FINANCIAL STATEMENTS AND SUPPLEMENTAL FINANCIAL INFORMATION

New Jersey Educational Facilities Authority
(A Component Unit of the State of New Jersey)
Years Ended December 31, 2012 and 2011
With Report of Independent Auditors

Ernst & Young LLP

New Jersey Educational Facilities Authority
(A Component Unit of the State of New Jersey)

Financial Statements and
Supplemental Financial Information

December 31, 2012 and 2011

Contents

NJEFA
New Jersey Educational Facilities Authority

103 College Road East • Princeton, New Jersey 08540
phone 609-987-0880 • fax 609-987-0850 • www.njefa.com

Report of Management

Management of the Authority is responsible for the preparation, integrity, and fair presentation of these financial statements. The financial statements have been prepared in conformity with accounting principles generally accepted in the United States, and, consequently, they reflect certain amounts based upon the best estimates and judgment of management.

The financial statements have been audited by the independent firm of Ernst & Young LLP, which was given unrestricted access to all financial records and related data, including minutes of all meetings of the Authority. The independent auditor's opinion is presented on page 2.

The Authority maintains a system of internal controls to provide reasonable assurance that transactions are executed in accordance with management's authorization, that financial statements are prepared in accordance with accounting principles generally accepted in the United States, that assets of the Authority are properly safeguarded, and that the covenants of all financing agreements are honored. There are, however, inherent limitations in the effectiveness of any system of internal control, including the possibility of human error and the circumvention of controls. Accordingly, even an effective internal control system can provide only reasonable assurance that its goals are achieved.

Consistent with Executive Order No. 122, the Authority, through its Audit and Evaluation Committees, engages the independent auditors. The Audit and Evaluation Committees comprise individuals who are not employees of the Authority, and who meet certain standards of independence and financial expertise. The Audit Committee periodically meets with the independent auditors, and is responsible for assisting the Members of the Authority in overseeing the Authority's compliance with legal, regulatory and ethical requirements, as well as overseeing the integrity and quality of the Authority's financial statements. The independent auditors have unrestricted access to the Audit Committee.

Derek S. Hansel
Executive Director

Marie P. Mueller
Controller

March 12, 2013

Ernst & Young LLP
99 Wood Avenue South
Iselin, NJ 08830-0471

Tel: +1 732 516 4200
www.ey.com

Report of Independent Auditors

To Management and the Members of the
New Jersey Educational Facilities Authority

Report on the Financial Statements

We have audited the accompanying financial statements of the New Jersey Educational Facilities Authority (the Authority), a component unit of the State of New Jersey, as of and for the years ended December 31, 2012 and 2011, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

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; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free of material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit 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 respective financial position of the Authority as of December 31, 2012 and 2011, and the respective changes in financial position and its cash flows thereof for the years then ended in conformity with US generally accepted accounting principles.

Required Supplementary Information

Accounting principles generally accepted in the United States require that management's discussion and analysis and the schedule of funding progress on pages 5 – 7 and page 20, respectively, 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, 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 audits 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.

Supplementary and Other Information

Our audits were conducted for the purpose of forming opinions on the financial statements that collectively comprise the Authority's basic financial statements. The supplemental financial information is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The supplemental financial 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. In our opinion, the supplemental financial information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The supplemental financial information has not been subjected to the auditing procedures applied in the audits 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 March 12, 2013 on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements 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 in considering Authority's internal control over financial reporting and compliance.

Ernst + Young LLP

March 12, 2013

Management's Discussion and Analysis

Year Ended December 31, 2012

Introduction

This section of the New Jersey Educational Facilities Authority's (the Authority) annual financial report presents management's discussion and analysis of the Authority's financial performance during the fiscal year ended December 31, 2012 and the two immediately preceding years. It should be read in conjunction with the Authority's financial statements and accompanying notes.

Overview of the Financial Statements

The Authority is supported entirely by fees charged for the services it provides. Accordingly, the Authority is considered an Enterprise Fund and utilizes the accrual basis of accounting. The Basic Financial Statements for an Enterprise Fund include: Statements of Net Position; Statements of Revenues, Expenses and Changes in Net Position; and Statements of Cash Flows. These statements provide, respectively, a view of the Authority's financial position as of the end of the year, a description of the financial activity during the year, and a description of the cash activity during the year.

Financial Highlights 2012:

- The Authority issued over $210 million of conduit debt for educational institutions during 2012.
- Cash and Investments represent approximately 89% of Total Assets at the end of 2012.
- The Authority's 2012 operating margin (net operating income as a percentage of operating revenues) was 31%.
- At December 31, 2012, Net Position represents 2.0 times 2012 Total Operating Expenses.

During 2012, the Authority's volume of financing activity was approximately $160 million less than 2011. The reduced volume was due to market conditions. The Authority continued to work with the State's public and private institutions on their multi-year plans to invest in the upgrading of their capital facilities, technology infrastructures and capital equipment to accommodate growing demand for higher education. The Authority also helped New Jersey colleges and universities restructure outstanding issues for the greatest benefit to the institutions.

Condensed Financial Information

The following table represents condensed balance sheet information and changes between December 31, 2011 and December 31, 2012 and between December 31, 2010 and December 31, 2012:

	2012	2011	2010	Increase (Decrease) 2011 to 2012	Increase (Decrease) 2010 to 2011
Current assets	**$ 5,785,871**	$ 4,550,043	$ 11,478,450	27.16%	(60.36%)
Capital assets, net	**81,490**	110,140	140,939	(26.01%)	(21.85%)
Total assets	**5,867,361**	4,660,183	11,619,389	25..90%	(59.89%)
Current liabilities	**235,102**	254,185	292,387	(7.51%)	(13.07%)
Noncurrent liabilities	**976,949**	810,841	254,632	20.49%	218.44%
Total liabilities	**1,212,051**	1,065,026	547,019	13.80%	94.70%
Total net position	**$ 4,655,310**	$ 3,595,157	$ 11,072,370	28.49%	(67.53%)

The following table represents condensed information from the Statements of Revenues, Expenses, and Changes in Net Position, and changes between 2011 and 2012 and between 2010 and 2011:

	2012	2011	2010	Increase (Decrease) 2011 to 2012	Increase (Decrease) 2010 to 2012
Operating revenues:					
Administrative fees	**$ 3,383,100**	$ 3,355,088	$ 3,710,465	0.83%	(9.58%)
Total operating revenues	**3,383,100**	3,355,088	3,710,465		
Operating expenses:					
Salaries and related expenses	**1,532,384**	1,587,923	1,884,807	(3.50%)	(15.75%)
Provision for postemployment benefits	**168,100**	562,000	120,000	(70.09%)	368.33%
General expenses	**626,107**	691,803	694,480	(9.50%)	(.39%)
Total operating expenses	**2,326,591**	2,841,726	2,699,287	(18.13%)	(5.28%)
Net operating income	**1,056,509**	513,362	1,011,178	105.80%	(49.23%)
Nonoperating revenues (expenses):					
Investment income	**3,644**	9,425	14,066	(61.34%)	(32.99%)
Payment to the State of New Jersey	**–**	(8,000,000)	–	(100.00%)	100.00%
Change in net position	**1,060,153**	(7,477,213)	1,025,244	(114.18%)	(829.31%)
Net position beginning of year	**3,595,157**	11,072,370	10,047,126	(67.53)%	10.20%
Net position end of year	**$ 4,655,310**	$ 3,595,157	$ 11,072,370	29.49%	(67.53%)

Analysis of Overall Financial Position and Results of Operations

The Authority's solid financial position and strong operating results continued.

Revenues

The Authority’s revenues are derived primarily from two fees; annual fees charged to existing bond issues, and initial fees charged with respect to the issuance of new debt. Total revenues for 2012 increased approximately $28,000 from 2011 and total revenues for 2011 decreased approximately $355,000 from 2010.

Expenses

Operating expenses in 2012 decreased 18.1% from 2011 and increased 5.3% in 2011 from 2010. The decrease in operating expenses from 2011 is primarily related to a decrease in the provision for post retirement benefits.

Assets and Liabilities

Net position increased $1.1 million, or 29.5% from 2011 to 2012 and decreased $7.5 million, or 67.5% from 2010 to 2011.

Contacting the Authority’s Financial Management

If you have questions about this report or need additional financial information, contact the Office of the Controller, New Jersey Educational Facilities Authority, 103 College Road East, Princeton, NJ 08540-6612. Readers are invited to visit the Authority’s website at www.njefa.com.

New Jersey Educational Facilities Authority
(A Component Unit of the State of New Jersey)

Statements of Net Position

	December 31 2012	December 31 2011
Assets		
Current assets:		
Cash	**$ 77,838**	$ 94,026
Investments, principally U.S. Government obligations	**5,130,603**	4,413,444
Fees receivable	**564,823**	27,147
Prepaid expenses and other assets	**12,607**	15,426
Total current assets	**5,785,871**	4,550,043
Noncurrent assets:		
Capital assets, at cost, less accumulated depreciation of $625,625 and $590,487 during 2012 and 2011, respectively	**81,490**	110,140
Total assets	**5,867,361**	4,660,183
Liabilities		
Current liabilities:		
Accounts payable and accrued expenses	**235,102**	254,185
Noncurrent liabilities:		
Postemployment benefits other than pension	**948,580**	780,480
Project obligations	**28,369**	30,361
Total noncurrent liabilities	**976,949**	810,841
Total liabilities	**1,212,051**	1,065,026
Net position:		
Invested in capital assets	**81,490**	110,140
Unrestricted	**4,573,820**	3,485,017
Total net position	**$ 4,655,310**	$ 3,595,157

See accompanying notes.

New Jersey Educational Facilities Authority
(A Component Unit of the State of New Jersey)

Statements of Revenues, Expenses and Changes in Net Position

	Year Ended December 31	
	2012	**2011**
Operating revenues:		
Administrative fees	**$ 3,383,100**	$ 3,355,088
Total operating revenues	**3,383,100**	3,355,088
Operating expenses:		
Salaries and related expenses	**1,532,384**	1,587,923
General and administrative expenses	**538,630**	591,994
Provision for postemployment benefits	**168,100**	562,000
Professional fees	**87,477**	99,809
Total operating expenses	**2,326,591**	2,841,726
Net operating income	**1,056,509**	513,362
Nonoperating revenue (expenses):		
Investment income	**3,644**	9,425
Payment to the State of New Jersey	**–**	(8,000,000)
Net changes in net position	**1,060,153**	(7,477,213)
Net position at beginning of year	**3,595,157**	11,072,370
Net position at end of year	**$ 4,655,310**	$ 3,595,157

See accompanying notes.

New Jersey Educational Facilities Authority
(A Component Unit of the State of New Jersey)

Statements of Cash Flows

	Year Ended December 31	
	2012	**2011**
Cash flows from operating activities		
Cash received from administrative fees	**$ 2,848,243**	$ 3,337,945
Cash payments for operating expenses	**(2,144,428)**	(2,280,149)
Net cash provided by operating activities	**703,815**	1,057,796
Cash flows from investing activities		
Purchase of investments	**(7,974,092)**	(7,727,132)
Sale and maturity of investments	**7,258,092**	14,700,150
Investment income	**2,485**	11,867
Net cash (used in) provided by investing activities	**(713,515)**	6,984,885
Cash flows from capital and related financing activities		
Purchase of capital assets	**(6,488)**	(12,771)
Payment to State of New Jersey	**–**	(8,000,000)
Net cash used in capital and related financing activities	**(6,488)**	(8,012,771)
Net (decrease) increase in cash	**(16,188)**	29,910
Cash at beginning of year	**94,026**	64,116
Cash at end of year	**$ 77,838**	$ 94,026
Reconciliation of net operating income to net cash provided by operating activities:		
Net operating income	**$ 1,056,509**	$ 513,362
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	**35,138**	43,570
Changes in assets and liabilities:		
Fees receivable	**(537,676)**	(18,837)
Prepaid expenses and other assets	**2,819**	1,694
Accounts payable and accrued expenses	**(19,083)**	(38,202)
Project obligations	**(1,992)**	(5,791)
Postemployment benefits other than pension	**168,100**	562,000
Net cash provided by operating activities	**$ 703,815**	$ 1,057,796
Supplemental schedule of noncash investing activities		
Change in fair value of investments	**$ 1,159**	$ (2,442)

See accompanying notes.

1. Organization and Function of the Authority

The New Jersey Educational Facilities Authority (the "Authority"), a component unit of the State of New Jersey, was created under the provisions of Chapter 106 of New Jersey Public Laws of 1966 as a public body corporate and politic. The powers of the Authority permit the sale of notes, bonds and other obligations to support the construction, acquisition and equipping of educational facilities for public and private institutions of higher education in the State of New Jersey. The Authority is also authorized, pursuant to statutory amendments, to issue State supported bonds to fund matching grants to qualified public libraries for capital improvements. The obligations issued by the Authority are not guaranteed by, nor do they constitute a debt or obligation of, the State of New Jersey.

The Authority is exempt from both federal and state taxes.

2. Significant Accounting Policies

The accounts are maintained on the accrual basis of accounting in conformity with accounting principles generally accepted in the United States.

In its accounting and financial reporting, the Authority follows the pronouncements of the Governmental Accounting Standards Board (GASB).

Administrative Fees

The Authority charges administrative fees to its client institutions for which bond and note sales have been completed. Such fees are considered operating revenue and are charged for services related to the structuring and administration of Authority financings, investment management of bond proceeds, monitoring of financial performance and other project costs and services. These fees are recognized as earned. The fees are used to provide sufficient funds to ensure that the Authority's operating expenses will be met, and that sufficient reserves will be available to provide for the Authority's needs.

2. Significant Accounting Policies (continued)

Capital Assets

Capital assets, which consist of furniture and equipment, are carried at cost and depreciated over their useful lives using the straight-line method.

Recent Accounting Standard

In June 2011, GASB issued Statement No. 64, *Derivative Instruments; Application of Hedge Accounting Termination Provisions* ("GASB 64"). The objective of this Statement is to clarify GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*, as it applies to termination provisions when a counterparty of an interest rate or commodity swap is replaced. The provisions of this Statement are effective for financial statements for periods beginning after June 15, 2011. GASB 64 will not have an impact on the Authority.

In March 2012, GASB issued Statement No. 65, *Items Previously Reported as Assets and Liabilities* ("GASB 65"). The objective of this Statement is to either (a) properly classify certain items that were previously reported as assets and liabilities as deferred outflows of resources or deferred inflows of resources or (b) recognize certain items that were previously reported as assets and liabilities as outflows of resources (expenses or expenditures) or inflows of resources (revenues). The provisions of this Statement are effective for financial statements for periods beginning after December 15, 2012. The Authority has not completed the process of evaluating the impact that will result from adopting GASB 65.

In March 2012, GASB issued Statement No. 66, *Technical Corrections–2012* ("GASB 66"). The objective of this Statement is to improve accounting and financial reporting by state and local governmental entities by resolving conflicting guidance that resulted from the issuance of two pronouncements–Statements No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, and No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. The provisions of Statement are effective for financial statements for periods beginning after December 15, 2012. The Authority does not anticipate the implementation of GASB 66 will have an impact on its financial statements.

2. Significant Accounting Policies (continued)

In June 2012, GASB issued Statement No. 67, *Financial Reporting for Pension Plans* ("GASB 67"). The objective of this Statement is to improve the usefulness of pension information included in the general purpose external financial reports (financial reports) of state and local governmental pension plans for making decisions and assessing accountability. The provisions of this Statement are effective for financial statements for periods beginning after June 15, 2013. GASB 67 will not have an impact on the Authority.

In June 2012, GASB issued Statement No. 68, *Accounting and Financial Reporting for Pensions* ("GASB 68"). The objective of this Statement is to improve the information provided in government financial reports about pension-related financial support provided by certain nonemployer entities that make contributions to pension plans that are used to provide benefits to the employees of other entities. The provisions of this Statement are effective for financial statements for periods beginning after June 15, 2014. The Authority has not completed the process of evaluating the impact of GASB 68 on its financial statements.

3. Cash and Investments

At year-end, the Authority's bank balance was $85,247 all of which was covered by FDIC insurance.

The types of securities which are permitted investments for Authority funds are established by New Jersey Statutes. All funds of the Authority may be invested in obligations of, or guaranteed by, the United States Government. In addition, certain funds of the Authority may be invested in: obligations of agencies of the U.S. government; obligations of, or guaranteed by, the State of New Jersey; collateralized certificates of deposit and repurchase agreements; commercial paper; and other securities which shall be authorized for the investment of funds in the custody of the Treasurer of the State of New Jersey.

3. Cash and Investments (continued)

Investments of the Authority comprise the following:

	2012	2011
Investments:		
U.S. Treasury Bills	**$ 5,129,406**	$ 4,392,874
Money Market Mutual Fund	**1,197**	20,570
Total investments	**$ 5,130,603**	$ 4,413,444

In 2012 and 2011, the Authority had $1,197 and $20,570, respectively, invested in a money market mutual fund, which invests in short-term and other obligations of the U.S. Treasury. All investments are carried at fair value.

In accordance with Governmental Accounting Standards Board Statement No. 40, *Deposit and Investment Risk Disclosures* ("GASB 40"), the Authority has assessed the Custodial Credit Risk, the Concentration of Credit Risk, Credit Risk and Interest Rate Risk of its Cash and Investments.

(a) Custodial Credit Risk – The Authority's deposits are exposed to custodial credit risk if they are not covered by depository insurance and the deposits are: uncollateralized, collateralized with securities held by the pledging financial institution, or collateralized with securities held by the pledging financial institution's trust department or agent but not in the depositor-government's name. The deposit risk is that, in the event of the failure of a depository financial institution, the Authority will not be able to recover deposits or will not be able to recover collateral securities that are in the possession of an outside party. The Authority's investment securities are exposed to custodial credit risk if the securities are uninsured, are not registered in the name of the Authority and are held by either: the counterparty or the counterparty's trust department or agent but not in the Authority's name. The risk is that, in the event of the failure of the counterparty to a transaction, the Authority will not be able to recover the value of the investment or collateral securities that are in the possession of an outside party.

    At December 31, 2012 and 2011, the Authority's bank balances were not exposed to custodial credit risk since the full amount was covered by FDIC insurance.

3. Cash and Investments (continued)

As of December 31, 2012 and 2011, the Authority's investments consisted of U.S. Treasury Bills in the amount of $5,129,406 and $4,392,874, respectively. Since the investments are registered in the Authority's name they are not exposed to custodial credit risk. The Authority does not have a written policy for investment securities custodial credit risk but its practice has been to maintain a safekeeping account for the securities at a financial institution.

(b) Concentration of Credit Risk – This is the risk associated with the amount of investments the Authority has with any one issuer that exceed five percent of its total investments. Investments issued or explicitly guaranteed by the U.S. government and investments in mutual funds, external investment pools, and other pooled investments are excluded from this requirement. The Authority places no limit on the amount it may invest in any one issuer, but its practice has been to invest, almost exclusively, in U.S. Treasury Securities. At December 31, 2012 or 2011, the Authority was not exposed to a concentration of credit risk.

(c) Credit Risk – GASB 40 requires that disclosure be made as to the credit rating of all debt security investments except for obligations of the U.S. government or obligations explicitly guaranteed by the U.S. government. This is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. In general, the Authority does not have an investment policy regarding credit risk except to the extent previously outlined under the Authority's investment policy. The Authority's Money Market Mutual Fund is not rated.

(d) Interest Rate Risk – This is the risk that changes in interest rates will adversely affect the fair value of an investment. The Authority does not have a written policy that limits investment maturities as a means of managing its exposure to fair value losses arising from interest rate fluctuations, but the Authority does from time to time evaluate its investment portfolio to determine if, based on the interest rate environment, other investment vehicles would provide higher yields that lower the cost and risk. As of December 31, 2012, the U.S. Treasury Bills had maturities ranging from January 3, 2013 through July 25, 2013.

3. Cash and Investments (continued)

For the years ended December 31, 2012 and 2011, investment income comprised the following:

	2012	**2011**
Interest earnings	**$ 2,485**	$ 11,867
Net increase (decrease) in fair value of investments	**1,159**	(2,442)
	$ 3,644	$ 9,425

4. Retirement Plans

The Authority's employees participate in the Public Employees Retirement System of New Jersey (PERS), a cost sharing multiple-employer defined benefit plan. The Authority's contribution is determined by State statute and is based upon an actuarial computation performed by the PERS. All benefits are established by State statute. The Authority's required contribution and pension expense for the years ended December 31, 2012, 2011 and 2010 was $159,649, $148,697 and $119,824, respectively. Employees of the Authority also contribute a percentage of their wages to the pension system; the percentage range of contributions, as determined by PERS, was 6.64% effective July 2012, 6.5% effective October 2011 and 5.5% prior to that back to 2009.

The PERS is administered by the New Jersey Division of Pensions and Benefits. The Division issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to: State of New Jersey, Division of Pensions and Benefits, PO Box 295, Trenton, New Jersey, 08625-0295.

Employees hired after July 1, 2007 participate in PERS, the defined benefit plan, up to the annual maximum wage for social security. The employee contributions based on wages in excess of the annual maximum wage are contributed to the Defined Contribution Retirement Program (DCRP). The Authority contributes 3% to the participants' accounts on wages in excess of the social security limit.

In addition to the Plans noted above, employees may elect to make tax-deferred contributions to a 457 deferred compensation plan.

5. Postemployment Benefits Other Than Pension

The Authority, as permitted by Chapter 88, P.L. 1974 as amended by Chapter 436, P.L. 1981, provides postemployment medical benefits for eligible retired employees through participation in the New Jersey Health Benefits Program as sponsored and administered by the State of New Jersey. The Authority does not issue a publicly available financial report for the plan which for financial reporting purposes is considered a single employer defined benefit health care plan. Employees become eligible for these benefits upon retirement after 25 years of creditable service in the PERS.

Benefit provisions for the plan are established and amended by the Authority's Members, and there is no statutory requirement for the Authority to continue this plan for future Authority employees. The plan is a non-contributory plan with all payments for plan benefits being funded by the Authority.

The Authority applies the accounting provisions of GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions.* This statement establishes guidelines for reporting costs associated with "other postemployment benefits" (OPEB). OPEB costs are actuarially calculated based on benefits (other than pensions), that current and retired employees have accrued as a result of their respective years of employment service.

The Authority's annual OPEB cost for the plan is calculated based on the annual required contribution "ARC", an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal costs each year and to amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. The Authority's annual OPEB cost for the year ended December 31, 2012 and 2011 and the related information for the plan are as follows (dollar amounts in thousands):

	2012	**2011**
Annual required contribution	**$ 948**	$ 780
Interest on the net OPEB obligation	**31**	9
Amortization of the Net OPEB Obligation	**(811)**	(227)
Increase in net OPEB obligation	**168**	562
Net OPEB obligation – beginning of year	**780**	218
Net OPEB obligation – end of year	**$ 948**	$ 780

5. Postemployment Benefits Other Than Pension (continued)

The Authority's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan and the net OPEB obligations for fiscal years 2009 through 2012 were as follows (dollar amounts in thousands):

Fiscal Year Ended	Annual OPEB Cost (Benefit)	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
December 31, 2012	$ 168	0.00%	$ 948
December 31, 2011	562	0.00%	780
December 31, 2010	120	0.00%	218

In April 2008, the Authority established and funded an irrevocable trust in the amount of $2,000,000 to pay for the employee postemployment medical benefits. At December 31, 2012 and 2011, the fair value of this trust fund was $1,851,610 and $1,921,510, respectively. As of December 31, 2012 and 2011, the actuarial liability for benefits was $2,799,610 and $2,701,510, respectively, which, due to the establishment of the trust, is now approximately 66% funded. The difference of 34% is reported as a liability on the Authority's books.

The most recent actuarial valuation date is January 1, 2011. Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events in the future. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future. The required schedule of funding progress presented as required supplementary information provides multiyear trend information that shows whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

Projections of benefits are based on the substantive plan (the plan understood by the employer and plan members) and include the types of benefits in force at the valuation date and the pattern of sharing benefit costs between the Authority and the plan members to that point. Actuarial calculations reflect a long-term perspective and employ methods and assumptions that are designed to reduce short-term volatility in actuarial liabilities and the actuarial value of assets.

5. Postemployment Benefits Other Than Pension (continued)

For the January 1, 2011 actuarial valuation, the Authority continued to use the actuarial assumptions of a 4% discount rate and an annual healthcare cost trend rate of 9% grading down to an ultimate rate of 5% in 2021.

At December 31, 2012, the Plan had 19 participants of which 14 were active employees and 5 were retirees. Of the Plan participants, 5 retirees and 0 active employees were eligible to receive benefits.

6. Conduit Debt

Due to the fact that the bonds and notes issued by the Authority are nonrecourse conduit debt obligations of the Authority, the Authority has, in effect, none of the risks and rewards of the related financings. Accordingly, with the exception of certain fees generated as a result of the financing transaction, the financing transaction is given no accounting recognition in the accompanying financial statements. At December 31, 2012, the amount of conduit debt outstanding totaled $5,436,335,251.

7. Commitments and Contingencies

The Authority has an operating lease commitment for its offices at an annual rental of approximately $218,212 through December 31, 2016.

The Authority, in the normal course of business, is involved in various legal matters. Under the terms of the agreements between the Authority and the public and private institutions of higher education, any costs associated with litigation are the obligation of the institution involved. It is the opinion of the Authority after consultation with legal counsel that its financial position will not be adversely affected by the ultimate outcome of any existing legal proceedings.

8. Net Position

The Authority's net position represents the excess of assets over liabilities and is categorized as follows:

- **Invested in Capital Assets** are the amounts expended by the Authority for the acquisition of capital assets, net of accumulated depreciation.

8. Net Position (continued)

- **Unrestricted** is the remaining net position, which can be further categorized as designated or undesignated. The designated position is not governed by statute or contract but is committed for specific purposes pursuant to Authority policy and/or directives. The designated position includes funds and assets committed to working capital.

Changes in Net Position

The changes in net position are as follows:

	Invested in Capital Assets	Unrestricted	Total
Net position at December 31, 2010	$ 140,939	$ 10,931,431	$ 11,072,370
Net position change	–	(7,477,213)	(7,477,213)
Capital asset additions	12,771	(12,771)	–
Depreciation	(43,570)	43,570	–
Net position at December 31, 2011	110,140	3,485,017	3,595,157
Net position change	**–**	**1,060,153**	**1,060,153**
Capital asset additions	**6,488**	**(6,488)**	**–**
Depreciation	**(35,138)**	**35,138**	**–**
Net position at December 31, 2012	**$ 81,490**	**$ 4,573,820**	**$ 4,655,310**

Required Supplementary Information

New Jersey Educational Facilities Authority
(A Component Unit of the State of New Jersey)

Required Supplementary Information

Schedule of Funding Progress for the Retiree Healthcare Plan
(Dollars in Thousands)

Actuarial Valuation Date	**Actuarial Value of Assets (a)**	**Actuarial Accrued Liability (AAL) – Level Dollar (b)**	**Unfunded AAL (UAAL) (b-a)**	**Funded Ratio (a/b)**	**Covered Payroll (c)**	**UAAL as a Percentage of Covered Payroll (b-a)/c**
January 1, 2011	$ 1,966	$ 2,591	$ 625	76%	$ 1,110	56%
January 1, 2008	–	1,826	1,826	–	1,415	129
January 1, 2006	–	2,090	2,090	–	1,269	165

Note: In April 2008, the Authority established and funded an irrevocable trust in the amount of $2 million. At December 31, 2012, the fair value of this trust was $1,851,610.

Supplemental Financial Information

New Jersey Educational Facilities Authority
(A Component Unit of the State of New Jersey)

Balance Sheets – Trustee Held Funds

	December 31	
	2012	**2011**
Assets		
Cash	**$ –**	$ 239
Investments, principally U.S. Government obligations	**415,449,237**	607,660,532
Accrued interest receivable	**22,344**	35,639
Due from colleges and universities	**3,144,000**	4,666,059
Loans and leases receivable	**5,391,380,667**	5,536,499,456
	$ 5,809,996,248	$ 6,148,861,925
Liabilities		
Accounts payable and accrued expenses	**$ 12,355,881**	$ 35,642,172
Accrued interest payable	**105,986,445**	115,383,601
Bonds and notes payable	**5,436,335,251**	5,581,781,540
Funds held in trust	**255,318,671**	416,054,612
	$ 5,809,996,248	$ 6,148,861,925

The accompanying notes to supplemental financial statements are an integral part of this statement.

New Jersey Educational Facilities Authority
(A Component Unit of the State of New Jersey)

Statements of Changes in Trustee Held Funds

	Year Ended December 31	
	2012	**2011**
Funds held in trust at beginning of year	**$ 416,054,612**	$ 549,554,797
Additions:		
Proceeds from sale of bonds and issuance of notes:		
Par amount	**240,620,000**	370,033,000
Bond premium (discount), net	**15,240,523**	21,099,221
Annual loan and rental requirements	**426,198,785**	417,669,848
Investment income	**3,464,656**	1,938,789
U.S. Government debt service subsidies	**1,874,814**	1,758,840
Change in investment valuation reserve	**(115,562)**	(298,012)
Total additions	**687,283,216**	812,201,686
Deductions:		
Debt service:		
Interest	**248,101,741**	255,769,946
Principal	**176,374,142**	165,386,877
Project costs	**260,601,859**	421,854,266
Issuance costs	**1,835,137**	1,994,418
Administrative fees	**3,385,740**	3,353,044
College and university contributions returned	**360,257**	3,449,309
Transfers to escrow accounts for defeasance of refunded issues	**157,360,281**	93,894,011
Total deductions	**848,019,157**	945,701,871
Decrease in funds held in trust	**(160,735,941)**	(133,500,185)
Funds held in trust at end of year	**$ 255,318,671**	$ 416,054,612

The accompanying notes to supplemental financial statements are an integral part of this statement.

1. Introduction

Under the terms of the Authority's enabling legislation, the Authority has the power to issue bonds and notes on behalf of public and private institutions of higher education in the State of New Jersey. The obligations issued by the Authority are conduit debt and are not guaranteed by, nor do they constitute a debt or obligation of, the State of New Jersey.

Because the bonds and notes issued by the Authority are nonrecourse conduit debt obligations of the Authority, the Authority has, in effect, none of the risks and rewards of the related financings. The supplemental financial statements presented herein include information pertaining to funds held by Trustees of the various bond and note issuances of the Authority.

2. Significant Accounting Policies

The Trustee Held Funds as presented is an agency fund and as such is custodial in nature and does not present results of operations and utilizes the accrual basis of accounting.

3. Funds Held in Trust

Funds held in trust include amounts in the construction, debt service and debt service reserve funds and the renewal and replacement accounts established for each bond issue. Balances maintained in the construction funds represent unexpended proceeds allocated for specific projects; the debt service fund, debt service reserve fund, and renewal and replacement account balances represent amounts reserved for payment of debt service and the renewal and replacement of major components of projects as required by the provisions of the various series resolutions. The following is a schedule of the aggregate funds held in trust as of December 31, 2012 and 2011:

	2012	**2011**
Construction funds	**$ 180,265,008**	$ 327,129,535
Debt service funds	**2,572,503**	1,567,489
Debt service reserve funds	**65,808,789**	80,653,538
Renewal and replacement accounts	**6,672,371**	6,704,050
	$ 255,318,671	$ 416,054,612

4. Cash and Investments

Investments permitted in the Trustee Held Funds are authorized by the respective Bond Resolutions. All funds held by the trustees may be invested in obligations of, or guaranteed by, the United States Government. In addition, certain funds may be invested in: obligations of agencies of the U.S. government; obligations of, or guaranteed by, the State of New Jersey; collateralized certificates of deposit and repurchase agreements; commercial paper; and other securities which shall be authorized for the investment of funds in the custody of the Treasurer of the State of New Jersey.

Investments held by trustees are carried at fair value and comprise the following:

	2012	2011
Investments:		
Collateralized investment agreements	**$ 2,475,000**	$ 2,481,000
Variable rate demand obligations	**5,900,000**	–
U.S. Treasury and agency obligations*	**407,074,237**	605,179,532
Total investments	**$ 415,449,237**	$ 607,660,532

* Includes $144,204,847 and $135,451,303 of investments in pooled U.S. Treasury funds at December 31, 2012 and 2011, respectively, which are uncategorized.

5. Loans and Leases Receivable

Since its inception, the Authority has issued obligations of $13,276,995,299 and $13,036,375,299 as of December 31, 2012 and 2011, respectively, for the benefit of various public and private institutions of higher education. The obligations are secured by loans, mortgages, leases and other agreements, the terms of which generally correspond to the amortization of the related bond issues.

The loans and mortgages are secured by revenues produced by the facilities and by other legally available funds of the institutions. The Authority is the owner of those projects under lease agreements. It is the intention of the Authority to transfer title in the projects at the expiration of the leases. Accordingly, the leases are being accounted for as financing transactions.

5. Loans and Leases Receivable (continued)

Restricted fund receivables comprise the following:

	December 31	
	2012	**2011**
Loans:		
Institute for Advanced Study	**$ 52,915,000**	$ 54,970,000
Princeton University	**1,796,772,500**	1,818,577,500
Mortgages:		
Caldwell College	**17,605,000**	18,335,000
Centenary College	**36,184,066**	37,245,341
College of Saint Elizabeth	**21,790,000**	22,390,000
Drew University	**68,458,571**	68,494,915
Fairleigh Dickinson University	**90,877,249**	94,589,315
Felician College	**7,775,000**	8,400,000
Georgian Court University	**27,046,916**	27,955,705
Institute for Defense Analyses	**12,680,000**	13,185,000
New Jersey Institute of Technology	**75,427,500**	137,885,000
Princeton Theological Seminary	**98,750,000**	102,435,000
Rider University	**50,247,500**	46,455,000
Saint Peter's College	**39,211,471**	41,169,728
Seton Hall University	**104,547,917**	111,975,416
Stevens Institute of Technology	**75,102,500**	76,557,500
University of Medicine and Dentistry of New Jersey	**252,045,000**	258,075,000
Leases:		
Kean University	**344,452,739**	353,592,231
Montclair State University	**333,135,000**	342,705,000
New Jersey City University	**129,355,000**	131,887,500
Passaic County Community College	**13,512,500**	13,635,000
Ramapo College of New Jersey	**263,650,000**	227,575,000
Rowan University (formerly Glassboro State College)	**293,787,500**	304,832,500
Thomas Edison State College	**9,970,238**	10,642,805
The College of New Jersey	**353,810,000**	360,825,000
The Richard Stockton College of New Jersey	**237,489,000**	243,336,500
The William Paterson University of New Jersey	**169,752,500**	157,587,500
Higher Education Capital Improvement Fund	**358,095,000**	384,265,000
County College Capital Projects Fund	**4,475,000**	6,575,000
Dormitory Safety Trust Fund	**23,240,000**	28,880,000
Library Grant Program	**29,220,000**	31,465,000
	$ 5,391,380,667	$ 5,536,499,456

6. Bonds, Notes and Leases Payable

Bonds, notes and leases payable comprise the following:

Issue	Original Issue Amount	Final Maturity Date	Net Effective Interest Rate	Amount Outstanding December 31 2012	2011
Bonds Payable					
Caldwell College:					
2006 Series F	$ 21,400,000	7/1/2032	Variable	**$ 17,605,000**	$ 18,335,000
Centenary College:					
2003 Series A	14,775,000	10/1/2033	Variable	**9,445,000**	9,975,000
2006 Series J	9,154,113	11/1/2036	Variable	**8,649,113**	8,787,863
2007 Series B	4,784,617	11/1/2036	Variable	**4,424,953**	4,508,478
2010 Series D	13,974,000	1/1/2041	Variable	**13,665,000**	13,974,000
Drew University:					
2003 Series C	20,855,000	7/1/2021	3.888%	**14,975,000**	14,975,000
2007 Series D	29,135,000	7/1/2037	4.601%	**26,880,000**	26,970,000
2008 Series B	10,765,000	7/1/2017	4.234%	**7,635,000**	8,935,000
2008 Series I	40,000,000	6/25/2018	Variable	**11,938,282**	11,562,302
2010 Series C	15,580,000	6/1/2024	Variable	**7,760,289**	6,747,613
Dormitory Safety Trust Fund:					
Series 2001 A	67,970,000	3/1/2016	4.239%	**19,420,000**	24,275,000
Series 2001 B – taxable	5,800,000	3/1/2016	6.117%	**1,650,000**	2,065,000
Series 2003 A	5,440,000	3/1/2018	3.752%	**2,170,000**	2,540,000
Fairleigh Dickinson University:					
2002 Series D	63,650,000	7/1/2032	6.114%	**54,100,000**	55,505,000
2004 Series C	35,285,000	7/1/2023	5.534%	**25,555,000**	27,225,000
2006 Series G	14,505,000	7/1/2028	4.954%	**12,250,000**	12,745,000
2006 Series H	2,147,554	7/1/2027	4.954%	**859,749**	899,315
Felician College:					
2006 Series I	11,445,000	11/1/2022	4.749%	**7,830,000**	8,450,000
Georgian Court University:					
1998 Series, Project B	6,455,000	7/1/2015	4.198%	**655,000**	850,000
2003 Series, Project C	15,215,000	7/1/2033	5.991%	**315,000**	615,000
2007 Series D	26,980,000	7/1/2037	5.022%	**25,735,000**	26,070,000
2007 Series H	1,050,000	10/1/2022	5.296%	**776,916**	835,705

6. Bonds, Notes and Leases Payable (continued)

Issue	Original Issue Amount	Final Maturity Date	Net Effective Interest Rate	Amount Outstanding December 31 2012	2011
Bonds Payable (continued)					
Higher Education Capital Improvement Fund:					
Series 2000 A	$ 132,800,000	9/1/2020	5.242%	**$ –**	$ 6,795,000
Series 2000 B	145,295,000	9/1/2020	5.003%	**–**	7,595,000
Series 2002 A	194,590,000	9/1/2022	4.599%	**3,890,000**	11,470,000
Series 2004 A	76,725,000	9/1/2024	4.352%	**33,875,000**	37,215,000
Series 2005 A	169,790,000	9/1/2019	4.121%	**168,030,000**	168,310,000
Series 2006 A	155,460,000	9/1/2024	4.421%	**152,300,000**	152,880,000
Institute for Advanced Study:					
2001 Series A	11,000,000	7/1/2031	5.101%	**1,940,000**	2,215,000
2006 Series B	29,600,000	7/1/2031	3.990%	**27,500,000**	28,400,000
2006 Series C	20,000,000	7/1/2036	Variable	**18,000,000**	18,400,000
2008 Series C	11,255,000	7/1/2021	3.619%	**5,475,000**	5,955,000
Institute for Defense Analyses:					
2000 Series D	16,695,000	10/1/2030	Variable	**12,680,000**	13,185,000
Kean University:					
Series 1998 B	25,995,000	7/1/2027	4.872%	**5,345,000**	5,805,000
Series 2003 D	75,000,000	7/1/2033	4.811%	**9,885,000**	11,615,000
Series 2005 B	101,915,000	7/1/2037	4.681%	**20,945,000**	23,145,000
Series 2007 D	117,795,000	7/1/2039	4.553%	**112,055,000**	114,040,000
Series 2009 A	179,380,000	9/1/2036	6.404%	**179,380,000**	179,380,000
Library Grant Program:					
Series 2002 A	45,000,000	9/1/2022	4.560%	**29,220,000**	31,465,000
Montclair State University:					
Series 2002 F	78,500,000	7/1/2032	4.489%	**20,125,000**	22,375,000
Series 2003 E	23,425,000	7/1/2033	4.445%	**18,100,000**	18,100,000
Series 2003 L	94,540,000	7/1/2034	4.541%	**25,645,000**	27,800,000
Series 2006 A	98,090,000	7/1/2036	4.816%	**88,705,000**	90,650,000
Series 2006 B	9,970,000	7/1/2012	4.133%	**–**	2,180,000
Series 2006 J	154,110,000	7/1/2034	4.300%	**153,595,000**	154,110,000
Series 2007 A	6,150,000	7/1/2021	4.022%	**5,050,000**	5,475,000
Series 2008 J	27,545,000	7/01/2038	5.100%	**26,480,000**	27,020,000

6. Bonds, Notes and Leases Payable (continued)

Issue	Original Issue Amount	Final Maturity Date	Net Effective Interest Rate	Amount Outstanding December 31 2012	2011
Bonds Payable (continued)					
New Jersey City University:					
Series 2002 A	$ 15,115,000	7/1/2032	4.949%	**$ 1,175,000**	$ 1,535,000
Series 2003 B	2,300,000	7/1/2018	5.659%	**1,400,000**	1,600,000
Series 2007 F	17,910,000	7/1/2032	4.337%	**16,955,000**	17,220,000
Series 2008 E	68,445,000	7/1/2035	4.763%	**62,625,000**	64,165,000
Series 2008 F	6,175,000	7/1/2036	7.039%	**6,175,000**	6,175,000
Series 2010 F	24,065,000	7/1/2028	3.313%	**24,065,000**	24,065,000
Series 2010 G	18,310,000	7/1/2040	4.062% **	**18,310,000**	18,310,000
New Jersey Institute of Technology:					
Series 2001 H – taxable	12,570,000	7/1/2016	6.259%	**4,530,000**	5,505,000
Series 2004 B	73,530,000	7/1/2025	4.016%	**–**	63,180,000
Series 2010 H	50,965,000	7/1/2031	4.280%	**50,965,000**	50,965,000
Series 2010 I	20,450,000	7/1/2040	4.304% **	**20,450,000**	20,450,000
Passaic County Comm College					
Series 2010 C	13,635,000	7/1/2041	5.355%	**13,635,000**	13,635,000
Princeton Theological Seminary:					
2002 Series G	26,125,000	7/1/2032	4.824%	**22,250,000**	25,360,000
2009 Series B	14,435,000	12/1/2032	2.878%	**11,760,000**	12,655,000
2010 Series A	68,785,000	7/1/2030	3.745%	**63,615,000**	66,230,000
Princeton University:					
2003 Series D	114,495,000	7/1/2019	3.727%	**66,865,000**	72,620,000
2003 Series E	112,510,000	7/1/2028	3.944%	**51,040,000**	54,555,000
2004 Series D	175,000,000	7/1/2029	4.497%	**23,410,000**	28,525,000
2005 Series A	139,590,000	7/1/2030	4.405%	**129,960,000**	133,320,000
2005 Series B	114,645,000	7/1/2035	4.236%	**73,970,000**	76,405,000
2006 Series D	74,290,000	7/1/2031	4.391%	**64,665,000**	66,785,000
2006 Series E	93,285,000	7/1/2027	4.504%	**92,110,000**	92,245,000
2007 Series E	325,000,000	7/1/2037	4.534%	**295,525,000**	301,865,000
2007 Series F	67,620,000	7/1/2030	4.392%	**67,145,000**	67,265,000
2008 Series J	250,000,000	7/1/2038	4.391%	**236,230,000**	241,000,000
2008 Series K	208,805,000	7/1/2023	4.356%	**161,755,000**	174,235,000
2010 Series B	250,000,000	7/1/2040	4.034%	**245,475,000**	250,000,000
2011 Series B	250,000,000	7/1/2041	4.087%	**250,000,000**	250,000,000

6. Bonds, Notes and Leases Payable (continued)

Issue	Original Issue Amount	Final Maturity Date	Net Effective Interest Rate	Amount Outstanding December 31 2012	Amount Outstanding December 31 2011
Bonds Payable (continued)					
Ramapo College of New Jersey:					
Series 1998 G	$ 16,845,000	7/1/2028	4.832%	**$ –**	$ 7,685,000
Series 2002 H	28,655,000	7/1/2032	4.485%	**–**	14,695,000
Series 2002 I	2,145,000	7/1/2032	4.485%	**–**	1,050,000
Series 2002 J	29,620,000	7/1/2032	4.485%	**–**	15,195,000
Series 2003 F	1,820,000	7/1/2013	3.257%	**255,000**	495,000
Series 2003 G	9,300,000	7/1/2013	3.110%	**800,000**	1,575,000
Series 2003 H	18,930,000	7/1/2029	4.346%	**16,705,000**	17,365,000
Series 2004 E	53,980,000	7/1/2034	4.630%	**12,395,000**	13,140,000
Series 2006 D	49,085,000	7/1/2036	4.521%	**33,845,000**	34,925,000
Series 2006 I	106,820,000	7/1/2036	4.417%	**105,490,000**	105,835,000
Series 2011 A	19,090,000	7/1/2021	3.325%	**17,470,000**	19,090,000
Series 2012 B	80,670,000	7/1/2042	3.689%	**80,670,000**	–
Rider University:					
2002 Series A	27,560,000	7/1/2017	4.709%	**–**	13,960,000
2004 Series A	14,735,000	7/1/2034	5.301%	**–**	13,075,000
2007 Series C	22,000,000	7/1/2037	5.172%	**–**	20,830,000
2012 Series A	52,020,000	7/1/2037	3.741%	**52,020,000**	–
Rowan University (formerly Glassboro State College):					
Series 1983 D	3,500,000	7/1/2013	3.000%	**180,000**	355,000
Series 2002 K	14,920,000	7/1/2033	4.866%	**–**	340,000
Series 2003 I	64,910,000	7/1/2030	4.714%	**1,955,000**	3,815,000
Series 2004 C	61,275,000	7/1/2034	4.697%	**4,525,000**	6,655,000
Series 2005 D	51,840,000	7/1/2030	4.532%	**47,525,000**	49,280,000
Series 2006 G	69,405,000	7/1/2031	4.362%	**63,585,000**	65,090,000
Series 2007 B	121,355,000	7/1/2034	4.266%	**117,340,000**	118,650,000
Series 2008 B	35,205,000	7/1/2027	4.839%	**35,205,000**	35,205,000
Series 2011 C	30,045,000	7/1/2025	3.705%	**28,410,000**	30,045,000

6. Bonds, Notes and Leases Payable (continued)

Issue		Original Issue Amount	Final Maturity Date	Net Effective Interest Rate	Amount Outstanding December 31 2012	Amount Outstanding December 31 2011
Bonds Payable (continued)						
Saint Peter's University (formerly Saint Peter's College):						
2007 Series G	$	36,053,465	7/1/2027	4.217%	**$ 36,053,466**	$ 36,053,466
2007 Series I		3,848,462	1/1/2013	3.925%	**125,705**	1,608,462
2008 Series H		5,000,000	7/1/2018	3.925%	**3,032,300**	3,507,800
Seton Hall University:						
2008 Series D		49,760,000	7/1/2037	Variable	**46,960,000**	47,940,000
2008 Series E		24,340,000	7/1/2037	6.127%	**23,485,000**	23,925,000
2009 Series C		7,955,000	9/1/2036	6.404%	**7,675,000**	7,800,000
2011 Series A		35,470,000	7/1/2026	2.997%	**29,695,000**	35,470,000
Stevens Institute of Technology:						
1998 Series I		17,000,000	7/1/2028	5.109%	**5,330,000**	5,665,000
2007 Series A		71,060,000	7/1/2034	4.977%	**71,060,000**	71,060,000
The College of New Jersey:						
Series 2002 C		53,155,000	7/1/2019	4.480%	**–**	33,070,000
Series 2008 D		287,790,000	7/1/2035	5.086%	**284,790,000**	285,790,000
Series 2010 A		3,410,000	7/1/2015	2.411%	**3,348,000**	3,410,000
Series 2010 B		41,090,000	7/1/2040	4.748%**	**40,337,000**	41,090,000
Series 2012 A		26,255,000	7/1/2019	1.637%	**26,255,000**	–
The College of Saint Elizabeth:						
2008 Series F		24,090,000	7/1/2036	Variable	**21,790,000**	22,390,000
The Richard Stockton College of New Jersey:						
Series 1988 A		3,294,000	7/1/2016	3.000%	**544,000**	689,000
Series 2005 F		28,180,000	7/1/2028	4.458%	**21,845,000**	22,800,000
Series 2006 F		50,365,000	7/1/2036	4.460%	**47,235,000**	48,320,000
Series 2007 G		40,250,000	7/1/2037	4.500%	**37,450,000**	38,300,000
Series 2008 A		136,910,000	7/1/2038	5.309%	**133,390,000**	136,100,000
Thomas Edison State College:						
Series 2011 D		8,000,000	10/1/2031	3.516%	**8,000,000**	8,000,000

6. Bonds, Notes and Leases Payable (continued)

Issue	Original Issue Amount	Final Maturity Date	Net Effective Interest Rate	Amount Outstanding December 31 2012	2011
Bonds Payable (continued)					
University of Medicine and Dentistry of New Jersey:					
Series 2009 B	$ 258,075,000	12/1/2032	7.472%	**$ 252,045,000**	$ 258,075,000
The William Paterson University of New Jersey:					
Series 2002 E	42,125,000	7/1/2027	4.714%	**–**	15,455,000
Series 2004 A	30,035,000	7/1/2028	4.131%	**2,300,000**	21,855,000
Series 2005 E	42,295,000	7/1/2030	4.546%	**37,580,000**	39,030,000
Series 2008 C	88,670,000	7/1/2038	4.724%	**82,235,000**	84,150,000
Series 2012 C	33,815,000	7/1/2042	2.955%	**33,815,000**	–
Series 2012 D	21,860,000	7/1/2028	2.489%	**17,290,000**	–
Notes Payable					
Princeton University:					
Various Commercial Paper	120,000,000*	N/A	Variable	**46,100,000**	17,570,000
Leases Payable					
Kean University	916,666	6/1/2014	4.064%	**50,239**	169,731
Kean University	10,000,000	7/1/2020	3.140%	**7,750,000**	8,750,000
Kean University	15,000,000	2/15/2021	2.820%	**12,375,000**	13,875,000
Thomas Edison State College	1,800,000	3/8/2012	3.647%	**–**	38,708
Thomas Edison State College	2,700,000	9/28/2022	Variable	**764,235**	1,151,388
Thomas Edison State College	700,000	9/14/2015	2.370%	**395,232**	532,691
Thomas Edison State College	948,000	7/1/2019	2.427%	**810,772**	920,018
Treasurer, State of New Jersey, Series 1999 A	19,295,000	9/1/2014	4.705%	**840,000**	1,225,000
Essex County, Series 1999 C	4,570,000	9/1/2014	5.177%	**800,000**	1,180,000
Hudson County, Series 1999 D	7,750,000	9/1/2014	5.177%	**1,360,000**	2,000,000
Middlesex County, Series 1999 E	4,370,000	9/1/2014	5.053%	**770,000**	1,130,000
Passaic County, Series 1999 F	2,015,000	9/1/2014	5.125%	**350,000**	515,000
Hudson County Community College (Chapter 78), Series 1999 G	2,035,000	9/1/2014	5.177%	**355,000**	525,000
				$ 5,436,335,251	$ 5,581,781,540

* Maximum authorized amount.
** Build America Bond

6. Bonds, Notes and Leases Payable (continued)

The minimum aggregate principal maturities for each of the following five year periods are as follows:

2013 – 2017	$ 1,091,715,790
2018 – 2022	1,260,339,389
2023 – 2027	1,120,621,071
2028 – 2032	1,029,112,492
2033 – 2037	632,872,445
2038 – Thereafter	301,674,064
	$ 5,436,335,251

7. Refunded Bond Issues

When conditions have warranted, the Authority has sold various issues of bonds to provide for the refunding of previously issued obligations.

The proceeds received from the sales of the bond issues were used to refund currently the outstanding bond issues or to deposit in an irrevocable escrow fund held by the Escrow Agent, an amount which, when combined with interest earnings thereon, is at least equal to the sum of the outstanding principal amount of the bonds, the interest to accrue thereon to and including the first optional redemption date thereof, and the premium required to redeem the bonds outstanding on such date. Accordingly, the trust account assets and the liability for defeased bonds are not included in the Authority's financial statements.

Certain transactions defeased the outstanding bond issues with a resultant reduction in annual debt service during the term of the issues. The debt service savings, together with any accounting gain or loss that will be deferred, accrue to the respective institutions.

7. Refunded Bond Issues (continued)

Refunded bonds outstanding at December 31, 2012 comprise the following:

Issue	Principal Amount Outstanding December 31, 2012	Refunded Issues: Principal Amount Refunded	Refunded Issues: Call Date	Debt Service Savings	Refunding Issues: Date of Issuance	Refunding Issues: Issue	Refunding Issues: Original Amount of Issue
Higher Educational Capital Improvement Fund							
Series 2002 A	$ –	$ 41,850,000	9/1/2012	$ 5,080,385	8/10/2005	Series 2005 A	$ 169,790,000
Princeton University							
2003 Series E	25,000,000	25,000,000	7/1/2013	4,243,735	4/12/2005	2005 Series A	139,590,000
2004 Series D	31,470,000	31,470,000	7/1/2014				
The William Paterson University of New Jersey							
Series 2002 E	–	11,305,000	7/1/2012	1,420,584	11/10/2005	Series 2005 E	42,295,000
Princeton University							
2003 Series E	5,950,000	5,950,000	7/1/2013	2,755,549	8/10/2006	2006 Series E	45,500,000
2004 Series D	49,045,000	49,045,000	7/1/2014				
2005 Series B	7,820,000	7,820,000	7/1/2015				
Rowan University							
Series 2002 K	–	4,805,000	7/1/2012	738,003	11/16/2006	Series 2006 G	69,405,000
Series 2003 I	17,225,000	17,385,000	7/1/2013				
Higher Education Capital Improvement Fund							
Series 2002 A	–	102,810,000	9/1/2012	4,438,363	10/26/2006	Series 2006 A	155,460,000
Series 2004 A	22,760,000	22,760,000	9/1/2014				
Ramapo College of New Jersey							
Series 2002 H	–	8,795,000	7/1/2012	3,510,943	11/28/2006	Series 2006 I	106,820,000
Series 2002 I	–	615,000	7/1/2012				
Series 2002 J	–	8,835,000	7/1/2012				
Series 2004 E	40,300,000	40,300,000	7/1/2014				
Series 2006 D	11,145,000	11,145,000	7/1/2016				
Montclair State University							
Series 2002 F	43,775,000	56,125,000	7/1/2015	6,194,157	12/14/2006	Series 2006 J	154,110,000
Series 2003 L	55,500,000	64,290,000	7/1/2014				
New Jersey City University							
Series 2002 A	–	11,785,000	7/1/2012	696,503	4/4/2007	Series 2007 F	17,910,000
Kean University							
Series 2003 D	54,420,000	60,395,000	7/1/2013	14,985,307	4/13/2007	Series 2007 E	156,240,000
Series 2005 B	71,035,000	77,530,000	7/1/2016				

7. Refunded Bond Issues (continued)

Issue	Principal Amount Outstanding December 31, 2012	Refunded Issues: Principal Amount Refunded	Refunded Issues: Call Date	Debt Service Savings	Refunding Issues: Date of Issuance	Refunding Issues: Issue	Refunding Issues: Original Amount of Issue
Stevens Institute of Technology							
1998 Series I	$ 4,570,000	$ 6,050,000	No Call	$ N/A*	8/2/2007	2007 Series A	$ 71,060,000
2002 Series C	43,740,000	49,355,000	7/1/2013				
2004 Series B	11,535,000	12,825,000	7/1/2014				
Princeton University							
2003 Series E	4,270,000	4,270,000	7/1/2013	2,361,004	6/19/2007	2007 Series F	67,620,000
2004 Series D	36,805,000	36,805,000	7/1/2014				
2005 Series A	2,095,000	2,095,000	7/1/2015				
2005 Series B	17,625,000	17,625,000	7/1/2015				
Rowan University							
Series 2002 K	–	8,340,000	7/1/2012	4,465,765	4/5/2007	Series 2007 B	121,355,000
Series 2003 I	32,930,000	35,615,000	7/1/2013				
Series 2004 C	47,905,000	51,595,000	7/1/2014				
Georgian Court University							
2003 Series, Project C	12,790,000	13,585,000	7/1/2013	1,034,788	7/19/2007	2007 Series D	26,980,000
Drew University							
2003 Series C	820,000	2,390,000	7/1/2013	N/A*	11/15/2010	2010 Series C	15,580,000
2007 Series D	435,000	1,255,000	7/1/2013				
Ramapo College of NJ							
Series 2002 H	–	1,550,000	7/1/2012	424,713	5/10/2011	Series 2011 A	19,090,000
Series 2002 I	–	110,000	7/1/2012				
Series 2002 J	–	1,600,000	7/1/2012				
Rider University							
2002 Series A	–	13,960,000	7/1/2012	2,797,196	4/4/2012	2012 Series A	52,020,000
2004 Series A	12,760,000	13,075,000	7/1/2014				
2007 Series C	–	20,830,000	7/1/2012				
The College of New Jersey							
Series 2002 C	–	33,070,000	7/1/2012	3,649,960	4/5/2012	Series 2012 A	26,255,000
New Jersey Institute of Technology Series 2004 B	59,725,000	59,725,000	1/1/2014	N/A**			
Ramapo College of NJ							
Series 1998 G	–		7/31/2012	3,156,553	6/20/2012	Series 2012 B	80,670,000
Series 2002 H	–		7/31/2012				
Series 2002 I	–		7/31/2012				
Series 2002 J	–		7/31/2012				

7. Refunded Bond Issues (continued)

Issue	Principal Amount Outstanding December 31, 2012	Refunded Issues: Principal Amount Refunded	Refunded Issues: Call Date	Debt Service Savings	Refunding Issues: Date of Issuance	Refunding Issues: Issue	Refunding Issues: Original Amount of Issue
The William Paterson University of New Jersey Series 2002 E	$ –	$ 14,330,000	12/5/2012	$ 2,797,672	10/30/2012	Series 2012 C	$ 33,815,000
The William Paterson University of New Jersey Series 2004 A	18,240,000	18,240,000	7/1/2014	1,784,731	10/30/2012	Series 2012 D	17,290,000
Rowan University Series 2001 C	–	37,140,000	7/1/2011	3,831,495	5/25/2011	Series 2011 C	30,045,000

* Debt restructuring

**Not NJEFA refunding bonds

Ernst & Young LLP
99 Wood Avenue South
Iselin, NJ 08830-0471
Tel: +1 732 516 4200
www.ey.com

Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of the Financial Statements Performed in Accordance with *Government Auditing Standards*

To Management and the Members of the
New Jersey Educational Facilities Authority

We have audited, in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, which comprise the statement of financial position as of and for the years ended December 31, 2012, and the related consolidated statements of activities, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated March 12, 2013.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Authority's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of the Authority's 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 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 Authority's 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 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.

Ernst + Young LLP

March 12, 2013

Ernst & Young LLP

Assurance | Tax | Transactions | Advisory

About Ernst & Young
Ernst & Young is a global leader in assurance, tax, transaction and advisory services. Worldwide, our 167,000 people are united by our shared values and an unwavering commitment to quality. We make a difference by helping our people, our clients and our wider communities achieve their potential.

For more information, please visit www.ey.com