of the remaining 1998 Bonds in connection with the Issuance of the 2011-1 Bonds.
- \$6,350,000 was through Special Redemptions of portions of the Authority's auction rate bond issues, generally at 86.50% of par, resulting in total gains on retirements of \$858,750.
- \$121,900,000 was due to Special Optional Redemptions of portions of the fixed rate 2008, 2009, 2010-1 and 2010-2 Issues.

Of the amount retired in fiscal year 2011:

- \$275,000 was through Special Redemptions of portions of the Authority's auction rate bond issues at 85.00% of par, resulting in total gains on retirements of \$41,250.
- \$82,500,000 was through Purchases in Lieu of Redemption of portions of the Authority's auction rate bond issues resulting from tenders, at prices ranging from 84.00% to 87.50% of par, resulting in total gains on retirement of \$10,348,938.
- \$28,645,000 in retirements was due to scheduled bond maturities, including \$22,605,000 of Excess Revenue Redemption, in accordance with the terms of the 2010-FFELP Indenture.
- \$3,000,000 in retirements of the 2001 Bond Issue was due to Optional Redemptions.

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Changes in Liabilities – Bonds Payable (Continued)

- \$19,405,000 in retirements of the 2008 Series A Bond Issue was due to Unexpended Proceeds Redemptions.

The following is a summary of new bond issuance activity during the 2012, 2011, and 2010 fiscal years:

- The 2011-1 Bonds, with a par amount of \$326,500,000 were issued in July 2011 under the 2010-2 Master Indenture. Of this amount, \$289,181,576 was designated for the origination of NJCLASS and NJCLASS Consolidation loans for the 2011-2012 academic year. Required reserves and issuance costs, exclusive of Underwriter's Discount, equalled \$24,530,000, and this issuance also included net bond premium totalling \$4,721,576. In addition, \$17,510,000 of the total bond proceeds was transferred to the 1998 Bond Issue to pay for the redemption of the 1998 Series A Bonds in exchange for \$22,535,845 in student loan receivables. Underwriter's Discount in the amount of \$2,252,850 was paid from other HESAA reserves.
- The 2012-1 Bonds, with a par amount of \$248,300,000 of Senior Bonds and \$11,000,000 of Subordinate Bonds were issued in June 2012 under a new 2012-1 Master Indenture. In addition, a net premium of \$10,139,262 and an equity contribution of \$7,886,000 from other HESAA reserves resulted in total proceeds of \$277,325,262. Of this amount, \$260,139,262 was designated for the origination of NJCLASS and NJCLASS Consolidation loans for the 2012-2013 academic year. Required reserves equaled \$17,186,000. The Underwriter's Discount and other closing costs were also paid from other HESAA reserves in the amount of \$1,658,625.
- No new Bonds were issued during the 2011 fiscal year.
- A total of \$1,138,000,000 par amount of NJCLASS/FFELP Bonds were issued during the 2010 fiscal year. Of the total bond proceeds, approximately \$939,479,000 was used in connection with retirements and refundings of \$1,077,025,000 of failed Auction Rate Certificates (ARCs), the type of variable rate debt issued between 2001 and 2007, as well as to provide for required reserves and issuance costs. A majority of the collateral for these bond issues was provided by the transfer of \$1,004,031,382 of student loans and accrued interest from bond issues within the 1998 Indenture of Trust. Another major use of the proceeds was to provide funding for origination of \$198,521,147 of NJCLASS and NJCLASS Consolidation loans for the 2010-11 Academic Year. These issuances included payments of net bond premiums totaling \$22,081,304.

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Changes in Liabilities – Bonds Payable (Continued)

The following table contains condensed comparative financial information derived from the June 30, 2012, 2011 and 2010, financial statements of the NJCLASS/FFELP Loan Programs:

	2012	2011	Change from 2012 to 2011	2010	Change from 2011 to 2010
Net Assets					
Current assets	\$ 651,706,938	\$ 311,740,856	\$ 339,966,082	\$ 646,734,163	\$ (334,993,307)
Non-current assets	2,046,726,298	1,964,785,202	81,941,096	1,774,715,028	190,070,174
Total assets	<u>2,698,433,236</u>	<u>2,276,526,058</u>	<u>421,907,178</u>	<u>2,421,449,191</u>	<u>(144,923,133)</u>
Current liabilities	128,724,622	42,369,931	86,354,691	33,068,508	9,301,423
Non-current liabilities	2,419,456,195	2,087,295,965	332,160,230	2,244,450,355	(157,154,390)
Total liabilities	<u>2,548,180,817</u>	<u>2,129,665,896</u>	<u>418,514,921</u>	<u>2,277,518,863</u>	<u>(147,852,967)</u>
Net assets, restricted	<u>150,252,419</u>	<u>146,860,162</u>	<u>3,392,257</u>	<u>143,930,328</u>	<u>2,929,834</u>
Total liabilities and net assets	<u>\$ 2,698,433,236</u>	<u>\$ 2,276,526,058</u>	<u>\$ 421,907,178</u>	<u>\$ 2,421,449,191</u>	<u>\$ (144,923,133)</u>
Changes in Net Assets					
Operating revenues	\$ 156,764,955	\$ 146,234,018	\$ 10,530,937	\$ 123,625,728	\$ 22,608,290
Operating expenses	154,855,846	145,897,331	8,958,515	116,533,552	29,363,779
Operating gain (loss)	<u>1,909,109</u>	<u>336,687</u>	<u>1,572,422</u>	<u>7,092,176</u>	<u>(6,755,489)</u>
Non-operating revenues (expenses)					
Income on investments	332,383	1,151,706	(819,323)	1,081,330	70,376
Gain on bond retirements	858,750	10,390,188	(9,531,438)	160,822,875	(150,432,687)
Interest rate swap termination fees	(4,510,000)	(6,490,000)	1,980,000	(58,706,000)	52,216,000
Capital contribution for 2012-1 bond issue	7,886,000	-	7,886,000	(3,431)	3,431
Amortization of bond issuance costs	(2,952,982)	(2,340,310)	(612,672)	(6,135,665)	3,795,355
Amortization of financial instrument issuance costs	(97,267)	(82,675)	(14,592)	(171,543)	88,868
Arbitrage expense	(33,736)	(35,762)	2,026	-	(35,762)
Net non-operating revenues	<u>1,483,148</u>	<u>2,593,147</u>	<u>(1,109,999)</u>	<u>96,887,566</u>	<u>(94,294,419)</u>
Change in net assets	<u>3,392,257</u>	<u>2,929,834</u>	<u>462,423</u>	<u>103,979,742</u>	<u>(101,049,908)</u>
Net assets, beginning of year	<u>146,860,162</u>	<u>143,930,328</u>	<u>2,929,834</u>	<u>39,950,586</u>	<u>103,979,742</u>
Net assets, end of year	<u>\$ 150,252,419</u>	<u>\$ 146,860,162</u>	<u>\$ 3,392,257</u>	<u>\$ 143,930,328</u>	<u>\$ 2,929,834</u>

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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 \$13,629,469 and \$20,600,513, or 10.6% and 19%, due to the approximately \$260.2 million and \$337.0 million in NJCLASS originations during the 2012 and 2011 fiscal years, respectively.
- NJCLASS loan reserve fee income for the 2012 fiscal year decreased by \$1,420,923 or 29.0%, primarily because of the reduction in fixed rate loan originations in FY 2012 versus the prior year. Originations decreased by approximately \$78 million, or 23.4%. In fiscal year 2011, loan reserve fee income increased by \$2,100,421, primarily because the loan reserve funds for the newer bond issues, 2009 through 2010-2, are contained within the bond trust estate. The loan reserve funds of the 2008 and prior issues were outside the bond trust estate, resulting in no such income to the NJCLASS/FFELP Program for loans assigned to those bond issues. In addition, the fiscal 2011 increase in the loan reserve fee from 1% to 2% on new fully deferred (option 3) loans, as well as the 1% loan reserve fee charged when existing NJCLASS loans are consolidated contributed to this increase.
- Interest income on FFELP loans during the 2012 and 2011 fiscal years, decreased by \$728,729 and \$448,080, respectively due to the reduction in FFELP portfolio assets. FFELP assets declined from \$132,542,224 at June 30, 2010 to \$127,047,923 at June 30, 2011 and to \$111,130,323 at June 30, 2012.

Operating Expenses

- Bond interest on expense increased by \$7,552,528 or 13.5%, primarily due to the significant increase in Bonds outstanding at June 30, 2012, resulting from the aforementioned new issuances during the fiscal year. In fiscal year 2011, bond interest expense increased by \$9,167,229, primarily due to the fixed rate bonds issued at the end of FY 2010 that carry fixed interest rates higher than the variable rates of the ARCs that were retired in FY 2010 and 2011.

Bad Debt Expense

- In fiscal year 2012, an additional \$30,610,355 in bad debt expense was recognized, versus \$28,424,456 in 2011, an increase of \$2,185,899, due to an increase in defaults of NJCLASS loans. The increase in bad debt expense from 2010 to 2011 was \$19,281,137. The increase in defaults is partly a result of the significant increases in the NJCLASS loan portfolio during recent fiscal years, as described below in Significant Events. Bad debt expense is recorded when increases to the Allowance for Doubtful Accounts recorded against amounts due from the Loan Reserve Funds to pay default claims become necessary. For a full description of the Allowance for Doubtful Accounts and defaulted loans, see NOTES TO FINANCIAL STATEMENTS - 3. STUDENT LOANS RECEIVABLE – Loan Defaults/Loan Reserve Fund.

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Non-Operating Revenues (Expenses)

- Fiscal 2012 Gains on Bond Retirement decreased by \$9,531,438, due to the smaller volume of below par ARC bond retirement and refunding activity versus the prior year. Bond retirement activity is described “**Changes in Liabilities – Bonds Payable**” above.
- Fiscal 2011 Gains on Bond Retirement decreased by \$150,432,387, due to the much smaller volume of bond retirement and refunding activity versus the prior year. Bond retirement activity is described “**Changes in Liabilities – Bonds Payable**” above.
- Swap termination fees decreased by \$1,980,000 and \$52,216,000 in fiscal year 2012 and 2011, respectively, totaling \$4,510,000, \$6,490,000 and \$58,706,000 in fiscal year 2012, 2011 and 2010, respectively. The decreases are also due to the decrease in ARC bond retirements and related swap termination activity.

Swap termination fees are the amounts charged by counterparties in exchange for the complete or partial termination (amendment) of existing swaps, which had resulted in periodic payments to the counterparty. HESAA terminated or reduced its swap positions due to the movement of a comparable amount of the hedged assets, fixed rate NJCLASS student loans, to new fixed rate bond issues. This was done in connection with a reduction in the amount of ARCs outstanding, whose interest rates were converted to a fixed rate by these swaps, in order to create an asset/liability match with the loans.

No terminations of HESAA's swaps had occurred prior to 2010. This expense was entirely funded from the gains on retirement of ARCs (see above) and did not require any HESAA or State General Fund expenditures.

- Amortization of Bond Issuance cost increased by \$612,672 in fiscal year 2012 due to new bond issuances during the year and decreased by \$3,795,355 in fiscal year 2011. In fiscal year 2011, a much smaller amount of capitalized bond issuance cost was required to be fully expensed as the bond retirements were \$133,825,000 versus \$1,082,865,000 in fiscal year 2010.
- Investment interest income was lower than in the prior year, decreasing to \$332,383, compared to \$1,151,706 in fiscal 2011, as a result of historically low interest rates and lower cash & investments balances through much of the year.

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Significant Events

- At fiscal year end 2012, the Programs had \$2,493,510,000 in bonds outstanding, compared to \$2,083,320,000 in the prior fiscal year – an increase of 19.7%. This is due to a total issuance during the year of \$585,800,000 in 2011-1 and 2012-1 Bonds, which closed on July 20, 2011 and June 28, 2012, respectively, partially offset by retirements of \$175,610,000. At fiscal year end 2011, there was a decrease of 6.0% in bonds outstanding versus the prior year end, due to the aforementioned fiscal year 2011 retirements and no new bond issuances.
- The Authority experienced a significant decrease during fiscal year 2012 in NJCLASS student loan origination volume, with cash disbursements of \$260,227,004 for new loans, compared to \$337,599,598 during fiscal year 2011, a decrease of 22.9%. During fiscal year 2011, there was a slight decrease of 2.8% in NJCLASS origination volume.

Cash Flows Summary

	<u>2012</u>	<u>2011</u>	<u>2010</u>
Net cash used in operating activities	\$ (105,189,385)	\$ (213,534,401)	\$ (280,950,192)
Net cash flows (used in) provided by financing activities	428,758,707	(130,210,191)	165,995,924
Net cash flows provided by investing activities	<u>27,473,716</u>	<u>56,497,127</u>	<u>66,895,151</u>
Net decrease in cash and cash equivalents	<u>\$ 351,043,038</u>	<u>\$ (287,247,465)</u>	<u>\$ (48,059,117)</u>

Current Conditions

In response to the continuing strong demand for NJCLASS loans, HESAA issued its Series 2012-1 Bonds on June 28, 2012. During the prior academic year, the 2011-1 Bonds were issued after the close of the 2011 fiscal year to avoid a prolonged period of holding large cash balances between the issuance date and the start of the fall academic semester, resulting in two bond issuances within the 2012 fiscal year.

HESAA continually evaluates the performance of its NJCLASS loans to balance the needs of its borrower base with the necessity of maintaining an adequate collections stream on its portfolio. This effort has resulted in the recognition that current economic conditions have contributed to an increase in borrower defaults in recent years. Research performed by HESAA staff and our advisors has also determined that a large portion of loans that eventually go into default are those that were originated in option III, which allows for full deferment of principal and interest while in school, and/or those with lower credit scores. The Authority continually reevaluates its credit policies and adjusts its underwriting criteria when it is deemed in the best interests of the NJCLASS Loan Program to do so. To mitigate the risk of future loan defaults and enhance the overall credit quality of its loan portfolio, the Authority made two significant policy changes. During the 2011-12 academic year, the allowable percentage of fixed rate loans that can be originated in option III was reduced to 30% and the minimum credit score required to qualify for an NJCLASS loan was raised to 630. For the 2012-13 academic year, the Authority has further reduced the allowable percentage of fixed rate loans that can be originated in option III from

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Current Conditions (Continued)

30% in 2011-12 to 15%, and has raised the minimum credit score required to qualify for an NJCLASS loan from 630 to 670. In addition, the minimum income requirement necessary to obtain an NJCLASS Loan, which was \$30,500 in 2011-12, has been raised to \$40,000 for 2012-13 academic year.

- For specific statistical information regarding default experience during fiscal 2012 and 2011, refer to NOTES TO FINANCIAL STATEMENTS - 3. STUDENT LOANS RECEIVABLE – Loan Defaults/ Loan Reserve Fund.

FINANCIAL STATEMENTS

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	2012	2011
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 511,926,138	\$ 160,883,100
Investments	11,728,917	38,911,003
NJCLASS student loans receivable, net	58,429,379	51,126,596
FFELP student loans receivable, net	7,784,555	12,780,209
Interest receivable:		
Investments	14,995	7,978
NJCLASS student loans	24,256,064	25,810,866
FFELP student loans	1,199,077	1,402,587
NJCLASS defaulted student loan principal and interest in 2009 and 2010 Indenture Loan Reserve Funds, net of allowance for doubtful accounts of \$43,737,581 in 2012 and \$19,083,945 in 2011, respectively	22,403,078	8,083,289
Due from the Loan Reserve Fund, net of allowance for doubtful accounts of \$28,510,234 in 2012 and \$22,553,515 in 2011, respectively	13,393,306	12,529,520
Default collections receivable	229,699	60,851
Due from loan servicing agents	341,730	144,857
Total current assets	651,706,938	311,740,856
NON-CURRENT ASSETS		
NJCLASS student loans receivable	1,916,269,024	1,820,187,959
FFELP student loans receivable	103,345,767	114,267,714
Bond issuance costs - unamortized	10,312,129	12,665,111
Financial instrument issuance costs - unamortized	225,359	279,758
Deferred outflow - interest rate sw aps	16,574,019	17,384,660
Total non-current assets	2,046,726,298	1,964,785,202
TOTAL ASSETS	\$ 2,698,433,236	\$ 2,276,526,058
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Bonds payable	\$ 117,855,000	\$ 32,115,000
Accrued interest payable - bonds	9,241,850	8,592,484
Fees payable	1,292,672	1,231,085
Arbitrage payable	35,762	35,762
Due to the Loan Reserve Fund	299,338	395,600
Total current liabilities	128,724,622	42,369,931
NON-CURRENT LIABILITIES		
Bonds payable	2,375,655,000	2,051,205,000
Premium on bonds payable, net	27,227,176	18,706,305
Derivative instrument liability - interest rate sw aps	16,574,019	17,384,660
Total non-current liabilities	2,419,456,195	2,087,295,965
Total liabilities	2,548,180,817	2,129,665,896
NET ASSETS		
Restricted	150,252,419	146,860,162
TOTAL LIABILITIES AND NET ASSETS	\$ 2,698,433,236	\$ 2,276,526,058

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

NEW JERSEY HIGHER EDUCATION STUDENT ASSISTANCE AUTHORITY
NJCLASS/FFELP LOAN PROGRAMS
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
Years Ended June 30, 2012 and 2011

	<u>2012</u>	<u>2011</u>
OPERATING REVENUES		
Interest income		
NJCLASS student loans	\$ 142,034,542	\$ 128,405,073
FFELP student loans	4,651,771	5,380,500
Application/administrative fee income	6,362,642	7,058,955
Loan reserve fee income	3,481,624	4,902,547
Default income	234,376	486,943
Total operating revenues	<u>156,764,955</u>	<u>146,234,018</u>
OPERATING EXPENSES		
Loan servicing fees		
NJCLASS student loans	10,976,836	11,193,758
FFELP student loans	1,865,099	2,423,867
Total loan servicing fees	<u>12,841,935</u>	<u>13,617,625</u>
Program expenses		
Annual insurance expense and transaction fees	675,368	473,525
Bad debt expense	30,610,355	28,424,456
Loan Reserve Fund fees	3,481,522	3,687,587
Total program expenses	<u>34,767,245</u>	<u>32,585,568</u>
Bond interest expense	107,246,666	99,694,138
Total operating expenses	<u>154,855,846</u>	<u>145,897,331</u>
Operating income	<u>1,909,109</u>	<u>336,687</u>
NON-OPERATING REVENUES (EXPENSES)		
Income on investments	332,383	1,151,706
Gain on bond retirements	858,750	10,390,188
Interest rate swap termination fees	(4,510,000)	(6,490,000)
Capital contribution for 2012-1 bond issue	7,886,000	-
Amortization of bond issuance costs	(2,952,982)	(2,340,310)
Amortization of financial instrument issuance costs	(97,267)	(82,675)
Arbitrage expense	(33,736)	(35,762)
Net non-operating revenues	<u>1,483,148</u>	<u>2,593,147</u>
CHANGE IN NET ASSETS	3,392,257	2,929,834
NET ASSETS, BEGINNING OF YEAR	<u>146,860,162</u>	<u>143,930,328</u>
NET ASSETS, END OF YEAR	<u>\$ 150,252,419</u>	<u>\$ 146,860,162</u>

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

NEW JERSEY HIGHER EDUCATION STUDENT ASSISTANCE AUTHORITY
NJCLASS/FFELP LOAN PROGRAMS
STATEMENTS OF CASH FLOWS
Years Ended June 30, 2012 and 2011

	<u>2012</u>	<u>2011</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Interest receipts:		
NJCLASS student loans	\$ 102,730,010	\$ 82,053,059
FFELP student loans	4,014,060	4,452,909
Principal receipts:		
NJCLASS student loans	148,981,943	129,662,801
FFELP student loans	17,580,500	18,708,774
Reimbursements from Loan Reserve Fund	5,344,556	6,612,659
Collections on defaulted loans	3,913,603	933,965
NJCLASS student loan disbursements	(260,227,004)	(337,599,598)
FFELP student loan purchases	(196,042)	(172,671)
Loan Reserve Fund fee income	-	1,215,328
Annual insurance expense	(675,368)	(596,327)
Transaction fees	(54,399)	(112,017)
Loan servicing fees	(13,020,786)	(13,506,019)
Payments to Loan Reserve Fund	-	(730)
Repayment of government interest related to FFELP loans	(643,190)	(614,520)
Interest paid on bonds	<u>(112,937,268)</u>	<u>(104,572,014)</u>
 Net cash used in operating activities	 <u>(105,189,385)</u>	 <u>(213,534,401)</u>
 CASH FLOWS FROM FINANCING ACTIVITIES		
Principal paid on bonds	(174,751,250)	(123,434,812)
Bond proceeds	600,660,839	-
Capital contribution for 2012-1 bond issue	7,886,000	-
Interest rate swap termination fees	(4,510,000)	(6,490,000)
Bond issuance costs	(484,014)	(244,025)
Financial instrument issuance costs	<u>(42,868)</u>	<u>(41,354)</u>
 Net cash provided by (used in) financing activities	 <u>428,758,707</u>	 <u>(130,210,191)</u>
 CASH FLOWS FROM INVESTING ACTIVITIES		
Investment purchases, sales proceeds and maturities, net	27,182,086	55,333,522
Arbitrage payments	(33,736)	-
Interest on investments	<u>325,366</u>	<u>1,163,605</u>
 Net cash provided by investing activities	 <u>27,473,716</u>	 <u>56,497,127</u>
 NET INCREASE (DECREASE) IN CASH	 351,043,038	 (287,247,465)
 CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	 <u>160,883,100</u>	 <u>448,130,565</u>
 CASH AND CASH EQUIVALENTS, END OF YEAR	 <u>\$ 511,926,138</u>	 <u>\$ 160,883,100</u>

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

NEW JERSEY HIGHER EDUCATION STUDENT ASSISTANCE AUTHORITY
NJCLASS/FFELP LOAN PROGRAMS
STATEMENTS OF CASH FLOWS (CONTINUED)
Years Ended June 30, 2012 and 2011

	2012	2011
RECONCILIATION OF OPERATING INCOME TO NET CASH USED IN OPERATING ACTIVITIES		
Operating income	\$ 1,909,109	\$ 336,687
Adjustments to reconcile operating income to net cash used in operating activities:		
Bad debt expense	30,610,355	28,424,456
Net change in assets and liabilities:		
NJCLASS student loans receivable	(103,383,848)	(215,601,031)
FFELP student loans receivable	15,917,601	16,913,054
NJCLASS defaulted student loans	(38,973,425)	(31,951,760)
Interest receivable:		
NJCLASS student loans	1,554,802	638,609
FFELP student loans	203,510	100,880
Due from Loan Reserve Fund	(6,820,505)	(7,155,875)
Default collections receivable	(168,848)	(53,076)
Due from loan servicing agents	(196,873)	88,955
Accrued interest payable - bonds	(5,690,602)	(4,877,876)
Fees payable	(54,399)	(234,819)
Due to Loan Reserve Fund	(96,262)	(162,605)
NET CASH USED IN OPERATING ACTIVITIES	\$ (105,189,385)	\$ (213,534,401)
NON-CASH FINANCING ACTIVITIES		
Amortization - bond issuance costs	\$ 2,952,982	\$ 2,340,311
Amortization - financial instrument issuance costs	97,267	82,675
Amortization - premium on bonds payable	(6,339,968)	(5,267,487)
Discount on acquisition of bonds	858,750	10,390,188
Gain on bond retirement	(858,750)	(10,390,188)
TOTAL NON-CASH FINANCING ACTIVITIES	\$ (3,289,719)	\$ (2,844,501)

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

NEW JERSEY HIGHER EDUCATION STUDENT ASSISTANCE AUTHORITY
NJCLASS/FFELP LOAN PROGRAMS
NOTES TO FINANCIAL STATEMENTS
June 30, 2012 and 2011

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of the Authority

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

The Authority was established by State legislation in 1999 to provide students and families with the financial and informational resources for students to pursue their 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”). These financial statements present only the business-type activities of the NJCLASS and FFELP Loan Programs of the Authority and do not purport to, and do not present the financial position of the Authority as of June 30, 2012 and 2011, and its changes in net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

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). Using a portion of the proceeds of its 2001 through 2004 Bond Issues, the Authority purchased 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. 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, and to originate a small portfolio of FFELP loans for low income borrowers using a portion of the 2005 Bond proceeds.

NEW JERSEY HIGHER EDUCATION STUDENT ASSISTANCE AUTHORITY
NJCLASS/FFELP LOAN PROGRAMS
NOTES TO FINANCIAL STATEMENTS
June 30, 2012 and 2011

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

FFELP Loan Program (Continued)

Title II of the Health Care and Education Reconciliation Act of 2010 (Pub. L. 111-152) signed into law by President Barack Obama on March 30, 2010, contains various student loan reforms, including the termination of the process of the federal government paying set yields to private banks to originate federally insured loans and, instead, the loans will be administered directly by the U.S. Department of Education, effective July 1, 2010. As a result, the Authority will no longer originate or acquire FFELP Loans.

On May 7, 2010, the Authority transferred its entire portfolio of FFELP loans from the 2001, 2002, 2003, 2004 and 2005 issues to the 2010-FFELP issue.

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. The Governmental Accounting Standards Board is the accepted standards-setting body for establishing government accounting and financial reporting principles. GASB's Codification of Governmental Accounting and Financial Reporting Standards recognizes the following hierarchy; GASB Statements and Interpretations; GASB Technical Bulletins; American Institute of Certified Public Accountants (AICPA) Industry Audit and Accounting Guides and AICPA Statements of Position, if applicable and cleared by GASB; AICPA Practice Bulletins, if applicable and cleared by GASB; Implementation Guides published by the GASB; AICPA pronouncements that are not specifically applicable to state and governmental entities; Financial Accounting Standard Board (FASB) Statements and Interpretations; and Accounting Principles Board Opinions and Accounting Research Bulletins of the Committee on Accounting Procedure (issued on or before November 30, 1989). The Authority has elected not to follow FASB pronouncements issued after November 30, 1989. The Authority follows the hierarchy in determining accounting treatment. The Programs have elected to follow GASB pronouncements exclusively.

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, bad debt expense and other expenses related to NJCLASS and FFELP loans. All other revenues and expenses are reported as non-operating revenues and expenses.

Cash and Cash Equivalents

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

NEW JERSEY HIGHER EDUCATION STUDENT ASSISTANCE AUTHORITY
NJCLASS/FFELP LOAN PROGRAMS
NOTES TO FINANCIAL STATEMENTS
June 30, 2012 and 2011

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 in Preparing Financial Statements

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.

Federal Income Taxes

The Authority 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. For the 2008, 2009 and 2012-1 Bond Issues, issuance costs were paid from outside sources and consequently, are not reflected in these financial statements. For the 2011-1 Bond Issue, underwriting fees were paid from outside sources but other issuance costs were paid with bond proceeds.

Bond Premiums and Discounts

Bond premiums are reported as deferred revenues (liabilities), and bond discounts are reported as deferred expense (assets). Bond premiums and discounts are amortized over the term of the related debt. The unamortized amount of premium and discount is shown as a net amount in the Liabilities section on the Statement of Net Assets. Amortization revenue and expense is recorded as bond interest expense in the Statement of Revenues, Expenses and Changes in Net Assets.

**NEW JERSEY HIGHER EDUCATION STUDENT ASSISTANCE AUTHORITY
NJCLASS/FFELP LOAN PROGRAMS
NOTES TO FINANCIAL STATEMENTS
June 30, 2012 and 2011**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial Instruments

The Authority entered into certain financial instrument agreements including interest rate swaps, caps and swaptions in contemporaneously with the issuance of its Tax Exempt Variable Rate Bonds to support its NJCLASS loan program. These financial instruments are recorded at fair value on the statement of net assets. 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, the excess of assets over liabilities under such bond resolutions are classified as restricted net assets to be used for the purpose specified in the bond resolutions.

NOTE 2 – CASH AND CASH EQUIVALENTS AND INVESTMENTS

Cash and Cash Equivalents

The NJCLASS/FFELP Loan Programs maintain their cash and cash equivalents balances primarily 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 a 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 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.

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

	2012	2011
Lockbox Cash (Wachovia Bank)	\$ 1,621,824	\$ 4,843,672
Trust Accounts invested in		
Wells Fargo Advantage Heritage Money		
Market Fund	510,304,314	156,039,428
Total	\$ 511,926,138	\$ 160,883,100

**NEW JERSEY HIGHER EDUCATION STUDENT ASSISTANCE AUTHORITY
NJCLASS/FFELP LOAN PROGRAMS
NOTES TO FINANCIAL STATEMENTS
June 30, 2012 and 2011**

NOTE 2 – CASH AND CASH EQUIVALENTS AND INVESTMENTS (CONTINUED)

Investments

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

- Investment policies are defined in NOTES TO FINANCIAL STATEMENTS - 1. BASIS OF INVESTMENTS.

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, 2012 and 2011 were \$45,389,195 and \$36,273,700, 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.

As of June 30, 2012 and 2011, the credit rating of MBIA, Inc., parent company of MBIA Investments, Inc., provider of the guaranteed investment contract for the HESAA 2000 Bonds, was rated B-3 by Moody's, Inc., and B by Standard & Poors, Inc. Under the terms of this investment agreement, MBIA posted collateral for the downgrade.

The amounts held in guaranteed investment contracts and the New Jersey Cash Management Fund at June 30, 2012 and 2011, respectively, are summarized below:

	2012	2011
Guaranteed Investment Contracts	\$ 11,708,462	\$ 37,242,081
New Jersey Cash Management Fund	20,455	1,668,922
Total	\$ 11,728,917	\$ 38,911,003

NEW JERSEY HIGHER EDUCATION STUDENT ASSISTANCE AUTHORITY
NJCLASS/FFELP LOAN PROGRAMS
NOTES TO FINANCIAL STATEMENTS
June 30, 2012 and 2011

NOTE 2 – CASH AND CASH EQUIVALENTS AND INVESTMENTS (CONTINUED)

Investments – Concentration 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:

Bayern LB	23.52%
NATIXIS Funding Corp.	60.66%
Rabobank	11.05%

These risks are mitigated by the collateral provisions of the guaranteed investment contracts that govern these investments.

Investments - Interest Rate Risk

- NJCLASS/FFELP investment policies, as described in NOTES TO FINANCIAL STATEMENTS - 1. 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.

NOTE 3 – 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 60 days of disbursement;
- (2) To pay only interest 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. Deferred interest on option 3 is periodically added to the loan principal balance.

NEW JERSEY HIGHER EDUCATION STUDENT ASSISTANCE AUTHORITY
NJCLASS/FFELP LOAN PROGRAMS
NOTES TO FINANCIAL STATEMENTS
June 30, 2012 and 2011

NOTE 3 – STUDENT LOANS RECEIVABLE (CONTINUED)

Under options 1 and 2 as defined above, the NJCLASS loans originated since the inception of the Program in 1991 generally bear interest at initial rates ranging from 5.25% to 8.95%, and option 3 rates have ranged from 5.55% to 9.25%. All fixed rate NJCLASS loans, with the exception of Consolidation loans and Medical/Dental loans, have a step up rate that is .75% higher than the initial rate. The step up rate becomes effective in the 49th month in repayment, with the exception of option 3 loans beginning in the 2011-12 academic year, which adjust in the 13th month of repayment.

Beginning in 1997, HESAA began offering a non-credit-based variable rate loan with an annual rate reset and initially a 23 year repayment term to qualifying graduate students. Any variable rate loans funded that were disbursed on June 1, 2001, or later are subject to an interest rate cap of 9%. The variable rate program was discontinued in 2006 and replaced by a new fixed rate Graduate/Professional NJCLASS Loan product with a 25 year term.

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. Beginning with loans consolidated after June 1, 2010, an additional .25% is added to the blended rate on consolidation loans.

In 2009, the Authority introduced the Med/NJ program, an NJCLASS loan for students working toward a MD, DO, DDS or DMD degree. This program has been discontinued for the 2012-13 academic year.

Concurrent with the issuance of the 2010-2 Bonds, the Authority introduced the 10-year fixed rate NJCLASS Student Loan. These student loans (known as Ten Year Option 1 Loans) offer only option 1 repayment (immediate payment of principal and interest) following disbursement, and only limited deferment or forbearance options.

Over the life of the NJCLASS Program, the loan terms offered, credit policies and underwriting criteria have been periodically adjusted to meet perceived borrower preferences and needs, as well as when such changes are deemed necessary for the best interests of the NJCLASS Loan Program. Recent changes in underwriting criteria are described in Management Discussion and Analysis – Current Conditions. The loan rates, borrower fees and terms offered in the 2010-11, 2011-12 and 2012-13 academic years are shown in the chart below.

NEW JERSEY HIGHER EDUCATION STUDENT ASSISTANCE AUTHORITY
NJCLASS/FFELP LOAN PROGRAMS
NOTES TO FINANCIAL STATEMENTS
June 30, 2012 and 2011

NOTE 3 – STUDENT LOANS RECEIVABLE (CONTINUED)

NJCLASS Loan Rates, Fees and Terms

2012 -2013 Academic Year

Loan Description	Initial Rate	Stepup Rate	Administrative Fee	Loan Term in Years	Month in repayment when stepup rate begins
Fixed Rate Option 1 & 2	7.05%	7.80%	3%	15	49
Fixed Rate Option 3	8.05%	8.80%	3%	20	13
Fixed Rate Option 1 - 10 Year	6.15%	6.90%	3%	10	49
Graduate/Professional Fixed Rate - Option 1 & 2	7.05%	7.80%	3%	25	49
Graduate/Professional Fixed Rate - Option 3	8.05%	8.80%	3%	25	49
NJCLASS Consolidation	Weighted average of underlying loans + 25 basis points	N/A	1.00	25 or 30 Years	N/A

2011 -2012 Academic Year

Loan Description	Initial Rate	Stepup Rate	Administrative Fee	Loan Term in Years	Month in repayment when stepup rate begins
Fixed Rate Option 1 & 2	7.35%	8.10%	2%	15	49
Fixed Rate Option 3	8.00%	8.75%	3%	20	13
Fixed Rate Option 1 - 10 Year	6.60%	7.35%	2%	10	49
Graduate/Professional Fixed Rate - Option 1 & 2	7.35%	8.10%	2%	25	49
Graduate/Professional Fixed Rate - Option 3	7.65%	8.40%	2%	25	49
Medical/Dental Fixed Rate - Option 1 & 2	7.85%	N/A	2%	25	N/A
Medical/Dental Fixed Rate - Option 3	8.15%	N/A	2%	25	N/A
NJCLASS Consolidation	Weighted average of underlying loans + 25 basis points	N/A	1.00	25 or 30 Years	N/A

2010 -2011 Academic Year

Loan Description	Initial Rate	Stepup Rate	Administrative Fee	Loan Term in Years	Month in repayment when stepup rate begins
Fixed Rate Option 1 & 2	7.59%	8.34%	2%	20	49
Fixed Rate Option 3	7.89%	8.64%	3%	20	13
Fixed Rate Option 1 - 10 Year	5.90%	6.65%	2%	10	49
Graduate/Professional Fixed Rate - Option 1 & 2	7.69%	8.44%	2%	25	49
Graduate/Professional Fixed Rate - Option 3	7.99%	8.74%	2%	25	49
Medical/Dental Fixed Rate - Option 1 & 2	8.17%	N/A	2%	25	N/A
Medical/Dental Fixed Rate - Option 3	8.47%	N/A	2%	25	N/A
NJCLASS Consolidation	Weighted average of underlying loans	N/A	1.00	25 or 30 Years	N/A

NEW JERSEY HIGHER EDUCATION STUDENT ASSISTANCE AUTHORITY
NJCLASS/FFELP LOAN PROGRAMS
NOTES TO FINANCIAL STATEMENTS
June 30, 2012 and 2011

NOTE 3 – STUDENT LOANS RECEIVABLE (CONTINUED)

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, 2012 and 2011, \$10,976,836 and \$11,193,758 of servicing fees, respectively, were included in loan servicing fees charged to the NJCLASS Loan Program. In connection with its portfolios of existing loans, FFELP pays certain fees for Program administration, which are payable from Program revenues. For the years ended June 30, 2012 and 2011, the fees include administrative expenses of \$273,903 and \$672,740, respectively, paid to the Authority and fees paid to servicing agents of \$647,988 and \$712,927, respectively. In addition, for the years ended June 30, 2012 and 2011, loan consolidation rebate fees of \$925,160 and \$1,012,815, respectively, were paid to the United States Department of Education.

Loan Defaults/Loan Reserve Fund

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

For most of its NJCLASS bond issues, 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 percentage of original loan principal specified by the appropriate master indenture.

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. 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.

For the 1998 and 2008 Master Indentures, this fund is not part of the NJCLASS Loan Program Trust Estate, thus it is not included in the accompanying financial statements. For the 2009, 2010-1 and 2010-2 Indentures, the loan reserve funds are part of these respective indentures. Consequently, loan reserve activity for these bond issues is included in the accompanying financial statements and shown in the Combining Statements presented in the Supplementary Information section.

During fiscal years ended 2012 and 2011, default claims paid by the external loan reserve funds established for the 1998 and 2008 Indentures totalled \$5,441,002 and \$6,933,182, respectively, and new claims for the same periods totalled \$12,261,507 and \$14,089,057. As of June 30, 2012 and 2011, the balances due from the external loan reserve funds to cover defaulted loans totalled \$41,903,540 and \$35,083,035, respectively.

NEW JERSEY HIGHER EDUCATION STUDENT ASSISTANCE AUTHORITY
NJCLASS/FFELP LOAN PROGRAMS
NOTES TO FINANCIAL STATEMENTS
June 30, 2012 and 2011

NOTE 3 — STUDENT LOANS RECEIVABLE (CONTINUED)

Loan Defaults/Loan Reserve Fund (Continued)

For the fiscal years 2012 and 2011, collections on defaulted loans within the internal loan reserve funds established for the 2009, 2010-1 and 2010-2 Indentures, which are included within the NJCLASS/FFELP Loan Programs Financial Statements, totalled \$3,848,073 and \$500,097, respectively, and new defaulted loans for the same periods totalled \$42,821,500 and \$27,167,233. As of June 30, 2012 and 2011, the balances due from these loan reserve funds to cover defaulted loans totalled \$66,140,659 and \$27,167,233 respectively.

Amounts due to and from these internal loan reserve funds are eliminated in the Statements of Net Assets, but are shown in the Combining Schedules of Net Assets.

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 the Loan Reserve Fund to determine its ability to reimburse the bond issues on a timely basis. During the fiscal years 2012 and 2011, based on past collections experience and an analysis of the current receivable from its Loan Reserve Funds, management recorded allowances for doubtful accounts in the amount of \$28,510,234 and \$22,553,515, respectively, against the June 30, 2012 and 2011, amounts due from the external Loan Reserve Funds. Allowances for doubtful accounts recorded against the June 30, 2012 and 2011, amounts due from the internal Loan Reserve Funds totalled \$43,737,581 and \$19,083,945, respectively.

In addition, the Loan Reserve Funds receive 1% of the loan amount disbursed from the application fee paid by the borrower. During the years ended June 30, 2012 and 2011, amounts of \$3,481,522 and \$3,687,587, respectively, were paid to the Loan Reserve Funds maintained by the Authority from loan application fees. As of June 30, 2012 and 2011, the balances due to the Loan Reserve Funds from loan application fees and default collections totalled \$299,338 and \$395,600, respectively. Under the terms of its indenture, no loan reserve fund will be established for the 2012-1 Bond Issue.

NOTE 4 – USE OF FINANCIAL INSTRUMENTS

The Authority has entered into financial instrument Swap and Cap Agreements (the "Agreements") with various counterparties, in general, contemporaneously with the issuance of its Tax Exempt Variable Rate Bonds, also known as ARCs, issued between 2001 and 2007 to support its NJCLASS loan program.

Under the terms of the Agreements, 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 Agreements are to hedge the Authority's ARC bonds and/or fixed-rate NJCLASS loans being funded through the proceeds of the variable rate ARC bonds.

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NOTE 4 – USE OF FINANCIAL INSTRUMENTS (CONTINUED)

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 or ARC bonds as applicable.

The total original notional amount of all Swap and Cap agreements entered into in connection with the ARCs was \$479,550,000. The total maximum notional amounts as defined on the amortization schedules of the respective Swap agreements was \$1,143,450,000. Subsequent decreases in the notional amounts are due to scheduled amortization of \$200,524,294 and early Swap terminations of \$777,063,402, which reduced the combined outstanding notional amount to \$165,862,304 as of June 30, 2012.

Certain swap agreements contain a feature that gives HESAA the option to terminate the swap on or after a predetermined date at no cost. 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 and reported as an asset and liability on the Statement of Net Assets.

The Authority has tested the Agreements for hedge effectiveness in accordance with GASB Statement No. 53. All of the Agreements have been found to be effective, and therefore the fair value of the Swaps has been recorded as an asset (Deferred outflow) and a liability on the statement of net assets.

The interest rates, notional amounts, provider (or counterparty), fair values and termination dates for each Agreement outstanding at June 30, 2012 and 2011 are detailed in the following schedules.

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NOTE 4 – USE OF FINANCIAL INSTRUMENTS (CONTINUED)

Values as of June 30, 2012

<u>Transaction Type</u>	<u>Bond Issue (2)</u>	<u>Fixed Rate</u>	<u>Notional Amount</u>	<u>Fair Value (1)</u>	<u>Provider</u>	<u>Settlement Occur</u>	<u>Termination Date</u>
Sw ap	2002	4.2005%	\$ 31,100,000	\$ 3,242,390	J.P. Morgan	Semi-annually	06/01/17
Sw ap		3.2970%	19,070,000	1,468,970	J.P. Morgan	Semi-annually	06/01/17
		Total	<u>50,170,000</u>	<u>4,711,360</u>			
Sw ap	2003	3.1710%	37,250,000	3,091,940	UBS AG	Semi-annually	12/01/18
Cap		6.4000%	3,300,000	(3,092)	UBS AG	Semi-annually	06/01/19
Cap		6.1500%	10,700,000	228,816	UBS AG	Annually	06/01/28
		Total	<u>51,250,000</u>	<u>3,317,664</u>			
Sw ap	2006	4.4750%	14,917,241	3,379,381	Citigroup	Semi-annually	12/01/31
Sw ap tion			-	(925,539)	Citigroup		12/01/31
		Total	<u>14,917,241</u>	<u>2,453,842</u>			
Sw ap	2007	4.0970%	26,128,465	5,252,885	Citigroup	Semi-annually	06/01/36
Sw ap tion			-	(2,057,096)	Citigroup		06/01/36
Sw ap		4.0970%	23,366,598	4,697,926	UBS AG	Semi-annually	06/01/36
Sw ap tion			-	(1,802,562)	UBS AG		06/01/36
		Total	<u>49,495,063</u>	<u>6,091,153</u>			
		Grand Total	<u>\$ 165,832,304</u>	<u>\$ 16,574,019</u>			

- (1) All fair values that result in a positive value to the sw ap provider are show n as positive amounts.
All fair values that result in a positive value to HESAA are show n as negative amounts.
- (2) Indicates the year the financial instrument w as issued

NEW JERSEY HIGHER EDUCATION STUDENT ASSISTANCE AUTHORITY
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NOTE 4 – USE OF FINANCIAL INSTRUMENTS (CONTINUED)

Values as of June 30, 2011

Transaction Type	Bond Issue (2)	Fixed Rate	Notional Amount	Fair Value (1)	Provider	Settlement Occur	Termination Date
Sw ap	2002	4.2005%	\$ 37,100,000	\$ 3,680,379	J.P. Morgan	Semi-annually	06/01/17
Sw ap		3.2970%	22,665,000	1,549,744	J.P. Morgan	Semi-annually	06/01/17
		Total	<u>59,765,000</u>	<u>5,230,123</u>			
Sw ap	2003	3.1710%	43,000,000	2,703,434	UBS AG	Semi-annually	12/01/18
Sw ap		3.1710%	43,000,000	2,703,434	Citigroup	Semi-annually	12/01/18
Cap		6.4000%	3,300,000	(7,866)	UBS AG	Semi-annually	06/01/19
Cap		6.1500%	10,350,000	(123,623)	UBS AG	Annually	06/01/28
Cap		0.3930%	-	313,954	UBS AG	Annually	06/01/28
		Total	<u>99,650,000</u>	<u>5,589,333</u>			
Sw ap	2004	4.1480%	14,236,000	1,484,545	Citigroup	Semi-annually	12/01/19
Sw aption			-	(1,204,762)	Citigroup		12/01/19
		Total	<u>14,236,000</u>	<u>279,783</u>			
Sw ap	2006	4.4750%	15,450,000	2,396,936	Citigroup	Semi-annually	12/01/31
Sw aption			-	(507,083)	Citigroup		12/01/31
		Total	<u>15,450,000</u>	<u>1,889,853</u>			
Sw ap	2007	4.0970%	26,895,000	3,325,247	Citigroup	Semi-annually	06/01/36
Sw aption			-	(1,004,878)	Citigroup		06/01/36
Sw ap		4.0970%	24,055,013	2,973,951	UBS AG	Semi-annually	06/01/36
Sw aption			-	(898,752)	UBS AG		06/01/36
		Total	<u>50,950,013</u>	<u>4,395,568</u>			
		Grand Total	<u>\$ 240,051,013</u>	<u>\$ 17,384,660</u>			

- (1) All fair values that result in a positive value to the sw ap provider are shown as positive amounts.
All fair values that result in a positive value to HESAA are shown as negative amounts.
- (2) Indicates the year the financial instrument was issued

NOTE 5 – 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 (Trust Estate), as described in the official statement of each bond issue. In addition to the assets or funds of the Trust Estate, all bonds issued from 1998 through 2008 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) are pledged as security for the bonds.

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NJCLASS/FFELP LOAN PROGRAMS
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June 30, 2012 and 2011

NOTE 5 – BONDS PAYABLE (CONTINUED)

Bonds Outstanding

The following schedules present summarized information relating to the interest rates and future maturities of the bonds outstanding as of June 30, 2012 and 2011:

Bonds Outstanding June 30, 2012

Student Loan Revenue Bond Title Issue Year/Series	Interest Rate Range as of June 30, 2012	Maturity Dates	Bonds Outstanding (in thousands) June 30, 2011	Additions	Reductions	Bonds Outstanding (in thousands) June 30, 2012	Amounts Due within One Year
1998, Series A ⁽¹⁾	N/A		\$ 17,510	\$ -	\$ 17,510	\$ -	\$ -
1999, Series A	5.10%-5.25%	6/1/13-6/1/18	14,050	-	1,605	12,445	1,715
2000, Series A	6.00%-6.15%	6/1/13-6/1/19	19,770	-	2,740	17,030	2,740
2002, Series A through D ⁽²⁾	0.064%-0.595% (ARCs)	6/1/2037	3,750	-	250	3,500	-
2003, Series A through D ⁽²⁾	0.56%-0.578% (ARCs)	5/28/2038	49,600	-	2,000	47,600	-
2004, Series A through D ⁽²⁾	0.082%-0.595% (ARCs)	4/1/2039	34,050	-	-	34,050	-
2005, Series A through D ⁽²⁾	0.543%-0.613% (ARCs)	5/1/2040	39,300	-	3,750	35,550	-
2006, Series A through D ⁽²⁾	0.543%-0.613% (ARCs)	12/1/2040	6,225	-	150	6,075	-
2007, Series A through D ⁽²⁾	0.128%-0.333% (ARCs)	12/1/2041	3,075	-	200	2,875	-
2008, Series A	5.875%-6.125%	6/1/2021, 6/1/2030	330,595	-	32,700	297,895	10,400
2009, Series A	3.625%-5.625%	6/1/2013-6/1/2030	450,000	-	12,000	438,000	19,200
2010-1, Series A & B	2.50%-5.40%	12/1/2012-12/1/2037	713,000	-	67,000	646,000	40,200
2010, Series FFELP ⁽³⁾	0.76685%-1.41685%	6/1/2020-6/1/2036	122,395	-	15,505	106,890	20,000
2010-2	2.50%-5.00%	12/1/2012-12/1/2036	280,000	-	20,200	259,800	17,800
2011-1	3.00%-5.875%	12/1/2012-12/1/2033	-	326,500	-	326,500	5,800
2012-1	3.00%-5.75%	12/1/2013-12/1/2039	-	259,300	-	259,300	-
Totals			<u>\$ 2,083,320</u>	<u>\$ 585,800</u>	<u>\$ 175,610</u>	<u>\$ 2,493,510</u>	<u>\$ 117,855</u>

(1) Bond Issue is Fully Retired

(2) All 2002, 2003, 2004, 2005, 2006 and 2007 Series A through D Student Loan Revenue Bonds were issued as Auction Rate Certificates (ARCs). 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, 2012 and 2011, as indicated

(3) The 2010-FFELP Bonds are Tax Exempt LIBOR Floating Rate Bonds, consisting of Class A-1 & Class A-2 Bonds. The interest rate on the Class A-1 Bonds is 100% of 3 Month LIBOR plus .30%, and the rate on the Class A-2 Bonds is 100% of 3-Month LIBOR plus .95%. Interest is paid quarterly.

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NOTE 5 – BONDS PAYABLE (CONTINUED)

Bonds Outstanding (Continued)

Bonds Outstanding June 30, 2011

Student Loan Revenue Bond Title Issue Year/Series	Interest Rate Range as of June 30, 2011	Maturity Dates	Bonds Outstanding (in thousands) June 30, 2010	Additions	Reductions	Bonds Outstanding (in thousands) June 30, 2011	Amounts Due within One Year
1998, Series A	5.05%-5.30%	6/1/12-6/1/17	\$ 19,755	\$ -	\$ (2,245)	\$ 17,510	\$ 17,510
1999, Series A	5.00%-5.25%	6/1/12-6/1/18	15,560	-	(1510)	14,050	1,605
2000, Series A	5.90%-6.15%	6/1/12-6/1/19	22,055	-	(2,285)	19,770	6,000
2001, Series A through D ^(1,2)	0.00% (ARCs)	6/1/2036	3,000	-	(3,000)	-	-
2002, Series A through D ⁽²⁾	0.064%-0.49% (ARCs)	6/1/2037	4,200	-	(450)	3,750	-
2003, Series A through D ⁽²⁾	0.438%-0.508% (ARCs)	5/28/2038	86,300	-	(36,700)	49,600	-
2004, Series A through D ⁽²⁾	0.07%-0.543% (ARCs)	4/1/2039	74,050	-	(40,000)	34,050	-
2005, Series A through D ⁽²⁾	0.438%-0.578% (ARCs)	5/1/2040	41,350	-	(2,050)	39,300	-
2006, Series A through D ⁽²⁾	0.053%-0.49% (ARCs)	12/1/2040	7,150	-	(925)	6,225	-
2007, Series A through D ⁽²⁾	0.096%-0.578% (ARCs)	12/1/2041	5,725	-	(2,650)	3,075	-
2008, Series A	5.875%-6.125%	6/1/2021, 6/1/2030	350,000	-	(19,405)	330,595	-
2009, Series A	3.625%-5.625%	6/1/2013-6/1/2030	450,000	-	-	450,000	-
2010-1, Series A & B	2.00%-5.40%	12/1/2011-12/1/2037	713,000	-	-	713,000	4,000
2010, Series FFELP ⁽³⁾	0.686715%-1.336715%	6/1/2020-6/1/2036	145,000	-	(22,605)	122,395	3,000
2010-2	2.50%-5.00%	12/1/2012-12/1/2036	<u>280,000</u>	<u>-</u>	<u>-</u>	<u>280,000</u>	<u>-</u>
Totals			<u>\$ 2,217,145</u>	<u>\$ -</u>	<u>\$ (133,825)</u>	<u>\$ 2,083,320</u>	<u>\$ 32,115</u>

(1) Bond Issue is Fully Retired

(2) All 2001, 2002, 2003, 2004, 2005, 2006 and 2007 Series A through D Student Loan Revenue Bonds were issued as Auction Rate Certificates (ARCs). 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, 2012 and 2011, as indicated.

(3) The 2010-FFELP Bonds are Tax Exempt LIBOR Floating Rate Bonds, consisting of Class A-1 & Class A-2 Bonds. The interest rate on the Class A-1 Bonds is 100% of 3 Month LIBOR plus .30%, and the rate on the Class A-2 Bonds is 100% of 3-Month LIBOR plus .95%. Interest is paid quarterly.

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NOTE 5 – BONDS PAYABLE (CONTINUED)

Bonds Outstanding (Continued)

Redemption Provisions

The supplemental indentures for each bond issue define the terms under which bond redemptions are to occur. Specific information and requirements governing each type of redemption are defined in the sections on redemption provisions below. These sections are followed by a cumulative schedule of bonds issued, bonds accreted, redemptions by type and bond issue since the inception of the NJCLASS Program in 1991, as well as bonds outstanding at June 30, 2012.

Extraordinary Redemptions

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, as well as 2008 and 2009. Where applicable, these early redemptions are permitted under the Extraordinary Redemption from Unexpended Proceeds, the Special Redemption, Extraordinary Redemption from Excess Revenues, Special Optional Redemption from Excess Revenues and Special Mandatory Redemption from Excess Revenues sections of the indentures or supplemental indentures. All bonds retired under the Extraordinary Redemption provisions are redeemable at par.

The 2008, 2009, 2010-1, 2010-2, 2011-1 and 2012-1 Bonds that are eligible for redemption prior to maturity are also eligible for special optional redemption from excess revenues at the option of the Authority, plus accrued interest. During the 2012 fiscal year, a total of \$121,900,000 of bonds within each of these respective issues redeemed under this provision as detailed on the Cumulative Schedule of Bond Redemptions at June 30, 2012.

Optional Redemptions

Each indenture also contains provisions for the optional redemptions of NJCLASS fixed rate bonds. For the 1999 and 2000 Bond Issues, the Authority was precluded from doing optional redemptions for the first ten 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 2002, 2003, 2004, 2005, 2006 and 2007 Bonds are eligible for redemption prior to maturity at any time upon ten 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.

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NOTE 5 – BONDS PAYABLE (CONTINUED)

Optional Redemptions (Continued)

The following chart outlines the optional redemption provisions for the 2008 through 2012-1 bonds:

<u>Bond</u>	<u>Maturity</u>	<u>Subject to Optional Redemption</u>	<u>First Eligible Call Date</u>
2008	Prior to 6/1/19	No	
2008	On or After 6/1/19	Yes at par plus accrued interest	June 1, 2018
2009A	Prior to 6/1/20	No	
2009A	On or After 6/1/20	Yes at par plus accrued interest	June 1, 2019
2010-1A	Prior to 12/1/20	No	
2010-1A	On or After 12/1/20	Yes at par plus accrued interest	December 1, 2019
2010-1B	All	No	
2010-2	Prior to 12/1/21	No	
2010-2	On or After 12/1/21	Yes at par plus accrued interest	December 1, 2020
2011-1	Prior to 12/1/22	No	
2011-1	On or After 12/1/22	Yes at par plus accrued interest	December 1, 2021
2012-1	Prior to 12/1/23	No	
2012-1	On or After 12/1/23	Yes at par plus accrued interest	December 1, 2022

Scheduled Maturities

Since the inception of the NJCLASS/FFELP Programs in 1991, the supplemental indentures applicable to each bond issue have included schedules containing the maturity dates of the various CUSIPs within each bond issue.

As governed by the indenture for each issue and series for the years 1999 and 2000, as well as 2008 and 2009, mandatory sinking fund redemptions prior to maturity, in part, by lot are required. The amounts of sinking fund redemptions for the fiscal years 2013 through 2017 and thereafter are included in the maturity schedule shown on page 35.

Cumulative Redemptions

The following schedule presents summarized information by bond issue relating to all types of bond redemptions from the inception of the NJCLASS/FFELP Program in 1991 to the financial statement date.

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NOTE 5 – BONDS PAYABLE (CONTINUED)

Cumulative Schedule of Bond Redemptions at June 30, 2012

Bond Issue	Original Principal	Semi-Annual Accretion	Scheduled Maturity	Excess Revenue Redemption	Unexpended Proceeds Redemption	Optional Redemption	Special Redemption	Special Optional Redemption	Bond Tender (1)	Refunded	Current Principal Outstanding at June 30, 2012
1991	\$ 24,996,064	\$ 3,562,871	\$ (5,910,000)	\$ (20,468,935)	\$ (2,180,000)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
1992	35,000,000	-	(12,730,000)	(22,270,000)	-	-	-	-	-	-	-
1993	20,000,000	-	(6,105,000)	(13,475,000)	(420,000)	-	-	-	-	-	-
1995	15,000,000	-	(4,025,000)	(10,975,000)	-	-	-	-	-	-	-
1996	18,000,000	-	(4,450,000)	(11,015,000)	-	(2,535,000)	-	-	-	-	-
1997A	25,000,000	-	(4,500,000)	(17,350,000)	-	(3,150,000)	-	-	-	-	-
1997B	12,000,000	-	-	-	-	-	-	-	-	(12,000,000)	-
1998	80,000,000	-	(9,445,000)	(53,045,000)	-	(17,510,000)	-	-	-	-	-
1999A	50,000,000	-	(6,625,000)	(25,830,000)	-	-	(5,100,000)	-	-	-	12,445,000
1999B	12,000,000	-	-	-	-	-	-	-	-	(12,000,000)	-
2000	70,000,000	-	(15,675,000)	(29,530,000)	-	-	(7,765,000)	-	-	-	17,030,000
2001	190,000,000	-	-	-	-	(3,000,000)	(60,850,000)	-	(126,150,000)	-	-
2002	166,000,000	-	-	-	-	-	(60,950,000)	-	(101,550,000)	-	3,500,000
2003	212,000,000	-	-	-	-	-	(56,400,000)	-	(108,000,000)	-	47,600,000
2004	200,000,000	-	-	-	-	-	-	-	(165,950,000)	-	34,050,000
2005	225,000,000	-	-	-	-	-	(9,250,000)	-	(180,200,000)	-	35,550,000
2006	225,000,000	-	-	-	-	-	(29,525,000)	-	(189,400,000)	-	6,075,000
2007	275,000,000	-	-	-	-	-	(16,425,000)	-	(255,700,000)	-	2,875,000
2008	350,000,000	-	-	-	(19,405,000)	-	-	(32,700,000)	-	-	297,895,000
2009	450,000,000	-	-	-	-	-	-	(12,000,000)	-	-	438,000,000
2010-1	713,000,000	-	(10,000,000)	-	-	-	-	(57,000,000)	-	-	646,000,000
2010-FFELP	145,000,000	-	-	(38,110,000)	-	-	-	-	-	-	106,890,000
2010-2	280,000,000	-	-	-	-	-	-	(20,200,000)	-	-	259,800,000
2011-1	326,500,000	-	-	-	-	-	-	-	-	-	326,500,000
2012-1	259,300,000	-	-	-	-	-	-	-	-	-	259,300,000
Totals	<u>\$4,378,796,064</u>	<u>\$ 3,562,871</u>	<u>\$ (79,465,000)</u>	<u>\$ (242,068,935)</u>	<u>\$ (22,005,000)</u>	<u>\$ (26,195,000)</u>	<u>\$ (246,265,000)</u>	<u>\$ (121,900,000)</u>	<u>\$ (1,126,950,000)</u>	<u>\$ (24,000,000)</u>	<u>\$ 2,493,510,000</u>

(1) Bond Tenders are purchases in Lieu of Redemption resulting in bond retirements.

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NOTES TO FINANCIAL STATEMENTS
June 30, 2012 and 2011

NOTE 5 – BONDS PAYABLE (CONTINUED)

Cumulative Schedule of Bond Redemptions at June 30, 2011

Bond Issue	Original Principal	Semi-Annual Accretion	Scheduled Maturity	Excess Revenue Redemption	Unexpended Proceeds Redemption	Optional Redemption	Special Redemption	Bond Tender (1)	Refunded	Current Principal Outstanding at June 30, 2011
1991	\$ 24,996,064	\$ 3,562,871	\$ (5,910,000)	\$ (20,468,935)	\$ (2,180,000)	\$ -	\$ -	\$ -	\$ -	-
1992	35,000,000	-	(12,730,000)	(22,270,000)	-	-	-	-	-	-
1993	20,000,000	-	(6,105,000)	(13,475,000)	(420,000)	-	-	-	-	-
1995	15,000,000	-	(4,025,000)	(10,975,000)	-	-	-	-	-	-
1996	18,000,000	-	(4,450,000)	(11,015,000)	-	(2,535,000)	-	-	-	-
1997A	25,000,000	-	(4,500,000)	(17,350,000)	-	(3,150,000)	-	-	-	-
1997B	12,000,000	-	-	-	-	-	-	-	(12,000,000)	-
1998	80,000,000	-	(9,445,000)	(53,045,000)	-	-	-	-	-	17,510,000
1999A	50,000,000	-	(5,020,000)	(25,830,000)	-	-	(5,100,000)	-	-	14,050,000
1999B	12,000,000	-	-	-	-	-	-	-	(12,000,000)	-
2000	70,000,000	-	(12,935,000)	(29,530,000)	-	-	(7,765,000)	-	-	19,770,000
2001	190,000,000	-	-	-	-	(3,000,000)	(60,850,000)	(126,150,000)	-	-
2002	166,000,000	-	-	-	-	-	(60,700,000)	(101,550,000)	-	3,750,000
2003	212,000,000	-	-	-	-	-	(54,400,000)	(108,000,000)	-	49,600,000
2004	200,000,000	-	-	-	-	-	-	(165,950,000)	-	34,050,000
2005	225,000,000	-	-	-	-	-	(5,500,000)	(180,200,000)	-	39,300,000
2006	225,000,000	-	-	-	-	-	(29,375,000)	(189,400,000)	-	6,225,000
2007	275,000,000	-	-	-	-	-	(16,225,000)	(255,700,000)	-	3,075,000
2008	350,000,000	-	-	-	(19,405,000)	-	-	-	-	330,595,000
2009	450,000,000	-	-	-	-	-	-	-	-	450,000,000
2010-1	713,000,000	-	-	-	-	-	-	-	-	713,000,000
2010-FFELP	145,000,000	-	-	(22,605,000)	-	-	-	-	-	122,395,000
2010-2	280,000,000	-	-	-	-	-	-	-	-	280,000,000
Totals	\$ 3,792,996,064	\$ 3,562,871	\$ (65,120,000)	\$ (226,563,935)	\$ (22,005,000)	\$ (8,685,000)	\$ (239,915,000)	\$ (1,126,950,000)	\$ (24,000,000)	\$ 2,083,320,000

(1) Bond Tenders are purchases in Lieu of Redemption resulting in bond retirements.

NEW JERSEY HIGHER EDUCATION STUDENT ASSISTANCE AUTHORITY
NJCLASS/FFELP LOAN PROGRAMS
NOTES TO FINANCIAL STATEMENTS
June 30, 2012 and 2011

NOTE 5 – BONDS PAYABLE (CONTINUED)

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

As required by the Fifth (for 2002), Sixth (for 2003), Seventh (for 2004), Eighth (for 2005), Ninth (for 2006) or Tenth (for 2007) Supplemental Indentures to the 1998 Indenture of Trust, 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 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 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 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 2002, 2003, 2004, 2005, 2006 and/or 2007 Bonds.

Future Maturities and Sinking Fund Requirements

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

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2013	\$ 117,855,000	\$ 116,561,898	\$ 234,416,898
2014	102,215,000	114,049,504	216,264,504
2015	128,480,000	110,031,634	238,511,634
2016	135,940,000	104,462,013	240,402,013
2017	148,085,000	98,738,037	246,823,037
2018-2022	623,575,000	398,237,321	1,021,812,321
2023-2027	465,575,000	270,966,875	736,541,875
2028-2032	593,135,000	118,268,992	711,403,992
2033-2037	32,500,000	34,665,826	67,165,826
2038 and after	146,150,000	10,859,120	157,009,120
Total	<u>\$ 2,493,510,000</u>	<u>\$ 1,376,841,220</u>	<u>3,870,351,220</u>
Less amount representing interest			<u>1,376,841,220</u>
Net minimum principal payments			<u>\$ 2,493,510,000</u>

NEW JERSEY HIGHER EDUCATION STUDENT ASSISTANCE AUTHORITY
NJCLASS/FFELP LOAN PROGRAMS
NOTES TO FINANCIAL STATEMENTS
June 30, 2012 and 2011

NOTE 5 – BONDS PAYABLE (CONTINUED)

Bond Premium and Discount

Bond premium and discount amounts have been recorded in connection with the issuance of the Authority's 2009 Series A Bonds, 2010-1, 2010-2, 2011-1 and 2012-1 Bonds. Bond premiums are reported as deferred revenues (liabilities), and bond discounts are reported as deferred expense (assets). Bond premiums and discounts are amortized over the term of the related debt. The unamortized amount of premium and discount is shown as a net amount in the Liabilities section on the Statement of Net Assets, and amortization revenue and expense is credited or charged to bond interest expense in the Statement of Revenues, Expenses and Changes in Net Assets. Related amounts as of June 30, 2012 are as follows:

Bond premium	\$ 47,334,351
Accumulated amortization	(14,531,593)
Total unamortized bond premium	<u>\$ 32,802,758</u>
Amortization revenue	<u>\$ 6,734,661</u>
Bond discount	\$ 6,417,672
Accumulated amortization	(842,090)
Total unamortized bond discount	<u>\$ 5,575,582</u>
Amortization expense	<u>\$ 394,693</u>
Net unamortized bond premium	<u><u>\$ 27,227,176</u></u>

Risk of Bond Interest Rate Fluctuations

All Authority 2002 through 2007 Bonds are ARCs, and thus are subject to periodic rate reset, resulting in a risk that the cost of debt service on bonds, which is the largest expenditure of the program, will exceed revenues earned from principal and interest payments on the fixed rate student loans, its largest revenue source. Disruptions in the bond market since the latter half of the 2008 fiscal year have resulted in failed auctions of these bonds. When an auction fails, all bond holders prior to the auction are required to hold them for the next auction period, at the "All Hold" rate, which is the lesser of the maximum rate permitted under the supplemental indenture, or an index rate that is based on either the After Tax Equivalent Rate or the Kenny index, multiplied by an "Applicable Percentage," as defined in the supplemental indenture of each bond issue.

NEW JERSEY HIGHER EDUCATION STUDENT ASSISTANCE AUTHORITY
NJCLASS/FFELP LOAN PROGRAMS
NOTES TO FINANCIAL STATEMENTS
June 30, 2012 and 2011

NOTE 5 – BONDS PAYABLE (CONTINUED)

Risk of Bond Interest Rate Fluctuations (Continued)

As a result, the variable interest rates experienced during the 2008 fiscal year exceeded historical norms, and, consequently, the debt service payments on these bonds exceeded revenues from all sources and caused a decline in the Net Assets of the program for that year. During the 2009 fiscal year, these rates became extremely low, a condition that has continued through the 2012 fiscal year.

As long as the 2002 through 2007 Bonds remain outstanding as ARCs, there is a risk that auctions resulting in interest rates in excess of program revenues will continue to occur. These include those as a result of Failed Auctions, resulting in the imposition of the All Hold rate, as well as fluctuations in the ARC rates resulting from possible future successful auctions.

In the event that losses caused by excessive bond interest expense result in insufficient cash within the NJCLASS/FFELP Trust to meet its debt service obligations, the Authority's legislation provides for draws on the Debt Service Reserve funds established under the supplemental indentures of each bond issue. As of June 30, 2012, amounts available in the debt service reserve funds for each bond issue within the 1998 NJCLASS/FFELP Indenture of Trust, which contains all HESAA ARC bonds, totalled \$3,667,845 included in cash and cash equivalents and investments. The following paragraph describes the degree to which security for the bonds issued under the 1998 indenture is provided through this and other funding sources.

The HESAA NJCLASS/FFELP ARC Bonds, which are all those issued between 2001 and 2007, are secured on a parity basis with all of the other Series of Bonds previously issued under the 1998 Indenture and are payable from, subject to the terms of the Indenture: (i) Student Loans; (ii) all Revenues and Recoveries of Principal (including, without limitation, payments of principal of and interest on Student Loans); (iii) the Debt Service Reserve Fund; and (iv) the monies and securities in the various other funds established under the Indenture (except the Rebate Fund, the Excess Yield Fund and the Loan Reserve Fund). The amount deposited in the Debt Service Reserve Fund is less than the maximum amount of principal and interest on the bonds in certain future Bond Years. Pursuant to a provision in the Authority's enabling Act, the Legislature of the State may pay monies into the Debt Service Reserve Fund, subject to and dependent upon annual appropriations by the Legislature, to restore such account to the Debt Service Reserve Fund Requirement. However, because the Debt Service Reserve Fund Requirement is less than the maximum annual debt service on the bonds, even in the event that the Legislature makes all appropriations contemplated by the Act, such appropriations may be insufficient to pay debt service on the bonds as the same becomes due and payable. Such provision does not constitute a legally enforceable obligation on the part of the state or create a debt or liability on behalf of the State enforceable against the state.

NEW JERSEY HIGHER EDUCATION STUDENT ASSISTANCE AUTHORITY
NJCLASS/FFELP LOAN PROGRAMS
NOTES TO FINANCIAL STATEMENTS
June 30, 2012 and 2011

NOTE 5 – BONDS PAYABLE (CONTINUED)

Gains on Bond Retirements

During 2012 and 2011, due to market conditions in which investments in ARC bonds could not be resold at par through the auction process, several broker/dealer firms, which were holders of these bonds or agents of the holders, made offers to HESAA to sell back portions of their holdings at below par.

As a result, the Authority repurchased and retired \$6,350,000 of its ARC bonds through Special Redemptions and public tenders, as permitted under the indentures, at prices ranging from 86.00% to 86.50% of par, resulting in total gains on retirement of \$858,750 during the year ended June 30, 2012.

During the year ended June 30, 2011, the Authority repurchased and retired \$82,775,000 of its ARC bonds through Special Redemptions and public tenders, as permitted under the indentures, at prices ranging from 84.00% to 87.50% of par, resulting in total gains on retirement of \$10,390,188 during the year.

NOTE 6 – 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. Arbitrage expense of \$33,736 was accrued during the 2012 fiscal year. The June 30, 2011 liability of \$35,762, which is payable in future years, remained unpaid during the 2012 fiscal year.

NOTE 7 – CONCENTRATION OF CREDIT RISK

Financial Instruments

As disclosed in Note 1, 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, 2012 and 2011, the liability associated with financial instruments specified in Note 1 was \$460,792 and \$676,352, respectively. This amount is included in accrued interest payable.

NEW JERSEY HIGHER EDUCATION STUDENT ASSISTANCE AUTHORITY
NJCLASS/FFELP LOAN PROGRAMS
NOTES TO FINANCIAL STATEMENTS
June 30, 2012 and 2011

NOTE 7 – CONCENTRATION OF CREDIT RISK (CONTINUED)

Financial Instruments (Continued)

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. During the years ended June 30, 2012 and 2011, the Authority terminated several agreements resulting in a swap termination fee expense of \$4,510,000 and \$6,490,000, respectively.

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. HESAA management continually monitors the performance of the NJCLASS and FFELP loan portfolios and maintains loan reserve funds for the 1998, 2008, 2009, 2010-1 and 2010-2 Master Indentures, which are 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 cash flows of the loan reserve fund in combination with those of the bond issues adequate in light of actual loan default experience.

NOTE 8 – SUBSEQUENT EVENTS

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

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, 2012**

	1998	1999-A	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009 Series A	2009 Indenture Loan Reserve Fund	2010-1 Series A&B	2010-1 Indenture Loan Reserve Fund	2010 FFELP	2010-2	2010-2 Indenture Loan Reserve Fund	2011-1	2012-1	Total	
Operating Revenues																						
Interest Income																						
NJCLASS Student Loans	\$ 43,006	\$ 379,237	\$ 673,618	\$ 535,054	\$ 457,204	\$ 4,067,891	\$ 931,749	\$ 1,269,611	\$ 633,793	\$ 268,539	\$ 23,199,323	\$ 32,767,491	\$ -	\$ 44,926,760	\$ -	\$ -	\$ 18,672,530	\$ -	\$ 13,208,736	\$ -	\$ 142,034,542	
FFELP Student Loans	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	4,651,771	-	-	-	-	4,651,771	
Total Interest Income	43,006 #	379,237 #	673,618 #	535,054 #	457,204 #	4,067,891 #	931,749 #	1,269,611 #	633,793 #	268,539 #	23,199,323 #	32,767,491 #	- #	44,926,760 #	- #	4,651,771 #	18,672,530 #	- #	13,208,736 #	- #	146,686,313	
Application/Administrative Fee Income	-	-	-	-	433	-	-	-	-	(60)	(636)	(1,075)	-	34,464	-	-	176,622	-	6,152,884	-	6,362,642	
Loan Reserve Fee Income	-	-	-	-	-	-	-	-	-	-	-	-	50	-	17,834	-	-	3,463,740	-	-	3,481,624	
Default Income	-	-	-	-	-	-	-	-	-	-	-	-	64,593	-	94,293	-	-	75,490	-	-	234,376	
Total Operating Revenues	43,006	379,237	673,618	535,054	457,204	4,068,324	931,749	1,269,611	633,793	268,479	23,198,687	32,766,416	64,643	44,961,224	112,127	4,651,771	18,849,152	3,539,230	19,361,630	-	156,764,955	
Operating Expenses																						
Loan Servicing Fees																						
NJCLASS Student Loans	3,754	90,243	102,176	55,274	43,011	376,958	69,366	71,358	38,667	18,159	1,256,945	1,554,719	-	2,693,913	-	-	1,284,920	-	3,317,373	-	10,976,836	
FFELP Student Loans	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	1,865,099	-	-	-	-	-	1,865,099
Total Loan Servicing Fees	3,754	90,243	102,176	55,274	43,011	376,958	69,366	71,358	38,667	18,159	1,256,945	1,554,719	-	2,693,913	-	1,865,099	1,284,920	-	3,317,373	-	12,841,935	
Default Expense	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Program Expenses																						
Annual Insurance Expense	-	9,000	14,000	-	2,276	36,986	24,886	26,146	4,270	2,013	393,407	-	-	-	-	-	-	-	-	-	512,784	
Transaction Fees	-	-	-	-	2,632	72,370	48,969	28,189	5,677	4,747	-	-	-	-	-	-	-	-	-	-	162,584	
Bad Debt Expense	80,067	52,974	15,095	373,094	(194,859)	986,305	(93,590)	647,541	(264,125)	(124,446)	4,478,663	-	5,845,313	(2,903,145)	20,084,328	-	(608,837)	2,235,977	-	-	30,610,355	
Other Program Expenses	-	-	-	-	-	-	-	-	-	54	(156)	50	-	17,834	-	-	88,312	-	-	-	-	3,375,428
Total Program Expenses	80,067	61,974	29,095	373,094	(189,951)	1,095,661	(19,935)	701,876	(254,178)	(117,632)	4,871,914	50	5,845,313	(2,885,311)	20,084,328	-	(520,525)	2,235,977	3,375,428	-	34,767,245	
Bond Interest Expense	48,638	722,663	1,195,974	96,784	2,200,713	2,304,582	617,829	338,447	698,479	1,311,172	19,073,931	22,566,127	-	28,916,153	-	1,390,667	11,077,415	-	14,605,217	81,875	107,246,666	
Total Operating Expenses	132,459	874,880	1,327,245	525,152	2,053,773	3,777,201	667,290	1,111,681	482,968	1,211,899	25,202,790	24,120,896	5,845,313	28,724,755	20,084,328	3,205,766	11,841,810	2,235,977	21,298,018	81,875	154,865,846	
Operating Income (Loss)	(89,453) #	(495,643) #	(653,627) #	9,902 #	(1,596,569) #	291,123 #	264,459 #	157,930 #	150,825 #	(943,220) #	(2,004,103) #	8,645,520 #	(5,780,670) #	16,236,469 #	(19,972,201) #	1,396,005 #	7,007,342 #	1,303,253 #	(1,936,388) #	(81,875) #	1,909,109	
Non Operating Revenues (Expenses)																						
Income on Investments	2,914	75,466	133,763	386	754	4,489	4,211	4,243	2,722	1,275	9,171	12,190	154	26,417	56	1,690	13,120	154	37,601	1,607	332,383	
Gain on Bond Retirement	-	-	-	-	35,000	270,000	-	506,250	20,500	27,000	-	-	-	-	-	-	-	-	-	-	858,750	
Gain/Loss on Transfer	10,652,476	-	26,708	(15,802,238)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	5,123,054	-	-
Swap Termination Fees	-	-	-	(464,345)	(2,545,655)	(1,500,000)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(4,510,000)
Amortization of Bond Issuance Cost	(138,012)	(27,057)	(33,290)	-	(1,309)	(14,412)	(5,129)	(21,349)	(1,535)	(1,308)	-	-	(1,860,102)	-	(182,419)	-	(595,068)	-	(73,952)	-	(2,952,362)	
Amortization of Financial Instrument Issuance Costs	-	-	-	-	(21,137)	(66,023)	(10,107)	-	-	-	-	-	-	-	-	-	-	-	-	-	(97,267)	-
Arbitrage Expense	(33,736)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(33,736)	-
Miscellaneous Expense	-	-	-	-	(165)	165	-	-	-	-	-	-	-	-	-	-	-	-	-	-	7,886,000	7,886,000
Total Non Operating Revenues (Expenses)	10,485,642	48,409	127,181	(16,266,197)	(2,532,512)	(1,305,781)	(11,025)	489,144	21,697	26,967	9,171	12,190	154	(1,833,689)	56	(180,729)	(591,948)	154	5,086,663	7,887,607	1,483,148	
Change in Net Assets	10,396,189	(447,234)	(526,446)	(16,256,295)	(4,129,081)	(1,014,658)	253,464	647,074	172,512	(916,253)	(1,994,932)	8,657,710	(5,780,516)	14,402,784	(19,972,145)	1,215,276	6,425,394	1,303,407	3,150,275	7,805,732	3,392,257	
Net Assets (Deficit, Beginning of Year)	(8,421,122)	(6,565,084)	(8,364,264)	25,533,007	8,475,078	33,096,269	(14,772,221)	(14,928,425)	6,930,483	3,785,306	12,872,242	7,449,638	2,587,553	77,848,402	(14,976,711)	10,261,955	26,047,449	607	-	-	146,860,162	
Net Assets (Deficit, End of Year)	\$ 1,975,067 #	\$ (7,012,318) #	\$ (8,890,710) #	\$ 9,276,712 #	\$ 4,345,997 #	\$ 32,081,611 #	\$ (14,518,757) #	\$ (14,281,351) #	\$ 7,102,995 #	\$ 2,869,053 #	\$ 10,877,310 #	\$ 16,107,348 #	\$ (3,192,963) #	\$ 92,251,186 #	\$ (34,948,856) #	\$ 11,477,231 #	\$ 32,472,843 #	\$ 1,304,014 #	\$ 3,150,275 #	\$ 7,805,732 #	\$ 150,252,419	

**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, 2011**

	1998	1999-A	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009 Series A	2010-1 Series A&B	2010-1 Series A&B	2010-2	2010-2	Total
Operating Revenues																	
Interest Income																	
NJCLASS Student Loans	\$ 712,659	\$ 576,155	\$ 926,782	\$ 1,730,746	\$ 563,038	\$ 4,818,350	\$ 1,135,032	\$ 1,394,095	\$ 740,064	\$ 271,132	\$ 24,786,642	\$ 29,286,247	\$ -	\$ 47,008,793	\$ -	\$ -	\$ 128,405,073
FFELP Student Loans	-	-	-	-	-	-	-	-	-	-	-	-	-	-	5,380,500	-	5,380,500
Total Interest Income	712,659	576,155	926,782	1,730,746	563,038	4,818,350	1,135,032	1,394,095	740,064	271,132	24,786,642	29,286,247	-	47,008,793	5,380,500	14,455,337	133,785,573
Application/Administrative Fee Income	-	-	-	-	-	(322)	-	(40)	(590)	610	(733)	-	-	3,110,900	678,546	-	7,058,955
Loan Reserve Fee Income	-	-	-	-	-	-	-	-	-	-	-	-	2,107,859	-	496,337	-	4,902,547
Default Income	-	-	-	-	-	-	-	-	-	-	-	-	158,829	-	288,752	-	486,943
Total Operating Revenues	712,659	576,155	926,782	1,730,746	563,038	4,818,028	1,135,032	1,394,056	739,475	271,742	24,785,909	32,397,147	2,266,687	47,687,340	785,089	17,725,921	146,234,018
Operating Expenses																	
Loan Servicing Fees																	
NJCLASS Student Loans	155,846	114,915	122,964	154,370	51,076	424,409	78,524	79,687	42,787	19,713	1,294,549	3,015,687	-	2,946,448	-	11,193,758	
FFELP Student Loans	-	-	-	-	-	-	-	-	-	-	-	-	-	(78,811)	2,502,677	-	2,423,867
Total Loan Servicing Fees	155,846	114,915	122,964	154,370	51,076	424,409	78,524	79,687	42,787	19,713	1,294,549	3,015,687	-	2,946,448	(78,811)	2,502,677	13,617,625
Default Expense	-	-	-	-	-	-	-	-	-	-	-	-	2,564,602	-	4,614	-	4,784,526
Program Expenses																	
Annual Insurance Expense	1,946	11,000	14,000	-	2,438	64,728	53,686	28,946	4,953	4,008	410,626	-	-	-	-	-	596,327
Transaction Fees	-	-	-	(2,699)	11,228	118,937	112,697	31,470	152	6,071	-	5,000	-	(119,425)	-	(286,233)	(122,802)
Bad Debt Expense	190,230	78,658	10,450	683,035	128,878	1,617,787	397,145	576,783	326,458	273,821	558,231	-	-	2,635,282	-	991,209	23,639,930
Other Program Expenses	-	-	-	-	-	-	-	-	-	130	239	1,555,517	-	496,337	-	1,635,964	3,687,587
Total Program Expenses	192,176	89,658	24,450	680,336	142,544	1,801,450	563,528	637,199	331,563	284,029	969,096	1,560,517	2,564,602	3,012,194	15,471,186	-	32,585,568
Bond Interest Expense	1,025,490	798,626	1,319,554	96,112	2,494,040	3,601,762	1,306,662	435,913	702,360	1,292,508	20,373,340	22,867,844	-	30,465,598	-	1,378,674	99,694,138
Total Operating Expenses	1,373,511	1,003,199	1,466,968	930,818	2,687,660	5,827,621	1,948,714	1,152,799	1,076,710	1,596,250	22,636,984	27,444,049	5,129,203	36,424,240	15,396,989	3,881,352	145,897,331
Operating Income (Loss)	(660,853)	(427,044)	(540,186)	799,928	(2,124,621)	(1,009,593)	(813,682)	241,256	(337,235)	(1,324,508)	2,148,925	4,953,098	(2,862,516)	11,263,100	(14,611,900)	1,499,148	336,687
Non Operating Revenues (Expenses)																	
Income on Investments	329,719	239,027	358,434	762	1,153	3,982	43,898	16,154	5,631	1,577	63,551	28,175	6,994	17,708	131	1,461	1,151,706
Gain on Bond Retirement	-	-	-	-	61,250	4,587,500	5,000,000	291,250	118,938	331,250	-	-	-	-	-	-	10,390,188
Gain/Loss on Transfer	(12,800,000)	(7,999,129)	(10,063,288)	14,968,641	6,399,299	24,769,095	(8,011,193)	(18,504,468)	3,049,849	8,211,193	-	-	-	-	-	-	-
Swap Termination Fees	-	-	-	(6,490,000)	-	-	-	-	-	-	-	-	-	-	-	-	(6,490,000)
Amortization of Bond Issuance Cost	(45,953)	(30,562)	(38,078)	(10,334)	(2,079)	(152,450)	(177,988)	(14,915)	(5,024)	(12,598)	-	-	-	(1,156,822)	(315,901)	(377,605)	(2,340,310)
Amortization of Financial Instrument Issuance Costs	-	-	-	-	(21,079)	(60,395)	(1,201)	-	-	-	-	-	-	-	-	-	(82,675)
Arbitrage Expense	-	-	(35,762)	-	-	-	-	-	-	-	-	-	-	-	-	-	(35,762)
Total Non Operating Revenues (Expenses)	(12,516,234)	(7,790,664)	(9,798,694)	8,469,090	6,438,545	29,147,733	(3,146,484)	(18,211,979)	3,169,394	8,531,423	63,551	28,175	6,994	(1,139,115)	131	(314,421)	2,993,147
Change in Net Assets																	
Net Assets (Deficit, Beginning of Year)	4,755,965	1,652,625	1,974,616	16,263,989	4,161,155	4,958,129	(10,812,056)	3,042,298	4,098,325	(3,421,909)	10,659,766	2,468,365	2,878,474	67,724,417	(369,556)	9,077,227	143,930,328
Net Assets (Deficit, End of Year)	\$ (8,421,722)	\$ (6,965,084)	\$ (8,364,254)	\$ 25,533,007	\$ 8,475,078	\$ 33,096,269	\$ (14,772,221)	\$ (14,928,425)	\$ 6,930,482	\$ 3,785,306	\$ 12,872,242	\$ 7,449,638	\$ 22,952	\$ 77,846,402	\$ (14,961,325)	\$ 10,261,955	\$ 146,860,162

**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
Trenton, New Jersey

We have audited the financial statements of the NJCLASS/FFELP Loan Programs (the Programs) of the New Jersey Higher Education Student Assistance Authority as of and for the year ended June 30, 2012, and have issued our report thereon dated October 15, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

Management of the Programs' is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the 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 the Programs' internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Programs' internal control over financial reporting.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the 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 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 audit committee, 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.

CliftonLarsonAllen LLP

Mt. Laurel, New Jersey
October 15, 2012