

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

**NJCLASS/FFELP LOAN PROGRAMS
FINANCIAL STATEMENTS
June 30, 2013 and 2012**

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Independent Auditor's Report

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

Report on the Financial Statements

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), which comprise the statements of net position as of June 30, 2013 and 2012 and the related statements of revenues and changes in net position and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express opinions 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 combined financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the business type activities of the Programs as of June 30, 2013 and 2012, and the changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

As more fully disclosed in Note 1, 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 a whole as of June 30, 2013 and 2012, and changes in its financial position and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Report on Supplementary Information

Accounting principles generally accepted in the United States of America require that management's discussion and analysis on pages 4 through 11 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.

Other Information

Our audits were conducted for the purpose of forming an opinion on the financial statements of the Programs. The supplementary information as listed in the table of contents as of and for the year ended June 30, 2013, is presented for purposes of additional analysis and is not a required part of the combined financial statements.

The supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The supplementary information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 29, 2013 on our consideration of the Program’s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreement, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and in considering the Program’s internal control over financial reporting and compliance.

CliftonLarsonAllen LLP

Mt. Laurel, New Jersey
October 29, 2013

NEW JERSEY HIGHER EDUCATION STUDENT ASSISTANCE AUTHORITY
NJCLASS/FFELP LOAN PROGRAMS
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2013

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, 2013. 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 position present information on all of the Programs' assets and liabilities, with the difference between the two reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the Programs is improving or deteriorating. Net position increase when revenues exceed expenses. Increases to assets without corresponding increases to liabilities result in increased net position, which indicate an improved financial position.

The statements of revenues, expenses and changes in net position present information showing how net position changed during the fiscal year. All changes in net position 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 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.

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

Financial Highlights and Analysis

The Programs' net position, (as restated due to the retroactive adoption of Governmental Accounting Standards Board (GASB) Statement No. 65), referring to the difference between assets and liabilities, increased by \$17,963,348 and \$5,801,026 from the prior fiscal years ended 2012 and 2011, respectively. The term "Net Position" is used in accordance with rules promulgated under GASB Statement No. 34, as amended.

As of June 30, 2013, 2012, and 2011, the restated assets of the Programs exceeded liabilities by \$157,717,575, \$139,754,227, and \$146,860,162, 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 \$2,069,781,324, \$2,085,828,725, and \$1,998,362,478 at June 30, June 30, 2013, 2012, and 2011, respectively. This represents a 2013 decrease of \$16,047,402 and a 2012 increase of \$87,466,247, respectively, due to loan originations during these years, reduced by loan principal repayments.

Changes in Cash and Investments Balances

The second major asset component was cash and investments, which together totaled \$540,232,363 \$523,655,055, and \$199,794,103 at June 30, 2013, 2012, and 2011, 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 2013 was primarily due to the receipt of the 2013-1 Bond Issue proceeds on June 20, 2013. 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 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, and the 2011-1 Bonds on July 20, 2011. 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.

- Cash and investments balances were replenished from principal repayments and interest income from NJCLASS and FFELP borrowers, amounting to \$302,735,557 and \$273,306,513 during fiscal years 2013 and 2012, respectively. In addition, NJCLASS application/administrative/repayment fee and loan reserve fee income was \$5,905,043 and \$9,844,266, and \$350,052 and \$332,383 in interest was earned on investments for 2013 and 2012, 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 decreased in fiscal year 2012 by \$7,355,000 due to bond issuances and related capital contributions, which provided \$214,587,369 in cash, offset by retirements, which utilized a total of \$207,068,125 in cash.

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 2013:

- \$39,400,000 in retirements was due to scheduled bond maturities.
- \$16,435,000 was due to quarterly Excess Revenue Redemptions of the 2011-FFELP Bonds, in accordance with the terms of that Indenture.
- \$29,475,000 was due to the Optional Redemption of the remaining 1999 and 2000 Bonds.
- \$2,225,000 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 \$286,875.
- \$119,820,000 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 2012:

- \$14,345,000 in retirements was due to scheduled bond maturities.
- \$15,505,000 was due to quarterly Excess Revenue Redemptions of the 2011-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 2012-1 Bonds.
- \$6,350,000 was through Special Redemptions of portions of the Authority's auction rate bond issues, also resulting from excess revenues, 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.

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Changes in Liabilities – Bonds Payable (Continued)

The following is a summary of new bond issuance activity during the June 30, 2013, 2012, and 2011 fiscal years:

- The 2013-1 Bonds, with a par amount of \$200,000,000 were issued in June 2013 under the 2012-1 Master Indenture. Of this amount, \$199,927,369 was designated for the origination of NJCLASS and NJCLASS Consolidation loans for the 2013-2014 academic year. Required reserves equalled \$14,000,000, and this issuance included net bond premium totalling \$8,927,369. The Underwriter's Discount, amounting to \$1,250,000 as well as and other closing costs, estimated to be \$500,000, were 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.

- 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.

- No new Bonds were issued during the 2011 fiscal year.

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The following table contains condensed comparative financial information derived from the June 30, June 30, 2013, 2012, and 2011, financial statements of the NJCLASS/FFELP Loan Programs:

	2013	2012 (As Restated)	Change from 2013 to 2012	2011	Change from 2012 to 2011
Net Position					
Current assets	\$ 677,219,029	\$ 651,706,938	\$ 25,512,091	\$ 311,740,856	\$ 339,966,082
Non-current assets	2,006,652,333	2,019,654,087	(13,001,754)	1,964,785,202	54,868,885
Total assets	<u>2,683,871,362</u>	<u>2,671,361,025</u>	<u>12,510,337</u>	<u>2,276,526,058</u>	<u>394,834,967</u>
Current liabilities	177,929,292	128,724,622	49,204,670	42,369,931	86,354,691
Non-current liabilities	<u>2,348,224,495</u>	<u>2,402,882,176</u>	<u>(54,657,681)</u>	<u>2,087,295,965</u>	<u>315,586,211</u>
Total liabilities	<u>2,526,153,787</u>	<u>2,531,606,798</u>	<u>(5,453,011)</u>	<u>2,129,665,896</u>	<u>401,940,902</u>
Net position, restricted, As Restated	<u>157,717,575</u>	<u>139,754,227</u>	<u>17,963,348</u>	<u>146,860,162</u>	<u>(7,105,935)</u>
Total liabilities and net position	<u>\$ 2,683,871,362</u>	<u>\$ 2,671,361,025</u>	<u>\$ 12,510,337</u>	<u>\$ 2,276,526,058</u>	<u>\$ 394,834,967</u>
Changes in Net Position					
Operating revenues	\$ 154,533,561	\$ 156,764,955	\$ (2,231,394)	\$ 146,234,018	\$ 10,530,937
Operating expenses	<u>140,525,460</u>	<u>154,855,846</u>	<u>14,330,386</u>	<u>145,897,331</u>	<u>8,958,515</u>
Operating gain (loss)	<u>14,008,101</u>	<u>1,909,109</u>	<u>12,098,992</u>	<u>336,687</u>	<u>1,572,422</u>
Non-operating revenues (expenses) & other changes					
Income on investments	350,052	332,383	17,669	1,151,706	(819,323)
Gain on bond retirements	286,875	858,750	(571,875)	10,390,188	(9,531,438)
Parity release distribution	(2,288,177)	-	(2,288,177)	-	-
Interest rate swap termination fees	-	(4,510,000)	4,510,000	(6,490,000)	1,980,000
Capital contribution for 2013-1 bond issue	5,000,000	-	5,000,000	-	-
Capital contribution for 2012-1 bond issue	660,000	7,886,000	(7,226,000)	-	7,886,000
Bond issuance cost expense	-	(600,000)	600,000	-	(600,000)
Bond issuance costs	-	-	-	(2,340,310)	2,340,310
Amortization of Prepaid Int Rate Cap Fees	(42,344)	(41,480)	(864)	(56,729)	15,249
Financial instrument issuance costs	-	-	-	(25,946)	25,946
Arbitrage expense	<u>(11,159)</u>	<u>(33,736)</u>	<u>22,577</u>	<u>(35,762)</u>	<u>2,026</u>
Net non-operating revenues	<u>3,955,247</u>	<u>3,891,917</u>	<u>63,330</u>	<u>2,593,147</u>	<u>1,298,770</u>
Change in net position	<u>17,963,348</u>	<u>5,801,026</u>	<u>12,162,322</u>	<u>2,929,834</u>	<u>2,871,192</u>
Net position, beginning of year	<u>139,754,227</u>	<u>146,860,162</u>	<u>(7,105,935)</u>	<u>143,930,328</u>	<u>2,929,834</u>
EFFECT OF ADOPTION OF GASB 65	<u>-</u>	<u>(12,906,961)</u>	<u>12,906,961</u>	<u>-</u>	<u>(12,906,961)</u>
NET POSITION, BEGINNING OF YEAR, As Restated	<u>139,754,227</u>	<u>133,953,201</u>	<u>5,801,026</u>	<u>143,930,328</u>	<u>(9,977,127)</u>
Net position, end of year	<u>\$ 157,717,575</u>	<u>\$ 139,754,227</u>	<u>\$ 17,963,348</u>	<u>\$ 146,860,162</u>	<u>\$ (7,105,935)</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 \$2,443,331 and \$13,629,469, or 1.7% and 10.6%, due to the approximately \$199.2 million and \$260.2 million in NJCLASS originations during the 2013 and 2012 fiscal years, respectively.
- Beginning with the 2012-1 Bond Issue, the establishment of a Loan Reserve Fund was discontinued. Of the total origination fee of 3%, which remained unchanged, the 1% fee formerly deposited in the loan reserve fund was replaced by a 2% fee deposited in the 2012-1 Student Loan account. This fee was designated the "repayment fee." Consequently, NJCLASS loan reserve fee income for the 2013 fiscal year decreased by \$3.0 million, or 78%, because it was only received from loans originated with carryover proceeds from the 2011-1 Bond Issue. Fee income from the new 2% repayment fee amounted \$3.5 million, resulting in an overall combined increase for these fees of \$.5 million, despite a reduction in fixed rate loan originations in FY 2013 versus the prior year. Originations decreased by approximately \$61 million, or 23.4%. In fiscal year 2012, loan reserve fee income decreased by \$1.4 million or 29.0%, primarily because of the reduction in fixed rate loan originations in FY 2012 versus the prior year. FY 2012 Originations decreased by approximately \$78 million, or 23.4% versus FY 2011.
- Interest income on FFELP loans during the 2013 and 2012 fiscal years decreased by \$501,126 and \$728,729, respectively due to the reduction in FFELP portfolio assets. FFELP assets declined from \$127,047,923 at June 30, 2011 to \$111,130,322 at June 30, 2012 and to \$95,374,091 at June 30, 2013.

Operating Expenses

- Bond interest on expense for fiscal year 2013 increased slightly, by \$777,045 or 0.7%, due to the slightly lower amount of bonds outstanding as a result of retirements during the year, offset by issuance of the 2013-1 Bonds. In fiscal year 2012, 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.

Bad Debt Expense

- In fiscal year 2013, an additional \$19,018,454 in bad debt expense was recognized, versus \$30,610,355 in 2012, a decrease of \$11,591,901, due to a lower increase in defaults of NJCLASS loans than during the past two fiscal years. The increase in bad debt expense from 2011 to 2012 was \$2,185,899. The recent slower growth in the number of defaulted loans may be attributable to stricter underwriting standards that have been adopted by the NJCLASS Program in recent years and improving economic conditions.
- The increase in defaults in recent years 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 – NOTE 3, STUDENT LOANS RECEIVABLE – Loan Defaults/Loan Reserve Fund.**

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Non-Operating Revenues (Expenses) and Other Changes

- Fiscal 2013 Gains on Bond Retirement resulting from below par retirements of ARC Bonds decreased to \$286,875. Redemption prices during Fiscal 2013 averaged 87% of face value. The reduction in gains on retirement of \$571,875 from Fiscal 2012, and \$10,103,313 from Fiscal 2011 was due to the smaller volume of below par ARC bond retirement and refunding activity during each of the last two years. Bond retirement activity is described "**Changes in Liabilities – Bonds Payable**" above.
- Fiscal 2013 parity release distribution of \$2,288,177 represents the first ever parity release amounts from a HESAA Bond Issue. Parity release amounts are paid to HESAA. The release was made possible by the 2010-FFELP Bond Issue exceeding the parity release level of 110% as defined in its Indenture.
- Swap termination fees amounted to \$0 in Fiscal 2013, versus \$4,510,000, and \$6,490,000 in fiscal years 2012 and 2011, respectively. Swap Termination Activity resumed in FY 2014. This activity is described in **NOTES TO FINANCIAL STATEMENTS – NOTE 8, SUBSEQUENT EVENTS**.

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. In prior years, HESAA had 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 2011. 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.

- Capitalized Bond and Swap Issuance cost and related Amortization was eliminated during Fiscal 2013 as a result of the Authority's adoption of GASB Statement No. 65, *Accounting for Items Formerly Classified as Assets and Liabilities*. This change is more fully described in **NOTES TO FINANCIAL STATEMENTS – NOTE 9, NEW ACCOUNTING STANDARDS ADOPTED**

Significant Events

- At fiscal year-end 2013, the Programs had \$2,486,155,000 in bonds outstanding, compared to \$2,493,510,000 in the prior fiscal year – a decrease of .29%. This is due to a total issuance during the year of \$200,000,000 in 2013-1 Bonds, which closed on June 20, 2013, offset by retirements of \$207,355,000.
- During Fiscal 2013, the Authority adopted two new accounting standards promulgated by GASB, which affect the naming of certain financial statement items, the accounting for Interest rate Swaps and the treatment of bond and Swap Issuance costs. These costs were previously capitalized (presented on the balance sheet) and amortized but are expensed under the year incurred under the new standard. These changes are more fully described in **NOTES TO FINANCIAL STATEMENTS – NOTE 9, NEW ACCOUNTING STANDARDS ADOPTED**
- On June 13, 2013, Fitch Ratings Downgraded rating of the 1998 Indenture Bond Issue from "A" to "BBB." Although the 1998 Indenture is small in relation to the HESAA bond issues as a whole, this change requires higher interest rates on these bonds per the terms of the applicable indenture, resulting in a minimal increase in interest expense at current market rates.

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Significant Events (Continued)

- The Authority experienced a significant decrease during fiscal year 2013 in NJCLASS student loan origination volume, with cash disbursements of \$174,369,173 for new loans, compared to \$260,227,004 during fiscal year 2012, a decrease of 33.0%. During fiscal year 2012, there was a decrease of 22.9% in NJCLASS origination volume from the prior year.

Cash Flows Summary

	<u>2013</u>	<u>2012 (As Restated)</u>	<u>2011</u>
Net cash provided by (used in) operating activities	\$ 11,087,168	\$ (105,189,385)	\$ (213,534,401)
Net cash flows provided by financing activities	7,482,685	428,758,707	(130,210,191)
Net cash flows provided by investing activities	<u>6,040,785</u>	<u>27,473,716</u>	<u>56,497,127</u>
Net increase (decrease) in cash and cash equivalents	<u>\$ 24,610,638</u>	<u>\$ 351,043,038</u>	<u>\$ (287,247,465)</u>

Current Conditions

In response to the continuing demand for NJCLASS loans, HESAA issued its Series 2013-1 Bonds on June 20, 2013. 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. In 2012-13, the allowable percentage of fixed rate loans that can be originated in option III was reduced to 15% and HESAA 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, was raised to \$40,000, beginning with for the 2012-13 academic year. For the 2013-14 academic year, the Authority has continued to limit the allowable percentage of fixed rate loans that can be originated in option III by capping this option at \$35,000,000 of the total lendable proceeds of \$199,927,369.

- For specific statistical information regarding default experience during fiscal 2013 and 2012, refer to **NOTES TO FINANCIAL STATEMENTS – NOTE 3, STUDENT LOANS RECEIVABLE – Loan Defaults/ Loan Reserve Fund.**

FINANCIAL STATEMENTS

NEW JERSEY HIGHER EDUCATION STUDENT ASSISTANCE AUTHORITY
NJCLASS/FFELP LOAN PROGRAMS
STATEMENTS OF NET POSITION
June 30, 2013 and 2012

	2013	2012 (As Restated)
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 536,536,776	\$ 511,926,138
Investments	3,695,586	11,728,917
NJCLASS student loans receivable, net	56,937,327	58,429,379
FFELP student loans receivable, net	6,225,174	7,784,555
Interest receivable:		
Investments	22,495	14,995
NJCLASS student loans	21,516,567	24,256,064
FFELP student loans	1,161,722	1,199,077
NJCLASS defaulted student loan principal and interest in 2009 and 2010 Indenture Loan Reserve Funds, and 2012- 1 Indenture, net of allowance for doubtful accounts of \$67,057,285 in 2013 and \$43,737,581 in 2012 , respectively	36,405,267	22,403,078
Due from the Loan Reserve Fund, net of allowance for doubtful accounts of \$31,898,985 in 2013 and \$28,510,234 in 2012, respectively	14,359,412	13,393,306
Default collections receivable	180,573	229,699
Due from loan servicing agents	<u>178,130</u>	<u>341,730</u>
Total current assets	<u>677,219,029</u>	<u>651,706,938</u>
NON-CURRENT ASSETS		
NJCLASS student loans receivable, less current portion	1,917,469,905	1,916,269,024
FFELP student loans receivable, less current portion	89,148,917	103,345,767
Prepaid Interest Rate Cap Fees	<u>33,511</u>	<u>39,296</u>
Total non-current assets	<u>2,006,652,333</u>	<u>2,019,654,087</u>
TOTAL ASSETS	<u>\$ 2,683,871,362</u>	<u>\$ 2,671,361,025</u>
DEFERRED OUTFLOWS OF RESOURCES		
Deferred outflow - interest rate swaps	<u>11,508,885</u>	<u>16,574,019</u>
Total Deferred Outflows of Resources	<u>11,508,885</u>	<u>16,574,019</u>
LIABILITIES AND NET POSITION		
CURRENT LIABILITIES		
Bonds payable	\$ 166,860,000	\$ 117,855,000
Accrued interest payable - bonds	9,514,578	9,241,850
Fees payable	1,284,814	1,292,672
Arbitrage payable	-	35,762
Due to the Loan Reserve Fund	<u>269,900</u>	<u>299,338</u>
Total current liabilities	<u>177,929,292</u>	<u>128,724,622</u>
NON-CURRENT LIABILITIES		
Bonds payable, less current portion	2,319,295,000	2,375,655,000
Premium on bonds payable, net	<u>28,929,495</u>	<u>27,227,176</u>
Total non-current liabilities	<u>2,348,224,495</u>	<u>2,402,882,176</u>
Total liabilities	2,526,153,787	2,531,606,798
DEFERRED INFLOWS OF RESOURCES		
Derivative instrument liability - interest rate swaps	<u>11,508,885</u>	<u>16,574,019</u>
Total Deferred Inflows of Resources	<u>11,508,885</u>	<u>16,574,019</u>
NET POSITION		
Restricted	<u>157,717,575</u>	<u>139,754,227</u>
TOTAL LIABILITIES AND NET POSITION	<u>\$ 2,683,871,362</u>	<u>\$ 2,671,361,025</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 REVENUES, EXPENSES AND CHANGES IN NET POSITION
Years Ended June 30, 2013 and 2012

	2013	2012 (As Restated)
OPERATING REVENUES		
Interest income		
NJCLASS student loans	\$ 144,477,873	\$ 142,034,542
FFELP student loans	4,150,645	4,651,771
Application/administrative fee income	1,947,266	6,362,642
Loan reserve fee income	430,593	3,481,624
Repayment fee income	3,527,184	-
Total operating revenues	154,533,561	156,530,579
OPERATING EXPENSES		
Loan servicing fees		
NJCLASS student loans	10,350,600	10,976,836
FFELP student loans	1,639,705	1,865,099
Total loan servicing fees	11,990,305	12,841,935
Program expenses		
Annual insurance expense and transaction fees	526,434	675,368
Bad debt expense	19,554,322	30,375,979
Loan Reserve Fund fees	430,688	3,481,522
Total program expenses	20,511,444	34,532,869
Bond interest expense	108,023,711	107,246,666
Total operating expenses	140,525,460	154,621,470
Operating income	14,008,101	1,909,109
NON-OPERATING REVENUES (EXPENSES) AND OTHER CHANGES		
Income on investments	350,052	332,383
Gain on bond retirements	286,875	858,750
Parity release distribution	(2,288,177)	-
Interest rate swap termination fees	-	(4,510,000)
Capital contribution for 2012-1 bond issue	660,000	7,886,000
Capital contribution for 2013-1 bond issue	5,000,000	-
Amortization Expense - Prepaid Interest Rate Cap Fees	(42,344)	(41,480)
Bond issuance cost expense	-	(600,000)
Arbitrage expense	(11,159)	(33,736)
Net non-operating revenues	3,955,247	3,891,917
CHANGE IN NET POSITION	17,963,348	5,801,026
NET POSITION, BEGINNING OF YEAR	139,754,227	146,860,162
EFFECT OF ADOPTION OF GASB 65	-	(12,906,961)
NET POSITION, BEGINNING OF YEAR, As Restated	139,754,227	133,953,201
NET POSITION, END OF YEAR	\$ 157,717,575	\$ 139,754,227

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, 2013 and 2012

	2013	2012 (As Restated)
CASH FLOWS FROM OPERATING ACTIVITIES		
Interest receipts:		
NJCLASS student loans	\$ 114,874,317	\$ 102,730,010
FFELP student loans	3,502,036	4,014,060
Principal receipts:		
NJCLASS student loans	166,933,995	148,981,943
FFELP student loans	17,425,209	17,580,500
Reimbursements from Loan Reserve Fund	4,645,514	5,344,556
Collections on defaulted loans	6,383,784	3,913,603
NJCLASS student loan disbursements	(174,369,173)	(260,227,004)
FFELP student loan purchases	(408,447)	(196,042)
Annual insurance expense	(526,434)	(675,368)
Transaction fees	(7,858)	(54,399)
Loan servicing fees	(11,789,652)	(13,020,786)
Repayment of government interest related to FFELP loans	(600,090)	(643,190)
Interest paid on bonds	<u>(114,976,033)</u>	<u>(112,937,268)</u>
Net cash provided by (used in) operating activities	<u>11,087,168</u>	<u>(105,189,385)</u>
 CASH FLOWS FROM FINANCING ACTIVITIES		
Principal paid on bonds	(207,068,125)	(174,751,250)
Bond proceeds	208,927,369	600,660,839
Capital contribution for 2012-1 bond issue	660,000	7,886,000
Capital contribution for 2013-1 bond issue	5,000,000	-
Interest rate swap termination fees	-	(4,510,000)
Bond issuance costs	-	(484,014)
Prepaid Interest Rate Cap Fees	<u>(36,559)</u>	<u>(42,868)</u>
Net cash provided by financing activities	<u>7,482,685</u>	<u>428,758,707</u>
 CASH FLOWS FROM INVESTING ACTIVITIES		
Investment purchases, sales proceeds and maturities, net	8,033,331	27,182,086
Parity release distribution	(2,288,177)	-
Arbitrage payments	(46,921)	(33,736)
Interest on investments	<u>342,552</u>	<u>325,366</u>
Net cash provided by investing activities	<u>6,040,785</u>	<u>27,473,716</u>
 NET INCREASE IN CASH	 24,610,638	 351,043,038
 CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	 <u>511,926,138</u>	 <u>160,883,100</u>
 CASH AND CASH EQUIVALENTS, END OF YEAR	 <u>\$ 536,536,776</u>	 <u>\$ 511,926,138</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, 2013 and 2012

	2013	2012 (As Restated)
RECONCILIATION OF OPERATING INCOME TO		
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES		
Operating income	\$ 14,008,101	\$ 1,909,109
Adjustments to reconcile operating income to net cash provided by (used in) operating activities:		
Bad debt expense	19,554,322	30,375,979
Net change in assets and liabilities:		
NJCLASS student loans receivable	291,171	(103,383,848)
FFELP student loans receivable	15,756,231	15,917,601
NJCLASS defaulted student loans	(30,167,760)	(38,739,049)
Interest receivable:		
NJCLASS student loans	2,739,497	1,554,802
FFELP student loans	37,355	203,510
Due from Loan Reserve Fund	(4,354,857)	(6,820,505)
Default collections receivable	49,126	(168,848)
Due from loan servicing agents	163,600	(196,873)
Accrued interest payable - bonds	(6,952,322)	(5,690,602)
Fees payable	(7,858)	(54,399)
Due to Loan Reserve Fund	(29,438)	(96,262)
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	\$ 11,087,168	\$ (105,189,385)
NON-CASH FINANCING ACTIVITIES		
Amortization - prepaid interest rate cap fees	\$ 42,344	\$ 41,480
Amortization - net premium on bonds payable	(7,225,050)	(6,339,968)
Discount on acquisition of bonds	286,875	858,750
Gain on bond retirement	(286,875)	(858,750)
TOTAL NON-CASH FINANCING ACTIVITIES	\$ (7,182,706)	\$ (6,298,488)

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, 2013 and 2012

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, 2013 and 2012, and its changes in net position 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, 2013 and 2012

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 amendments, 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 (GASB) is the accepted standards-setting body for establishing government accounting and financial reporting principles. The Program is required to follow all statements of the GASB. GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, was issued to incorporate FASB and AICPA guidance into GASB authoritative literature.

The Program has elected not to follow any FASB pronouncements issued after November 30, 1989.

Operating Revenues and Expenses

The Programs' operating revenues consist of application/administrative/repayment 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, 2013 and 2012

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

Prior to the 2013 Fiscal year, all costs associated with the issuance of bonds were amortized on a straight-line basis over the life of the bonds, which approximates the effective interest method. During FY 2013, HESAA adopted GASB Statement No. 65, *Accounting for Items Formerly Treated as Assets and Liabilities*, which requires that costs of issuance of bond be expensed in the year incurred. This Statement and its impact is more fully described in **NOTES TO FINANCIAL STATEMENTS – NOTE 9, NEW ACCOUNTING STANDARDS ADOPTED.**

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 Position. Amortization revenue and expense is recorded as bond interest expense in the Statement of Revenues, Expenses and Changes in Net Position.

NEW JERSEY HIGHER EDUCATION STUDENT ASSISTANCE AUTHORITY
NJCLASS/FFELP LOAN PROGRAMS
NOTES TO FINANCIAL STATEMENTS
June 30, 2013 and 2012

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial Instruments

From 2001 to 2007, 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 position. Prior to the 2013 Fiscal year, all separately identifiable costs associated with the issuance of financial instruments were amortized on a straight-line basis over the life of the financial instruments, which approximates the effective interest method. During FY 2013, HESAA adopted GASB Statement No. 65, which requires that costs of issuance of financial instruments be expensed in the year incurred. For additional information on the impact of GASB No. 65, refer to **NOTES TO FINANCIAL STATEMENTS – NOTE 9, NEW ACCOUNTING STANDARDS ADOPTED.**

Restricted Net Position

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 position 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 Wells Fargo 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:

	<u>2013</u>	<u>2012</u>
Lockbox Cash (Wells Fargo Bank)	\$ 2,605,121	\$ 1,621,824
Trust Accounts invested in		
Wells Fargo Advantage Heritage Money		
Market Fund	<u>533,931,655</u>	<u>510,304,314</u>
Total	<u>\$ 536,536,776</u>	<u>\$ 511,926,138</u>

NEW JERSEY HIGHER EDUCATION STUDENT ASSISTANCE AUTHORITY
NJCLASS/FFELP LOAN PROGRAMS
NOTES TO FINANCIAL STATEMENTS
June 30, 2013 and 2012

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 – NOTE 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 cash and investments at June 30, 2013 and 2012 were \$43,511,759 and \$45,389,195, 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, 2013 and 2012, 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, 2013 and 2012, respectively, are summarized below:

	<u>2013</u>	<u>2012</u>
Guaranteed Investment Contracts	\$ 3,673,247	\$ 11,708,462
New Jersey Cash Management Fund	<u>22,339</u>	<u>20,455</u>
Total	<u>\$ 3,695,586</u>	<u>\$ 11,728,917</u>

NEW JERSEY HIGHER EDUCATION STUDENT ASSISTANCE AUTHORITY
NJCLASS/FFELP LOAN PROGRAMS
NOTES TO FINANCIAL STATEMENTS
June 30, 2013 and 2012

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	99.09%
Rabobank	0.91%

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 – NOTE 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, 2013 and 2012

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, which beginning in the 2011-12 academic year, 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 is 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 was discontinued in 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 2011-12, 2012-13 and 2013-14 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, 2013 and 2012

NOTE 3 – STUDENTLOANS RECEIVABLE (CONTINUED)

NJCLASS Loan Rates, Fees and Terms

2013 -2014 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	6.65%	7.40%	3%	15	49
Fixed Rate Option 3	8.05%	8.80%	3%	20	13
Fixed Rate Option 1 - 10 Year	5.49%	6.24%	3%	10	49
Graduate/Professional Fixed Rate - Option 1 & 2	6.65%	7.40%	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

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	N/A	1.00%	25 or 30 Years	N/A

NEW JERSEY HIGHER EDUCATION STUDENT ASSISTANCE AUTHORITY
NJCLASS/FFELP LOAN PROGRAMS
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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, 2013 and 2012, \$10,350,600 and \$10,976,836 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, 2013 and 2012, the fees include administrative expenses of \$235,252 and \$273,903, respectively, paid to the Authority and fees paid to servicing agents of \$583,362 and \$647,988, respectively. In addition, for the years ended June 30, 2013 and 2012, loan consolidation rebate fees of \$821,092 and \$925,160, 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 2013 and 2012, default claims paid by the external loan reserve funds established for the 1998 and 2008 Indentures totalled \$4,674,952 and \$5,441,002, respectively, and new claims for the same periods totalled \$9,029,810 and \$12,261,507. As of June 30, 2013 and 2012, the balances due from the external loan reserve funds to cover defaulted loans totalled \$46,258,397 and \$41,903,540, respectively.

NEW JERSEY HIGHER EDUCATION STUDENT ASSISTANCE AUTHORITY
NJCLASS/FFELP LOAN PROGRAMS
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June 30, 2013 and 2012

NOTE 3 – STUDENT LOANS RECEIVABLE (CONTINUED)

Loan Defaults/Loan Reserve Fund (Continued)

For the fiscal years 2013 and 2012, 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 \$9,049,648 and \$3,848,073, respectively, and new defaulted loans for the same periods totalled \$36,467,619 and \$42,821,500. As of June 30, 2013 and 2012, the balances due from these loan reserve funds to cover defaulted loans totaled \$103,462,552 and \$66,140,659, respectively.

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

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 2013 and 2012, 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 \$31,898,985 and \$28,510,234, respectively, against the June 30, 2013 and 2012, amounts due from the external Loan Reserve Funds. Allowances for doubtful accounts recorded against the June 30, 2013 and 2012, amounts due from the internal Loan Reserve Funds totaled \$67,057,285 and \$43,737,581, 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, 2013 and 2012, amounts of \$430,688 and \$3,481,522, respectively, were paid to the Loan Reserve Funds maintained by the Authority from loan application fees. As of June 30, 2013 and 2012, the balances due to the Loan Reserve Funds from loan application fees and default collections totalled \$269,900 and \$299,338, respectively. Under the terms of its indenture, no loan reserve fund was 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.

NEW JERSEY HIGHER EDUCATION STUDENT ASSISTANCE AUTHORITY
NJCLASS/FFELP LOAN PROGRAMS
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June 30, 2013 and 2012

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 \$176,840,133 and early Swap terminations of \$823,223,705, which reduced the combined outstanding notional amount to \$143,386,162 as of June 30, 2013.

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 included in the fair market value of the Swap and reported as deferred inflows and outflows of resources on the Statement of Net Position.

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 position.

The interest rates, notional amounts, provider (or counterparty), fair values and termination dates for each Agreement outstanding at June 30, 2013 and 2012 are detailed in the following schedules.

NEW JERSEY HIGHER EDUCATION STUDENT ASSISTANCE AUTHORITY
NJCLASS/FFELP LOAN PROGRAMS
NOTES TO FINANCIAL STATEMENTS
June 30, 2013 and 2012

NOTE 4 – USE OF FINANCIAL INSTRUMENTS (CONTINUED)

Values as of June 30, 2013

Transaction Type	Bond Issue (2)	Fixed Rate	Notional Amount	Fair Value (1)	Provider	Settlement Occur	Termination Date
Swap	2002	4.2005%	\$ 25,100,000	\$ 2,167,432	J.P. Morgan	Semi-annually	06/01/17
Swap		3.2970%	<u>15,200,000</u>	<u>975,538</u>	J.P. Morgan	Semi-annually	06/01/17
		Total	<u>40,300,000</u>	<u>3,142,970</u>			
Swap	2003	3.1710%	31,500,000	2,180,713	UBS AG	Semi-annually	12/01/18
Cap		6.4000%	3,300,000	(2,249)	UBS AG	Semi-annually	06/01/19
Cap		6.1500%	<u>9,200,000</u>	<u>194,320</u>	UBS AG	Annually	06/01/28
		Total	<u>44,000,000</u>	<u>2,372,784</u>			
Swap	2006	4.4750%	13,958,276	1,801,376	Citigroup	Semi-annually	12/01/31
Swaption			-	-	Citigroup		12/01/31
		Total	<u>13,958,276</u>	<u>1,801,376</u>			
Swap	2007	4.0970%	23,823,097	2,212,794	Citigroup	Semi-annually	06/01/36
Swap		4.0970%	<u>21,304,789</u>	<u>1,978,961</u>	UBS AG	Semi-annually	06/01/36
		Total	<u>45,127,886</u>	<u>4,191,755</u>			
		Grand Total	<u><u>\$ 143,386,162</u></u>	<u><u>\$ 11,508,885</u></u>			

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

All fair values that result in a positive value to HESAA are shown as negative amounts.

(2) Indicates the year the financial instrument was issued

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NJCLASS/FFELP LOAN PROGRAMS
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NOTE 4 – USE OF FINANCIAL INSTRUMENTS (CONTINUED)

Values as of June 30, 2012

Transaction Type	Bond Issue (2)	Fixed Rate	Notional Amount	Fair Value (1)	Provider	Settlement Occur	Termination Date
Swap	2002	4.2005%	\$ 31,100,000	\$ 3,242,390	J.P. Morgan	Semi-annually	06/01/17
Swap		3.2970%	<u>19,070,000</u>	<u>1,468,970</u>	J.P. Morgan	Semi-annually	06/01/17
		Total	<u>50,170,000</u>	<u>4,711,360</u>			
Swap	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%	<u>10,700,000</u>	<u>228,816</u>	UBS AG	Annually	06/01/28
		Total	<u>51,250,000</u>	<u>3,317,664</u>			
Swap	2006	4.4750%	<u>14,917,241</u>	<u>2,453,842</u>	Citigroup	Semi-annually	12/01/31
		Total	<u>14,917,241</u>	<u>2,453,842</u>			
Swap	2007	4.0970%	26,128,465	3,195,789	Citigroup	Semi-annually	06/01/36
Swap		4.0970%	<u>23,366,598</u>	<u>2,895,364</u>	UBS AG	Semi-annually	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 swap 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.

NEW JERSEY HIGHER EDUCATION STUDENT ASSISTANCE AUTHORITY
NJCLASS/FFELP LOAN PROGRAMS
NOTES TO FINANCIAL STATEMENTS
June 30, 2013 and 2012

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, 2013 and 2012:

Bonds Outstanding June 30, 2013							
Student Loan Revenue Bond Title Issue Year/Series	Interest Rate Range as of June 30, 2013	Maturity Dates	Bonds Outstanding (in thousands) June 30, 2012	Additions	Reductions	Bonds Outstanding (in thousands) June 30, 2013	Amounts Due within One Year
1999, Series A ⁽¹⁾	N/A	6/1/13-6/1/18	\$ 12,445	\$ -	\$ 12,445	\$ -	\$ -
2000, Series A ⁽¹⁾	N/A	6/1/13-6/1/19	17,030	-	17,030	-	-
2002, Series A through D ⁽²⁾	0.047%-0.368% (ARCs)	6/1/2037	3,500	-	-	3,500	-
2003, Series A through D ⁽²⁾	0.041%-0.368% (ARCs)	5/28/2038	47,600	-	-	47,600	-
2004, Series A through D ⁽²⁾	0.041%-0.245% (ARCs)	4/1/2039	34,050	-	-	34,050	-
2005, Series A through D ⁽²⁾	0.041%-0.368% (ARCs)	5/1/2040	35,550	-	500	35,050	-
2006, Series A through D ⁽²⁾	0.245%-0.368% (ARCs)	12/1/2040	6,075	-	525	5,550	-
2007, Series A through D ⁽²⁾	0.048%-0.056% (ARCs)	12/1/2041	2,875	-	1,200	1,675	-
2008, Series A	5.875%-6.125%	6/1/2021, 6/1/2030	297,895	-	26,000	271,895	15,000
2009, Series A	3.875%-5.625%	6/1/2013-6/1/2030	438,000	-	25,800	412,200	31,000
2010-1, Series A & B	3.25%-5.40%	12/1/2012-12/1/2037	646,000	-	65,220	580,780	50,880
2010, Series FFELP ⁽³⁾	0.575%-1.225%	6/1/2020-6/1/2036	106,890	-	16,435	90,455	27,080
2010-2	2.50%-5.00%	12/1/2012-12/1/2036	259,800	-	36,400	223,400	18,200
2011-1	3.50%-5.875%	12/1/2012-12/1/2033	326,500	-	5,800	320,700	19,700
2012-1	3.00%-5.75%	12/1/2013-12/1/2039	259,300	-	-	259,300	5,000
2013-1	3.00%-5.00%	12/1/2014-12/1/2043	-	200,000	-	200,000	-
Totals			<u>\$ 2,493,510</u>	<u>\$ 200,000</u>	<u>\$ 207,355</u>	<u>\$ 2,486,155</u>	<u>\$ 166,860</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, 2013 and 2012, 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.

NEW JERSEY HIGHER EDUCATION STUDENT ASSISTANCE AUTHORITY
NJCLASS/FFELP LOAN PROGRAMS
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NOTE 5 – BONDS PAYABLE (CONTINUED)

Bonds Outstanding (Continued)

Student Loan Revenue Bond Title Issue Year/Series	Interest Rate Range as of June 30, 2012	Maturity Dates	Bonds Outstanding June 30, 2012			Bonds Outstanding (in thousands) June 30, 2012	Amounts Due within One Year
			Bonds Outstanding (in thousands) June 30, 2011	Additions	Reductions		
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, 2013 and 2012, 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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NJCLASS/FFELP LOAN PROGRAMS
NOTES TO FINANCIAL STATEMENTS
June 30, 2013 and 2012

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, 2013.

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, 2012-1 and 2013-1 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 2013 fiscal year, a total of \$119,820,000 of bonds within each of these respective issues were redeemed under this provision as detailed on the Cumulative Schedule of Bond Redemptions at June 30, 2013.

Optional Redemptions

Each indenture also contains provisions for the optional redemptions of NJCLASS fixed rate bonds.

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.

NEW JERSEY HIGHER EDUCATION STUDENT ASSISTANCE AUTHORITY
NJCLASS/FFELP LOAN PROGRAMS
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June 30, 2013 and 2012

NOTE 5 – BONDS PAYABLE (CONTINUED)

Optional Redemptions (Continued)

The following chart outlines the optional redemption provisions for the 2008 through 2013-1 bonds:

Bond	Maturity	Subject to Optional Redemption	First Eligible Call Date
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
2013-1	Prior to 12/1/23	No	
2013-1	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 36.

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.

NEW JERSEY HIGHER EDUCATION STUDENT ASSISTANCE AUTHORITY
NJCLASS/FFELP LOAN PROGRAMS
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June 30, 2013 and 2012

NOTE 5 – BONDS PAYABLE (CONTINUED)

Cumulative Schedule of Bond Redemptions at June 30, 2013

Bond Issue	Original Principal	Semi-Annual Accretion	Scheduled Maturity	Excess Revenue Redemption	Unexpended Proceeds Redemption	Optional Redemption	Special Redemption	Optional Redemption	Bond Tender (1)	Refunded	Current Principal Outstanding at June 30, 2013
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)	-	(12,445,000)	(5,100,000)	-	-	-	-
1999B	12,000,000	-	-	-	-	-	-	-	-	(12,000,000)	-
2000	70,000,000	-	(15,675,000)	(29,530,000)	-	(17,030,000)	(7,765,000)	-	-	-	-
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	-	-	-	-	-	(9,750,000)	-	(180,200,000)	-	35,050,000
2006	225,000,000	-	-	-	-	-	(30,050,000)	-	(189,400,000)	-	5,550,000
2007	275,000,000	-	-	-	-	-	(17,625,000)	-	(255,700,000)	-	1,675,000
2008	350,000,000	-	-	-	(19,405,000)	-	-	(58,700,000)	-	-	271,895,000
2009	450,000,000	-	-	-	-	-	-	(37,800,000)	-	-	412,200,000
2010-1	713,000,000	-	(30,000,000)	-	-	-	-	(102,220,000)	-	-	580,780,000
2010-FFELP	145,000,000	-	-	(54,545,000)	-	-	-	-	-	-	90,455,000
2010-2	280,000,000	-	(13,600,000)	-	-	-	-	(43,000,000)	-	-	223,400,000
2011-1	326,500,000	-	(5,800,000)	-	-	-	-	-	-	-	320,700,000
2012-1	259,300,000	-	-	-	-	-	-	-	-	-	259,300,000
2013-1	200,000,000	-	-	-	-	-	-	-	-	-	200,000,000
Totals	<u>\$ 4,578,796,064</u>	<u>\$ 3,562,871</u>	<u>\$ (118,865,000)</u>	<u>\$ (258,503,935)</u>	<u>\$ (22,005,000)</u>	<u>\$ (55,670,000)</u>	<u>\$ (248,490,000)</u>	<u>\$ (241,720,000)</u>	<u>\$ (1,126,950,000)</u>	<u>\$ (24,000,000)</u>	<u>\$ 2,486,155,000</u>

(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, 2013 and 2012

NOTE 5 – BONDS PAYABLE (CONTINUED)

Cumulative Schedule of Bond Redemptions at June 30, 2012

Bond Issue	Original Principal	Semi-Annual Accretion	Scheduled Maturity	Excess	Unexpended	Optional Redemption	Special Redemption	Special Optional Redemption	Bond Tender (1)	Refunded	Current Principal
				Revenue Redemption	Proceeds Redemption						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.

NEW JERSEY HIGHER EDUCATION STUDENT ASSISTANCE AUTHORITY
NJCLASS/FFELP LOAN PROGRAMS
NOTES TO FINANCIAL STATEMENTS
June 30, 2013 and 2012

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>
2014	\$ 166,860,000	\$ 114,121,770	\$ 280,981,770
2015	125,000,000	110,174,940	235,174,940
2016	139,200,000	104,798,147	243,998,147
2017	154,500,000	98,917,599	253,417,599
2018	147,375,000	92,315,310	239,690,310
2019-2023	563,065,000	367,250,291	930,315,291
2024-2028	527,955,000	242,689,933	770,644,933
2029-2033	469,775,000	91,622,444	561,397,444
2034-2038	85,100,000	36,925,333	122,025,333
2039 and after	107,325,000	10,568,500	117,893,500
Total	<u>\$ 2,486,155,000</u>	<u>\$ 1,269,384,267</u>	<u>\$ 3,755,539,267</u>

NEW JERSEY HIGHER EDUCATION STUDENT ASSISTANCE AUTHORITY
NJCLASS/FFELP LOAN PROGRAMS
NOTES TO FINANCIAL STATEMENTS
June 30, 2013 and 2012

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, 2012-1 and 2013-1 Bonds. Bond premiums net of discount, are reported as liabilities. 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 Position, and amortization revenue and expense is credited or charged to bond interest expense in the Statement of Revenues, Expenses and Changes in Net Position. Related amounts as of June 30, 2013 are as follows:

Bond premium	\$ 58,008,249
Accumulated amortization	<u>(22,419,863)</u>
Total unamortized bond premium	<u>\$ 35,588,386</u>
Cumulative amortization revenue	<u>\$ 7,888,270</u>
Bond discount	\$ 8,164,201
Accumulated amortization	<u>(1,505,311)</u>
Total unamortized bond discount	<u>\$ 6,658,891</u>
Cumulative amortization expense	<u>\$ 663,221</u>
Net unamortized bond premium	<u>\$ 28,929,495</u>
Net amortization revenue	<u>\$ 7,225,050</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, 2013 and 2012

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 Position of the program for that year. During the 2009 fiscal year, these rates became extremely low, a condition that has continued through the 2013 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, 2013, 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 \$2,558,621, which is 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, 2013 and 2012

NOTE 5 – BONDS PAYABLE (CONTINUED)

Gains on Bond Retirements

During 2013 and 2012, 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 \$2,225,000 of its ARC bonds through Special Redemptions and public tenders, as permitted under the indentures, at prices averaging 87.00% of par, resulting in total gains on retirement of \$286,875 during the year ended June 30, 2013.

During the year ended June 30, 2012, 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.

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 \$11,159 was accrued and paid during the 2013 fiscal year. The June 30, 2012 liability of \$35,762 was also paid during the 2013 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, 2013 and 2012, the liability associated with financial instruments specified in Note 1 was \$410,203 and \$460,792, 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, 2013 and 2012

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 year ended June 30, 2013, the Authority did not terminate any swap agreements. During 2012, the Authority terminated several agreements resulting in a swap termination fee expense of \$4,510,000.

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

On July 3 2013, the two Swap agreements entered into in connection with the NJCLASS Loan Program on May 29, 2002 and October 9, 2002 were discontinued under a Termination Agreement between J.P. Morgan and HESAA. Prior to termination, the combined outstanding notional amount of these swaps was \$43,300,000. The termination fees required to be paid to the swap counterparty to cancel these agreements amounted to \$3,295,750. As a result of the termination, no future interest cost relating to these Swaps will be incurred.

Management evaluated subsequent events through October 29, 2013, the date the financial statements were available to be issued. Events or transactions occurring after June 30, 2013, but prior to October 29, 2013, that provided additional evidence about conditions that existed at June 30, 2013, have been recognized in the financial statements for the year ended June 30, 2013. Events or transactions that provided evidence about conditions that did not exist at June 30, 2013, 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, 2013.

NEW JERSEY HIGHER EDUCATION STUDENT ASSISTANCE AUTHORITY
NJCLASS/FFELP LOAN PROGRAMS
NOTES TO FINANCIAL STATEMENTS
June 30, 2013 and 2012

NOTE 9 — NEW ACCOUNTING STANDARDS

For the year ending June 30, 2013, the Authority adopted two new statements of financial accounting standards issued by the Governmental Accounting Standards Board:

- GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*
- GASB Statement No. 63, *Financial Reporting of Deferred outflows of Resources, Deferred Inflows of Resources, and Net Position*
- GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*

GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements* incorporates into GASB authoritative literature certain accounting and financial reporting guidance previously included in FASB, APB, and AICPA guidance issued before November 30, 1989. The implementation of this new standard modified certain language in disclosures related to the applicable basis of accounting in the Program’s 2013 financial statements.

The Authority adopted GASB Statement No. 63, *Financial Reporting of Deferred outflows of Resources, Deferred Inflows of Resources, and Net Position* as of June 30, 2013, which changed the Statement of Net Assets to the Statement of Net Position and provides guidance for reporting deferred outflows and inflows of resources.

The Authority adopted GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities* as of June 30, 2013. This Statement establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities.

On the June 30, 2012 Statement of Net Assets, the Authority presented unamortized bond and swap issuance costs of \$12,906,961. GASB Statement No. 65 requires the debt issuance costs to be recognized as an expense in the period incurred. As a result, the net assets balances as of July 1, 2012 have been restated as net position in the Statement of Net Position as follows:

Net Assets, Beginning of Year, as Previously Reported	\$	146,860,162
Cumulative Effect of Adoption of New Accounting Standard, GASB 65		(12,906,961)
Net Position, Beginning of Year, as Restated	\$	133,953,201

SUPPLEMENTARY INFORMATION

**NEW JERSEY HIGHER EDUCATION STUDENT ASSISTANCE AUTHORITY
NJCLASS/FFELP LOAN PROGRAMS
COMBINING SCHEDULE OF NET POSITION
June 30, 2013**

	1998-2001*	2002	2003	2004	2005	2006	2007	2008	2009 Series A	2009 Indenture Loan Reserve	2010-1 Series A&B	2010-1 Indenture Loan Reserve	2010 FFELP	2010-2	2011-1	2010-2 Indenture Loan Reserve	2012-1	2013-1	Total
Assets																			
Current Assets																			
Cash and cash equivalents	\$ 5,847,820	\$ 204,618	\$ 6,213,989	\$ 2,228,001	\$ 425,925	\$ 1,257,838	\$ 24,912	\$ 22,699,638	\$ 38,001,271	\$ 204,015	\$ 70,709,369	\$ 360,120	\$ 3,522,240	\$ 30,461,848	\$ 37,429,233	\$ 77,166	\$ 102,941,404	\$ 213,927,369	\$ 536,536,776
Investments	-	-	-	-	3,639,709	-	33,544	-	-	11,594	-	9,008	-	-	-	1,731	-	-	3,695,586
NJCLASS Student Loans Receivable	3,182,373	405,845	3,440,247	656,218	534,418	252,842	110,765	7,044,540	7,871,181	-	17,553,312	-	-	7,851,361	5,868,230	-	2,165,995	-	56,937,327
FFELP Student Loans Receivable	-	-	-	-	-	-	-	-	-	-	-	-	6,225,174	-	-	-	-	-	6,225,174
NJCLASS Defaulted Principal and Interest in 2009 and 2010 LRFs, net of allowance of \$43,757,581	-	-	-	-	-	-	-	-	-	12,889,610	-	13,682,825	-	-	-	9,823,101	9,731	-	36,405,267
Due from External Loan Reserve Funds, net of allowance of \$28,510,234	2,381,061	856,052	2,962,390	1,371,157	1,514,957	1,060,000	914,327	3,299,468	-	-	-	-	-	-	-	-	-	-	14,359,412
Interest Receivable - Investments	314	11	325	118	46	75	10	1,199	2,106	-	3,858	-	188	1,665	2,086	-	5,961	4,533	22,495
Interest Receivable - NJCLASS Student Loans	169,858	74,887	432,799	118,943	188,966	95,897	77,405	2,845,458	4,993,934	-	4,556,206	-	-	2,358,369	3,784,692	-	1,819,153	-	21,516,567
Interest Receivable - FFELP Student Loans	-	-	-	-	-	-	-	-	-	-	-	-	1,161,722	-	-	-	-	-	1,161,722
Due from Other Bond Issue Funds	(45,950)	-	(123,814)	(86,975)	(66,669)	-	331,674	41,089	46,516	-	43,678	-	-	-	28,012	-	(167,561)	-	-
Due from/to 2009 and 2010 Loan Reserve Funds	-	-	-	-	-	-	-	-	19,487,923	(19,487,923)	59,095,798	(59,095,798)	-	7,705,612	3,385,275	(11,090,887)	-	-	-
Default Collections Receivable	-	-	-	-	-	-	-	-	-	35,534	-	110,375	-	-	-	34,664	-	-	180,573
Due From Loan Servicing Agents	-	-	-	-	-	-	-	-	-	-	-	-	178,130	-	-	-	-	-	178,130
Total Current Assets	11,535,476	1,541,413	12,925,936	4,287,462	6,237,352	2,666,652	1,492,637	35,931,392	70,402,931	(6,347,170)	151,962,221	(44,933,470)	11,087,454	48,378,855	50,497,528	(1,154,225)	106,774,683	213,931,902	677,219,029
Non-Current Assets																			
NJCLASS Student Loans Receivable	8,851,487	4,693,372	50,683,413	10,143,057	14,704,370	7,774,087	3,257,545	247,001,198	368,666,602	-	534,529,658	-	-	213,922,950	282,340,637	-	170,901,529	-	1,917,469,905
FFELP Student Loans Receivable	-	-	-	-	-	-	-	-	-	-	-	-	89,148,917	-	-	-	-	-	89,148,917
Prepaid Interest Rate-Cap Fees	-	-	33,511	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	33,511
Total Non-Current Assets	8,851,487	4,693,372	50,716,924	10,143,057	14,704,370	7,774,087	3,257,545	247,001,198	368,666,602	-	534,529,658	-	89,148,917	213,922,950	282,340,637	-	170,901,529	-	2,006,652,333
Total Assets	\$ 20,386,963	\$ 6,234,785	\$ 63,642,860	\$ 14,430,519	\$ 20,941,722	\$ 10,440,739	\$ 4,750,182	\$ 282,932,590	\$ 439,069,533	\$ (6,347,170)	\$ 686,491,879	\$ (44,933,470)	\$ 100,236,371	\$ 262,301,805	\$ 332,838,165	\$ (1,154,225)	\$ 277,676,212	\$ 213,931,902	\$ 2,683,871,362
Deferred Outflows of Resources																			
Deferred Outflow - Interest Rate Swap	-	3,142,970	2,372,784	-	-	1,801,376	4,191,755	-	-	-	-	-	-	-	-	-	-	-	11,508,885
Total Deferred Outflows of Resources	\$ -	\$ 3,142,970	\$ 2,372,784	\$ -	\$ -	\$ 1,801,376	\$ 4,191,755	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 11,508,885
Liabilities																			
Current Liabilities																			
Bonds Payable	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 15,000,000	\$ 31,000,000	\$ -	\$ 50,880,000	\$ -	\$ 27,080,000	\$ 18,200,000	\$ 19,700,000	\$ -	\$ 5,000,000	\$ -	\$ 166,860,000
Accrued Interest Payable - Bonds	7,289	127,669	112,982	24,896	20,710	52,732	98,602	1,382,156	1,817,044	-	2,327,662	-	90,461	859,041	1,362,111	-	976,031	255,192	9,514,578
Fees Payable	106,420	7,732	38,136	13,822	12,687	6,049	3,320	111,064	122,072	34,540	198,613	59,719	253,212	91,970	149,816	13,874	61,768	-	1,284,814
Arbitrage Payable	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Due to the Loan Reserve Fund	41,445	21,028	40,529	35,020	26,469	12,589	8,337	84,483	-	-	-	-	-	-	-	-	-	-	269,900
Total Current Liabilities	155,154	156,429	191,647	73,738	59,866	71,370	110,259	16,577,703	32,939,116	34,540	53,406,275	59,719	27,423,673	19,151,011	21,211,927	13,874	6,037,799	255,192	177,929,292
Non-current Liabilities																			
Bonds Payable	-	3,500,000	47,600,000	34,050,000	35,050,000	5,550,000	1,675,000	256,895,000	381,200,000	-	529,900,000	-	63,375,000	205,200,000	301,000,000	-	254,300,000	200,000,000	2,319,295,000
Premium on Bonds Payable	-	-	-	-	-	-	-	-	1,453,958	-	6,060,033	-	-	1,715,367	2,616,839	-	8,209,736	8,873,562	28,929,495
Total Non-current Liabilities	-	3,500,000	47,600,000	34,050,000	35,050,000	5,550,000	1,675,000	256,895,000	382,653,958	-	535,960,033	-	63,375,000	206,915,367	303,616,839	-	262,509,736	208,873,562	2,348,224,495
Total Liabilities	155,154	3,656,429	47,791,647	34,123,738	35,109,866	5,621,370	1,785,259	273,472,703	415,593,074	34,540	589,366,308	59,719	90,798,673	226,066,378	324,828,766	13,874	268,547,535	209,128,754	2,526,153,787
Deferred Inflows of Resources																			
Deferred Inflow - Interest Rate Swap	-	3,142,970	2,372,784	-	-	1,801,376	4,191,755	-	-	-	-	-	-	-	-	-	-	-	11,508,885
Total Deferred Inflows of Resources	\$ -	\$ 3,142,970	\$ 2,372,784	\$ -	\$ -	\$ 1,801,376	\$ 4,191,755	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 11,508,885
Net Position																			
Restricted	20,231,809	2,578,356	15,851,213	(19,693,219)	(14,168,144)	4,819,369	2,964,923	9,459,887	23,476,459	(6,381,710)	97,125,571	(44,993,189)	9,437,698	36,235,427	8,009,399	(1,168,098)	9,128,676	4,803,148	157,717,575
Total Liabilities and Net Position	\$ 20,386,963	\$ 6,234,785	\$ 63,642,860	\$ 14,430,519	\$ 20,941,722	\$ 10,440,739	\$ 4,750,182	\$ 282,932,590	\$ 439,069,533	\$ (6,347,170)	\$ 686,491,879	\$ (44,933,470)	\$ 100,236,371	\$ 262,301,805	\$ 332,838,165	\$ (1,154,224)	\$ 277,676,211	\$ 213,931,902	\$ 2,683,871,362

*Bonds have been retired

NEW JERSEY HIGHER EDUCATION STUDENT ASSISTANCE AUTHORITY
NJCLASS/FFELP LOAN PROGRAMS
COMBINING SCHEDULE OF NET POSITION
June 30, 2012

	1998-2001*	2002	2003	2004	2005	2006	2007	2008	2009 Series A	2009 Indenture Loan Reserve	2010-1 Series A&B	2010-1 Indenture Loan Reserve	2010 FFELP	2010-2	2010-2 Indenture Loan Reserve	2011-1	2012-1	Total
Assets																		
Current Assets																		
Cash and cash equivalents	\$ 3,596,382	\$ 735,101	\$ 11,373,904	\$ 544,722	\$ 548,431	\$ 348,529	\$ 359,721	\$ 20,066,512	\$ 35,447,786	\$ -	\$ 70,896,344	\$ -	\$ 4,979,572	\$ 37,804,405	\$ -	\$ 47,899,467	\$ 277,325,262	\$ 511,926,138
Investments	1,285,201	-	992,000	4,509,149	2,026,465	2,593,387	302,260	-	-	123	-	2,507	-	-	17,825	-	-	11,728,917
NJCLASS Student Loans Receivable	3,356,972	595,339	3,707,016	714,539	492,051	246,020	101,759	6,333,546	6,656,802	-	18,839,851	-	-	10,658,298	-	6,727,186	-	58,429,379
FFELP Student Loans Receivable	-	-	-	-	-	-	-	-	-	-	-	-	7,784,555	-	-	-	-	7,784,555
NJCLASS Defaulted Principal and Interest in 2009 and 2010 LRFs, net of allowance of \$43,757,581	-	-	-	-	-	-	-	-	-	6,170,043	-	10,471,125	-	-	5,761,910	-	-	22,403,078
Due from External Loan Reserve Funds, net of allowance of \$28,510,234	2,277,072	969,013	2,691,281	1,456,462	1,399,504	1,280,217	1,084,612	2,235,145	-	-	-	-	-	-	-	-	-	13,993,306
Interest Receivable - Investments	617	31	706	66	54	284	45	1,014	1,896	-	3,789	-	228	1,969	-	2,689	1,607	14,995
Interest Receivable - NJCLASS Student Loans	199,441	68,007	541,338	146,182	208,273	104,266	52,795	3,875,105	6,524,213	-	5,523,847	-	-	3,006,492	-	4,006,105	-	24,256,064
Interest Receivable - FFELP Student Loans	-	-	-	-	-	-	-	-	-	-	-	-	1,199,077	-	-	-	-	1,199,077
Due from Other Bond Issue Funds	(48,485)	-	(130,643)	(100,495)	(70,347)	-	349,970	-	-	-	-	-	-	-	-	-	-	-
Due from/to 2009 and 2010 Loan Reserve Funds	-	-	-	-	-	-	-	-	9,420,255	(9,420,255)	45,531,854	(45,531,854)	-	4,265,640	(4,538,931)	273,291	-	-
Default Collections Receivable	-	-	-	-	-	-	-	-	-	57,124	-	109,366	-	-	63,209	-	-	229,699
Due From Loan Servicing Agents	-	-	-	-	-	-	-	-	-	-	-	-	341,730	-	-	-	-	341,730
Total Current Assets	10,667,200	2,367,491	19,175,602	7,270,625	4,604,431	4,572,703	2,251,162	32,511,322	58,050,952	(3,192,965)	140,795,685	(34,948,856)	14,305,162	55,736,804	1,304,013	58,908,738	277,326,869	651,706,938
Non-Current Assets																		
NJCLASS Student Loans Receivable	14,314,602	5,564,925	60,486,491	12,210,489	16,588,052	8,651,456	3,608,176	277,930,731	400,187,985	-	602,767,829	-	-	238,462,037	-	275,496,251	-	1,916,269,024
FFELP Student Loans Receivable	-	-	-	-	-	-	-	-	-	-	-	-	103,345,767	-	-	-	-	103,345,767
Prepaid Interest Rate-Cap Fees	-	-	39,296	-	-	-	-	-	-	-	-	-	-	-	-	-	-	39,296
Total Non-Current Assets	14,314,602	5,564,925	60,525,787	12,210,489	16,588,052	8,651,456	3,608,176	277,930,731	400,187,985	-	602,767,829	-	103,345,767	238,462,037	-	275,496,251	-	2,019,654,087
Total Assets	\$ 24,981,802	\$ 7,932,416	\$ 79,701,389	\$ 19,481,114	\$ 21,192,483	\$ 13,224,159	\$ 5,859,338	\$ 310,442,053	\$ 458,238,937	\$ (3,192,965)	\$ 743,563,514	\$ (34,948,856)	\$ 117,650,929	\$ 294,198,841	\$ 1,304,013	\$ 334,404,989	\$ 277,326,869	\$ 2,671,361,025
Deferred Outflows of Resources																		
Deferred Outflow - Interest Rate Swap	-	4,711,359	3,317,664	-	-	2,453,842	6,091,154	-	-	-	-	-	-	-	-	-	-	16,574,019
Total Deferred Outflows of Resources	-	4,711,359	3,317,664	-	-	2,453,842	6,091,154	-	-	-	-	-	-	-	-	-	-	16,574,019
Liabilities																		
Current Liabilities																		
Bonds Payable	\$ 2,740,000	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 10,400,000	\$ 20,915,000	\$ -	\$ 40,200,000	\$ -	\$ 20,000,000	\$ 17,800,000	\$ -	\$ 5,800,000	\$ -	\$ 117,855,000
Accrued Interest Payable - Bonds	161,477	154,749	137,912	32,717	29,093	56,420	105,678	1,509,447	1,907,878	-	2,561,115	-	113,469	997,681	-	1,376,611	97,603	9,241,850
Fees Payable	91,099	11,761	58,794	32,180	20,683	5,876	5,610	113,723	144,696	-	256,108	-	218,209	109,137	-	224,796	-	1,292,672
Arbitrage Payable	35,762	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	35,762
Due to the Loan Reserve Fund	68,861	36,618	78,932	21,890	21,009	9,115	16,339	46,574	-	-	-	-	-	-	-	-	-	299,338
Total Current Liabilities	3,097,199	203,128	275,638	86,787	70,785	71,411	127,627	12,069,744	22,967,574	-	43,017,223	-	20,331,678	18,906,818	-	7,401,407	97,603	128,724,622
Non-current Liabilities																		
Bonds Payable	26,735,000	3,500,000	47,600,000	34,050,000	35,550,000	6,075,000	2,875,000	287,495,000	417,085,000	-	605,800,000	-	86,890,000	242,000,000	-	320,700,000	259,300,000	2,375,655,000
Premium on Bonds Payable	-	-	-	-	-	-	-	-	2,079,016	-	8,507,086	-	-	2,838,233	-	3,679,309	10,123,532	27,227,176
Total Non-current Liabilities	26,735,000	3,500,000	47,600,000	34,050,000	35,550,000	6,075,000	2,875,000	287,495,000	419,164,016	-	614,307,086	-	86,890,000	244,838,233	-	324,379,309	269,423,532	2,402,882,176
Total Liabilities	29,832,199	3,703,128	47,875,638	34,136,787	35,620,785	6,146,411	3,002,627	299,564,744	442,131,590	-	657,324,309	-	107,221,678	263,745,051	-	331,780,716	269,521,135	2,531,606,798
Deferred Inflows of Resources																		
Deferred Inflow - Interest Rate Swap	-	4,711,359	3,317,664	-	-	2,453,842	6,091,154	-	-	-	-	-	-	-	-	-	-	16,574,019
Total Deferred Inflows of Resources	-	4,711,359	3,317,664	-	-	2,453,842	6,091,154	-	-	-	-	-	-	-	-	-	-	16,574,019
Net Position																		
Restricted	(4,850,396)	4,229,289	31,825,750	(14,655,673)	(14,428,302)	7,077,748	2,856,712	10,877,310	16,107,349	(3,192,963)	86,239,205	(34,948,857)	10,429,252	30,453,791	1,304,013	2,624,268	7,805,733	139,754,227
Total Liabilities and Net Position	\$ 24,981,803	\$ 7,932,417	\$ 79,701,388	\$ 19,481,114	\$ 21,192,483	\$ 13,224,159	\$ 5,859,339	\$ 310,442,054	\$ 458,238,939	\$ (3,192,963)	\$ 743,563,514	\$ (34,948,857)	\$ 117,650,930	\$ 294,198,842	\$ 1,304,013	\$ 334,404,984	\$ 277,326,868	\$ 2,671,361,025

*Bonds have been retired

NEW JERSEY HIGHER EDUCATION STUDENT ASSISTANCE AUTHORITY
NJCLASS/FFELP LOAN PROGRAMS
COMBINING SCHEDULE OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
Year Ended June 30, 2013

	1998-2001*	2002	2003	2004	2005	2006	2007	2008	2009 Series A	2009 Indenture Loan Reserve Fund	2010-1 Series A&B Loan Reserve Fund	2010-1 Indenture Loan Reserve Fund	2010 FFELP	2010-2	2011-1	2010-2 Indenture Loan Reserve Fund	2012-1	2013-1	Total
Operating Revenues																			
Interest Income																			
NJCLASS Student Loans	\$ 1,120,473	\$ 374,339	\$ 3,513,017	\$ 801,029	\$ 1,123,975	\$ 579,575	\$ 228,847	\$ 20,833,264	\$ 30,182,599	\$ -	\$ 39,682,106	\$ -	\$ -	\$ 16,771,060	\$ 21,761,615	\$ -	\$ 7,505,974	\$ -	\$ 144,477,873
FFELP Student Loans	0	0	0	0	0	0	0	0	0	0	0	0	4,150,645	0	0	0	0	0	4,150,645
Total Interest Income	1,120,473	374,339	3,513,017	801,029	1,123,975	579,575	228,847	20,833,264	30,182,599	0	39,682,106	0	4,150,645	16,771,060	21,761,615	0	7,505,974	0	148,628,518
Application/Administrative Fee Income	0	0	0	0	0	-	0	(86)	(372)	0	(606)	0	0	(160)	246,234	0	1,702,256	-	1,947,266
Loan Reserve Fee Income	0	0	0	0	0	-	-	0	0	0	0	0	0	0	0	430,593	0	-	430,593
Repayment Account Fee Income	0	0	0	0	0	-	-	0	0	0	0	0	0	0	411,105	0	3,116,079	-	3,527,184
Default Income	0	0	0	0	0	-	-	0	0	0	0	0	0	0	0	0	0	-	-
Total Operating Revenues	1,120,473	374,339	3,513,017	801,029	1,123,975	579,575	228,847	20,833,178	30,182,227	-	39,681,500	-	4,150,645	16,770,900	22,418,954	430,593	12,324,309	-	154,533,561
Operating Expenses																			
Loan Servicing Fees																			
NJCLASS Student Loans	201,667	37,573	338,575	61,575	65,133	35,638	16,370	1,186,413	1,492,241	0	2,487,505	0	0	1,141,331	1,332,014	0	1,954,565	-	10,350,600
FFELP Student Loans	0	0	0	0	0	0	0	0	0	0	0	0	1,639,705	0	0	0	0	-	1,639,705
Total Loan Servicing Fees	201,667	37,573	338,575	61,575	65,133	35,638	16,370	1,186,413	1,492,241	-	2,487,505	-	1,639,705	1,141,331	1,332,014	-	1,954,565	-	11,990,305
Default Expense	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Program Expenses																			
Annual Insurance Expense and Transaction Fees	0	6,077	87,037	66,419	54,567	16,254	6,960	345,106	0	0	0	0	0	0	(55,986)	0	0	0	526,434
Bad Debt Expense	198,815	(244,806)	545,517	(190,940)	230,189	(472,148)	(365,887)	3,688,012	0	3,188,789	0	10,044,423	0	0	0	2,902,771	29,587	0	19,554,322
Other Program Expenses	0	0	0	0	0	0	0	0	0	0	0	0	0	0	430,688	0	0	-	430,688
Total Program Expenses	198,815	(238,729)	632,554	(124,521)	284,756	(455,894)	(358,927)	4,033,118	-	3,188,789	-	10,044,423	-	-	374,702	2,902,771	29,587	-	20,511,444
Bond Interest Expense	918,607	1,844,719	1,529,708	346,348	288,842	660,638	1,250,704	17,044,119	21,344,476	0	26,351,689	0	1,217,897	9,870,632	15,355,368	0	9,798,578	201,386	108,023,711
Total Operating Expenses	1,319,089	1,643,563	2,500,837	283,402	638,731	240,382	908,147	22,263,650	22,836,717	3,188,789	28,839,194	10,044,423	2,857,602	11,011,963	17,062,084	2,902,771	11,782,730	201,386	140,525,460
Operating Income (Loss)	(198,616)	(1,269,224)	1,012,180	517,627	485,244	339,193	(679,300)	(1,430,472)	7,345,510	(3,188,789)	10,842,306	(10,044,423)	1,293,043	5,758,937	5,356,870	(2,472,178)	541,579	(201,386)	14,008,101
Non Operating Revenues (Expenses)																			
Income on Investments	70,895	482	6,883	3,785	3,661	2,325	672	13,049	23,600	43	44,059	92	3,582	22,700	28,260	67	121,364	4,533	350,052
Gain on Bond Retirement	0	0	0	0	67,500	63,375	156,000	0	0	0	0	0	0	0	0	0	0	-	286,875
Gain/Loss on Transfer	0	0	0	0	0	0	0	0	0	0	0	0	(2,288,177)	0	0	0	0	-	(2,288,177)
Swap Termination Fees	25,221,085	(382,188)	(16,951,257)	(5,558,957)	(296,247)	(2,663,274)	630,838	0	0	0	0	0	0	0	0	0	0	-	-
Capital Contribution for 2012-1 Bond Issue	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	660,000	-	660,000
Capital Contribution for 2013-1 Bond Issue	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	5,000,000	5,000,000
Amortization Expense - Prepaid Interest Rate Cap Fees	0	0	(42,344)	0	0	0	0	0	0	0	0	0	0	0	0	0	0	-	(42,344)
Arbitrage Expense	(11,159)	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	-	(11,159)
Total Non Operating Revenues	25,280,821	(381,706)	(16,986,718)	(5,555,172)	(225,086)	(2,597,574)	787,510	13,049	23,600	43	44,059	92	(2,284,595)	22,700	28,260	67	781,364	5,004,533	3,955,247
Change in Net Position	25,082,205	(1,650,930)	(15,974,538)	(5,037,545)	260,158	(2,258,381)	108,210	(1,417,423)	7,369,110	(3,188,746)	10,886,365	(10,044,331)	(991,552)	5,781,637	5,385,130	(2,472,111)	1,322,943	4,803,147	17,963,348
Net Position (Deficit, Beginning of Year)	(4,850,396)	4,229,289	31,825,750	(14,655,673)	(14,428,302)	7,077,748	2,856,712	10,877,310	16,107,349	(3,192,963)	86,239,205	(34,948,857)	10,429,252	30,453,791	1,304,013	2,624,268	7,805,733	0	139,754,227
Net Position (Deficit, End of Year)	\$ 20,231,809	\$ 2,578,359	\$ 15,851,212	\$ (19,693,218)	\$ (14,168,144)	\$ 4,819,367	\$ 2,964,922	\$ 9,459,887	\$ 23,476,459	\$ (6,381,709)	\$ 97,125,570	\$ (44,993,188)	\$ 9,437,700	\$ 36,235,428	\$ 6,689,143	\$ 152,157	\$ 9,128,676	\$ 4,803,147	\$ 157,717,575

*Bonds have been retired

NEW JERSEY HIGHER EDUCATION STUDENT ASSISTANCE AUTHORITY
NJCLASS/FFELP LOAN PROGRAMS
COMBINING SCHEDULE OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
Year Ended June 30, 2012

	1998-2001*	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	\$ 1,630,915	\$ 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	1,630,915	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	-	6,152,894	-	6,362,642
Loan Reserve Fee Income	-	-	-	-	-	-	-	-	-	50	-	17,834	-	-	3,463,740	-	-	3,481,624
Default Income	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total Operating Revenues	1,630,915	457,204	4,068,324	931,749	1,269,611	633,793	268,479	23,198,687	32,766,416	50	44,961,224	17,834	4,651,771	18,849,152	3,463,740	19,361,630	-	156,530,579
Operating Expenses																		
Loan Servicing Fees																		
NJCLASS Student Loans	251,447	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	251,447	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 and																		
Transaction Fees	23,000	4,908	109,356	73,655	54,335	9,947	6,760	393,407	-	-	-	-	-	-	-	-	-	675,368
Bad Debt Expense	521,230	(194,859)	986,305	(93,590)	647,541	(264,125)	(124,446)	4,478,663	-	5,780,720	(2,903,145)	19,990,035	-	(608,837)	2,160,487	-	-	30,375,979
Other Program Expenses	-	-	-	-	-	-	54	(156)	50	-	17,834	-	-	88,312	-	3,375,428	-	3,481,522
Total Program Expenses	544,230	(189,951)	1,095,661	(19,935)	701,876	(254,178)	(117,632)	4,871,914	50	5,780,720	(2,885,311)	19,990,035	-	(520,525)	2,160,487	3,375,428	-	34,532,869
Bond Interest Expense	2,064,059	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	2,859,736	2,053,773	3,777,201	667,260	1,111,681	482,968	1,211,699	25,202,790	24,120,896	5,780,720	28,724,755	19,990,035	3,255,766	11,841,810	2,160,487	21,298,018	81,875	154,621,470
Operating Income (Loss)	(1,228,821)	(1,596,569)	291,123	264,489	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	212,529	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	(5,123,054)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	5,123,054	-	-
Swap Termination Fees	(464,345)	(2,545,655)	(1,500,000)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(4,510,000)
Bond Issuance Cost	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(600,000)	-	(600,000)
Capital Contribution for 2012-1 Bond Issue	-	(165)	165	-	-	-	-	-	-	-	-	-	-	-	-	-	7,886,000	7,886,000
Amortization Expense - Prepaid Interest Rate Cap Fees	-	-	(41,480)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(41,480)
Arbitrage Expense	(33,736)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(33,736)
Total Non Operating Revenues	(5,408,606)	(2,510,066)	(1,266,826)	4,211	510,493	23,222	28,275	9,171	12,190	154	26,417	56	1,690	13,120	154	4,560,655	7,887,607	3,891,917
Change in Net Position	(6,637,427)	(4,106,635)	(975,703)	268,700	668,423	174,047	(914,945)	(1,994,932)	8,657,710	(5,780,516)	16,262,886	(19,972,145)	1,397,695	7,020,462	1,303,407	2,624,267	7,805,732	5,801,026
Net Position (Deficit, Beginning of Year), As Restated	1,787,028	8,335,924	32,801,453	(14,924,374)	(15,096,723)	6,903,702	3,771,657	12,872,242	7,449,638	2,587,553	69,976,318	(14,976,712)	9,031,558	23,433,330	606	-	-	133,953,200
Net Position (Deficit, End of Year)	\$ (4,850,399)	\$ 4,229,289	\$ 31,825,750	\$ (14,655,674)	\$ (14,428,300)	\$ 7,077,749	\$ 2,856,712	\$ 10,877,310	\$ 16,107,348	\$ (3,192,963)	\$ 86,239,204	\$ (34,948,857)	\$ 10,429,253	\$ 30,453,792	\$ 1,304,013	\$ 2,624,267	\$ 7,805,732	\$ 139,754,226

*Bonds have been retired

**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, in accordance with the 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, the financial statements of the business type activities 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, 2013, and the related notes to the financial statements, which collectively comprise the Programs' basic financial statements, and have issued our report thereon dated October 29, 2013.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Programs' internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Programs' internal control. Accordingly, we do not express an opinion on the effectiveness of the Programs' internal control.

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 and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a 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. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

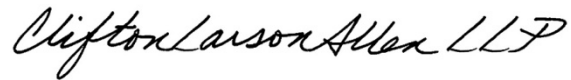
Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in cursive script that reads "CliftonLarsonAllen LLP".

Mt. Laurel, New Jersey
October 29, 2013