State of Connecticut Health and Educational Facilities Authority *(A Component Unit of the State of Connecticut)*

Management's Discussion and Analysis,
Independent Auditors' Report, Financial Statements and Exhibits

As of and for the Years Ended
June 30, 2012 and 2011

SLB | Saslow Lufkin & Buggy, LLP
Certified Public Accountants and Consultants

State of Connecticut Health and Educational Facilities Authority
(A Component Unit of the State of Connecticut)
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State of Connecticut Health and Educational Facilities Authority
Management's Discussion and Analysis
As of and for the Years Ended June 30, 2012 and 2011
(Amounts Expressed in Thousands)

This Management's Discussion and Analysis (MD&A) of the activities and performance of the State of Connecticut Health and Educational Facilities Authority (the Authority or CHEFA) provides the reader with an introduction and overview of the audited financial statements for the fiscal years (FY) ended June 30, 2012 and 2011 with an additional comparison to FY 2010. Following this MD&A are the audited financial statements of the Authority together with the notes thereto, which are essential to a full understanding of the data contained in the audited financial statements.

The Authority is a "conduit" issuer of tax-exempt bonds issued on behalf of non-profit healthcare institutions, higher education institutions and private secondary schools, child care facilities, long-term care facilities, cultural institutions and various other qualified non-profit institutions pursuant to Connecticut General Statutes Chapter 187, Sections 10a-176 through 10a-198. These tax-exempt bonds are financial obligations of the institution on whose behalf the Authority issues the bonds. The issuance of tax-exempt bonds provides funds for new construction projects, the refinancing of existing debt, funding of Debt Service Reserve Funds (if applicable) and funding of issuance costs.

The Authority's financial statements use proprietary fund reporting and report its financial position in three basic financial statements: (1) statement of net position; (2) a statement of revenues, expenses and changes in net position; and (3) a statement of cash flows.

Bonds Issued - The following is a review of the number of bond issues and the related amount issued, summarized by market segment and comparing FY 2012, FY 2011 and FY 2010.

In FY 2012, CHEFA had a 143% increase in par amount issued over FY 2011 levels. The bonds issued during FY 2012 include $584,043 for new projects and $631,280 in refinancing of existing bond issues. This total issuance of $1,215,323 is the second highest annual volume in CHEFA's history. A high volume of refinancing resulted from the low interest rate environment. Healthcare was the most active sector, with the year's largest transaction of $325,815 for Hartford HealthCare Corporation. During FY 2012, CHEFA continued to experience a significant number of privately placed transactions. This appears to be consistent with industry trends, as borrowers seek alternate financing structures and banks seek alternatives to providing letters of credit for variable rate demand obligations.

In FY 2011, the number of bond issues increased, although the par amount issued declined relative to FY 2010 levels. However, close to 50% of FY 2010 dollar volume was attributable to a single borrower, Yale University. Excluding the Yale University transactions, the FY 2011 and FY 2010 dollar volume is comparable. The municipal market as a whole experienced lower new issue supply in FY 2011 and this contributed to lower market yields over most sectors. This led to a significant number of refinancings; 10 in the fiscal year, some of which were combined with new money. Most of the new project issuance during FY 2011 was in the health care sector. There was also a marked increase in the number of direct placements with banks, in lieu of public bond offerings; a phenomenon consistent with industry trends.

In FY 2010, the markets stabilized from previous market turmoil and borrowers began to access the market based on their own credit ratings rather than delaying transactions due to a lack of credit enhancement.

The following is a summary of the number of bond issues and respective par amount summarized by market segment.

(Amounts Expressed in Thousands)

	2012			2011			2010		
	# of issues		Par amount	# of issues		Par amount	# of issues		Par amount
Healthcare	9	$	890,440	10	$	321,963	3	$	245,815
Higher education	5		167,620	7		145,345	9		843,700
Private secondary schools	7		88,963	-		-	3		22,500
Long-term care	-		-	1		21,000	-		-
Child care	1		28,840	-		-	-		-
Other	2		39,460	1		12,020	-		-
	24	$	1,215,323	19	$	500,328	15	$	1,112,015

Annual Fees - The following is a summary of the revenues generated from annual administrative fees charged during FY 2012, FY 2011, and FY 2010 based on the Board approved administrative fee of 9 basis points (or .0009) on the outstanding balance for all market segments with the exception of Special Capital Reserve Fund long-term care bond issues which have a 14 basis points (or .0014) fee:

	2012		2011		2010	
Healthcare	$	2,114	$	1,841	$	1,681
Higher education		3,950		3,908		3,631
Private secondary schools		559		578		568
Long-term care		207		223		220
Child care		62		65		67
Other		64		72		80
	$	6,956	$	6,687	$	6,247

During FY 2012 and FY 2011, CHEFA fee revenue has increased, reflecting the impact of new issuances and the par amount of bonds outstanding.

Statements of Net Position - The statements of net position for FY 2012, 2011, and 2010 are summarized below, with additional detail provided in the attached audited financial statements.

State of Connecticut Health and Educational Facilities Authority
Management's Discussion and Analysis (continued)
As of and for the Years Ended June 30, 2012 and 2011
(Amounts Expressed in Thousands)

	2012	2011	2010
ASSETS			
Unrestricted assets	$ 8,719	$ 7,749	$ 6,105
Restricted assets	571,404	364,483	451,766
Noncurrent assets:			
Investments (restricted by statute)	7,257	10,580	10,040
Capital assets, net	158	188	271
Total assets	$ 587,538	$ 383,000	$ 468,182
LIABILITIES			
Current liabilities	$ 572,061	$ 368,664	$ 452,773
Noncurrent liabilities	2,191	2,207	2,220
Total liabilities	574,252	370,871	454,993
NET POSITION			
Invested in capital assets	158	188	271
Restricted	5,066	5,373	7,820
Unrestricted	8,062	6,568	5,098
Total net position	13,286	12,129	13,189
Total liabilities and net position	$ 587,538	$ 383,000	$ 468,182

Unrestricted Assets - The following is an overview of the major changes in unrestricted current assets.

Cash - An increase of $36 in unrestricted cash in FY 2012 results from normal operating activity. Normal operating activity resulted in a decrease in cash of $111 in FY 2011. The decrease of $154 for FY 2010 is derived from the reduction in accounts payable and accrued expenses.

Board-Designated Investments - Board-Designated funds in FY 2012 increased $752 over FY 2011 levels as a result of favorable fiscal year financial performance. During FY 2011, Board-Designated funds increased by $1,757, derived from Operating Income. The increase of $2,226 for FY 2010 was derived from the Operating Income for FY 2010. Authority funds are invested in accordance with the Authority's Board approved investment policy.

Accounts Receivable - This represents receivables for annual administrative fees and annual trustee fees paid by CHEFA and billed to the institutions. The variability over the past three years is mainly a reflection of the par amount of bonds outstanding.

Restricted Assets - The following is an overview of the major changes in restricted assets.

Fund Investments - Fund investments are investments associated with construction funds managed and held by the Authority on behalf of its client institutions and include construction accounts, capitalized interest accounts and the cost of issuance accounts. For FY 2012, Fund investments also includes $18,226 of proceeds of tax-exempt equipment loan financings completed by the Authority's tax-exempt equipment financing program (Easy Loan program).

As a result of increased financing activity in FY 2012, fund investments related to bond offerings increased 54% over 2011 levels. This contrasts with the change from FY 2010 to FY 2011, when although $311,950 of new projects were funded in FY 2011, fund investments at June 30, 2011 were $87,223 less than at fiscal year-end 2010, reflecting the net effect of disbursements of funds. For FY 2010, after interest earnings and expenditures from all construction funds during the fiscal year, cash and fund investments at June 30, 2010 were $445,626.

Exhibit A attached to this Management's Discussion and Analysis details the construction fund balances, including cash and investments, as of June 30, 2012, 2011 and 2010 and the corresponding CHEFA financing.

The Construction Funds are managed by the Authority on behalf of the borrowing institutions. The proceeds are invested and managed in accordance with an investment policy that is approved by the Authority's Board of Directors and are invested in strict accordance with the relevant provisions of the respective bond issue trust indentures and with Connecticut state law. Bond funds are generally invested in money market funds of government securities; State of Connecticut Treasurer's Short-Term Investment Fund; obligations issued or guaranteed by the U.S. Government; and Qualified Guaranteed Investment Contracts complying with Connecticut General Statutes Section 10a-180(s).

Other Investments - For Fiscal Year 2011 and 2010, other investments represent debt service reserve funds associated with the Authority's Tax-Exempt Child Care Facilities Program for child care providers and held by the Bond Trustee. The State of Connecticut was the original source of most of these funds, with an additional $500 contributed by the Authority. In FY 2012, $3,000 was released back to the State through a refinancing transaction for which the Authority's $500 was used to cover costs of issuance. As of June 30, 2012, Authority management decided to remove the remaining asset and liability, given that this amount continues to be held by the bond trustee.

Non-Current Assets - The following is an overview of the major changes in non-current assets.

In order to clarify the commitment of certain CHEFA assets to specific purposes, management has identified as "Investments (restricted by statute)" those assets which are legally required to be held for a specific program or purpose.

For FY 2012, Investments (restricted by statute) consist of $4,320 for the School Readiness and Child Daycare Guaranteed Loan Fund Program, $2,191 in amounts held for the State of Connecticut in connection with the child care Small Direct Loan and Guaranteed Loan Programs, and $746 for the Connecticut Credit Union Student Loan Guarantee Program. The Connecticut Credit Union Student Loan Guarantee Program is not currently accepting new loans and the Authority is only holding an amount equal to its current exposure under the program. Pursuant to Public Act 10-75, on January 1, 2012, the Authority transferred $3,000 to the State of Connecticut for the Connecticut Green Technology, Life Science, and Health Information Technology Loan Forgiveness Program.

Investments (restricted by statute) for FY 2011 includes $4,320 for the School Readiness and Child Daycare Guaranteed Loan Fund Program, $2,207 in amounts held for the State of Connecticut in connection with the child care Small Direct loan and Guaranteed Loan Programs, $1,053 for the Connecticut Credit Union Student Loan Guarantee Program, and $3,000 for the Connecticut Green Technology, Life Science, and Health Information Technology Loan Forgiveness Program. For the Connecticut Credit Union Student Loan Guarantee Program, the Authority is only holding an amount equal to its current exposure under the program.

Investments (restricted by statute) for FY 2010 of $10,040 includes $4,320 for the School Readiness and Child Daycare Guaranteed Loan Fund Program, $2,220 in amounts held for the State of Connecticut in connection with the child care Small Direct Loan and Guaranteed Loan Programs, $1,265 for the Connecticut Credit Union Student Loan Guarantee Program and $2,235 for the Connecticut Green Technology, Life Science, and Health Information Technology Loan Forgiveness Program.

Liabilities - The following is an overview of the major changes in liabilities.

Accounts Payable and Accrued Expenses **-** Accounts payable and accrued expenses declined significantly in FY 2012, primarily due to the transfer on January 1, 2012 of $3,000 to the State of Connecticut in connection with the Connecticut Green Technology, Life Science, and Health Information Technology Loan Forgiveness Program. This $3,000 was accrued in FY 2011.

In FY 2011, accounts payable and accrued expenses increased by $3,174, primarily as the result of an accrual of the $3,000 due to the State of Connecticut in connection with the Connecticut Green Technology, Life Science, and Health Information Technology Loan Forgiveness Program.

The $1,007 in accounts payable and accrued expenses for FY 2010 reflects a decrease from prior levels.

Amounts Held for Institutions **-** The $571,404 for FY 2012, $364,483 for FY 2011, and $451,766 for FY 2010, reflect the amount held by the Authority for client construction funds, including the construction account, the cost of issuance account and the capitalized interest account. For FY 2012, this also includes construction funds related to the Easy Loan program. Fluctuations in the amounts occur as new projects are funded and as disbursements are made on new or existing projects.

FY 2011 and FY 2010 also include certain funds held for child care including debt service reserve funds held by the trustee. During FY 2012, certain outstanding series of child care bonds were refinanced and associated debt service reserve funds originally provided by the State of Connecticut were released back to the State of Connecticut. As of June 30, 2012, CHEFA management decided to remove the remaining liability and the corresponding asset for these trustee held funds.

Amount Held on Behalf of the State of Connecticut **-** This reflects the amounts held by the Authority pursuant to Public Act 97-259 for school readiness and child day care programs. The Act provided $1,500 to fund the loan guarantees for the Guaranteed Loan Fund Program managed by Peoples United Bank and $750 to fund the guarantees for the Small Direct Loan Fund Program managed by the Connecticut Community Investment Corporation (CTCIC). To date, there have been $59 of calls on these loan guarantee funds.

Net Position - The following is an overview of the major changes in net position.

For FY 2012, total net position increased by $1,157, reflecting normal operating and other activity. This includes net operating income of $3,149, investment income of $12 and grant expense of $2,004.

(Amounts Expressed in Thousands)

Total net position for FY 2011 declined by $1,060, reflecting the impact of the accrual of the $3,000 due to the State of Connecticut on January 1, 2012, pursuant to Public Act 10-75, the Connecticut Green Technology, Life Science, and Health Information Technology Loan Forgiveness Program. Operating income of $2,903 and investment income of $22 mitigated the impact of the accrual. Grant expense was $985.

Total net position for FY 2010 increased by $2,401, due to the excess of revenues over expenses for FY 2010.

The changes in net position for FY 2012, 2011 and 2010 are summarized below.

	2012	2011	2010
Total operating revenues	$ 7,079	$ 6,788	$ 6,337
Total operating expenses	(3,930)	(3,885)	(3,968)
Total operating income	3,149	2,903	2,369
Non-operating income (expense)	(1,992)	(963)	32
Transfer to State of Connecticut	-	(3,000)	-
Change in net position	$ 1,157	$ (1,060)	$ 2,401

Operating Revenues

Administrative Fees - 24 bond issues closed in FY 2012; 19 bond issues closed in FY 2011; and 15 bond issues closed in FY 2010. Despite fluctuations in annual issuance volume, CHEFA fee revenue maintains a degree of consistency because fees are based on the total par amount outstanding in any given year. CHEFA fee revenue increased by $269 in FY 2012, $440 in FY 2011 and $80 in FY 2010.

Bond Issuance Fees - This amount reflects the upfront fees paid to the Authority in connection with each bond transaction. These amounts fluctuate in correlation to the number of transactions in any given year.

Other Revenue - Other revenue represents recovery in FY 2012 of certain expenses which were accrued at the end of FY 2011. In prior years, recovery has also included recovered grants.

Operating Expenses

Salaries and Related Expenses - Salaries and related expenses increased by $73 in FY 2012 over FY 2011 levels. This increase reflects modifications to the Authority's compensation structure made in FY 2011. In FY 2011, salaries and related expenses increased by $37 relative to FY 2010 levels. The increase of $61 for FY 2010 reflects merit increases net of reductions in employee benefit costs.

Other Operating Expenses - In FY 2012, Other operating expenses dropped by $28, with savings being realized in various general expense categories (including a significant decline in consultant expense) relative to FY 2011. In FY 2011, Other operating expenses declined $120. Most of the reduction came from board and staff education savings and from reduced use of consultants. There was a decrease of $188 for FY 2010 which includes a reduction of $67 for the use of outside consultants.

Non-Operating Revenues (Expenses)

Income from Investments - Income from investments in FY 2012 was below 2011 levels, dropping by $10 and was a reflection of the low interest rate environment. A similar decline occurred in FY 2011. In prior years income from investments was significantly higher, largely due to the Authority's historically high level of board designated investments. A large portion of those investments were transferred to the State as required by Public Acts 09-2 and 09-111.

Grant Expense - The Authority gave out $1,000 in client grants and $1,004 in non-client grants in FY 2012. The dollars were distributed to various entities following an application process, with non-client grant dollars distributed for shelter, food, and health care related purposes.

After being suspended in FY 2009, the Authority's grant program was reinstated for FY 2011 and a $985 grant was made to the CERC Foundation for the Connecticut Data Collaborative. During FY 2010, no grants were awarded.

Transfers to the State of Connecticut

Pursuant to Public Act 10-75, the Authority transferred $3,000 to the State of Connecticut on January 1, 2012 for the Connecticut Green Technology, Life Science, and Health Information Technology Loan Forgiveness Program. This amount was accrued in FY 2011.

Summary of Cash Flow Activities

Cash Flows from Operating Activities - For FY 2012, net cash used in operations was $2,476. Cash paid in salaries and related expenses totaled $2,797, net cash paid for grants was $2,392 cash paid for other expenses was $1,187 and cash transferred to the State of Connecticut was $3,000.

For FY 2011, net cash provided by operating activities was $2,192. Cash paid in salaries and related expenses totaled $2,916, net cash paid for grants was $702, and cash paid for other expenses was $969. For FY 2010, net cash from operating activities was $2,070, after funding salaries and related expenses of $2,690, grant expense of $349, and other operating expenses of $1,160.

Cash Flows from Non-Capital Financing Activities - For FY 2012, net proceeds from bond sales and the Easy Loan program totaled $1,256,805, reflecting the year's strong issuance volume in a low interest rate environment.

For FY 2011, net proceeds from bond sales totaled $486,844, excluding any Easy Loan program proceeds. Although more issues occurred in FY 2011 than in FY 2010, net bond sale proceeds were significantly below the $1,168,817 achieved in FY 2010.

Cash used for construction expenses represents funds disbursed to institutions to reimburse them for qualified capital projects paid with their own funds or payments made to contractors for construction projects as provided for in the institution's Tax Equity and Fiscal Responsibility Act of 1982 (TEFRA) public hearing notice and approved by the Governor.

Cash Flows from Investing Activities - Cash flows from investing activities reflects net proceeds from investments, both restricted and unrestricted and cash from investment earnings. Most of the investing activity is in relation to bond proceeds. For FY 2012, $209,893 was used in investing activities, primarily relating to construction fund investments. In FY 2011, cash flow provided by investing activities totaled $86,069 in contrast with a net use of cash in FY 2010 in the amount of $4,992.

Contacting the Connecticut Health and Educational Facilities Authority

This financial report is designed to provide a general overview of the Authority's finances. If you have questions about this report or need additional financial information, contact the Connecticut Health and Educational Facilities Authority at 10 Columbus Boulevard, Hartford, Connecticut 06106-1978.

State of Connecticut Health and Educational Facilities Authority
Management's Discussion and Analysis (continued)
As of and for the Years Ended June 30, 2012 and 2011
(Amounts Expressed in Thousands)

Exhibit A

Restricted Construction Fund Balances As of June 30, 2010 - 2012* (Amounts Expressed in Thousands)

Issue Name	Date of Bond Issue	Scheduled Completion Date	Fund Balance 2012	Fund Balance 2011	Fund Balance 2010
Backus Hospital F	08/10/05	08/07	$ -	$ -	$ 46
Bridgeport Hospital D	05/31/12	05/12	184	-	-
CT Children's Med Ctr D	06/30/11	06/13	-	719	-
Eastern Connecticut Health Network E	12/21/10	12/12	-	1,067	-
Hartford Health Care A	09/29/11	09/13	30,094	-	-
Hartford Health Care B	09/29/11	09/13	46,738	-	-
Hospital of Central CT A	08/08/08	08/10	-	-	60
Lawrence & Memorial Hospital F	09/15/11	09/13	4,879	-	-
Middlesex Hospital N	07/26/11	07/12	127	-	-
Norwalk Hospital G	12/09/10	12/12	2,301	24,350	-
Saint Francis Hospital F	06/30/08	06/10	-	-	41,052
Stamford Hospital I	05/27/10	05/12	-	1,360	13,721
Stamford Hospital J	06/20/12	06/14	252,289	-	-
Waterbury Hospital D	12/22/10	12/12	1,361	6,642	-
Western CT Healthcare K	06/17/11	06/13	-	114	-
Western CT Healthcare L	07/13/11	07/13	73,768	-	-
Western CT Healthcare M	07/13/11	07/13	34,019	-	-
Western CT Healthcare N	11/22/11	11/12	67	-	-
Windham Hospital D	11/15/07	11/09	-	-	8
Yale New Haven Hospital M	12/22/10	12/12	30,971	85,292	-
Masonicare C	10/31/07	10/09	-	-	238
Connecticut College H-1	06/30/11	06/13	1,749	12,136	-
Connecticut College H-2	06/30/11	06/13	-	47	-
Connecticut College I	04/04/12	04/12	56	-	-
Connecticut St. Univ. Sys. D	03/26/02	02/04	-	-	4,248
Connecticut St. Univ. Sys. E	05/30/03	04/05	-	4,361	4,445
Connecticut St. Univ. Sys. G	06/17/05	05/07	-	1,720	2,636
Connecticut St. Univ. Sys. J	06/22/11	06/13	21,762	26,119	-
Connecticut St. Univ. Sys. K	06/22/11	06/13	13	127	-
Connecticut St. Univ. Sys. L	04/04/12	04/12	46	-	-
Fairfield University O	03/17/10	03/12	1,002	15,580	57,736
Mitchell College A	11/02/10	11/12	-	20	-
Quinnipiac University I	12/20/07	11/09	-	16,992	36,131
Sacred Heart University G	06/29/11	06/13	5,243	28,650	-
Sacred Heart University H	02/14/12	02/12	164	-	-
Trinity College M	06/29/10	06/12		-	272
University of Bridgeport C	12/09/10	12/12	1,132	4,957	-
University of Hartford H	04/26/12	04/14	45	-	-
University of Hartford I	04/26/12	04/14	9	-	-
University of New Haven H	07/02/08	07/10	-	-	7,166
Wesleyan University G	05/18/10	05/12	-	-	142
Wesleyan University H	05/18/10	05/12	-	-	13
Yale University 2010A	02/24/10	02/12	24,609	127,991	274,871
Brunswick School C	03/29/12	03/12	29	-	-
Hopkins School C	12/10/09	12/11	-	-	10
Loomis Chaffee School G	07/22/08	07/10	-	-	1,380
Loomis Chaffee School H	08/23/11	08/12	6	-	-
Pomfret School B-1	06/14/12	06/14	41	-	-
Pomfret School B-2	06/14/12	06/14	5,881	-	-
Rectory School B	01/05/12	01/14	1,833	-	-
Salisbury School C	05/22/08	05/10	-	-	8
Westminster School F	04/14/10	04/12	-	-	15
Westminster School G	06/29/12	06/14	6,149	-	-
Winston Preparatory School A	04/13/12	04/14	5,922	-	-
Child Care Facility Prog. F	12/20/06	12/08	-	-	63
Child Care Facility Prog. G	10/23/08	10/10	-	153	1,364
Bushnell Memorial B	03/16/12	03/12	687	-	-
Greater Hartford YMCA B	12/01/08	12/10	-	-	1
Greater Hartford YMCA C	04/27/12	04/14	2	-	-
CONSTRUCTION FUND TOTAL (1)			**$ 553,178**	**$ 358,397**	**$ 445,626**

* includes all cash and investments for Construction Fund, Cost of Issuance, Capitalized Interest, and Equity Accounts.
(1) For FY 2012 Authority management is including an additional $18,226 of proceeds of Easy Loan tax-exempt equipment financing on the balance sheet as part of Fund Investments. This brings Fund Investments at June 30, 2012 to $571,404.

Saslow Lufkin & Buggy, LLP
Certified Public Accountants and Consultants

Independent Auditors' Report

To the Board of Directors of the
State of Connecticut Health and Educational Facilities Authority:

We have audited the accompanying basic financial statements of the State of Connecticut Health and Educational Facilities Authority (the Authority), a component unit of the State of Connecticut, as of and for the year ended June 30, 2012. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these basic financial statements based on our audit. The basic financial statements of the Authority as of and for the year ended June 30, 2011, were audited by other auditors whose opinion dated September 13, 2011, expressed an unqualified opinion on those statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated September 19, 2012 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, 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* and should be considered in assessing the results of our audit.

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

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September 19, 2012

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State of Connecticut Health and Educational Facilities Authority
Statements of Net Position
June 30, 2012 and 2011
(Amounts Expressed in Thousands)

	2012	2011
Assets		
Current assets:		
Unrestricted assets:		
Cash	$ 276	$ 240
Accounts receivable, less allowance of $86 in 2012 and 2011	379	200
Board-designated investments	7,941	7,189
Prepaid expenses and other assets	123	120
Total unrestricted assets	8,719	7,749
Restricted assets:		
Cash	81	36
Fund investments	571,323	358,361
Other investments	-	6,037
Interest receivable	-	49
Total restricted assets	571,404	364,483
Total current assets	580,123	372,232
Non-current assets:		
Investments (restricted by statute)	7,257	10,580
Capital assets, net	158	188
Total non-current assets	7,415	10,768
Total assets	$ 587,538	$ 383,000
Liabilities and Net Position		
Current liabilities:		
Accounts payable and accrued expenses	$ 657	$ 4,181
Amounts held for institutions	571,404	364,483
Total current liabilities	572,061	368,664
Noncurrent liabilities:		
Amount held on behalf of the State of Connecticut	2,191	2,207
Total liabilities	574,252	370,871
Net position:		
Invested in capital assets	158	188
Restricted	5,066	5,373
Unrestricted	8,062	6,568
Total net position	13,286	12,129
Total liabilities and net position	$ 587,538	$ 383,000

The accompanying notes are integral part of these financial statements.

State of Connecticut Health and Educational Facilities Authority
Statements of Revenues, Expenses and Changes in Net Position
For the Years Ended June 30, 2012 and 2011
(Amounts Expressed in Thousands)

	2012	2011
Operating revenues:		
Administrative fees	$ 6,956	$ 6,687
Bond issuance fees	101	97
Other revenues	22	4
Total operating revenues	7,079	6,788
Operating expenses:		
Salaries and related expenses	2,795	2,722
Other operating expenses	1,135	1,163
Total operating expenses	3,930	3,885
Net operating income	3,149	2,903
Non-operating revenues (expenses):		
Income from investments	12	22
Grant expense	(2,004)	(985)
Total non-operating expense	(1,992)	(963)
Income before capital transfers	1,157	1,940
Capital transfers:		
Transfers to the State of Connecticut	-	(3,000)
Increase (decrease) in net position	1,157	(1,060)
Net position, beginning of year	12,129	13,189
Net position, end of year	$ 13,286	$ 12,129

The accompanying notes are integral part of these financial statements.

State of Connecticut Health and Educational Facilities Authority
Statements of Cash Flows
For the Years Ended June 30, 2012 and 2011
(Amounts Expressed in Thousands)

	2012	2011
Cash flows from operating activities:		
Cash received for administrative fees	**$ 6,777**	$ 6,678
Cash received from other operating income	**123**	101
Cash paid to employees	**(2,797)**	(2,916)
Cash paid to grantees	**(2,392)**	(702)
Cash paid for other expenses	**(1,187)**	(969)
Net transfer to the State of Connecticut	**(3,000)**	-
Net cash (used in) provided by operating activities	**(2,476)**	2,192
Cash flows from non-capital financing activities:		
Proceeds from bond sales, net	**1,256,805**	486,844
Proceeds from institutions	**1,375**	1,017
Construction expenses paid	**(380,304)**	(380,458)
Net transfers to restricted funds	**(665,372)**	(195,766)
Net cash provided by (used in) non-capital financing activities	**212,504**	(88,363)
Cash flows from capital and related financing activities:		
Net purchases of capital assets	**(54)**	(15)
Net cash used in capital and related financing activities	**(54)**	(15)
Cash flows from investing activities:		
Cash from restricted investment earnings	**455**	1,077
Net (purchases) proceeds from investments	**(210,360)**	84,970
Cash received from investments	**12**	22
Net cash (used in) provided by investing activities	**(209,893)**	86,069
Net change in unrestricted and restricted cash	**81**	(117)
Unrestricted and restricted cash, beginning of year	**276**	393
Unrestricted and restricted cash, end of year	**$ 357**	$ 276

The accompanying notes are integral part of these financial statements.

Note 1 - Summary of Significant Accounting Policies

Reporting Entity **-** The Connecticut Health and Educational Facilities Authority (the Authority) is a quasi-public agency of the State of Connecticut (the State). The Authority was established pursuant to Chapter 187 of the General Statutes of Connecticut, Revision of 1958, as amended by Public Acts 93-102, 93-262 and 97-259 (the Act). The Authority is constituted as a public instrumentality and political subdivision of the State whose board of directors is appointed by the Governor of the State of Connecticut. The purpose of the Authority, as stated in the Act, is to assist certain health care institutions, institutions of higher education and qualified for-profit and not-for-profit institutions (including municipalities, local boards of education, regional school districts and regional educational service centers in connection with early childhood education facilities for three and four year olds) in the financing and refinancing of projects to be undertaken in relation to the programs for these institutions. Debt issued by the Authority is payable from the revenues of the institutions and is not an obligation of the Authority or the State of Connecticut. Neither the State or the Authority is obligated for such debt (except for loans or bonds issued under the Child Care Facilities Loan Program as discussed in Note 5 and the Special Capital Reserve Fund Program. Under the Special Capital Reserve Fund Program, the State is obligated for replenishment of debt service reserve funds.)

Measurement focus and basis of accounting **-** The accompanying basic financial statements of the Authority have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP).

The Funds of the Authority are proprietary fund types. Proprietary funds are used to account for governmental activities that are similar to those found in the private sector where the determination of net income is necessary or useful to sound financial administration. GAAP used for proprietary funds are similar to those applicable to businesses in the private sector. They are reported using the economic resources of measurement focus and the accrual basis of accounting. Revenues are recognized when earned, and expenses are recognized when the liability is incurred, regardless of the timing of related cash flows. GAAP applicable to state and local governmental entities is promulgated by the Governmental Accounting Standards Board (GASB).

Recent accounting standards **-** In 2012, the Authority adopted GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and American Institute of Certified Public Accountants (AICPA) Pronouncements* (GASB No. 62). This standard improves financial reporting by incorporating into the GASB's authoritative literature certain accounting and financial reporting guidance that is included in the Financial Accounting Standards Board (FASB) and the AICPA pronouncements issued on or before November 30, 1989, which does not conflict or contradict GASB pronouncements. GASB No. 62 superseded GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that Use Proprietary Fund Accounting.* The adoption of this new standard did not have a significant impact on the Authority.

In June 2011, GASB issued Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources and Net Position* (the Statement). The objective of this Statement is to provide guidance for reporting deferred outflows of resources, deferred inflows of resources and net position in a statement of financial position. Amounts that are required to be reported as deferred outflows should be reported in a statement of financial position in a separate section following assets. Similarly, amounts to be reported as deferred inflows of resources should be reported in a separate section following liabilities. The statement of net position should report the residual amount as net position, rather than net assets. The provisions of this Statement are effective for financial statements for periods beginning after December 15, 2011; however, the Authority elected to early-adopt this Statement for the year ended June 30, 2012.

Note 1 - Summary of Significant Accounting Policies (continued)

The adoption of this Statement resulted in a change in the presentation of the Balance Sheets to what is now referred to as the Statements of Net Position and the term “net assets” is changed to “net position” throughout the financial statements.

***Cash and cash equivalents* -** Cash and cash equivalents include all highly liquid investments purchased with an original maturity of three months or less. The Authority’s investments in money market funds and the State Treasurer’s Short Term Investment Fund are excluded from cash equivalents because they are considered an investment. The Authority had no cash equivalents at June 30, 2012 and 2011.

***Investments* -** In accordance with Governmental Accounting Standards Board Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, the Authority presents all investments at fair value, except for non-participating investment contracts which are recorded at cost.

The fair value of investments traded on public markets is determined using quoted market prices. The Authority invests in the State Treasurer’s Short-Term Investment Fund, which is an investment pool managed by the State Treasurer’s Office. The fair value of the Authority’s position in the pool is the same as the value of the pool shares. The Authority also classifies its investments in money market funds as investments.

***Restricted assets* -** Restricted assets are maintained under trust agreements in separate funds for each debt issue in accordance with the requirements of the underlying bond issue documents. Restricted assets include assets held in construction funds for which the Authority has fiduciary responsibility. Construction and Project Funds reflect the receipt of bond proceeds, costs of issuance and disbursement of monies for the payment of construction or renovation projects and equipment for the institutions.

Other significant accounting policies related to restricted assets are as follows:

- Income earned on restricted assets is not reflected in the statements of revenues, expenses, and changes in net position as such income accrues to the benefit of the institutions.
- Restricted fund investments in money market funds are classified as investments.
- Restricted fund investments in guaranteed investment contracts are valued at cost and all other fund investments are valued at market. Generally, market value is not significantly different from cost.
- Other restricted investments include funds held by the Authority under its agency relationship with the State Department of Education (SDE) described in Note 5 and investments held in connection with the Connecticut Credit Union Student Loan Guarantee program and the Connecticut Green Technology, Life Science, and Health Information Technology Loan Forgiveness Program.

***Non-operating revenue and expense* -** Activities not related to the Authority’s primary purpose are considered non-operating. Non-operating income and expenses consist primarily of expenses related the Authority’s grant program and income from investments.

***Amounts held for institutions* -** Amounts held for institutions represent amounts payable to institutions, bondholders, and others from the Authority’s restricted assets.

Note 1 - Summary of Significant Accounting Policies (continued)

***Amounts held on behalf of the State of Connecticut* -** Amounts held on behalf of the State of Connecticut represent funds transferred to the Authority under its agency relationship with SDE related to the childcare program pursuant to Public Act 97-259 (See Note 5 for further discussion).

***Capital assets* -** Capital assets, which include property, plant and equipment, are stated at cost. The Authority defines capital assets as assets with an initial cost exceeding five-hundred dollars. Depreciation and amortization is computed on a straight line basis over estimated service lives generally ranging from three to five years. Maintenance and repairs that do not add to the value of the asset or materially extend their lives are charged to expense as incurred, while significant renewals and betterments are capitalized.

***Net position* -** The accompanying statements of net position present the Authority's fiduciary and non-fiduciary assets and liabilities, with the difference reported as net position. Net position is reported in three categories:

- Invested in capital assets - This category consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes and other debt that are attributed to the acquisition, construction or improvement of those assets.

- Restricted net position - This category consists of the net position whose use is restricted either through external restrictions imposed by creditors, grantors, contributors, or through restrictions imposed by law through constitutional provisions or enabling legislation.

- Unrestricted net position - This category consists of the net position, which do not meet the definition of the two preceding categories.

***Authority fees* -** The Authority is self-supporting and charges an administrative fee to institutions with outstanding bond issues to cover the operating expenses of the Authority. All issues, other than those under the Special Capital Reserve Fund Program for long term care facilities, are charged an annual fee of nine basis points, billed semi-annually, in arrears, on the outstanding par amount of the bonds. Long-term care bonds issued under the Special Capital Reserve Fund Program are charged an annual fee of fourteen basis points, billed semi-annually, in arrears, on the outstanding par amount of the bonds. In addition, the Authority charges a bond issuance fee of five thousand dollars for each bond issue.

***Fair value of financial instruments* -** The Authority measures fair value of its financial instruments as follows:

- Investments - Guaranteed investment contracts are stated at cost, which approximates fair value. All other investments are based on quoted market prices of individual investment instruments at year-end.

- Accounts receivable, accounts payable and accrued expenses - The carrying amounts approximate their fair values because of the short-term maturity of these instruments.

- Amounts held for institutions - The carrying amounts approximate fair value because of the short-term maturity of these instruments.

- Amounts held on behalf of the State of Connecticut - The carrying amounts approximate fair value because of the short-term maturity of the underlying investments being held.

(Amounts Expressed in Thousands)

Note 1 - Summary of Significant Accounting Policies (continued)

***Use of estimates* -** The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts and disclosures in the financial statements. Actual results could differ from those estimates.

***Subsequent event measurement date* -** The Authority monitored and evaluated any subsequent events for footnote disclosures or adjustments required in its financial statements for the year ended June 30, 2012 through September 19, 2012, the date on which financial statements were available to be issued. Management believes there are no subsequent events having an impact on the financial statements except as described in Note 12.

Note 2 - Cash Deposits and Investments

***Cash deposits - custodial credit risk* -** Custodial credit risk is the risk that, in the event of a bank failure, the Authority will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The Authority does not have a deposit policy for custodial credit risk.

As of June 30, 2012 and June 30, 2011, $107 and $26 of the Authority's bank balances of $357 and $276, respectively, were exposed to custodial credit risk as follows:

	2012	2011
Uninsured and uncollateralized	$ 107	$ 26
	$ 107	$ 26

All of the Authority's deposits were in qualified public institutions as defined by State statute. Under this statute, any bank holding public deposits must at all times maintain, segregated from its other assets, eligible collateral in an amount equal to a certain percentage of its public deposits. The applicable percentage is determined based on the bank's risk-based capital ratio. The amount of public deposits is determined based on either the public deposits reported on the most recent quarterly call report, or the average of the public deposits reported on the four most recent quarterly call reports, whichever is greater. The collateral is kept in the custody of the trust department of either the pledging bank or another bank in the name of the pledging bank.

A reconciliation of the Authority's cash deposits as of June 30, 2012 and 2011 is as follows:

	2012	2011
Unrestricted assets:		
Cash	$ 276	$ 240
Restricted assets:		
Cash	81	36
	$ 357	$ 276

(Amounts Expressed in Thousands)

Note 2 - Cash Deposits and Investments (continued)

Investments - As of June 30, 2012, the Authority's investments consisted of the following:

Investment type	Fair Value	Investment Maturities Less Than 1 year
Money market funds	$ 577,954	$ 577,954
Short-term Investment Fund (STIF)	7,567	7,567
U.S. treasuries	1,000	1,000
Total	$ 586,521	$ 586,521

As of June 30, 2011, the Authority's investments consisted of the following:

		Investment Maturities	
Investment type	Fair Value	Less Than 1 year	1 to 5 years
Money market funds	$ 351,991	$ 351,991	$ -
Short-term Investment Fund (STIF)	12,193	12,193	-
Guaranteed investment contracts	16,987	-	16,987
U.S. treasuries	996	996	-
Total	$ 382,167	$ 365,180	$ 16,987

Because the STIF and money market funds have weighted average maturities of 60 days and 90 days, respectively, they are presented as investments with maturities of less than one year.

A summary of the Authority's investments as of June 30, 2012 and 2011 is shown below. For FY 2012, Fund Investments includes $18,226 of proceeds of tax-exempt equipment loan financings completed by the Authority.

	2012	**2011**
Unrestricted assets:		
Investments	**$ 7,941**	$ 7,189
Restricted assets:		
Fund investments	**571,323**	358,361
Other investments - current	**-**	6,037
Investments - noncurrent	**7,257**	10,580
Total	**$ 586,521**	$ 382,167

Note 2 - Cash Deposits and Investments (continued)

Interest rate risk **-** The Authority invests its unrestricted funds in money market funds and the Connecticut State Treasurer's Short Term Investment Fund (STIF), which have historically maintained their net asset values such that the principal of the Authority's investments is not eroded by interest rate fluctuations. The Authority's investment policy provides that the Authority's investment portfolio for its unrestricted investments be designed with the objective of regularly exceeding the average return of ninety day U.S. Treasury Bills. The Authority's investment policy as it relates to restricted investments provides that all restricted accounts be invested in strict accordance with the bond issue trust indentures and with applicable Connecticut State law. Whenever possible, restricted investments are to be held to maturity and invested in an appropriate manner so as to ensure the availability for specified payment dates, planned construction draws and other intended purposes as set forth in the relevant trust indentures and agreements, and to ensure a rate of return at least equal to the restricted bond yield, all with minimal risk to capital.

Credit risk **-** The Authority has an investment policy that would further limit its investment choices beyond those limited by Connecticut State statutes for both unrestricted and restricted investments.

Investments that may be purchased by the Authority with the written approval of an officer, provided the instrument has a maturity date of 365 days or less from the date of purchase, are as follows: obligations issued or guaranteed by the U.S. Government, including the Federal Deposit Insurance Corporation (FDIC); qualified money market funds or institutional money market funds investing in short-term securities as permitted by the Authority's enabling legislation; the STIF provided it maintains a "AAA" rating by Standard and Poor's; and qualified repurchase agreements secured by obligations issued or guaranteed by the U.S. Government. With approval by the Audit-Finance Committee or Board of Directors, the following unrestricted investments are also permissible: any otherwise permitted investment with a maturity greater than 365 days from purchase; obligations issued or guaranteed by the State of Connecticut, including the State's medium term or long term investment fund; other debt obligations which are statutorily permissible; and qualified guaranteed investment contracts complying with Connecticut General State Statutes 10a-180(s), Authority guidelines and applicable trust indentures.

Pursuant to the General Statutes of the State of Connecticut, the Authority may only invest funds in the following: obligations issued or guaranteed by the United States of America or the State of Connecticut and in other obligations, which are legal investments for savings banks in the State; investment agreements with financial institutions whose short-term obligations are rated within the top two rating categories of any nationally recognized rating service or of any rating service recognized by the State Commissioner of Banking; investment agreements fully secured by obligations of, or guaranteed by, the United States or agencies or instrumentalities of the United States or in securities or obligations which are legal investments for savings banks in this State, subject to repurchase agreements in the manner in which such agreements are negotiated in sales of securities in the marketplace, provided that the Authority shall not enter into any such agreement with any securities dealer or bank acting as a securities dealer unless such dealer or bank is included in the list of primary dealers, effective at the time of such agreement, as prepared by the Federal Reserve Bank of New York.

Custodial credit risk **-** For an investment, custodial credit risk is the risk that, in the event of the failure of counterparty, the Authority will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Authority does not have a policy for custodial credit risk. In accordance with GASB No. 40, none of the Authority's investments requires custodial credit risk disclosures.

(Amounts Expressed in Thousands)

Note 2 - Cash Deposits and Investments (continued)

Concentrations of credit risk - For unrestricted investments, the Authority places limits on the amount of investment in any one issuer. No issuer other than the United States Treasury or the Connecticut State Treasurer's Short-Term Investment Fund shall constitute greater than 5% of unrestricted investments, except for qualified money market or mutual bond funds, none of which shall constitute greater than 50% of general fund investments. The Authority's investment portfolio as of June 30, 2012 and 2011 was in compliance with this policy. The Authority places no limit on the amount of investment in any one issuer for restricted investments. Restricted investments invested in guaranteed investment contracts as of June 30, 2011 are detailed below. There were no investments invested in guaranteed investment contracts as of June 30, 2012.

Issuer	Maturity Date	2012	2011
Trinity Funding LLC	3/1/2012	$ -	$ 16,987

Note 3 - Capital Assets

Capital asset activity for the years ended June 30, 2012 and 2011 is as follows:

2012	Beginning Balances	Increases	Decreases	Ending Balances
Capital assets being depreciated:				
Leasehold improvements	$ 147	$ -	$ -	$ 147
Computer equipment	580	21	-	601
Furniture and fixtures	255	-	-	255
Office equipment	386	33	-	419
Total capital assets	1,368	54	-	1,422
Less accumulated depreciation and amortization for:				
Leasehold improvements	(140)	(6)	-	(146)
Computer equipment	(535)	(73)	-	(608)
Furniture and fixtures	(223)	(5)	-	(228)
Office equipment	(282)	-	-	(282)
	(1,180)	(84)	-	(1,264)
	$ 188	$ (30)	$ -	$ 158

(Amounts Expressed in Thousands)

Note 3 - Capital Assets (continued)

2011	Beginning Balances	Increases	Decreases	Ending Balances
Capital assets being depreciated:				
Leasehold improvements	$ 147	$ -	$ -	$ 147
Computer equipment	567	13	-	580
Furniture and fixtures	255	-	-	255
Office equipment	384	2	-	386
Total capital assets	1,353	15	-	1,368
Less accumulated depreciation and amortization for:				
Leasehold improvements	(126)	(14)	-	(140)
Computer equipment	(503)	(32)	-	(535)
Furniture and fixtures	(218)	(5)	-	(223)
Office equipment	(235)	(47)	-	(282)
	(1,082)	(98)	-	(1,180)
	$ 271	$ (83)	$ -	$ 188

Note 4 - Bonds Payable

As of June 30, 2012 and 2011, the total outstanding principal balances of special obligation bonds were $7,933,612 and $7,570,456, respectively. The bonds are issued on behalf of institutions to finance the construction of various health and educational facilities. These bonds are conduit debt obligations of the Authority and do not constitute obligations of the Authority and therefore not reported within the statements of net position.

The Authority issued general obligation bonds through July 1979 for which the Authority was ultimately responsible for the payment of principal and interest when due. Subsequent to July 1, 1979, the Authority has issued only special obligation bonds for which principal and interest is payable solely from the revenues of the institutions. As of June 30, 2012 and 2011, there were no general obligation bonds outstanding.

Note 5 - Child Care Facilities Loan Programs

The Authority has entered into a partnership with the State of Connecticut Department of Education, the Office of the State Treasurer, and banking institutions to provide child care providers with access to financing under three loan programs: the Tax-Exempt Pooled Bond Issue Program, the Guaranteed Loan Fund Program, and the Small Revolving Direct Loan Program.

***Tax-Exempt Child Care Facilities Program* -** From April 1998 to June 2011, the Authority issued $78,430 in revenue bonds under the Tax-Exempt Pooled Bond Issue Program. The program was established to provide low interest loans to eligible child care providers for the new construction or renovation of child care centers. In August 2011, the Authority issued $28,840 of State Supported Child Care Revenue Bonds, Series 2011 that refinanced all but two series (Child Care Facilities Program Series F and G) of the previously issued bonds.

Note 5 - Child Care Facilities Loan Programs (continued)

As of June 30, 2012 and 2011, there was approximately $63,280 and $66,575 in loan balances outstanding under this program. The State of Connecticut is responsible for paying a portion of the debt service on the Child Care Facilities Program Series F and G bonds and all of the debt service on the State Supported Child Care Revenue Bonds, subject to available appropriations and pursuant to a Memorandum of Understanding.

In conjunction with this program, in fiscal year 1998 the Authority transferred $500 into an irrevocable trust fund for future debt service requirements. The Authority is under no obligation to make additional transfers into this irrevocable trust fund and has no further obligation with respect to these bonds. In FY 1998, DSS transferred $1,500 to the Authority to fund a portion of the Debt Service Reserve Fund for pooled loan program bonds. In FY 2000, DSS transferred an additional $454 to this reserve, in FY 2007 transferred an additional $1,310, and in FY 2009 transferred an additional $1,249 to the reserve. For FY 2011, all of these contributions in connection with the Tax-Exempt Pooled Bond Issue Program, combined with interest earnings, are reflected as Other Investments under Restricted Assets but are held by the bond issue trustee. The refinancing of prior debt through the State Supported Child Care Revenue Bonds, Series 2011 allowed for the release of $3,000 of these reserve funds back to the State and the use of the Authority's $500 reserve fund contribution to cover costs of issuance of the Series 2011 bonds. With only $2,534 of state-provided reserve funds remaining for the Child Care Facilities Program Series F and G bonds, and with the Authority having no fiduciary responsibility for those funds and the funds continuing to be held by the bond trustee, Authority management elected to remove both the asset and liability for those funds from the Authority's statement of net position for FY 2012.

Guaranteed Loan Fund Program - The purpose of the Guaranteed Loan Fund Program is to guarantee loans for the expansion or development of child care and child development centers in the State. The Authority is responsible for guaranteeing 20% to 50% of each loan outstanding. As of June 30, 2012, outstanding loan balances totaled $9,134. On average, the Authority is guaranteeing 38% of those balances, or approximately $3,481.

In FY 1998, the Authority designated $4,500 of its net position to be used for loan guarantees and debt service funding under this program, if providers default on their loans. As of June 30, 2008, the net position designation was reduced to $4,320, a decrease of $180, which was due to a payment on a defaulted loan.

In FY 1998, DSS transferred $1,500 to the Authority to further support this program, with those funds serving as an additional reserve.

In June 1999, the Authority Board of Directors approved an amendment to the Guaranteed Loan Fund to subsidize 3% of the interest rate on future loans issue in conjunction with this program. Loans issued under this program are approved, granted and administered by participating financial institutions.

Small Revolving Direct Loan Program - This program provides for loans or loan guarantees from the State of Connecticut to child care providers. In FY 1999, DSS transferred $750 to the Authority to support the Small Direct Loan Program. The funds transferred to the Authority represent funds available to provide loan guarantees. As of June 30, 2012 and 2011, the balance of those funds remaining was $691 and $707, reflecting drawdowns for prior year loan defaults. The Authority is under no obligation to provide additional funds for loan guarantees.

The DSS contributions to the Guaranteed Loan Fund Program and the Small Direct Loan Program, net of payouts and accrued expense, along with the Authority's $4,320 to support the Guaranteed Loan Fund Program, are recorded within Investments (restricted by statute).

(Amounts Expressed in Thousands)

Note 6 - Student Loan Programs Mandated by State Statute

Pursuant to Public Act 09-110, which established the Connecticut Credit Union Student Loan Program, the Authority was required to fund a first loss loan guarantee of 20% on the outstanding balance on each loan. The guarantee reserve at June 30, 2012 was $746, and is sufficient to meet the loan loss reserve requirement. This amount is included within Investments (restricted by statute).

Pursuant to Public Act 10-75, which established the Connecticut Green Technology, Life Science, and Health Information Technology Loan Forgiveness Program, to be administered by the State Department of Higher Education, the Authority transferred $3,000 to the State General Fund on January 1, 2012. This amount was accrued for within accounts payable and accrued expenses and expensed during FY 2011.

Note 7 - Net Position

A portion of the unrestricted net position has been designated by the Authority's Board of Directors for operations and the remainder for programs that are part of the Authority's mission and purpose, as well as for contingencies. In addition, as described in Note 5, the Authority designated $4,320 of its net position for the Guaranteed Loan Fund Program for child care facilities pursuant to Public Act 97-259. The $4,320, along with the $746 set aside for the Connecticut Credit Union Student Loan Program for FY 2012 are reflected as Restricted Net position.

A summary of the net position as of June 30, 2012 and 2011, is as follows:

	2012	**2011**
Invested in capital assets	**$ 158**	$ 188
Restricted:		
Child Care Facilities Loan Program	**4,320**	4,320
Student Loan Guarantee Program	**746**	1,053
Total restricted	**5,066**	5,373
Unrestricted:		
Focused investment program	**1,025**	1,025
Legal fee contingencies	**1,500**	1,500
Operations and contingency	**5,537**	4,043
Total unrestricted	**8,062**	6,568
Total	**$ 13,286**	$ 12,129

Note 8 - Employee Benefit Plans

The Authority maintains a defined contribution money purchase plan (the Plan) covering all employees with three months of continuous service and one-thousand anticipated hours of service annually. The Plan is administered by the Authority and can be amended by the trustees of the Plan. The Authority contributes annually to the Plan an amount equal to ten percent of each qualified employee's annual salary. For the years ended June 30, 2012 and 2011, retirement plan expense was $222 and $214, respectively.

(Amounts Expressed in Thousands)

Note 8 - Employee Benefit Plans (continued)

In addition, the Authority has a deferred compensation plan, which was established during fiscal year 1991 in accordance with Internal Revenue Code Section 457 and is available to Authority employees. Employees are permitted to defer a portion of their salaries, subject to certain limitations. The Authority matches up to one thousand five hundred dollars of employee contributions. Related expense was $31 and $30 for the years ended June 30, 2012 and 2011, respectively.

Note 9 - Operating Leases

The Authority leases office space and other office equipment for use in operations. As of June 30, 2012, minimum future rental commitments of the leases are as follows:

2013	$ 306
2014	$ 11
2015	$ 8
2016	$ 5

Rental expense for these leases during the years ended June 30, 2012 and 2011 was $287 and $284, respectively.

Note 10 - Legal Matters

The Authority, in the normal course of business, is involved in various legal matters. Under terms of the agreements between the Authority and its borrowers, any costs associated with the litigation are the obligations of the borrowers. The Authority is indemnified under the terms of the bond agreements.

Note 11 - Reconciliation of Operating Income to Net Cash Provided By Operating Activities

The following is a reconciliation of operating income provided by operating activities for the years ended June 30, 2012 and 2011.

	2012	**2011**
Cash flows from operating activities:		
Net position increase (decrease)	**$ 1,157**	$ (1,060)
Adjustments to reconcile net position increase (decrease)		
to net cash (used in) provided by operating activities:		
Depreciation	**85**	98
Income from investments	**(12)**	(22)
Changes in assets and liabilities:		
Accounts receivable	**(179)**	(9)
Prepaid expenses and other assets	**(3)**	11
Accounts payable and accrued expenses	**(3,524)**	3,174
Net cash (used in) provided by operating activities	**$ (2,476)**	$ 2,192

Note 12 - Subsequent Event

Pursuant to Public Act 12-149, effective July 1, 2012, the State of Connecticut Higher Education Supplemental Loan Authority (CHESLA) was statutorily consolidated with the Authority by becoming a subsidiary of the Authority. CHESLA is a quasi-public state authority created to help students in or from the State finance the cost of higher education.

Saslow Lufkin & Buggy, LLP
Certified Public Accountants and Consultants

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 of Directors of the
State of Connecticut Health and Educational Facilities Authority:

We have audited the financial statements of the State of Connecticut Health and Educational Facilities Authority (the Authority), a component unit of the State of Connecticut as of and for the year ended June 30, 2012, and have issued our report thereon dated September 19, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

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

A 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, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented, or detected and corrected on a timely basis.

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the 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*.

This report is intended solely for the information and use of the Board of Directors, management, and others within the Authority, is not intended to be, and should not be used by anyone other than these specified parties.

Saslow Lufkin & Buggy, LLP

September 19, 2012

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