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 Years Ended
June 30, 2014 and 2013

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State of Connecticut Health and Educational Facilities Authority
(A Component Unit of the State of Connecticut)
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State of Connecticut Health and Educational Facilities Authority
Management's Discussion and Analysis
As of and for the Years Ended June 30, 2014 and 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 financial statements for the fiscal years ended June 30, 2014 and 2013. Following this MD&A are the 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 or the Authority)

Bonds Issued - The following is a review of CHEFA bonds issued for FY 2014, FY 2013 and FY 2012, summarized by market segment.

In FY 2014, CHEFA bond issuance volume increased 188% over FY 2013 levels and approximately equaled the near record breaking dollar volume experienced in FY 2012. The increase results from more than a 47% increase in bond offerings and a larger average issue size (approximately $43,300 in FY 2014 vs. $22,200 in FY 2013). During FY 2014, CHEFA continued to experience a significant number of privately placed transactions. Approximately 68% of CHEFA's total issues were privately placed, most often directly with local or regional banks. Healthcare was the most active sector in FY 2014 consisting of 14 bond offerings totaling $891,820, with Yale New Haven Health issuing over 60% of the total dollar volume for the sector.

Other statistics for FY 2014 are as follows:

- Approximately 72% of dollar volume in FY 2014 represented refundings;
- Approximately 56% of dollar volume represented variable rate transactions; and
- One bond offering was backed by the Special Capital Reserve Fund.

(Amounts Expressed in Thousands)

In FY 2013, CHEFA bond issuance volume was at its lowest level in the three past years, with 19 offerings totaling $421,268, with an average issue size of approximately $22,000. During FY 2013, CHEFA experienced a significant number of privately placed transactions representing approximately 62% of CHEFA dollar issuance volume and 74% of total issues. The private secondary schools accounted for the largest issuance volume (over 50%), while the healthcare sector accounted for the largest dollar volume (approximately 50%).

In FY 2012, CHEFA had a 143% increase in par amount issued over FY 2011 levels. The bonds issued during FY 2012 include $584,043 for new projects and $631,280 in refinancing of existing bond issues. This total issuance of $1,215,323 is the second highest annual volume in CHEFA's history. A high volume of refinancing resulted from the low interest rate environment. In FY 2012, healthcare was the most active sector, with the year's largest transaction of $325,815 for Hartford HealthCare Corporation.

	2014		2013		2012	
	# of issues	Par amount	# of issues	Par amount	# of issues	Par amount
Healthcare	14	$ 891,820	4	$ 207,145	9	$ 890,440
Higher education	6	240,610	2	46,060	5	167,620
Private secondary schools	6	65,426	10	103,609	7	88,963
Long-term care	1	5,000	2	44,454	-	-
Child care	-	-	-	-	1	28,840
Other	1	9,987	1	20,000	2	39,460
	28	$ 1,212,843	19	$ 421,268	24	$ 1,215,323

Annual Fees - The following is a summary of the revenues generated from annual administrative fees charged during FY 2014, FY 2013 and FY 2012 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.

	2014	2013	2012
Healthcare	$ 2,374	$ 2,308	$ 2,114
Higher education	4,002	3,930	3,950
Private secondary schools	581	572	559
Long-term care	166	177	207
Child care	58	59	62
Other	52	64	64
	$ 7,233	$ 7,110	$ 6,956

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 Positions - The table below reflects CHEFA's Statements of Net Position, as shown in the Consolidating Statement of Net Position, supplemental to the financial statements for FY 2014, with comparable for FY 2013 and FY 2012 provided by management.

	2014	2013	2012
Assets			
Current unrestricted assets:			
Cash	$ 361	$ 227	$ 276
Accounts receivable	617	195	379
Board designated investments	11,617	10,638	7,941
Prepaid expenses and other assets	80	91	123
Total current unrestricted assets	12,675	11,151	8,719
Current restricted assets:			
Cash	-	57	81
Fund investments	407,730	507,721	571,323
Total current restricted assets	407,730	507,778	571,404
Non-current assets:			
Restricted investments	7,088	7,167	7,257
Capital assets, net	171	178	158
Total assets	$ 427,664	$ 526,274	$ 587,538
Liabilities			
Current liabilities	$ 410,720	$ 509,451	$ 572,061
Non-current liabilities	2,182	2,182	2,191
Total liabilities	412,902	511,633	574,252
Net position			
Invested in capital assets	171	178	158
Restricted	4,906	4,985	5,066
Unrestricted	9,685	9,478	8,062
Total net position	14,762	14,641	13,286
Total liabilities and net position	$ 427,664	$ 526,274	$ 587,538

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

Cash - Normal operating activity has resulted in fluctuations in unrestricted cash, as reflected in a $134 increase in FY 2014 to a balance of $361. This compares to a $49 decrease in FY 2013 and balance of $227, and a $36 increase and balance of $276 in FY 2012.

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 $617 in FY 2014, to $195 in FY 2013, and $379 in FY 2012 is mainly a reflection of the par amount of bonds outstanding, and the timing of billing and payments received.

Board Designated Investments **-** In FY 2014 there was an increase of $979 to $11,617 in Board Designated investments, resulting from strong operating performance. Board Designated funds in FY 2013 increased $2,697 over FY 2012 to $10,638 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 of CHEFA's restricted assets in FY 2014, 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 2014 are 20% lower than FY 2013, totaling $407,730. 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, 2014, 2013, and 2012 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 Investments - Prior to FY 2012, other investments representing 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 were also part of restricted assets. 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 each of FY 2014 and FY 2013, Non-current assets-Restricted investments for the School Readiness and Child Daycare Guaranteed Loan Fund Program consist of $4,320 and $2,182 in amounts held for the State of Connecticut in connection with the child care Small Direct loan and Guaranteed Loan Programs. The Connecticut Credit Union Student Loan Guarantee Program (CUSLP) totaled $586 and $665 for FY 2014 and FY 2013 (respectively). The CUSLP 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 2013 and FY 2012 in those programs. CHEFA previously held funds for the Connecticut Green Technology, Life Science, and Health Information Technology Loan Forgiveness Program, and pursuant to Public Act 10-75, as of January 1, 2012, the Authority transferred the $3,000 to the State of Connecticut.

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

Accounts Payable and Accrued Expenses **-** Accounts payable and accrued expenses increased to $2,990 in FY 2014 from $1,673 in FY 2013. This fluctuation was in the normal course of business. Accrued expenses increased to reflect the increase in amounts awarded through CHEFA's Non-Client Grant program. In FY 2013, the accounts payable and accrued expenses had increased by $1,016 over FY 2012's $657 balance, also reflecting CHEFA's grant program.

Amounts Held for Institutions - The $407,730 for FY 2014, $507,778 for FY 2013, and the $571,404 for FY 2012, reflect the amount held by the Authority for client construction funds, including the construction account, the cost of issuance account, equity account and the capitalized interest account. 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.

Non-current liabilities **-** This reflects the amounts held by the Authority pursuant to Public Act 97-259 for school readiness and child day care programs. The Act provided $1,500 to fund the loan guarantees for the Guaranteed Loan Fund Program managed by Peoples United Bank and $750 to fund the guarantees for the Small Direct Loan Fund Program managed by the Connecticut Community Investment Corporation (CTCIC). As of FY 2014, a total of $68 has been disbursed to CTCIC for defaulted loans.

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

For FY 2014, total net assets increased by $121, reflecting the increase in grant expense compared to FY 2013 levels. In FY 2013, total net assets 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 2014, FY 2013 and FY 2012 are summarized below.

	2014	2013	2012
Operating revenues:			
Administrative fees	$ 7,233	$ 7,110	$ 6,956
Investment income	9	14	12
Bond issuance fees	80	158	101
Other revenue	178	241	22
Total operating revenues	7,500	7,523	7,091
Operating expenses:			
Salaries and related expenses	2,848	2,844	2,795
General and administrative	1,023	1,057	1,135
Total operating expenses	3,871	3,901	3,930
Total operating income	3,629	3,622	3,161
Non-operating activity:			
Grant expense	(3,508)	(2,267)	(2,004)
Transfer to State of Connecticut	-	-	-
Change in net position	$ 121	$ 1,355	$ 1,157

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

Administrative Fees - 28 bond issues closed in FY 2014; 19 bond issues closed in FY 2013; and 24 bond issues closed in FY 2012. 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 $123, or 2% to $7,233 in FY 2014 and by $154 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 - The investment income for FY 2014 was $9, continuing to reflect the low interest rate environment, a slight decline from FY 2013's investment income of $14, which was a slight improvement over the FY 2012 level of $12.

Other Revenue - Other revenue represents recovery of certain expenses, including grant expense. In FY 2014, other revenue also includes approximately $154 from CHESLA to cover support services provided by CHEFA. Support fees included for FY 2013 were $110.

Operating Expenses

Salaries and Related Expenses - Salaries and related expenses increased by $4 in FY 2014 to $2,848, by $49 in FY 2013 to $2,844, and by $73 to $2,795 in FY 2012.

General and Administrative Expenses - General and administrative expenses in FYE 2014 totaled $1,023 from FY 2013's total of $1,057, a decline of $34, further declining from FY 2012 levels of $1,135. Over the three year period there has been a significant decline in consultant expense, particularly with regard to arbitrage rebate consultants.

Non-Operating Expenses

Grant Expense - Grant expense increased in FY 2014 by $1,241. $1,008 was awarded 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. FY 2013 and FY 2012 grant expenses were comparable and totaled $2,267 and $2,004, respectively.

CONNECTICUT HIGHER EDUCATION SUPPLEMENTAL LOAN AUTHORITY (CHESLA)

Loan Disbursements - CHESLA provides financial assistance in the form of education loans to students in or from the State of Connecticut. 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 the debt on CHESLA bonds. Public Act 12-149, effective July 1, 2012, statutorily consolidated CHESLA with the Connecticut Health and Educational Facilities Authority (CHEFA).

In FY 2014, CHESLA disbursed $20,839 in loan dollars as compared to $19,745 in FY 2013 and $20,149 in FY 2012. The 2014 disbursements reflect an increase of 5.5% over FY 2013 which had reported a 2% decline from FY 2012 levels. Approximately 57% of the disbursement volume in FY 2014 went to students attending institutions within the State of Connecticut, a level consistent with prior trends. Loan funds were primarily derived from proceeds of the 2013 Series A bonds issued on April 2, 2013 and carried a 5.99% interest rate. CHESLA issued its 2014 Series A Bonds on June 18, 2014, in the par amount of $23 million. Loans made from the 2014 Series A Bonds will carry an interest rate of 6.75%.

(Amounts Expressed in Thousands)

The following summarizes the key components of loans disbursed.

	2014	2013	2012
In State Institution:	**13/14 Term**	**12/13 Term**	**11/12 Term**
Jul - Sept (1Q)	$ 5,218	$ 4,895	$ 5,163
Oct - Dec (2Q)	661	5,064	2,103
Jan - Mar (3Q)	5,666	1,194	4,492
Apr - Jun (4Q)	320	213	248
Total In State Institution	11,865	11,366	12,006
Out of State Institution:			
Jul - Sept (1Q)	3,561	3,636	3,163
Oct - Dec (2Q)	899	3,917	1,056
Jan - Mar (3Q)	4,283	755	3,779
Apr - Jun (4Q)	231	71	145
Total Out of State Institution	8,974	8,379	8,143
Total:			
Jul - Sept (1Q)	8,779	8,531	8,326
Oct - Dec (2Q)	1,560	8,981	3,159
Jan - Mar (3Q)	9,949	1,949	8,271
Apr - Jun (4Q)	551	284	393
Total	$ 20,839	$ 19,745	$ 20,149

CHESLA receives annual administrative fees on the outstanding balances of loans. The fees vary in accordance with the loan series and range from 30 to 100 basis points. Since FY 2011, the administrative fees for loans associated with the 1990 resolution (which most recently includes loans made with 2014 and 2013 bond proceeds) has been 30 basis points. As older loans with higher fees have been paid down, revenues have decreased as shown below.

(Amounts Expressed in Thousands)

	Admin Fee Basis Points	2014	2013	2012
1993 Bond/Loan Program	100	$ -	$ -	$ 1
1994 Bond/Loan Program	100	-	2	3
1996 Bond/Loan Program	70	2	3	6
1998 Bond/Loan Program	^	1	3	6
1999 Bond/Loan Program	^	4	6	8
2000 Bond/Loan Program	^	7	10	14
2001 Bond/Loan Program	^	18	18	23
2003 Bond/Loan Program	100	76	94	113
2005 Bond/Loan Program	100	129	152	176
2006 Bond/Loan Program	100	137	159	184
2007 Bond/Loan Program	60	136	157	179
2009 Bond/Loan Program	^	58	62	66
2010 Bond/Loan Program	30	101	88	14
2013 Bond/Loan Program	30	36	-	-
2014 Bond/Loan Program	30	-	-	-
Total Revenues		$ 705	$ 754	$ 793

^ 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

The following is a summary of CHESLA's assets, liabilities and net assets at June 30, 2014, 2013 and 2012:

	2014	2013	2012
Assets:			
Current unrestricted assets:			
Cash and investments	$ 1,156	$ 1,230	$ 1,094
Current portion of loans receivable, net	18,605	18,652	16,341
Interest receivable on loans	476	519	466
Board designated investments	1,000	1,000	1,600
Other	151	165	149
Total current unrestricted assets	21,388	21,566	19,650
Current restricted assets	41,428	37,509	39,133
Total current assets	62,816	59,075	58,783
Non-current assets:			
Restricted investments	23,163	22,036	19,540
Loans receivable, net of current portion	105,353	102,743	103,824
Bond issuance costs, net	199	248	2,592
Total noncurrent assets	128,715	125,027	125,956
Total assets	$ 191,531	$ 184,102	$ 184,739
Liabilities:			
Current liabilities:			
Accounts payable and accrued expenses	$ 241	$ 36	$ 102
Current portion of bonds payable	10,765	10,275	11,210
Accrued interest payable	822	761	866
Current portion of deferred revenue	-	-	454
Total current liabilities	11,828	11,072	12,632
Non-current liabilities	164,086	158,225	157,806
Total liabilities	175,914	169,297	170,438
Net position:			
Unrestricted	(48,974)	(44,740)	(44,372)
Restricted	64,591	59,545	58,673
Total net position	15,617	14,805	14,301
Total liabilities and net position	$ 191,531	$ 184,102	$ 184,739

The following is an overview of significant balance sheet items.

Assets

Current Unrestricted Assets - Current unrestricted assets consist primarily of the current portion of loans receivable, net of loan loss allowances. In FY 2014, current loans receivable decreased by 0.25% or $47. In FY 2013, current loans receivable increased by approximately 14%, $2,311, over FY 2012 levels. Cash and investments in the operating fund, the other significant component of current unrestricted assets (totaling $2,156 in FY 2014, $2,230 in FY 2013 and $2,694 in FY 2012) decreased in FY 2014 by 3%, resulting in part from a $300 contribution from the operating fund to the 2014 Series A bond financing.

Current Restricted Assets - Current restricted assets consist primarily of trustee held funds associated with the bond resolutions representing either dollars in the loan fund, revenue fund, and 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 non-current assets is loans receivable. Similar to FY 2013, (with $25,000 of bonds issued), FY 2014 bonds of $23,000 were issued on June 18, 2014 to fund loans, with most of the lending of those proceeds expected to occur after fiscal year end.

With the adoption of GASB 65, 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. For FY 2014, prepaid bond insurance premiums decreased by $49, total non-current assets increased to $128,715 from $125,027 in FY 2013 and $125,956 in FY 2012.

Liabilities

Current Liabilities - Current liabilities include the current portion of bonds payable (which is the largest component representing approximately 91% of total current liabilities in FY 2014), accrued interest payable and prior to FY 2013 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, fees are recognized when received and there is no deferred revenue liability in FY 2014 or FY 2013. In FY 2012, the current portion of this liability represented 3.6% of total current liabilities.

Long Term Liabilities – Non-current or long term liabilities primarily represent bonds payable, net of the current portion. Fluctuations in bonds payable since FY 2012 reflect principal payments, redemptions and the additional bonds issued in FY 2013 and FY 2014. Prior to FY 2013, non-current 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 for FY 2014 is $15,617, an increase of $812 over the total net position of $14,805 for FY 2013 which reflected the net impact of operations and of GASB 65, with the elimination of unamortized bond issuance costs and deferred revenue affecting net position. The total net position for FY 2012 were restated from prior year audited statements to be consistent with the FY 2013 presentation of all bond resolution related funds as restricted.

(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, 2014, 2013 and 2012:

	2014	2013	2012
Operating revenues:			
Interest income - loans receivable	$ 8,530	$ 8,169	$ 7,860
Investment income	1,041	388	2,622
Total operating revenues	9,571	8,557	10,482
Operating expenses:			
Interest expense	6,722	6,483	7,650
Loan service fees	706	532	493
Bond issuance and insurance costs	379	524	627
General and administrative expenses	453	472	519
Salaries and related expenses*	197	189	120
Provision for loan losses (benefit)	302	196	180
Arbitrage rebate and excess loan yield provision (benefit)	-	35	(566)
Total operating expenses	8,759	8,431	9,023
Change in net position	$ 812	$ 126	$ 1,459

* The salary only expense for FY 2014 and FY 2013 was $144 and $140 (respectively). For FY 2012, salary related expenses were included as part of general and administrative expenses, with salary only reported on a separate line.

Revenues - Interest income on loans receivable is the largest component of operating revenues. Interest increased in FY 2014 by $361 to $8,530. Interest increased in FY 2013 by $309 to $8,169 from $7,860 in FY 2012.

With regard to investment income, CHESLA had income from investments of $1,041 in FY 2014, $388 in FY 2013, an 85% reduction from investment income in FY 2012. In FY 2012, investment income increased by $1.7 million. These fluctuations reflect unrealized gains and losses.

Expenses - Interest expense represents the largest component of operating expenses and increased by $239 or 3.6% to $6,722 in FY 2014. In FY 2013 interest expense decreased by approximately 15% from FY 2012 levels.

Loan service fees increased $174 in FY 2014 compared to $39 in FY 2013, reflecting an increase in the amount of loans established and serviced.

With the implementation of GASB 65, bond issuance costs now represent costs associated with the 2014 Series A, the 2013 Series A bonds and prepayment of insurance premium costs. Prior to FY 2013, bond issuance costs were amortized over the life of the bonds.

In FY 2012, prior to consolidation with CHEFA, $216 was paid for management, accounting and general counsel services. 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, the previously existing management contract did not terminate until after the first quarter, incurring an additional expense of $26. Outside vendors for accounting and legal services were also paid $96 in FY 2013. 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. In FY 2014, CHESLA was assessed a service charge by CHEFA of $155, including rent of $12. All such amounts affect the operating fund only.

Salaries and related expenses in FY 2014 and FY 2013 includes salaries, payroll taxes, employee pension benefits, employer funded health benefit costs, and tuition reimbursements. In FY 2014, $144 of the $197 represents actual salary, compared to $140 of the $189 for FY 2013. In FY 2012, 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 Years Ended June 2014, 2013 and 2012
(Amounts Expressed in Thousands)

Construction Fund Balances As of June 30, 2012 - 2014* (Amounts Expressed in Thousands) **Exhibit A**

Issue Name	Date of Bond Issue	Scheduled Completion Date	Construction Fund Balance 2014	2013	2012
Bridgeport Hospital D	05/31/12	05/12	$ -	$ 20	$ 184
Day Kimball Hospital B	06/06/13	06/15	1,290	11,155	-
Hartford Health Care A	09/29/11	09/13	-	5,179	30,094
Hartford Health Care B	09/29/11	09/13	8,314	17,704	46,738
Hartford HealthCare Corporation A	03/26/14	03/16	16,991	-	-
Lawrence & Memorial Hospital F	09/15/11	09/13	-	-	4,879
Lawrence & Memorial Hospital H	11/05/13	11/15	218	-	-
Middlesex Hospital N	07/26/11	07/12	-	-	127
Norwalk Hospital G	12/09/10	12/12	-	-	2,301
Norwalk Hospital J	12/07/12	12/14	33,276	66,663	-
Saint Francis Hospital H	01/24/14	01/16	1,624	-	-
Stamford Hospital J	06/20/12	06/14	101,088	203,296	252,287
Waterbury Hospital D	12/22/10	12/12	-	-	1,361
Western CT Healthcare L	07/13/11	07/13	2,392	43,110	73,768
Western CT Healthcare M	07/13/11	07/13	1,046	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
Yale-New Haven Health Services Corporation A	06/23/14	06/16	441	-	-
Yale-New Haven Health Services Corporation B	06/23/14	06/16	724	-	-
Yale-New Haven Health Services Corporation C	06/23/14	06/16	341	-	-
Yale-New Haven Health Services Corporation D	06/23/14	06/16	355	-	-
Yale-New Haven Health Services Corporation E	06/23/14	06/16	90,362	-	-
Masonicare E	09/05/12	09/14	-	28	-
Pierce Memorial Baptist Home B	03/13/13	03/15	30	30	-
Connecticut College H-1	06/30/11	06/13	-	-	1,749
Connecticut College I	04/04/12	04/12	-	-	56
Connecticut State University System J	06/22/11	06/13	1,212	10,930	21,762
Connecticut State University System K	06/22/11	06/13	-	-	13
Connecticut State University System L	04/04/12	04/12	-	-	46
Connecticut State University System M	01/10/13	01/15	36,588	36,585	-
Connecticut State University System N	10/23/13	10/15	76,476	-	-
Fairfield University O	03/17/10	03/12	-	-	1,002
Sacred Heart University G	06/29/11	06/13	-	5,244	5,243
Sacred Heart University H	02/14/12	02/12	-	163	164
University of Bridgeport C	12/09/10	12/12	-	-	1,132
University of Bridgeport D	11/02/12	11/14	2,381	11,360	-
University of Hartford H	04/26/12	04/14	-	-	45
University of Hartford I	04/26/12	04/14	-	-	9
University of Saint Joseph C	11/01/13	11/15	52	-	-
University of Saint Joseph D	11/01/13	11/15	5,646	-	-
Yale University 2010A	02/24/10	02/12	-	-	24,609
Avon Old Farms School C	11/01/13	11/15	38	-	-
Brunswick School C	03/29/12	03/12	-	-	29
Ethel Walker School C	04/03/13	04/15	3	5,834	-
Forman School B	03/28/13	03/15	231	2,895	-
Gunnery School B	09/28/12	09/14	-	43	-
Kent School F	03/28/13	03/15	786	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	634	1,189	1,833
South Kent School A	08/29/13	08/15	3,595	-	-
Stanwich School B	12/06/13	12/15	5	-	-
Suffield Academy C	11/20/13	11/15	2	-	-
Taft School I	11/07/12	11/14	2,442	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
Xavier High School A	02/14/14	02/16	4,363	-	-
Bushnell Memorial B	03/16/12	03/12	664	664	687
Greater Hartford YMCA C	04/27/12	04/14	-	-	2
UCONN Foundation C	04/24/13	04/15	-	17,612	-
Village for Families & Children C	10/02/13	10/15	21	-	-
Saint Joseph's Living Center B	09/20/13	09/15	953	-	-
Easy Lease	Various	Various	13,145	34,349	18,225
CONSTRUCTION FUND TOTAL (1)			$ 407,729	$ 507,778	$ 571,404

* Includes all cash and investment for Construction Fund, Cost of Issuance, Capitalized Interest, Equity Accounts and EasyLoans (EZ).

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 consolidated statements of net position as of June 30, 2014 and 2013, and the related consolidated statements of revenue, expenses and changes in net position and cash flows for the years 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, 2014 and 2013, and the changes in financial position and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

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 than to present the financial position and results of operations of the individual entities and are 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 17, 2014 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.

Saslow Lufkin & Buggy, LLP

Simsbury, Connecticut
September 17, 2014

State of Connecticut Health and Educational Facilities Authority
Consolidated Statements of Revenues, Expenses and Changes in Net Position
For the Years Ended June 30, 2014 and 2013
(Amounts Expressed in Thousands)

	2014	2013
Assets		
Current assets:		
Unrestricted assets:		
Cash	$ 384	$ 277
Investments	1,133	1,180
Current portion of loans receivable, net of allowances for loan losses of $2,357 and $2,321	18,605	18,652
Accounts receivable, less allowance of $86 and $86	617	195
Interest receivable on investments	135	150
Interest receivable on loans receivable	476	519
Board-designated investments	12,617	11,638
Prepaid expenses and other assets	96	106
Total unrestricted assets	34,063	32,717
Restricted assets:		
Cash	-	57
Fund investments	449,158	545,230
Total restricted assets	449,158	545,287
Total current assets	483,221	578,004
Non-current assets:		
Restricted investments	30,251	29,203
Loans receivable, net of current portion	105,353	102,743
Prepaid bond insurance premiums	199	248
Capital assets, net	171	178
Total non-current assets	135,974	132,372
Total assets	$ 619,195	$ 710,376
Liabilities and Net Position		
Current liabilities:		
Accounts payable and accrued expenses	$ 3,231	$ 1,709
Current portion of bonds payable	10,765	10,275
Accrued interest payable	822	761
Amounts held for institutions	407,730	507,778
Total current liabilities	422,548	520,523
Non-current liabilities:		
Bonds payable, net of current portion	164,086	158,225
Amount held on behalf of the State of Connecticut	2,182	2,182
Total non-current liabilities	166,268	160,407
Total liabilities	588,816	680,930
Net position:		
Invested in capital assets	171	178
Restricted	69,497	64,530
Unrestricted (Note 1)	(39,289)	(35,262)
Total net position	30,379	29,446
Total liabilities and net position	$ 619,195	$ 710,376

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

State of Connecticut Health and Educational Facilities Authority
Consolidated Statements of Revenues, Expenses and Changes in Net Position
For the Years Ended June 30, 2014 and 2013
(Amounts Expressed in Thousands)

	2014	2013
Operating revenues:		
Interest income on loans receivable	**$ 8,530**	$ 8,169
Administrative fees	**7,233**	7,110
Investment income	**1,050**	402
Bond issuance fees	**80**	158
Other revenues	**35**	131
Total operating revenues	**16,928**	15,970
Operating expenses:		
Interest expense	**6,722**	6,483
Salaries and related expenses	**3,045**	3,033
General and administrative expenses	**1,333**	1,419
Loan service fees	**706**	532
Bond issuance costs	**379**	524
Provision for loan losses	**302**	196
Arbitrage rebate and excess loan yield expense	**-**	35
Total operating expenses	**12,487**	12,222
Total operating income	**4,441**	3,748
Non-operating expenses:		
Grant expense	**(3,508)**	(2,267)
Total non-operating expense	**(3,508)**	(2,267)
Increase in net position	**933**	1,481
Net position, beginning of year (See Note 1)	**29,446**	27,965
Net position, end of year	**$ 30,379**	$ 29,446

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

State of Connecticut Health and Educational Facilities Authority
Consolidated Statements of Cash Flows
For the Years Ended June 30, 2014 and 2013
(Amounts Expressed in Thousands)

	2014	2013
Cash flows from operating activities:		
Cash received from loan payments	**$ 18,250**	$ 18,468
Cash received for administrative fees	**6,810**	7,311
Interest received on loans	**7,960**	7,274
Cash received from other operating income	**105**	272
Loans disbursed	**(20,236)**	(19,629)
Payments of bond interest	**(6,884)**	(6,591)
Cash paid to employees	**(3,040)**	(2,987)
Cash paid to grantees	**(2,206)**	(1,392)
Cash paid for other expenses	**(1,693)**	(1,811)
Net cash (used in) provided by operating activities	**(934)**	915
Cash flows from noncapital financing activities:		
Proceeds from bond sales, net	**1,025,941**	433,058
Proceeds from institutions	**3,205**	1,546
Bond issuance costs	**(331)**	(466)
Payments of bond principal	**(17,455)**	(23,405)
Construction expenses paid	**(404,867)**	(357,106)
Net transfers to restricted funds	**(700,609)**	(132,212)
Net cash used in noncapital financing activities	**(94,116)**	(78,585)
Cash flows from capital and related financing activities:		
Net purchases of capital assets	**(69)**	(105)
Net cash used in capital and related financing activities	**(69)**	(105)
Cash flows from investing activities:		
Cash from restricted investment earnings	**1,085**	1,175
Net proceeds from investments	**94,055**	76,504
Cash received from investment earnings	**29**	13
Net cash provided by investing activities	**95,169**	77,692
Net change in cash	**50**	(83)
Cash, beginning of year	**334**	417
Cash, end of year	**$ 384**	$ 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 36 through 41 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.

Unrestricted net position (deficit) **-** The unrestricted net position (deficit) of the Authority of ($30,379) and ($35,262), as of June 30, 2014 and 2013, respectively, relates solely to CHESLA and the fact that it has assets which are restricted by the bond resolutions. These restricted assets include the assets in the loan fund, which will be used to make loans to students. Once the loans are made, they are recorded as unrestricted assets within loans receivable on the statement of net position. Other restricted assets pursuant to the bond resolutions are assets in the revenue fund, debt service fund and the special capital reserve fund. To the extent some of those are used for debt service, they reduce the outstanding bonds payable on the statement of net position. When used to either make loans or pay debt service, such application would increase the unrestricted net position. The magnitude of the unrestricted net deficit position is the result of timing and the amount of restricted assets as of the statement of net position date.

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).

Note 1 - Summary of Significant Accounting Policies (continued)

The Funds of the Authority are proprietary fund types. Proprietary funds are used to account for governmental activities that are similar to those found in the private sector where the determination of net income is necessary or useful to sound financial administration.

GAAP used for proprietary funds are similar to those applicable to businesses in the private sector. They are reported using the economic resources of measurement focus and the accrual basis of accounting. Revenues are recognized when earned, and expenses are recognized when the liability is incurred, regardless of the timing of related cash flows. 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 non-current) 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 **-** In 2013, the Authority has adopted GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities* (GASB No. 65). This standard established 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 recognized, 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, is recognized as an expense in the period incurred. In addition, loan origination fees, except any portion related to points, is 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.

Reclassifications **-** Certain 2013 amounts have been reclassified to conform with the 2014 consolidated financial statement presentation. Such reclassifications did not have a material effect on the consolidated financial statements.

Cash and cash equivalents **-** Cash and cash equivalents include all highly liquid investments purchased with an original maturity of three months or less. The Authority's investments in money market funds and the State Treasurer's Short Term Investment Fund are excluded from cash equivalents because they are considered an investment. The Authority had no cash equivalents at June 30, 2014 and 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.

Note 1 - Summary of Significant Accounting Policies (continued)

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.

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, 2013 and 2014 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 activities **-** Activities not related to CHEFA's primary purpose are considered non-operating. Non-operating activities consist primarily of expenses related to CHEFA's grant program. 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 years ended June 30, 2014 and 2013 through September 17, 2014, 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 except as described in Note 15.

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, 2014 and 2013, $111 and $34, respectively of the Authority's bank balances were 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.

As of June 30, 2014, all of the Authority's cash deposits were unrestricted. As of June 30, 2013, $57 of the Authority's $334 of cash deposits was restricted.

(Amounts Expressed in Thousands)

Note 2 - Cash Deposits and Investments (continued)

Investments - As of June 30, 2014, the Authority's investments consisted of the following:

		Investment Maturities		
Investment type	**Fair Value**	**Less than 1 year**	**1 to 10 years**	**More than 10 years**
Money market funds	$ 417,829	$ 417,829	$ -	$ -
Short-term Investment Fund (STIF)	52,047	52,047	-	-
Guaranteed Investment Contracts (GIC):				
IXIS Funding Corp	1,490	-	1,490	-
GE Capital Corp	2,200	-	2,200	-
Rabobank International	1,553	-	1,553	-
MBIA, Inc.	3,000	-	3,000	-
FSA Capital Management Services	5,300	-	2,500	2,800
FGIC Investment Agreement	512	-	512	-
Salomon Smith (Citigroup)	600	-	600	-
U.S. treasuries	8,628	1,503	-	7,125
Total	$ 493,159	$ 471,379	$ 11,855	$ 9,925

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

		Investment Maturities		
Investment type	**Fair Value**	**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
FGIC Investment Agreement	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.

***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, 2014 and 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

CHESLA makes loans to students from the proceeds of bonds issued by CHESLA. Loans receivable by outstanding bond series, as of June 30, 2014, are as follows:

Bond Series	Number of Loans at June 30, 2014	Balance at June 30, 2014	Interest Rate %
2003A&B*	1,097	$ 5,716	4.99 and 9.20
2005A&B**	1,188	10,577	5.5, 8.25 and 8.40
2006A***	1,244	11,592	0 and 6.15
2007A	1,850	20,222	6.99
2009A	1,443	17,662	6.80
2010A****	2,274	32,770	5.95, 7.25 and 7.5
2012A*****	1,374	4,837	2.00 to 7.50
2013A	1,224	20,071	5.99
	11,694	$ 123,447	
Add: nonperforming loans		2,868	
Less: allowance for loan losses		(2,357)	
Total		$ 123,958	

* 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.

(Amounts Expressed in Thousands)

Note 3 - Loans Receivable (continued)

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**	1,290	12,880	5.5, 8.25 and 8.40
2006A***	1,311	14,121	0 and 6.15
2007A	1,918	23,749	6.99
2009A	1,543	19,891	6.80
2010A****	2,449	35,428	5.95, 7.25 and 7.5
2012A*****	1,803	7,426	2.00 to 7.50
2013A	29	248	5.99
	11,545	$ 121,193	
Add: nonperforming loans		2,523	
Less: allowance for loan losses		(2,321)	
Total		$ 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.

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 $384 and $422 for the years ended June 30, 2014 and 2013, respectively, which had previously been provided for through the allowance for loan losses. CHESLA recovered $123 and $119 in fiscal years 2014 and 2013, respectively, in loans receivable and other credits that were written off in previous years.

(Amounts Expressed in Thousands)

Note 4 - Capital Assets

Capital asset activity for the years ended June 30, 2014 and 2013, are as follows:

2014	**Beginning Balances**	**Increases**	**Decreases**	**Ending Balances**
Capital assets being depreciated:				
Leasehold improvements	$ 152	$ 2	$ -	$ 154
Computer equipment	623	15	-	638
Furniture and fixtures	276	6	-	282
Office equipment	476	46	-	522
Total capital assets	1,527	69	-	1,596
Less accumulated depreciation and amortization for:				
Leasehold improvements	(148)	(1)	-	(149)
Computer equipment	(616)	(15)	-	(631)
Furniture and fixtures	(252)	(13)	-	(265)
Office equipment	(333)	(47)	-	(380)
	(1,349)	(76)	-	(1,425)
Total	$ 178	$ (7)	$ -	$ 171

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)
Total	$ 158	$ 20	$ -	$ 178

(Amounts Expressed in Thousands)

Note 5 - Bonds Payable

The following is a summary of changes in CHESLA's bonds payable for the year ended June 30, 2014:

	Balance at July 1, 2013	Increases	Decreases	Balance at June 30, 2014	Due Within One Year
Bonds payable - principal	$ 167,660	$ 23,000	$ (17,455)	$ 173,205	$ 10,765
Discount	(551)	-	68	(483)	-
Premium	1,391	818	(80)	2,129	-
Total	$ 168,500	$ 23,818	$ (17,467)	$ 174,851	$ 10,765

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	-
Total	$ 166,806	$ 25,104	$ (23,410)	$ 168,500	$ 10,275

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, 2014 is as follows:

Year Ending June 30	Principal	Interest
2015	$ 10,765	$ 6,828
2016	12,050	6,504
2017	12,820	6,025
2018	13,105	5,492
2019	12,875	4,944
2019-2023	59,270	16,732
2024-2028	37,580	6,424
2029-2033	12,700	1,300
2034-2035	2,040	85
Total	$ 173,205	$ 54,334

(Amounts Expressed in Thousands)

Note 5 - Bonds Payable (continued)

Outstanding principal of each bond issue as of June 30, 2014 and 2013, are as follows:

	Original Amount	Outstanding June 30, 2014	Outstanding June 30, 2013
2003 Series A, 1.7%-4.5%, due serially from November 15, 2004 to November 15, 2020	$ 18,000	$ 5,135	$ 6,810
2003 Series B, 2%-5%, due serially from November 15, 2004 to November 15, 2017	12,915	4,270	4,270
2005 Series A, 2.5%-4.375%, due serially from November 15, 2005 to November 15, 2021	31,455	11,515	13,825
2006 Series A, 3.9%-4.8%, due serially from November 15, 2007 to November 15, 2022	33,270	12,200	14,985
2007 Series A, 4.125%-1.875%, due serially from November 15, 2010 to November 15, 2024	41,000	24,620	28,020
2009 Series A 1.9%-5.05%, due serially from November 15, 2011 to November 15, 2027	30,000	21,580	23,645
2010 Series A 2.0%-5.25%, due serially from November 15, 2014 to November 15, 2035	45,000	38,920	40,965
2012 Series A .4%-3.125%, due serially from November 15, 2012 to November 15, 2021	13,085	6,965	10,140
2013 Series A 2%-4%, due serially from November 15, 2014 to November 15, 2029	25,000	25,000	25,000
2014 Series A 3%-5%, due serially from November 15, 2015 to November 15, 2030	23,000	23,000	-
Total	$ 272,725	$ 173,205	$ 167,660

Each Series A bond is subject to a special mandatory redemption in whole or in part from excess loan payments. During the years ended June 30, 2014 and 2013, CHESLA redeemed bonds in the following amounts:

	2014	2013
2003 Series A	$ 170	$ 600
2005 Series A	665	500
2006 Series A	1,285	800
2007 Series A	1,365	1,100
2009 Series A	885	300
2010 Series A	2,045	3,000
2012 Series A	765	500
Total	$ 7,180	$ 6,800

As of June 30, 2014 and 2013, CHEFA had total outstanding principal balances of special obligation bonds of $8,141,328 and $8,030,153 respectively. The bonds are issued on behalf of institutions to finance the construction of various health and educational facilities. These bonds are conduit debt obligations of CHEFA and do not constitute obligations of CHEFA and therefore not reported within the statements of net position.

Note 5 - Bonds Payable (continued)

CHEFA issued general obligation bonds through July 1979 for which CHEFA was 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, 2014 and 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.

As of June 30, 2014 and 2013, there was approximately $59,185 and $61,155, respectively, 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, 2014 and 2013, outstanding loan balances totaled $7,937 and $8,445, respectively. As of June 30, 2014, on average, CHEFA is guaranteeing 38% of those balances, or approximately $3,018.

In 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 1998, the Connecticut Department of Social Services (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 1999, 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, 2014 and 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.

(Amounts Expressed in Thousands)

Note 6 - Child Care Facilities Loan Programs (continued)

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, 2014 and 2013 was $586 and $665, respectively, 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 $586 set aside for the Connecticut Credit Union Student Loan Program for fiscal year 2014 are reflected within restricted net position.

CHESLA's Board of Directors designated unrestricted net assets of $1,000 as of June 30, 2014 and 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 $41,428 and $37,509 of bond fund investments for debt service and issuance of student loans as of June 30, 2014 and 2013 as well as $23,163 and $22,036, required by the bond indentures to be maintained in the Special Capital Reserve Funds as of June 30, 2014 and 2013.

A summary of the net position as of June 30, 2014 and 2013, is as follows:

	2014	2013
Invested in capital assets	**$ 171**	$ 178
Restricted:		
Special capital reserve funds	**23,163**	22,036
Bond fund investments	**41,428**	37,509
Child care facilities loan program	**4,320**	4,320
Student loan guarantee program	**586**	665
Total restricted	**69,497**	64,530
Unrestricted:		
Focused investment program	**992**	1,025
Legal fee contingencies	**1,509**	1,500
Operations and contingency	**7,184**	6,953
CHESLA unrestricted deficit	**(48,974)**	(44,740)
Total unrestricted	**(39,289)**	(35,262)
Total	**$ 30,379**	$ 29,446

(Amounts Expressed in Thousands)

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, 2014 and 2013, the State has not made nor was it required to make any such deposit.

Note 10 - Related Party Transactions

CHEFA charged CHESLA in fiscal years 2014 and 2013 an annual fee of $143 and $110, respectively, 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 and loan portfolios. The fee is based on an agreed upon percentage of the outstanding loans payable in each of the funds. For the years ended June 30, 2014 and 2013, the total fees charged were $699 and $754, respectively.

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 years ended June 30, 2014 and 2013, retirement plan expense was $233 and $229, respectively.

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 each of the years ended June 30, 2014 and 2013.

Note 12 - Operating Leases

CHEFA leases office space and other office equipment for use in operations. As of June 30, 2014, minimum future rental commitments of the leases are as follows:

2015	$	241
2016	$	242
2017	$	240
2018	$	244
2019	$	123

Rental expense for these leases during the years ended June 30, 2014 and 2013 was $229 and $252.

(Amounts Expressed in Thousands)

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.

Note 14 - Reconciliation of Operating Income to Net Cash (Used In) Provided By Operating Activities

The following is a reconciliation of operating income provided by operating activities for the years ended June 30, 2014 and 2013.

	2014	2013
Cash flows from operating activities:		
Increase in net position	$ 933	$ 1,481
Adjustments to reconcile decrease in net position		
to net cash provided by operating activities:		
Depreciation	76	85
Income from investments	(1,050)	(402)
Bond issuance costs	379	524
Provision for loan losses	302	196
Amortization of bond (premium) discount	(12)	54
Changes in assets and liabilities:		
Loans receivable	(2,865)	(2,016)
Accounts receivable	(422)	184
Interest receivable on loans receivable	43	(53)
Prepaid expenses and other assets	10	17
Accounts payable and accrued expenses	1,522	950
Accrued interest and other payables	150	(105)
Net cash (used in) provided by operating activities	$ (934)	$ 915

Note 15 - Subsequent Event

Pursuant to Public Act 14-217, effective July 1, 2014, the Connecticut Student Loan Foundation (CSLF) was statutorily consolidated with CHEFA by becoming a subsidiary of CHEFA. CSLF is a Connecticut State chartered not-for-profit corporation established pursuant to Title IV of the Higher Education Act of 1965, for the purpose of improving educational opportunity by helping students finance the cost of higher education.

State of Connecticut Health and Educational Facilities Authority
Consolidating Statement of Net Position
June 30, 2014
(Amounts Expressed in Thousands)

		CHESLA				
		Agency Operating	Bond Funds			
	CHEFA	Fund	1990 Resolution	2003 Resolution	Total CHESLA	Total
Assets						
Current assets:						
Unrestricted assets:						
Cash	**$ 361**	$ 23	$ -	$ -	**$ 23**	**$ 384**
Investments	**-**	1,133	-	-	**1,133**	**1,133**
Current portion of loans receivable, net of allowances for loan losses of $2,357	-	-	9,580	9,025	**18,605**	**18,605**
Accounts receivable, less allowance of $86	**617**	-	-	-	**-**	**617**
Interest receivable on investments	-	-	58	77	**135**	**135**
Interest receivable on loans receivable	-	-	315	161	**476**	**476**
Board-designated investments	**11,617**	1,000	-	-	**1,000**	**12,617**
Prepaid expenses and other assets	**80**	16	-	-	**16**	**96**
Total unrestricted assets	**12,675**	2,172	9,953	9,263	**21,388**	**34,063**
Restricted assets:						
Fund investments	**407,730**	-	33,454	7,974	**41,428**	**449,158**
Total restricted assets	**407,730**	-	33,454	7,974	**41,428**	**449,158**
Total current assets	**420,405**	2,172	43,407	17,237	**62,816**	**483,221**
Non-current assets:						
Restricted investments	**7,088**	-	12,663	10,500	**23,163**	**30,251**
Loans receivable, net of current portion	**-**	-	65,344	40,009	**105,353**	**105,353**
Prepaid bond insurance premiums	**-**	104	-	95	**199**	**199**
Capital assets, net	**171**	-	-	-	**-**	**171**
Total non-current assets	**7,259**	104	78,007	50,604	**128,715**	**135,974**
Total assets	**$ 427,664**	$ 2,276	$ 121,414	$ 67,841	**$ 191,531**	**$ 619,195**

See independent auditors' report.

State of Connecticut Health and Educational Facilities Authority
Consolidating Statement of Net Position (continued)
June 30, 2014
(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	**$ 2,990**	$ 6	$ 189	46	**$ 241**	**$ 3,231**
Current portion of bonds payable	**-**	-	4,105	6,660	**10,765**	**10,765**
Accrued interest payable	**-**	-	483	339	**822**	**822**
Amounts held for institutions	**407,730**	-	-	-	**-**	**407,730**
Total current liabilities	**410,720**	6	4,777	7,045	**11,828**	**422,548**
Non-current liabilities:						
Bonds payable, net of current portion	**-**	-	113,409	50,677	**164,086**	**164,086**
Amount held on behalf of the State of Connecticut	**2,182**	-	-	-	**-**	**2,182**
Total non-current liabilities	**2,182**	-	113,409	50,677	**164,086**	**166,268**
Total liabilities	**412,902**	6	118,186	57,722	**175,914**	**588,816**
Net position:						
Invested in capital assets	**171**	**-**	-	-	**-**	**171**
Restricted	**4,906**	**-**	46,117	18,474	**64,591**	**69,497**
Unrestricted (Note 1)	**9,685**	2,270	(42,889)	(8,355)	**(48,974)**	**(39,289)**
Total net position	**14,762**	2,270	3,228	10,119	**15,617**	**30,379**
Total liabilities and net position	**$ 427,664**	$ 2,276	$ 121,414	$ 67,841	**$ 191,531**	**$ 619,195**

See independent auditors' report.

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 (Note 1)	**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, 2014
(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	**$ -**	$ -	$ 5,061	$ 3,469	$ -	**$ 8,530**	$ -	**$ 8,530**
Administrative fees	**7,233**	699	-	-	(699)	**-**	-	**7,233**
Investment income	**9**	5	460	576	-	**1,041**	-	**1,050**
Bond issuance fees	**80**	-	-	-	-	**-**	-	**80**
Other revenues	**178**	-	-	-	-	**-**	(143)	**35**
Total operating revenues	**7,500**	704	5,521	4,045	(699)	**9,571**	(143)	**16,928**
Operating expenses:								
Interest expense	**-**	-	3,815	2,907	-	**6,722**	-	**6,722**
Salaries and related expenses	**2,848**	197	-	-	-	**197**	-	**3,045**
General and administrative expenses	**1,023**	271	299	582	(699)	**453**	(143)	**1,333**
Loan service fees	**-**	-	492	214	-	**706**	-	**706**
Bond issuance and insurance costs	**-**	26	329	24	-	**379**	-	**379**
Provision for loan losses	**-**	-	258	44	-	**302**	-	**302**
Total operating expenses	**3,871**	494	5,193	3,771	(699)	**8,759**	(143)	**12,487**
Total operating income	**3,629**	210	328	274	-	**812**	-	**4,441**
Non-operating - expenses:								
Grant expense	**(3,508)**	-	-	-	-	**-**	-	**(3,508)**
Total non-operating expense	**(3,508)**	**-**	**-**	**-**	**-**	**-**	**-**	**(3,508)**
Income before transfers	**121**	210	328	274	-	**812**	-	**933**
Transfers	**-**	(300)	381	(81)	-	**-**	-	**-**
Increase (decrease) in net position	**121**	(90)	709	193	-	**812**	-	**933**
Net position, beginning of year	**14,641**	2,360	2,519	9,926	-	**14,805**	-	**29,446**
Net position, end of year	**$ 14,762**	$ 2,270	$ 3,228	$ 10,119	$ -	**$ 15,617**	**$ -**	**$ 30,379**

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 Operating	Bond Funds 1990	Bond Funds 2003				
	CHEFA	Fund	Resolution	Resolution	Eliminations	Total CHESLA	Eliminations	Total
Operating revenues:								
Interest income on loans receivable	**$ -**	$ -	$ 4,232	$ 3,937	$ -	**$ 8,169**	$ -	**$ 8,169**
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	4,006	4,536	(754)	**8,557**	(110)	**15,970**
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 service fees	**-**	-	378	154	-	**532**	-	**532**
Bond issuance and insurance costs	**-**	30	466	28	-	**524**	-	**524**
Provision for loan losses (benefit)	**-**	-	197	(1)	-	**196**	-	**196**
Arbitrage rebate and excess loan yield benefit	**-**	-	-	35	-	**35**	-	**35**
Total operating expenses	**3,901**	561	4,323	4,301	(754)	**8,431**	(110)	**12,222**
Total operating income (loss)	**3,622**	208	(317)	235	-	**126**	-	**3,748**
Non-operating - 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 consolidated statements of net position as of June 30, 2014 and 2013 and the related consolidated statements of revenues, expenses and changes in net position and cash flows for the years then ended, and the related notes to the financial statements, and have issued our report thereon dated September 17, 2014.

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 by those charged with governance.

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Authority's 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*.

Saslow Lufkin & Buggy, LLP
Accounting · Tax · Advisory

<u>Purpose of this Report</u>

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 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.

Saslow Lufkin & Buggy, LLP

September 17, 2014