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

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

As of and for the Year Ended
June 30, 2013

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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 Year Ended June 30, 2013
(Amounts Expressed in Thousands)

This Management's Discussion and Analysis (MD&A) of the State of Connecticut Health and Educational Facilities Authority's (CHEFA's or the Authority's) activities and financial performance provides the reader with an introduction to the audited consolidated financial statements for the fiscal year ended June 30, 2013. Following this MD&A are the consolidated financial statements of the Authority together with the notes thereto, which are essential to a full understanding of the data contained in the financial statements.

CHEFA 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 CHEFA issues the bonds. The issuance of tax-exempt bonds can provide funds for new construction projects, the refinancing of eligible existing debt, funding of Debt Service Reserve Funds (if applicable), and funding of issuance costs.

Effective July 1, 2012, the Connecticut Higher Education Supplemental Loan Authority (CHESLA) was statutorily consolidated into CHEFA, effectively making CHESLA a subsidiary of CHEFA. CHESLA issues tax-exempt bonds in order to fund student loans for the higher education of students in or from the State of Connecticut. CHESLA's bonds are repaid from student loan repayments and are further supported by a Special Capital Reserve Fund, the replenishment of which is deemed appropriated by the State of Connecticut.

The Authority's financial statements are consolidated and reflect the combined operations of CHEFA and CHESLA. Consolidating schedules are provided as supplemental information. The financial statements use proprietary fund reporting and report the financial position in three basic financial statements: (1) a statement of net position; (2) a statement of revenues, expenses and changes in net position; and (3) a statement of cash flows.

This Management's Discussion and Analysis is broken into two major segments, one addressing the operations of CHEFA as an individual entity, and the other addressing the operations of CHESLA as an individual entity. Financial information presented in each section is derived from the supplemental consolidating schedules included with the financial statements and from management records.

CONNECTICUT HEALTH AND EDUCATIONAL FACILITIES AUTHORITY (CHEFA)

Bonds Issued - The following is a review of CHEFA bond issues, summarized by market segment and comparing FY 2013, FY 2012 and FY 2011.

In FY 2013, CHEFA bond issuance dollar-volume returned to the levels experienced in FY 2011. The near record breaking dollar volume in FY 2012 made the FY 2013 decline substantial. The decrease results from fewer issues and a smaller average issue size (approximately $22 in FY 2013 vs. $50.6 in FY 2012). During FY 2013, CHEFA continued to experience a significant number of privately placed transactions. 62% of CHEFA dollar issuance volume and 74% of total issues in FY 2013 were privately placed, most often directly with local or regional banks. The appetite of these banks for this type of product provided financing opportunities for several smaller borrowers. Other statistics for FY 2013 are as follows:

- Approximately 71% of dollar volume in FY 2013 represented new money financings
- Approximately 53% of dollar volume represented fixed rate transactions
- Only one letter of credit backed transaction was executed

(Amounts Expressed in Thousands)

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 dollar-volume in CHEFA's history. A high volume of refinancing resulted from a low interest rate environment. In FY 2012, healthcare was the most active sector, with the year's largest transaction of $325,815 for Hartford HealthCare Corporation.

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.

	2013		2012		2011	
	# of issues	Par amount	# of issues	Par amount	# of issues	Par amount
Healthcare	4	$ 207,145	9	$ 890,440	10	$ 321,963
Higher education	2	46,060	5	167,620	7	145,345
Private secondary schools	10	103,609	7	88,963	-	-
Long-term care	2	44,454	-	-	1	21,000
Child care	-	-	1	28,840	-	-
Other	1	20,000	2	39,460	1	12,020
	19	$ 421,268	24	$ 1,215,323	19	$ 500,328

Annual Fees - The following is a summary of the revenues generated from annual administrative fees charged during FY 2013, FY 2012, and FY 2011 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:

	2013	2012	2011
Healthcare	$ 2,308	$ 2,114	$ 1,841
Higher education	3,930	3,950	3,908
Private secondary schools	572	559	578
Long-term care	177	207	223
Child care	59	62	65
Other	64	64	72
	$ 7,110	$ 6,956	$ 6,687

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

(Amounts Expressed in Thousands)

Statements of Net Position - The table below reflects CHEFA's Statements of Net Position, as shown in the Consolidating Statement of Net Position shown on pages 35 and 36 of the financial statements for FY 2013, with comparables for FY 2012 and FY 2011 provided by management.

	2013	2012	2011
Assets			
Current unrestricted assets:			
Cash	$ 227	$ 276	$ 240
Accounts receivable	195	379	200
Board designated investments	10,638	7,941	7,189
Prepaid expenses and other assets	91	123	120
Total current unrestricted assets	11,151	8,719	7,749
Current restricted assets:			
Cash	57	81	36
Fund investments	507,721	571,323	358,361
Other investments	-	-	6,037
Interest receivable	-	-	49
Total current restricted assets	507,778	571,404	364,483
Non-current assets:			
Restricted investments	7,167	7,257	10,580
Capital assets, net	178	158	188
Total assets	$ 526,274	$ 587,538	$ 383,000
Liabilities			
Current liabilities	$ 509,451	$ 572,061	$ 368,664
Non-current liabilities	2,182	2,191	2,207
Total liabilities	511,633	574,252	370,871
Net position			
Invested in capital assets	178	158	188
Restricted	4,985	5,066	5,373
Unrestricted	9,478	8,062	6,568
Total net position	14,641	13,286	12,129
Total liabilities and net position	$ 526,274	$ 587,538	$ 383,000

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

Cash - Normal operating activity has resulted in fluctuations in unrestricted cash, as reflected in the $49 decrease in FY 2013 to a balance of $227. This compares to a $36 increase and balance of $276 in FY 2012, and a $111 decrease and balance of $240 in FY 2011.

Accounts Receivable - This represents receivables for annual administrative fees and annual trustee fees paid by CHEFA and billed to the institutions, net of allowances. The variability over the past three years, ranging from $200 in FY 2011, to $379 in FY 2012, and to $195 in FY 2013, is mainly a reflection of the par amount of bonds outstanding.

Board Designated Investments - In FY 2013 there was a $2,697 increase to $10,638 in Board Designated Investments, resulting from strong operating performance. Board Designated funds in FY 2012 increased $752 over FY 2011 to $7,941, as a result of favorable fiscal year financial performance. Authority funds are invested in accordance with the Authority's Board approved investment policy.

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

Fund Investments - Fund investments represent all CHEFA's restricted assets in FY 2013 and FY 2012. These are investments associated with construction funds managed and held by CHEFA on behalf of its client institutions and include the construction account, capitalized interest account and the cost of issuance account. Fund investments for FY 2013 are 11% lower than FY 2012, totaling $507,778 for FY 2013. For FY 2013 and 2012, Fund investments also include proceeds of tax-exempt equipment loan financings completed by the Authority through its Easy Loan program.

Exhibit A attached to this Management's Discussion and Analysis details the construction fund balances, including cash and investments, as of June 30, 2013, 2012, and 2011 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 the Fidelity Institutional Government Money Market Fund, Class I; 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 Investment - For Fiscal Year 2011, other investments represent debt service reserve funds associated with the Authority's Tax-Exempt Pooled Issue Loan 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 is 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 "Non-current assets - Restricted investments" those assets which are legally required to be held for a specific program or purpose.

For FY 2013, Non-current assets - Restricted investments consist of $4,320 for the School Readiness and Child Daycare Guaranteed Loan Fund Program, $2,182 in amounts held for the State of Connecticut in connection with the child care Small Direct loan and Guaranteed Loan Programs, and $665 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. These amounts are consistent with amounts held in FY 2012 and FY 2011 in those programs. In FY 2011, $3,000 was also held for the State of Connecticut for the Connecticut Green Technology, Life Science, and Health Information Technology Loan Forgiveness Program. Pursuant to Public Act 10-75, as of January 1, 2012, the Authority transferred $3,000 to the State of Connecticut.

Liabilities - The following is an overview of the major components of liabilities, both current and non-current.

<u>Accounts Payable and Accrued Expenses</u> - Accounts payable and accrued expenses increased to $1,673 in FY 2013 from $657 in FY 2012. This fluctuation was in the normal course of business. Accounts payable and accrued expenses declined significantly in FY 2012 from a FY 2011 level of $4,181, primarily due to the transfer as of January 1, 2012 of $3,000 due 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.

<u>Amounts Held for Institutions</u> - The $507,778 for FY 2013, $571,404 for FY 2012, and the $364,483 for FY 2011 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 2013 and 2012, this also includes proceeds of the Authority's tax-exempt equipment financing program ("Easy Loan"). Fluctuations in the amounts occur as new projects are funded and as disbursements are made on new or existing projects.

<u>Amount Held on Behalf of the State of Connecticut</u> - 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 $682 to fund the guarantees for the Small Direct Loan Fund Program managed by the Connecticut Community Investment Corporation (CTCIC).

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

For FY 2013, total net position increased by $1,355, slightly more than the FY 2012 increase of $1,157. The results reflect normal operating and other activity.

(Amounts Expressed in Thousands)

The changes in net position for FY 2013, 2012 and 2011 are summarized below.

	2013	2012	2011
Operating revenues:			
Administrative fees	$ 7,110	$ 6,956	$ 6,687
Investment income	14	12	22
Bond issuance fees	158	101	97
Other revenue	241	22	4
Total operating revenues	7,523	7,091	6,810
Operating expenses:			
Salaries and related expenses	2,844	2,795	2,722
General and administrative	1,057	1,135	1,163
Total operating expenses	3,901	3,930	3,885
Total operating income	3,622	3,161	2,925
Non-operating activity:			
Grant expense	(2,267)	(2,004)	(985)
Transfer to State of Connecticut	-	-	(3,000)
Change in net position	$ 1,355	$ 1,157	$ (1,060)

Operating Revenues - The following summarizes key components of operating revenues.

Administrative Fees - 19 bond issues closed in FY 2013; 24 bond issues closed in FY 2012; and 19 bond issues closed in FY 2011. 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 administrative fee revenue increased by $154, or 2%, to $7,110 in FY 2013, and by $269 to $6,956 in FY 2012.

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.

Investment income - Investment income for FY 2013 was $14, a slight improvement over the FY 2012 level of $12, which was reported as non-operating revenue. Investment income in FY 2012 was below 2011 levels, dropping by $10 and was a reflection of the low interest rate environment.

Other Revenue - Other revenue represents recovery of certain expenses, including grant expense. In FY 2013, other revenue also includes approximately $110 from CHESLA to cover support services provided by CHEFA.

Operating Expenses

Salaries and Related Expenses - Salaries and related expenses increased by $49 in FY 2013 to $2,844 and $73 to $2,795 in FY 2012. In FY 2011, salaries and related expenses totaled $2,722.

General and Administrative Expenses **-** General and administrative expenses in FY 2013 totaled $1,057, a decline from FY 2012 levels of $1,135 and FY 2011 levels of $1,163. Over the three year period there has been a significant decline in consultant expense, particularly with regard to arbitrage rebate consultants.

Non-Operating Activity

Grant Expense **-** Grant expense for FY 2013 is comparable to FY 2012 levels and totaled $2,267. $1,034 of that amount went to CHEFA clients and the remainder to non-client social service agencies. 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 a two year suspension, CHEFA's grant program was reinstated for FY 2011 and a $985 grant was made to the CERC Foundation for the Connecticut Data Collaborative.

CONNECTICUT HIGHER EDUCATION SUPPLEMENTAL LOAN AUTHORITY (CHESLA)

CHESLA provides financial assistance in the form of education loans to students in or from the State, and helps make Connecticut institutions of higher education more competitive. CHESLA is authorized to issue tax-exempt bonds, the proceeds of which are used to fund education loans to applicants meeting certain eligibility requirements. The repayments of such loans service CHESLA's debt. Public Act 12-149, effective July 1, 2012, statutorily consolidated CHESLA with the Connecticut Health and Educational Facilities Authority (CHEFA).

Loan Disbursements - In FY 2013, CHESLA disbursed $19,745 in loan dollars, a 2% decline from FY 2012 levels, but approximately a 25% increase over FY 2011 volume. Close to 58% of the disbursement volume in FY 2013 went to institutions within the State of Connecticut, consistent with trends in FY 2012 and 2011. Loan funds were primarily derived from proceeds remaining from Series 2010 bonds and from $25,000 of 2013 Series A bonds issued on April 2, 2013. Loans from Series 2010 proceeds carried an interest rate of 5.95%, while loans from the 2013 series carried an interest rate of 5.99%.

(Amounts Expressed in Thousands)

The following summarizes the key components of loans disbursed.

	2013	2012	2011
In State Institution:	**12/13 Term**	**11/12 Term**	**10/11 Term**
Jul - Sept (1Q)	$ 4,895	$ 5,163	$ 3,217
Oct - Dec (2Q)	5,064	2,103	2,808
Jan - Mar (3Q)	1,194	4,492	3,685
Apr - Jun (4Q)	213	248	285
Total In State Institution	11,366	12,006	9,995
Out of State Institution:			
Jul - Sept (1Q)	3,636	3,163	1,358
Oct - Dec (2Q)	3,917	1,056	1,629
Jan - Mar (3Q)	755	3,779	2,620
Apr - Jun (4Q)	71	145	217
Total Out of State Institution	8,379	8,143	5,824
Total:			
Jul - Sept (1Q)	8,531	8,326	4,575
Oct - Dec (2Q)	8,981	3,159	4,437
Jan - Mar (3Q)	1,949	8,271	6,305
Apr - Jun (4Q)	284	393	502
Total	$ 19,745	$ 20,149	$ 15,819

CHESLA receives annual administrative fees on the outstanding balances of loans. The fees vary in accordance with the bonds series and range from 30 to 100 basis points. The 2003 bond indenture is structured to include MBIA bond insurance and as a result has not been used since 2007. The fees for loans made pursuant to the 2003 indenture are higher than for those made pursuant to the 1990 indenture. As the loans associated with the 2003 indenture are paid down, and as new bond issues to fund loans are made under the 1990 indenture, revenues have decreased as shown below.

(Amounts Expressed in Thousands)

	Admin Fee Basis Points	2013	2012	2011
1993 Bond/Loan Program	100	$ -	$ 1	$ 2
1994 Bond/Loan Program	100	2	3	6
1996 Bond/Loan Program	70	3	6	11
1998 Bond/Loan Program	^	3	6	16
1999 Bond/Loan Program	^	6	8	21
2000 Bond/Loan Program	^	10	14	34
2001 Bond/Loan Program	^	18	23	51
2003 Bond/Loan Program	100	94	113	132
2005 Bond/Loan Program	100	152	176	201
2006 Bond/Loan Program	100	159	184	211
2007 Bond/Loan Program	60	157	179	199
2009 Bond/Loan Program	^	62	66	101
2010 Bond/Loan Program	30	88	14	-
2013 Bond/Loan Program	30	-	-	-
Total Revenues		$ 754	$ 793	$ 985

^ Administrative fee was 60 basis points in FY 2011 and 30 basis points thereafter

CHESLA accounts for its financial position and operations through three primary funds, an agency operating fund and two bond funds which reflect activity associated with bonds issued and student loans made in connection with two bond resolutions, a 1990 resolution and a 2003 resolution. The financial overview of CHESLA that follows in this MD&A represents the combined results and financial position for all three funds.

(Amounts Expressed in Thousands)

CHESLA Statements of Net Position

	2013	2012	2011
Assets:			
Current unrestricted assets:			
Cash and investments	$ 1,230	$ 1,094	$ 974
Current portion of loans receivable, net	18,652	16,341	14,986
Interest receivable on loans	519	466	458
Board designated investments	1,000	1,600	1,600
Other	165	149	179
Total current unrestricted assets	21,566	19,650	18,197
Current restricted assets	37,509	39,133	58,108
Total current assets	59,075	58,783	76,305
Noncurrent assets:			
Restricted investments	22,036	19,540	19,160
Loans receivable, net of current portion	102,743	103,824	104,349
Bond issuance costs, net*	248	2,592	2,848
Total noncurrent assets	125,027	125,956	126,357
Total assets	$ 184,102	$ 184,739	$ 202,662
Liabilities:			
Current liabilities:			
Accounts payable and accrued expenses	$ 36	$ 102	$ 123
Current portion of bonds payable	10,275	11,210	8,575
Accrued interest payable	761	866	1,012
Current portion of deferred revenue	-	454	453
Total current liabilities	11,072	12,632	10,163
Long term liabilities	158,225	157,806	179,657
Total liabilities	169,297	170,438	189,820
Net position:			
Unrestricted	(44,740)	(5,895)	(6,655)
Restricted	59,545	20,196	19,497
Total net position	14,805	14,301	12,842
Total liabilities and net position	$ 184,102	$ 184,739	$ 202,662

The following is an overview of significant changes in the statements of net position from FY 2013 to FY 2012 and from FY 2012 to FY 2011:

Current Unrestricted Assets - Current unrestricted assets consist primarily of the current portion of loans receivable, net of loan loss allowances. In FY 2013, current loans receivable increased by approximately 14%, or \$2,311, over FY 2012 levels. From FY 2011 to FY 2012, current loans receivable increased by 9%. Cash and investments in the operating fund, the other significant component of current unrestricted assets (totaling \$2,230 in FY 2013 and \$2,694 and \$2,574 in FY 2012 and FY 2011, respectively) decreased in FY 2013 by 17% as a result of a \$700 contribution from the operating fund to the Series 2013A bond financing.

Current Restricted Assets - Current restricted assets consist primarily of trustee held funds associated with the bond resolutions representing dollars either in the loan fund, revenue fund or debt service fund.

Non-current Assets - Noncurrent restricted investments primarily consist of assets held in the Special Capital Reserve Funds, which are the debt service reserve funds backed by the State of Connecticut associated with outstanding bonds. Dollar amounts have fluctuated as bonds have been redeemed or new bonds have been issued.

The largest component of noncurrent assets is loans receivable. Loans receivable have not changed significantly since FY 2011. Although \$25,000 of additional bonds to fund loans were issued in FY 2013, most of the lending of those proceeds is expected to occur after fiscal year end.

With the adoption of GASB 65, there is a significant change in noncurrent assets in FY 2013. Unamortized bond issuance costs are only reflected to the extent that they relate to bond insurance premium costs, and these costs are now described as prepaid bond insurance premiums. Total noncurrent assets declined from \$125,956 in FY 2012 to \$125,027 in FY 2013, also reflecting an increase in restricted investments.

Current Liabilities - Current liabilities include the current portion of bonds payable (which is the largest component representing approximately 93% of total current liabilities in FY 2013), accrued interest payable and historically has also included the current portion of deferred revenue. Deferred revenue represented CHESLA's origination fee on loans. As a result of GASB 65 implementation in FY 2013, there is no deferred revenue liability in FY 2013. In FY 2012 and 2011, the current portion of this liability represented 3.6% and 4.5% of total current liabilities, respectively.

Noncurrent Liabilities - Noncurrent or long term liabilities primarily represent bonds payable. Fluctuations in bonds payable since FY 2011 reflect bond paydowns and redemptions and the additional bonds issued in FY 2013. In FY 2012 and 2011, noncurrent liabilities also included deferred revenue, representing CHESLA's loan origination fees. As previously mentioned, this liability was eliminated with the implementation of GASB 65.

Net Position - Total net position of \$14,805 for FY 2013 reflects the net impact of operations and of GASB 65, with the elimination of unamortized bond issuance costs and deferred revenue affecting net position.

(Amounts Expressed in Thousands)

Revenues and Expenses - The following is a summary of CHESLA's operating revenues, operating expenses and changes in net position for the years ended June 30, 2013, 2012 and 2011:

	2013	2012	2011
Operating revenues:			
Interest income - loans receivable	$ 7,867	$ 7,860	$ 7,960
Investment income	388	2,622	968
Total operating revenues	8,255	10,482	8,928
Operating expenses:			
Interest expense	6,483	7,650	7,997
Loan collection fees	532	493	477
Bond issuance and insurance costs	524	627	475
General and administrative expenses	472	519	494
Salaries and related expenses*	189	120	133
Provision for loan losses (benefit)	(106)	180	47
Arbitrage rebate and excess loan yield provision (benefit)	35	(566)	(384)
Total operating expenses	8,129	9,023	9,239
Change in net position	$ 126	$ 1,459	$ (311)

* For FY 2012 and 2011, salary related expenses were included as part of general and administrative expenses, with salary only reported on a separate line. The salary only expense for FY 2013 was $140.

Revenues - Interest income on loans receivable is the largest component of operating revenues. Over the past three years interest income has been relatively stable at approximately $7,900.

With regard to investment income, CHESLA had income from investments of $388 in FY 2013, an 85% reduction from income in FY 2012. From FY 2011 to FY 2012, investment income increased by approximately $1,700.

Expenses - Interest expense represents the largest component of operating expenses and totaled approximately $6,483 in FY 2013, a 15% change from FY 2012 levels. Interest expense was relatively consistent from FY 2011 to FY 2012.

Loan collection fees increased $39 in FY 2013 reflecting an increase in the amount collected.

With the implementation of GASB 65, bond issuance costs now represents costs associated with the Series 2013A bonds and prepayment of insurance premium costs. Prior to FY 2013, bond issuance costs were amortized over the life of the bonds.

As a result of the consolidation with CHEFA, certain functions which were previously outsourced (such as accounting services and general counsel services) were transitioned to being provided by CHEFA staff. During this period, there was some service overlap between outside providers and internal (i.e. CHEFA) providers in order to facilitate a smooth transition of services. In FY 2013, CHESLA was assessed a service charge by CHEFA and paid service fees to outside providers until outside services were terminated. The CHEFA service charge for FY 2013 was $114, including a rent component of $4. The previously existing management contract did not terminate until after the first quarter of FY 2013, incurring an additional expense of $26. Outside vendors for accounting and legal services were also paid $96 in FY 2013. In FY 2012, prior to consolidation with CHEFA, $216 was paid for management, accounting and general counsel services. All amounts affect the operating fund only.

Salaries and related expenses in FY 2013 includes salaries, payroll taxes, employee pension benefits, employer funded health benefit costs and tuition reimbursements. Of the $189 reported, $140 represents actual salary. In FY 2012 and 2011, salary related costs (other than actual salary) are included as part of administrative and general expense.

The provision for loan losses is based on a weighted average factor of collections, net of write-offs, relative to loans issued and outstanding. This methodology has been in use throughout the three-year period.

CONNECTICUT HEALTH AND EDUCATIONAL FACILITIES AUTHORITY CONSOLIDATED FINANCIAL STATEMENTS

The audited statements that follow this management's discussion and analysis are consolidated and include both CHEFA and CHESLA.

CONTACTING THE AUTHORITY

This financial report is designed to provide a general overview of the Authority's finances, including CHESLA. 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 Year Ended June 30, 2013
(Amounts Expressed in Thousands)

Exhibit A

Restricted Construction Fund Balances As of June 30, 2011 - 2013* (Amounts Expressed in Thousands)

Issue Name	Date of Bond Issue	Scheduled Completion Date	Fund Balance 2013	Fund Balance 2012	Fund Balance 2011
Bridgeport Hospital D	05/31/12	05/12	$ 20	$ 184	$ -
Connecticut Children's Medical Center D	06/30/11	06/13	-	-	719
Day Kimball Hospital B	06/06/13	06/15	11,155	-	-
Eastern Connecticut Health Network E	12/21/10	12/12	-	-	1,067
Hartford Health Care A	09/29/11	09/13	5,179	30,094	-
Hartford Health Care B	09/29/11	09/13	17,704	46,738	-
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
Norwalk Hospital J	12/07/12	12/14	66,663	-	-
Stamford Hospital I	05/27/10	05/12	-	-	1,360
Stamford Hospital J	06/20/12	06/14	203,296	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	43,110	73,768	-
Western CT Healthcare M	07/13/11	07/13	19,508	34,019	-
Western CT Healthcare N	11/22/11	11/12	-	67	-
Yale New Haven Hospital M	12/22/10	12/12	-	30,971	85,292
Masonicare E	09/05/12	09/14	28	-	-
Pierce Memorial Baptist Home B	03/13/13	03/15	30	-	-
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. E	05/30/03	04/05	-	-	4,361
Connecticut St. Univ. Sys. G	06/17/05	05/07	-	-	1,720
Connecticut St. Univ. Sys. J	06/22/11	06/21	10,930	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	-
Connecticut St. Univ. Sys M	01/10/13	01/15	36,585	-	-
Fairfield University O	03/17/10	03/12	-	1,002	15,580
Mitchell College A	11/02/10	11/12	-	-	20
Quinnipiac University I	12/20/07	11/08	-	-	16,992
Sacred Heart University G	06/29/11	06/28	5,244	5,243	28,650
Sacred Heart University H	02/14/12	02/12	163	164	-
University of Bridgeport C	12/09/10	12/12	-	1,132	4,957
University of Bridgeport D	11/02/12	11/14	11,360	-	-
University of Hartford H	04/26/12	04/14	-	45	-
University of Hartford I	04/26/12	04/14	-	9	-
Yale University 2010A	02/24/10	02/12	-	24,609	127,991
Brunswick School C	03/29/12	03/12	-	29	-
Ethel Walker School C	04/03/13	04/15	5,834	-	-
Forman School B	03/28/13	03/15	2,895	-	-
Gunnery School B	09/28/12	09/14	43	-	-
Kent School F	03/28/13	03/15	6,847	-	-
Loomis Chaffee School H	08/23/11	08/12	-	6	-
Norwich Free Academy B	03/01/13	03/15	127	-	-
Pomfret School B-1	06/14/12	06/14	2	41	-
Pomfret School B-2	06/14/12	06/14	4	5,881	-
Rectory School B	01/05/12	01/14	1,189	1,833	-
Taft School I	11/07/12	11/14	4,329	-	-
Westminster School G	06/29/12	06/14	-	6,149	-
Winston Prepartory School A	04/13/12	04/14	2,908	5,922	-
Child Care Facility Prog. G	10/23/08	10/10	-	-	153
Bushnell Memorial B	03/16/12	03/12	664	687	-
Greater Hartford YMCA C	04/27/12	04/14	-	2	-
UCONN Foundation C	04/24/13	04/15	17,612	-	-
EasyLoans	various	various	34,349	18,226	-
CONSTRUCTION FUND TOTAL (1)			$ 507,778	$ 571,404	$ 358,397

* includes all cash and investments for Construction Fund, Cost of Issuance, Capitalized Interest, Equity Accounts and EasyLoans.

(1) For FY 2013 and 2012 Authority management is including the proceeds of Easy Loan tax-exempt equipment financing on the balance sheet as part of Fund Investments.

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 consolidated financial statements of the State of Connecticut Health and Educational Facilities Authority (the Authority), a component unit of the State of Connecticut, which comprise the statement of net position as of June 30, 2013, and the related statements of revenue, expenses and changes in net position and cash flows for the year then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. 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 consolidated financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Authority's preparation and fair presentation of the consolidated 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 Authority'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 consolidated 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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Authority as of June 30, 2013, 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.

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Report on Consolidating Financial Statements

Our audit was conducted for the purpose of forming an opinion on the basic consolidated financial statements taken as a whole. The consolidating financial statements are presented for purposes of additional analysis in conjunction with the consolidated financial statements rather to present the financial position and results of operations of the individual entities and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The consolidating financial statements have been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the consolidating financial statements are fairly stated in all material respects in relation to the consolidated financial statements as a whole.

Other Matters

In accordance with *Government Auditing Standards*, we have also issued our report dated September 18, 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, 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 consolidated financial statements. Such information, although not a part of the basic consolidated 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 consolidated 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 consolidated financial statements, and other knowledge we obtained during our audit of the basic consolidated 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.

DRAFT

Avon, Connecticut
September 18, 2013

State of Connecticut Health and Educational Facilities Authority
Consolidated Statement of Net Position
June 30, 2013
(Amounts Expressed in Thousands)

Assets		
Current assets:		
Unrestricted assets:		
Cash	$	277
Investments		1,180
Current portion of loans receivable, net of allowances for loan losses of $2,321		18,652
Accounts receivable, less allowance of $86		195
Interest receivable on investments		150
Interest receivable on loans receivable		519
Board-designated investments		11,638
Prepaid expenses and other assets		106
Total unrestricted assets		32,717
Restricted assets:		
Cash		57
Fund investments		545,230
Total restricted assets		545,287
Total current assets		578,004
Non-current assets:		
Restricted investments		29,203
Loans receivable, net of current portion		102,743
Prepaid bond insurance premiums		248
Capital assets, net		178
Total non-current assets		132,372
Total assets	$	710,376
Liabilities and Net Position		
Current liabilities:		
Accounts payable and accrued expenses	$	1,709
Current portion of bonds payable		10,275
Accrued interest payable		761
Amounts held for institutions		507,778
Total current liabilities		520,523
Non-current liabilities:		
Bonds payable, net of current portion		158,225
Amount held on behalf of the State of Connecticut		2,182
Total non-current liabilities		160,407
Total liabilities		680,930
Net position:		
Invested in capital assets		178
Restricted		64,530
Unrestricted		(35,262)
Total net position		29,446
Total liabilities and net position	$	710,376

The accompanying notes are integral part of these consolidated financial statements.

State of Connecticut Health and Educational Facilities Authority
Consolidated Statement of Revenues, Expenses and Changes in Net Position
For the Year Ended June 30, 2013
(Amounts Expressed in Thousands)

Operating revenues:	
Interest income on loans receivable	$ 7,867
Administrative fees	7,110
Investment income	402
Bond issuance fees	158
Other revenues	131
Total operating revenues	15,668
Operating expenses:	
Interest expense	6,483
Salaries and related expenses	3,033
General and administrative expenses	1,419
Loan collection fees	532
Bond issuance costs	524
Provision for loan losses (benefit)	(106)
Arbitrage rebate and excess loan yield benefit	35
Total operating expenses	11,920
Total operating income	3,748
Non-operating - revenues (expenses):	
Grant expense	(2,267)
Total non-operating expense	(2,267)
Increase in net position	1,481
Net position, beginning of year (See Note 1)	27,965
Net position, end of year	$ 29,446

The accompanying notes are integral part of these consolidated financial statements.

State of Connecticut Health and Educational Facilities Authority
Consolidated Statement of Cash Flows
For the Year Ended June 30, 2013
(Amounts Expressed in Thousands)

Cash flows from operating activities:		
Cash received from loan payments	$	18,468
Cash received for administrative fees		7,311
Interest received on loans		7,274
Cash received from other operating income		272
Loans disbursed		(19,629)
Payments of bond interest		(6,591)
Cash paid to employees		(2,987)
Cash paid to grantees		(1,392)
Cash paid for other expenses		(1,812)
Net cash provided by operating activities		915
Cash flows from noncapital financing activities:		
Proceeds from bond sales, net		433,058
Proceeds from institutions		1,546
Bond issuance costs		(466)
Payments of bond principal		(23,405)
Construction expenses paid		(357,106)
Net transfers to restricted funds		(132,212)
Net cash used in noncapital financing activities		(78,585)
Cash flows from capital and related financing activities:		
Net purchases of capital assets		(105)
Net cash used in capital and related financing activities		(105)
Cash flows from investing activities:		
Cash from restricted investment earnings		1,175
Net proceeds from investments		76,503
Cash received from investment earnings		13
Net cash provided by investing activities		77,692
Net change in cash		(83)
Cash, beginning of year		417
Cash, end of year	$	334

The accompanying notes are integral part of these consolidated financial statements.

Note 1 - Summary of Significant Accounting Policies

Reporting Entity - The Connecticut Health and Educational Facilities Authority (CHEFA) is a quasi-public agency of the State of Connecticut (the State). CHEFA 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). CHEFA 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 CHEFA, as stated in the Act, is to assist certain health care institutions, institutions of higher education and qualified not-for-profit institutions in the financing and refinancing of projects to be undertaken in relation to the programs for these institutions. Debt issued by CHEFA is payable from the revenues of the institutions and is not an obligation of CHEFA or the State of Connecticut. Neither the State or CHEFA is obligated for such debt (except for loans or bonds issued under the Child Care Facilities Loan Program as discussed in Note 6 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.)

The Connecticut Higher Education Supplemental Loan Authority (CHESLA) is a quasi-public agency established in 1982 pursuant to Section 4 of the Connecticut Higher Education Supplemental Loan Authority Act, Public Act 82-313 of the Connecticut General Assembly. CHESLA was established to assist students, their parents and institutions of higher education in financing the cost of higher education through its bond funds. CHESLA maintains separate financial statement accounts for its agency operating fund and two separate bond funds. The administrative functions of CHESLA are accounted for in the agency operating fund. The 1990 Bond Fund is governed by the 1990 Revenue Bond Resolution, as amended, supplemented and restated, pursuant to which all outstanding bonds were issued prior to the 2003 and after 2007. The 2003 Bond Fund is governed by the 2003 Master Revenue Bond Resolution pursuant to which all outstanding bonds were issued between 2003 and 2007.

Consolidation - Public Act 12-149, effective July 1, 2012, statutorily consolidated CHESLA with CHEFA by making CHESLA a subsidiary of CHEFA. As a subsidiary of CHEFA, CHESLA retains its legal identity as a separate quasi-public authority, continues to be subject to suit and liability solely from its own assets, revenues and resources, and has no recourse to the general funds, revenues, resources or other assets of CHEFA or the State of Connecticut. The supplemental schedules on pages 35 through 37 show the combined financial statement balances of CHESLA's agency operating fund and bond funds as previously described as well as the overall CHEFA and CHESLA consolidated financial statement balances. All intracompany balances between the CHESLA agency operating fund and the bond funds have been eliminated. All intercompany balances between CHESLA and CHEFA have been eliminated. Throughout these consolidated financial statements, CHEFA and CHESLA are referred to as the Authority on a consolidated basis.

Measurement focus and basis of accounting - The accompanying basic consolidated financial statements of the Authority have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP). GAAP applicable to state and local governmental entities is promulgated by the Governmental Accounting Standards Board (GASB).

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.

Note 1 - Summary of Significant Accounting Policies (continued)

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. Proprietary funds are accounted for on a cost of services or "capital maintenance" measurement focus. This means that all assets and all liabilities (whether current or noncurrent) associated with the funds' activity are included on the funds' statement of net position.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the proprietary funds are charges to customers for services. Operating expenses for proprietary funds include the cost of providing services to customers. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

***Recently adopted accounting standards* -** The Authority has adopted GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities* (GASB No. 65). This standard establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. The provisions of this standard that affect the Authority most significantly relate to debt issuance costs and loan origination fees. Debt issuance costs, except any portion related to prepaid insurance costs, should be recognized as an expense in the period incurred. In addition, loan origination fees, except any portion related to points, should be recognized as revenue in the period received. The adoption of this standard required the restatement of CHESLA's July 1, 2012 net position by $378, to remove the beginning balances of unamortized bond issuance costs (other than insurance) and also to remove deferred revenue related to loan origination fees.

***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, 2013.

***Investments* -** In accordance with GASB 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.

CHEFA's restricted assets include assets held in construction and project funds for which CHEFA 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.

Note 1 - Summary of Significant Accounting Policies (continued)

CHESLA's restricted assets include assets held by the individual bond funds as governed by the bond resolutions as previously described. Under the provisions of the bond resolutions, certain assets are restricted for the repayment of bond principal and interest and for the issuance of student loans. Under the bond funds, CHESLA issues revenue bonds, the proceeds of which are used to provide loans for student borrowers to assist in the financing of their higher education. Revenue in the bond funds is derived from interest earned on investments and loans receivable. The 2003 Bond Fund is governed by the 2003 Master Revenue Bond Resolution, pursuant to which the 2003 and 2005 Series A and B and 2006 and 2007 Series A bonds were issued. The 1990 Bond Fund is governed by the 1990 Revenue Bond Resolution pursuant to which all outstanding bonds were issued prior to the 2003 Series A and B bonds as well as the 2009, 2010, 2012 and 2013 Series A bonds. In accordance with the bond resolutions, CHESLA internally accounts for each bond issue separately, which includes individual funds as defined by each bond resolution, including but not limited to combinations of some of the following: the Loan Fund, Revenue Fund, Debt Service Fund and Special Capital Reserve Fund.

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

- CHEFA's interest 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.
- CHEFA's restricted investments classified as non-current include funds held by CHEFA under its agency relationship with the State Department of Education (SDE) described in Note 6 and investments held in connection with the Connecticut Credit Union Student Loan Guarantee program.
- CHESLA's restricted investments classified as current include the fund investments held by CHESLA pursuant to the bond resolutions in the individual Loan Fund, Revenue Fund and Debt Service Funds.
- CHESLA's restricted investments classified as non-current include funds held by CHESLA pursuant to the bond resolutions in individual Special Capital Reserve Funds (Note 9).

***Non-operating revenue and expense* -** Activities not related to CHEFA's primary purpose are considered non-operating. Non-operating income and expenses consist primarily of expenses related CHEFA's grant program and income from investments. All of CHESLA's revenues and expenses are considered operating.

***Amounts held for institutions* -** Amounts held for institutions represent amounts payable to institutions, bondholders, and others from CHEFA's restricted assets.

***Amounts held on behalf of the State of Connecticut* -** Amounts held on behalf of the State of Connecticut represent funds transferred to CHEFA under its agency relationship with SDE related to the childcare program pursuant to Public Act 97-259 (See Note 6 for further discussion).

Note 1 - Summary of Significant Accounting Policies (continued)

***Capital assets* -** Capital assets, which include property, plant and equipment, are stated at cost. CHEFA defines capital assets as assets with an initial cost exceeding five-hundred dollars. Depreciation and amortization are 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.

***Administrative fees* -** CHEFA is self-supporting and charges an administrative fee to institutions with outstanding bond issues to cover its operating expenses. 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, CHEFA charges a bond issuance fee of five thousand dollars for each bond issue.

CHESLA also is self-supporting and charges an administrative fee on outstanding loan balances to cover its operating expenses. The fees are assessed to the bond resolution funds and vary in accordance with the related bonds series and range from 30 to 100 basis points.

***Loans receivable and allowance for loan losses* -** For CHESLA, interest on loans receivable is accrued and credited to operations based upon the principal amount outstanding. Loans are placed on nonaccrual status when management believes principal or interest on such loans may not be collected in the normal course of business. The allowance for loan losses has been provided through charges against operations based on management's evaluation of the loan portfolio and maintained at a level believed adequate to absorb potential losses in the loan portfolio. Loans are typically written off against the allowance for loan losses (net of loan recoveries) in the period in which the loans become nonperforming and no payments have been made for 12 consecutive months. However, a loan may be written off at any time management believes the repayment of such loan is doubtful. Collections of loans previously written off are pursued until management believes that further recoveries are doubtful.

***Prepaid bond insurance premium* -** Bond insurance premiums are amortized on a straight-line basis over the term of the related bonds. All other bond issuance costs are expensed as incurred pursuant to the provisions of GASB No. 65 as previously mentioned. Prior to the adoption of GASB No. 65, all bond issuance costs were amortized over the term of the related bonds.

Note 1 - Summary of Significant Accounting Policies (continued)

Arbitrage rebate and excess loan yield liability **-** Under the Internal Revenue Code of 1986 (the Code), CHESLA is required to rebate to the federal government certain excess earnings on investments from funds obtained with its tax-exempt bonds, as defined by the Code or reduce its excess loan yield on student loans financed with tax-exempt bonds. CHESLA calculates this liability annually.

Loan reserve fee revenue **-** CHESLA charges a 3% reserve fee on loans governed by the 2003 Master Revenue Bond Resolution and a 2% to 4% reserve fee on loans governed by the 1990 Revenue Bond Resolution, depending on the originating series. This fee is recognized as an origination fee to the loans and in accordance with GASB No. 65, as previously mentioned, is recognized upon issuance of the related loan. Prior to adoption of GASB No. 65, the fee was deferred and recognized over the life of the loan on a straight-line basis.

Interest income on loans - Interest income on loans is recognized based on the rates applied to principal amounts outstanding. The accrual of interest income is generally discontinued when a loan is classified as nonperforming (see Note 3). Loans are currently considered nonperforming by management when the borrower has not made payments for the most recent three months.

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 consolidated financial statements. Actual results could differ from those estimates. A material estimate that is particularly susceptible to significant change relates to the determination of the allowance for loan losses. In determining the allowance for loan losses, management uses historical loss experience to make predictions about future losses. As the loan portfolio matures, CHESLA adjusts its estimate of expected default rates used to estimate loan losses.

Subsequent event measurement date **-** The Authority monitored and evaluated any subsequent events for footnote disclosures or adjustments required in its consolidated financial statements for the year ended June 30, 2013 through September 18, 2013, the date on which the consolidated financial statements were available to be issued. Management believes there are no subsequent events having an impact on the consolidated financial statements.

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. CHEFA does not have a deposit policy for custodial credit risk.

As of June 30, 2013, $34 of the Authority's bank balances of $334 was exposed to custodial credit risk.

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.

(Amounts Expressed in Thousands)

Note 2 - Cash Deposits and Investments (continued)

A reconciliation of the Authority's cash deposits as of June 30, 2013 is as follows:

Unrestricted assets:		
Cash	$	277
Restricted assets:		
Cash		57
	$	334

***Investments* -** As of June 30, 2013, the Authority's investments consisted of the following:

Investment type	Fair Value	Investment Maturities: Less than 1 year	1 to 10 years	More than 10 years
Money market funds	$ 513,824	$ 513,824	$ -	$ -
Short-term Investment Fund (STIF)	48,777	48,777	-	-
Guaranteed Investment Contracts (GIC):				
IXIS Funding Corp	1,459	-	1,459	-
GE Capital Corp	2,200	-	2,200	-
Rabobank International	1,611	-	1,611	-
MBIA, Inc.	3,000	-	3,000	-
FSA Capital Management Services	5,300	-	2,500	2,800
GE Capital Corp	512	-	512	-
Salomon Smith (Citigroup)	600	-	600	-
U.S. treasuries	9,968	2,849	-	7,119
Total	$ 587,251	$ 565,450	$ 11,882	$ 9,919

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.

Note 2 - Cash Deposits and Investments (continued)

***Interest rate risk* -** CHEFA and CHESLA invest unrestricted funds in the Connecticut State Treasurer's Short Term Investment Fund (STIF), which has historically maintained its net asset values such that the principal of the investments is not eroded by interest rate fluctuations. In addition, CHEFA invests some of its unrestricted funds in money market funds. CHEFA's investment policy provides that the 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 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. CHESLA's specific investment policy complies with the underlying bond resolution requirements previously described.

***Credit risk* -** CHEFA 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 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 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, CHEFA 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 CHEFA 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 as the applicable deposit and investment policies comply with the underlying relevant trust indentures, agreements, and bond resolutions. The Authority was not subject to custodial risk because it did not have any uninsured and unregistered securities held by the counterparty or by its trust department or agent that were not in the Authority's name.

(Amounts Expressed in Thousands)

Note 2 - Cash Deposits and Investments (continued)

***Concentrations of credit risk* -** For unrestricted investments, CHEFA 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. CHEFA's investment portfolio as of June 30, 2013 was in compliance with this policy. CHEFA places no limit on the amount of investment in any one issuer for restricted investments.

Note 3 - Loans Receivable

Under the Bond Fund Program, CHESLA makes loans to students from the proceeds of bonds issued by CHESLA. Loans receivable by outstanding bond series as of June 30, 2013 are as follows:

Bond Series	Number of Loans at June 30, 2013	Balance at June 30, 2013	Interest Rate %
2003A&B*	1,202	7,450	4.99 and 9.20
2005A&B**	1,292	12,880	5.5, 8.25 and 8.40
2006A***	1,309	14,121	0 and 6.15
2007A	1,918	23,749	6.99
2009A	1,543	19,891	6.80
2010A****	2,249	35,428	5.95, 7.25 and 7.5
2012A*****	1,803	7,426	2.00 - 7.50
2013A	29	248	5.99
	11,345	$ 121,193	
Add: nonperforming loans		2,523	
Less: allowance for loan losses		(2,321)	
		$ 121,395	

* Includes loans issued under the 1991 Series A bonds that were refunded by the 2003 Series B bonds.

** Includes loans issued under 1993 and 1994 Series A bonds that were refunded by the 2005 Series B bonds.

*** Includes loans issued under the 1996 Series A bonds that were refunded by the 2006 Series A bonds.

**** Includes loans issued under 1999 and 2000 series B bonds that were refunded by the 2010 Series A bonds.

***** Includes loans issued under 1999, 2000, and 2001 Series A bonds and 1998 Series A and B bonds that were refunded by the 2012 Series A bonds.

CHESLA currently defines nonperforming loans as defaulted loans in collections but not written off. Write-off occurs if no payment has been received by the collection agency in 12 months. Interest income of approximately $133 for the year ended June 30, 2013 was not accrued on nonperforming loans.

(Amounts Expressed in Thousands)

Note 3 - Loans Receivable (continued)

CHESLA has a policy to write off uncollectible loans against the allowance for loan losses when certain criteria are met (see Note 1). In connection with this policy, CHESLA wrote off loans receivable of $422 for the year ended June 30, 2013, which had previously been provided for through the allowance for loan losses. CHESLA recovered $119 in fiscal year 2013 in loans receivable and other credits that were written off in previous years.

Note 4 - Capital Assets

Capital asset activity for the year ended June 30, 2013 is as follows:

2013	Beginning Balances	Increases	Decreases	Ending Balances
Capital assets being depreciated:				
Leasehold improvements	$ 147	$ 5	$ -	$ 152
Computer equipment	601	22	-	623
Furniture and fixtures	255	21	-	276
Office equipment	419	57	-	476
Total capital assets	1,422	105	-	1,527
Less accumulated depreciation and amortization for:				
Leasehold improvements	(146)	(2)	-	(148)
Computer equipment	(601)	(15)	-	(616)
Furniture and fixtures	(235)	(17)	-	(252)
Office equipment	(282)	(51)	-	(333)
	(1,264)	(85)	-	(1,349)
	$ 158	$ 20	$ -	$ 178

Note 5 - Bonds Payable

The following is a summary of changes in CHESLA's bonds payable for the year ended June 30, 2013:

	Balance at July 1, 2012	Increases	Decreases	Balance at June 30, 2013	Due Within One Year
Bonds payable - principal	$ 166,065	$ 25,000	$ (23,405)	$ 167,660	$ 10,275
Discount	(620)	-	69	(551)	-
Premium	1,361	104	(74)	1,391	-
	$ 166,806	$ 25,104	$ (23,410)	$ 168,500	$ 10,275

(Amounts Expressed in Thousands)

Note 5 - Bonds Payable (continued)

The bonds of CHESLA bear interest at rates varying between 1.7% and 7%. Future amounts needed to pay principal and interest on bonds outstanding at June 30, 2013 is as follows:

Year Ending June 30	Principal	Interest
2014	$ 10,275	$ 6,483
2015	11,395	6,088
2016	12,655	5,624
2017	12,900	5,103
2018	12,930	4,558
2019-2023	57,955	15,230
2024-2028	33,595	5,797
2029-2033	12,160	1,513
2034-2035	3,795	149
	$ 167,660	$ 50,545

Outstanding principal of each bond issue at June 30, 2013, is as follows:

	Original Amount	Outstanding June 30, 2013
2003 Series A, 1.7%-4.5%, due serially from November 15, 2004 to November 15, 2020	$ 18,000	$ 6,810
2003 Series B, 2%-5%, due serially from November 15, 2004 to November 15, 2017	12,915	4,270
2005 Series A, 2.5%-4.375%, due serially from November 15, 2005 to November 15, 2021	31,455	13,825
2006 Series A, 3.9%-4.8%, due serially from November 15, 2007 to November 15, 2022	33,270	14,985
2007 Series A, 4.125%-1.875%, due serially from November 15, 2010 to November 15, 2024	41,000	28,020
2009 Series A 1.9%-5.05%, due serially from November 15, 2011 to November 15, 2027	30,000	23,645
2010 Series A 2.0%-5.25%, due serially from November 15, 2014 to November 15, 2035	45,000	40,965
2012 Series A .4%-3.125%, due serially from November 15, 2012 to November 15, 2021	13,085	10,140
2013 Series A .14%-3.98%, due serially from November 15, 2014 to November 15, 2029	25,000	25,000
	$ 249,725	$ 167,660

(Amounts Expressed in Thousands)

Note 5 - Bonds Payable (continued)

Each Series A bond is subject to a special mandatory redemption in whole or in part from excess loan payments. During the year ended June 30, 2013, CHESLA redeemed bonds in the following amounts:

2003 Series A	$	600
2005 Series A		500
2006 Series A		800
2007 Series A		1,100
2009 Series A		300
2010 Series A		3,000
2012 Series A		500
	$	6,800

As of June 30, 2013, CHEFA has total outstanding principal balances of special obligation bonds of $8,030,153. 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 CHEFA and do not constitute obligations of CHEFA and therefore not reported within the statements of net position.

CHEFA issued general obligation bonds through July 1979 for which CHEFA was ultimately responsible for the payment of principal and interest when due. Subsequent to July 1, 1979, CHEFA has issued only special obligation bonds for which principal and interest is payable solely from the revenues of the institutions. As of June 30, 2013 there were no general obligation bonds outstanding.

Note 6 - Child Care Facilities Loan Programs

CHEFA 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, CHEFA 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, CHEFA 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 6 - Child Care Facilities Loan Programs (continued)

As of June 30, 2013, there was approximately $61,155 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.

***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. CHEFA is responsible for guaranteeing 20% to 50% of each loan outstanding. As of June 30, 2013, outstanding loan balances totaled $8,445. On average, CHEFA is guaranteeing 38% of those balances, or approximately $3,212.

In FY 1998, CHEFA 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 CHEFA to further support this program, with those funds serving as an additional reserve.

In June 1999, CHEFA's 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, the Connecticut Department of Social Services (DSS) transferred $750 to CHEFA to support the Small Direct Loan Program. The funds transferred to CHEFA represent funds available to provide loan guarantees. As of June 30, 2013, the balance of those funds remaining was $682, reflecting drawdowns for prior year loan defaults. CHEFA 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 CHEFA's $4,320 to support the Guaranteed Loan Fund Program, are recorded within Restricted Investments.

Note 7 - Student Loan Programs Mandated by State Statute

Pursuant to Public Act 09-110, which established the Connecticut Credit Union Student Loan Program, CHEFA was required to fund a first loss loan guarantee of 20% on the outstanding balance on each loan. The guarantee reserve at June 30, 2013 was $665, and is sufficient to meet the loan loss reserve requirement. This amount is included within restricted investments.

Note 8 - Net Position

A portion of the unrestricted net position has been designated by CHEFA's Board of Directors for operations and the remainder for programs that are part of CHEFA's mission and purpose, as well as for contingencies. In addition, as described in Note 6, CHEFA 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 $665 set aside for the Connecticut Credit Union Student Loan Program for FY 2013 are reflected within restricted net position.

(Amounts Expressed in Thousands)

Note 8 - Net Position (continued)

CHESLA's Board of Directors designated unrestricted net assets of $1,000 as of June 30, 2013, to be used to maintain future operations required to monitor and administer the loan portfolio in the event CHESLA ceases to issue new loans. CHESLA's restricted net assets consist of $37,509 of bond fund investments for debt service and issuance of student loans as of June 30, 2013 as well as $22,036, required by the bond indentures to be maintained in the Special Capital Reserve Funds.

A summary of the net position as of June 30, 2013 is as follows:

Invested in capital assets	$	178
Restricted:		
Special Capital Reserve Funds		22,036
Bond Fund Investments		37,509
Child Care Facilities Loan Program		4,320
Student Loan Guarantee Program		665
Total restricted		64,530
Unrestricted:		
Focused investment program		1,025
Legal fee contingencies		1,500
Operations and contingency		6,953
CHESLA deficit		(44,740)
Total unrestricted		(35,262)
Total	$	29,446

Note 9 - State of Connecticut Deposit Requirement

Deficiencies, if any, in the Debt Service Fund balances within the CHESLA Bond Funds will be funded from the amount on deposit in the applicable Special Capital Reserve Fund. Both the Debt Service Fund and the Special Capital Reserve Fund are components of restricted investments. In accordance with the Public Act 82-313, the State must deposit with the trustee monies necessary to restore the Special Capital Reserve Fund requirement. As of June 30, 2013, the State has not made nor was it required to make any such deposit.

Note 10 - Related Party Transactions

CHEFA charged CHESLA in FY 2013 an annual fee of $110 for providing management, accounting, legal and other services, sharing of rental space, and office equipment. The managing director of CHEFA serves as executive director of CHESLA. In addition, CHESLA reimbursed CHEFA directly for specific general and administrative expenses incurred. The general agency fund of CHESLA charges a fee to each of the bond funds for administering the bond funds. The fee is based on an agreed upon percentage of the outstanding loans payable in each of the funds. For the year ended June 30, 2013, the total fees charged were $754.

(Amounts Expressed in Thousands)

Note 11 - 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 CHEFA and can be amended by the trustees of the Plan. CHEFA and CHESLA contribute annually to the Plan an amount equal to ten percent of each qualified employee's annual salary. For the year ended June 30, 2013, retirement plan expense was $229.

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. CHEFA and CHESLA match up to one thousand five hundred dollars of employee contributions. Related expense was $33 for the year ended June 30, 2013.

Note 12 - Operating Leases

CHEFA leases office space and other office equipment for use in operations. As of June 30, 2013, minimum future rental commitments of the leases are as follows:

2014	$	238
2015	$	241
2016	$	242
2017	$	240
2018	$	244

Rental expense for these leases during the years ended June 30, 2013 was $252.

Note 13 - Legal Matters and Risk Management

The Authority is exposed to various risks of loss related to torts; theft of, damage to or destruction of assets; directors and officers; injuries to employees; or acts of God. The Authority purchases commercial insurance to mitigate loss from these risks. Under terms of the agreements between CHEFA and its borrowers, any costs associated with the litigation are the obligations of the borrowers. CHEFA is indemnified under the terms of the bond agreements.

(Amounts Expressed in Thousands)

Note 14 - 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, 2013.

Cash flows from operating activities:		
Increase in net position	$	1,481
Adjustments to reconcile decrease in net position		
to net cash provided by operating activities:		
Depreciation		86
Income from investments		(402)
Loan reserve fee revenue		(532)
Bond issuance costs		524
Provision for loan benefit		(106)
Amortization of bond discount (premium)		(5)
Changes in assets and liabilities:		
Loans receivable		(1,124)
Accounts receivable		184
Interest receivable on loans receivable		(53)
Prepaid expenses and other assets		17
Accounts payable and accrued expenses		950
Accrued interest payable		(105)
Net cash provided by operating activities	$	915

State of Connecticut Health and Educational Facilities Authority
Consolidating Statement of Net Position
June 30, 2013
(Amounts Expressed in Thousands)

		CHESLA				
		Agency Operating	Bond Funds			
	CHEFA	Fund	1990 Resolution	2003 Resolution	Total CHESLA	Total
Assets						
Current assets:						
Unrestricted assets:						
Cash	**$ 227**	$ 50	$ -	$ -	**$ 50**	**$ 277**
Investments	**-**	1,180	-	-	**1,180**	**1,180**
Current portion of loans receivable, net of allowances for loan losses of $2,321	-	-	9,606	9,046	**18,652**	**18,652**
Accounts receivable, less allowance of $86	**195**	-	-	-	**-**	**195**
Interest receivable on investments	-	-	69	81	**150**	**150**
Interest receivable on loans receivable	-	-	297	222	**519**	**519**
Board-designated investments	**10,638**	1,000	-	-	**1,000**	**11,638**
Prepaid expenses and other assets	**91**	15	-	-	**15**	**106**
Total unrestricted assets	**11,151**	2,245	9,972	9,349	**21,566**	**32,717**
Restricted assets:						
Cash	**57**	-	-	-	**-**	**57**
Fund investments	**507,721**	-	29,420	8,089	**37,509**	**545,230**
Total restricted assets	**507,778**	-	29,420	8,089	**37,509**	**545,287**
Total current assets	**518,929**	2,245	39,392	17,438	**59,075**	**578,004**
Non-current assets:						
Restricted investments	**7,167**	-	11,536	10,500	**22,036**	**29,203**
Loans receivable, net of current portion	**-**	-	53,019	49,724	**102,743**	**102,743**
Prepaid bond insurance premiums	**-**	130	-	118	**248**	**248**
Capital assets, net	**178**	-	-	-	**-**	**178**
Total non-current assets	**7,345**	130	64,555	60,342	**125,027**	**132,372**
Total assets	**$ 526,274**	$ 2,375	$ 103,947	$ 77,780	**$ 184,102**	**$ 710,376**

See independent auditors’ report

State of Connecticut Health and Educational Facilities Authority
Consolidating Statement of Net Position (continued)
June 30, 2013
(Amounts Expressed in Thousands)

		CHESLA				
		Agency Operating	Bond Funds			
	CHEFA	Fund	1990 Resolution	2003 Resolution	Total CHESLA	Total
Liabilities and Net Position						
Current liabilities:						
Accounts payable and accrued expenses	**$ 1,673**	$ 15	$ 21	$ -	**$ 36**	**$ 1,709**
Current portion of bonds payable	**-**	-	3,950	6,325	**10,275**	**10,275**
Accrued interest payable	**-**	-	366	395	**761**	**761**
Amounts held for institutions	**507,778**	-	-	-	**-**	**507,778**
Total current liabilities	**509,451**	15	4,337	6,720	**11,072**	**520,523**
Non-current liabilities:						
Bonds payable, net of current portion	**-**	-	97,091	61,134	**158,225**	**158,225**
Amount held on behalf of the State of Connecticut	**2,182**	-	-	-	**-**	**2,182**
Total non-current liabilities	**2,182**	-	97,091	61,134	**158,225**	**160,407**
Total liabilities	**511,633**	15	101,428	67,854	**169,297**	**680,930**
Net position:						
Invested in capital assets	**178**	**-**	-	-	**-**	**178**
Restricted	**4,985**	**-**	40,956	18,589	**59,545**	**64,530**
Unrestricted	**9,478**	2,360	(38,437)	(8,663)	**(44,740)**	**(35,262)**
Total net position	**14,641**	2,360	2,519	9,926	**14,805**	**29,446**
Total liabilities and net position	**$ 526,274**	$ 2,375	$ 103,947	$ 77,780	**$ 184,102**	**$ 710,376**

See independent auditors' report

State of Connecticut Health and Educational Facilities Authority
Consolidating Statement of Revenues, Expenses and Changes in Net Position
For the Year Ended June 30, 2013
(Amounts Expressed in Thousands)

		CHESLA						
		Agency	Bond Funds					
		Operating	1990	2003				
	CHEFA	Fund	Resolution	Resolution	Eliminations	Total CHESLA	Eliminations	Total
Operating revenues:								
Interest income on loans receivable	-	-	4,128	3,739	-	$ 7,867	$ -	$ 7,867
Administrative fees	7,110	754	-	-	(754)	-	-	7,110
Investment income (loss)	14	15	(226)	599	-	388	-	402
Bond issuance fees	158	-	-	-	-	-	-	158
Other revenues	241	-	-	-	-	-	(110)	131
Total operating revenues	7,523	769	3,902	4,338	(754)	8,255	(110)	15,668
Operating expenses:								
Interest expense	-	-	3,030	3,453	-	6,483	-	6,483
Salaries and related expenses	2,844	189	-	-	-	189	-	3,033
General and administrative expenses	1,057	342	252	632	(754)	472	(110)	1,419
Loan collection fees	-	-	378	154	-	532	-	532
Bond issuance and insurance costs	-	30	466	28	-	524	-	524
Provision for loan losses (benefit)	-	-	93	(199)	-	(106)	-	(106)
Arbitrage rebate and excess loan yield benefit	-	-	-	35	-	35	-	35
Total operating expenses	3,901	561	4,219	4,103	(754)	8,129	(110)	11,920
Total operating income (loss)	3,622	208	(317)	235	-	126	-	3,748
Non-operating - revenues (expenses):								
Grant expense	(2,267)	-	-	-	-	-	-	(2,267)
Total non-operating expense	(2,267)	-	-	-	-	-	-	(2,267)
Income before transfers	1,355	208	(317)	235	-	126	-	1,481
Transfers	-	(700)	700	-	-	-	-	-
Increase (decrease) in net position	1,355	(492)	383	235	-	126	-	1,481
Net position, beginning of year (See Note 1)	13,286	2,852	2,136	9,691	-	14,679	-	27,965
Net position, end of year	14,641	2,360	2,519	9,926	-	$ 14,805	$ -	$ 29,446

See independent auditors' report

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 in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the consolidated financial statements of the State of Connecticut Health and Educational Facilities Authority (the Authority), a component unit of the State of Connecticut, which comprise the statement of net position as of June 30, 2013 and the related statements of revenues, expenses and changes in net position and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated September 18, 2013.

Internal Control over Financial Reporting

In planning and performing our audit of the consolidated financial statements, we considered the Authority's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the consolidated 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 Authority's consolidated 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 is important enough to merit attention be those charged with governance.

Our consideration of internal control 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 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 consolidated 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*.

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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*

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

DRAFT

September 18, 2013