

**STATE OF CONNECTICUT
HEALTH AND EDUCATIONAL
FACILITIES AUTHORITY**
(A Component Unit of the State of Connecticut)

**BASIC FINANCIAL STATEMENTS
AS OF JUNE 30, 2005 AND 2004**

**TOGETHER WITH
INDEPENDENT AUDITORS' REPORT**



**STATE OF CONNECTICUT
HEALTH AND EDUCATIONAL FACILITIES AUTHORITY
TABLE OF CONTENTS
JUNE 30, 2005 AND 2004**

	<u>Page</u>
MANAGEMENT'S DISCUSSION AND ANALYSIS	1
INDEPENDENT AUDITORS' REPORT	7
BASIC FINANCIAL STATEMENTS	
Balance Sheets	9
Statements of Revenues, Expenses and Changes in Net Assets	10
Statements of Cash Flows	11
Notes to Financial Statements	12
REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH <i>GOVERNMENT AUDITING STANDARDS</i>	25

MANAGEMENT'S DISCUSSION AND ANALYSIS

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following Management Discussion and Analysis (MD&A) of the State of Connecticut Health and Educational Facilities Authority's (Authority) activities and financial performance provides the reader with an introduction and overview to the audited financial statements for the fiscal years ended June 30, 2005 and 2004. 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.

The Authority is a "conduit" issuer of tax-exempt bonds, issued on behalf of non-profit healthcare institutions, higher education and private secondary schools, child care facilities, long-term care facilities, cultural institutions and various other qualified non-profit institutions. These tax-exempt bonds are debt obligations of the institution on whose behalf the Authority issues the bonds. The issuance of tax-exempt bonds provides funds for new construction projects, the refinancing of long-term debt obligations to reduce borrowing costs, and Debt Service Reserve Funds, which are typically required for all fixed interest rate bond issues at an amount equal to one year's maximum annual debt service.

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

Bonds Issued (Dollars in Thousands)

The following is a review of the number of bond issues and the related amount issued, summarized by market segment and comparing FY 2005 to FY 2004 and FY 2003:

	<u>Bond</u> <u>Issues</u>	<u>FY 2005</u>	<u>Bond</u> <u>Issues</u>	<u>FY 2004</u>	<u>Bond</u> <u>Issues</u>	<u>FY 2003</u>
Healthcare	3	\$104,745	2	\$ 67,975	1	\$15,500
Higher Education	3	147,480	6	212,590	3	509,875
Private Secondary Schools	6	86,135	4	47,025	1	17,500
Long-Term Care	-	-	-	-	-	-
Child Care	-	-	-	-	-	-
Other	-	-	1	4,500	3	35,550
Total	<u>12</u>	<u>\$338,360</u>	<u>13</u>	<u>\$332,090</u>	<u>8</u>	<u>\$578,425</u>

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

Annual Fees (Dollars in Thousands)

The following is a summary of the annual fees charged during FY 2005 by market segment and a comparison to FY 2004 and FY 2003:

	<u>FY 2005</u>	<u>FY 2004</u>	<u>FY 2003</u>
Healthcare	\$1,247	\$1,230	\$1,416
Higher Education	2,161	2,122	1,987
Private Secondary Schools	452	421	447
Long-Term Care	250	267	323
Child Care	40	40	43
Other	<u>64</u>	<u>66</u>	<u>45</u>
Total	<u>\$4,214</u>	<u>\$4,146</u>	<u>\$4,261</u>

Statement of Net Assets (Dollars in Thousands)

The Authority's assets for FY 2005 have decreased by \$246,693 from FY 2004 and liabilities have decreased by \$245,931. For FY 2005 total assets exceeded liabilities by \$19,527 as compared to \$20,289 for FY 2004. This decrease is primarily due to a reduction in Restricted Assets held on behalf of institutions for Construction Funds managed by the Authority which were at \$180,065 as of June 30, 2005 as compared to \$427,769 as of June 30, 2004, a decrease of \$247,704.

The Authority's assets for FY 2004 decreased from FY 2003 by \$35,175 and liabilities decreased by \$35,489. For FY 2004 total assets exceeded liabilities by \$20,289 as compared to \$19,975 for FY 2003.

(Dollars in Thousands)	<u>FY 2005</u>	<u>FY 2004</u>	<u>FY 2003</u>
ASSETS			
Unrestricted Assets	\$ 21,698	\$ 20,688	\$ 21,726
Restricted Assets	183,305	431,016	465,131
Non-Current Assets	<u>2,445</u>	<u>2,437</u>	<u>2,459</u>
Total Assets	<u>\$207,448</u>	<u>\$454,141</u>	<u>\$489,316</u>
LIABILITIES			
Current Liabilities	\$185,674	\$431,602	\$467,091
Non-Current Liabilities	<u>2,247</u>	<u>2,250</u>	<u>2,250</u>
Total Liabilities	<u>\$187,921</u>	<u>\$433,852</u>	<u>\$469,341</u>
NET ASSETS			
Invested in capital assets	198	187	209
Unrestricted	<u>19,329</u>	<u>20,102</u>	<u>19,766</u>
	<u>\$207,448</u>	<u>\$454,141</u>	<u>\$489,316</u>

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

Financial Operation Highlights (Dollars in Thousands)

Unrestricted Assets – the following is an overview of the major changes in unrestricted current assets:

Investments – have increased \$242 primarily due to additional investment income of \$222 as compared to FY 2004, generated by an increase in interest rates. The average yield for FY 2005 was 2.401% as compared to 1.178% for FY 2004. The Investments for FY 2004 decreased by \$942 as compared to FY 2003 which was due primarily from the disbursement of funds to grant recipients that were approved in June 2003 (FY 2003) and disbursed in July 2003 (FY 2004).

Accounts Receivable – consists of receivables for annual fees of \$321, receivables from institutions for Trustee fees of \$54 and a note due from the Charter School Fund of \$112 net of an allowance of \$150. For FY 2004 accounts receivable included \$197 for annual fees, receivables from institutions for Trustee fees of \$107, and receivables associated with a note due from the Common Ground Charter High School of \$180 and a note due from the Amistad Academy with a balance for FY 2004 of \$9 net of an allowance of \$148.

Restricted Assets – the following is an overview of the major changes in restricted assets:

Fund Investments – these are investments associated with construction funds held for institutions. The decrease of \$247,704 is related to a reduction in the level of funds managed by the Authority during FY 2005 for ongoing construction projects. The decrease of \$34,058 from FY 2004 to FY 2003 was related to construction fund deposits for bond issues closed during FY 2004 net of funds disbursed.

Investment Policies – the Construction Funds are managed by the Authority on behalf of the institutions. The proceeds are invested and managed in accordance with an investment policy that is approved by the Authority's Board of Directors and 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 a "AAA" rated 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). Guaranteed Investment Contracts are competitively bid and invested with "qualified money market funds" as provided in the respective bond issue trust indentures that have an "AAA" rating by two nationally recognized rating agencies.

Interest Receivable – reflects the interest earnings due, but not yet paid on the Construction Fund investments held for other institutions.

Other Receivables – for FY's 2005, 2004 and 2003 includes the interest earnings on the Debt Service Reserve Funds held by the Trustee on behalf of client institutions that flow to the Construction Fund until construction is completed.

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

Liabilities (Dollars in Thousands)

Accounts Payable and Accrued Expenses – the increase of \$1,795 is for grants approved by the Grant Committee and the Board at their respective meetings on June 28, 2005 for open grants and the Malpractice Captive Grant Program created by Connecticut Public Act 04-1. For FY 2004, grants decreased by \$1,375 from FY 2003 due to the disbursement of funds for the client grant program established during FY 2003.

Amounts Held for Institutions – for FY 2005 please see Restricted Fund Investments. For FY 2004 the decrease of \$32,105 is primarily related to the construction fund deposits for bond issues closed during FY 2004 net of funds spent. Construction fund deposits from the bond proceeds totaled almost \$329,569 while construction fund disbursements totaled \$357,496.

Net Assets (Dollars in Thousands)

Total Net Assets decreased due to an Operating Loss of \$1,216 which included \$1,000 in expenses funded from Net Assets as mandated by Public Act No. 04-1 Malpractice Captive Grant Program, approved by the Connecticut General Assembly, which directed the Authority to issue two grants in an amount not to exceed \$750 each. It also included \$353 in expenses incurred for legal fees associated with a client institution workout to be funded from Net Assets.

Total net assets for FY 2004 increased by \$314 as a result of the change in net assets or net income for FY 2004. This included operating income of \$69 and income from investments of \$245. This increase is slightly higher than the \$310 for FY 2003. For FY 2004, the Board of Directors of the Authority reduced the reserve for operating expenses from the FY 2003 level of \$7,657 to \$2,221 for FY 2004. The Board has also designated unrestricted net assets for specific purposes including \$4,500 for child care loan guarantees required by Public Act 97-259, \$500 to fund the Pharmacy Revolving Loan program as required by Public Act 03-166, \$1,500 for a Malpractice Captive Insurance Demonstration Grant Fund Program as required by Bill No. 801 approved during the 2004 legislative session, \$3,903 for the Special Capital Reserve Fund program, \$212 for the non-client grant program, \$1,250 for legal fee contingencies, \$200 for charter school loan reserve, and \$6,000 for a focused investment program.

Change in Net Assets (Dollars in Thousands)

	<u>FY 2005</u>	<u>FY 2004</u>	<u>FY 2003</u>
Total Operating Revenues	\$ 4,287	\$ 4,253	\$ 4,409
Total Operating Expenses	<u>5,503</u>	<u>4,184</u>	<u>4,424</u>
Total Operating Income (Loss)	(1,216)	69	(15)
Non-Operating Revenues	<u>454</u>	<u>245</u>	<u>325</u>
Change in Net Assets	<u>\$ (762)</u>	<u>\$ 314</u>	<u>\$ 310</u>

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

Operating Revenues (Dollars in Thousands)

Administrative Fees -- have increased by \$68 as compared to FY 2004 primarily due to annual fees generated on bond issues for new projects as opposed to refinancings closed during FY 2005. For FY 2004, fees decreased by \$115 as compared to FY 2003. Effective July 1, 2003 a new fee structure, approved by the Board at the June 24, 2003 meeting, went into effect reducing the annual fee from 10 to 9 basis points on the outstanding balance.

Income from Investments -- has increased by \$209 as compared to FY 2004 primarily due to an increase in interest rates during FY 2005. The average yield during FY 2005 was 2.401% as compared to 1.178% for FY 2004. For FY 2004, the income decreased by \$80 as compared to FY 2003 primarily due to the decrease in funds available to invest. Investments decreased from \$21,084 in FY 2003 to \$20,142 in FY 2004.

Operating Expenses (Dollars in Thousands)

Salaries, Wages and Employee Benefits -- have increased by \$64 as compared to FY 2004. This increase was primarily due to an increase in employee compensation associated with merit increases and an increase in incentive compensation for FY 2005. FY 2004 increased by \$86 as compared to FY 2003 which was due primarily to employee merit increases and incentive compensation increases.

Other Operating Costs and Grant Expense -- have increased by \$1,255 as compared to FY 2004. The major increase in cost was associated with the \$1,000 in funding awarded under the Malpractice Captive Grant Program mandated by Public Act No. 04-1 by the Connecticut General Assembly and legal fees of \$353 associated with a client institution workout. For FY 2004, they increased by \$1,142 as compared to FY 2003. The major increase in cost was associated with the \$1,556 in non-client grants awarded during FY 2004 as compared to \$782 in FY 2003. The 3% interest rate subsidy for the Child Care Guaranteed Loan Fund Program increased by \$94 as compared to FY 2003. An increase in the provision for uncollectibles of \$60 was recorded during FY 2004.

Summary of Cash Flow Activities (Dollars in Thousands)

The following is an overview of the major variances in Cash Flows:

Net cash provided by Operating Activities -- was \$692 as of June 30, 2005 as compared to (\$1,448) for FY 2004. Net Cash of \$692 does not reflect \$1,000 in grants approved for the Malpractice Captive Grant Program or \$753 in open grants which were approved as of June 30, 2005 and not funded until July 2005.

Cash Flows from Non Capital Financing Activities

- Bond sales of \$329,115 reflect the net proceeds of the twelve bond issues closed during FY 2005, including: the four largest Connecticut State University Systems Series G and H at \$99,110 the Hospital of Saint Raphael Series L and M at \$59,945, Trinity College Series H and I at \$48,370 and Griffin Hospital Series B at \$24,800.

MANAGEMENT'S DISCUSSION AND ANALYSIS (*Continued*)

Cash Flows from Non Capital Financing Activities (*Continued*)

- Construction expenses paid of \$365,019 reflect funds disbursed for construction projects financed for institutions. During FY 2005 the largest amounts funded were for: Yale University Series X at \$119,242, the Connecticut State University Systems Series C, D and E at \$75,008, Wesleyan University Series E at \$29,718, Eastern Connecticut Health Network Series B at \$18,698, Lawrence and Memorial Hospital Series E at \$17,668, University of Hartford Series F at \$15,167, Norwich Free Academy Series A at \$12,189, Ridgefield Academy Series A at \$8,704, Sacred Heart University at \$8,179 and the Boy's and Girl's Club of Greenwich Series A at \$7,501.

Cash Flows from Investing Activities – are funds transferred from investments to pay for construction project expenses on behalf of our client institutions.

INDEPENDENT AUDITORS' REPORT



CARLIN, CHARRON & ROSEN, LLP
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INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying basic financial statements of the State of Connecticut Health and Educational Facilities Authority ("Authority"), a component unit of the State of Connecticut, as of and for the years ended June 30, 2005 and 2004 as listed in the table of contents. These basic financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States 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 basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of the State of Connecticut Health and Educational Facilities Authority, as of June 30, 2005 and 2004, and the changes in its financial position and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 12, 2005 on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The accompanying Management's Discussion and Analysis as listed in the table of contents is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Carlin, Chavart Rosay, LLP

Glastonbury, Connecticut
August 12, 2005

BASIC FINANCIAL STATEMENTS

**STATE OF CONNECTICUT
HEALTH AND EDUCATIONAL FACILITIES AUTHORITY
BALANCE SHEETS
JUNE 30, 2005 AND 2004
(Amounts Expressed in Thousands)**

	<u>2005</u>	<u>2004</u>
ASSETS		
CURRENT ASSETS		
Unrestricted assets:		
Cash	\$ 854	\$ 62
Accounts receivable, net of allowance of \$150 in 2005 and \$148 in 2004	337	345
Investments	20,384	20,142
Prepaid expenses and other	123	139
Total unrestricted assets	<u>21,698</u>	<u>20,688</u>
Restricted assets:		
Cash	96	87
Fund investments	180,065	427,769
Other investments	3,042	2,962
Interest receivable	12	41
Other receivables	90	157
Total restricted assets	<u>183,305</u>	<u>431,016</u>
Total current assets	<u>205,003</u>	<u>451,704</u>
NONCURRENT ASSETS		
Investments	2,247	2,250
Capital assets:		
Leasehold improvements	69	66
Computer equipment	432	444
Furniture and fixtures	224	218
Office equipment	100	71
Less: accumulated depreciation and amortization	<u>(627)</u>	<u>(612)</u>
Capital assets, net	<u>198</u>	<u>187</u>
Total assets	<u>\$ 207,448</u>	<u>\$ 454,141</u>
LIABILITIES		
CURRENT LIABILITIES		
Accounts payable and accrued expenses	\$ 2,387	\$ 592
Amounts held for institutions	183,287	431,010
Total current liabilities	<u>185,674</u>	<u>431,602</u>
NONCURRENT LIABILITIES		
Amount held on behalf of the State of Connecticut	2,247	2,250
Total liabilities	<u>187,921</u>	<u>433,852</u>
NET ASSETS		
Invested in capital assets	198	187
Unrestricted	19,329	20,102
Total net assets	<u>19,527</u>	<u>20,289</u>
Total liabilities and net assets	<u>\$ 207,448</u>	<u>\$ 454,141</u>

The accompanying notes are an integral part of these basic financial statements.

**STATE OF CONNECTICUT
HEALTH AND EDUCATIONAL FACILITIES AUTHORITY
STATEMENTS OF REVENUES, EXPENSES,
AND CHANGES IN NET ASSETS
FOR THE YEARS ENDED JUNE 30, 2005 AND 2004**

(Amounts Expressed in Thousands)

	<u>2005</u>	<u>2004</u>
OPERATING REVENUES		
Revenues from institutions:		
Administrative fees	\$ 4,214	\$ 4,146
Bond issuance fees	63	94
Miscellaneous revenues	10	13
Total operating revenues	<u>4,287</u>	<u>4,253</u>
OPERATING EXPENSES		
Salaries and related expenses	1,644	1,580
Grant expense	2,449	1,557
Other operating expenses	1,410	1,047
Total operating expenses	<u>5,503</u>	<u>4,184</u>
Operating (loss) income	(1,216)	69
NONOPERATING REVENUES		
Income from investments	<u>454</u>	<u>245</u>
Change in net assets	(762)	314
Net assets, beginning of year	<u>20,289</u>	<u>19,975</u>
Net assets, end of year	<u>\$ 19,527</u>	<u>\$ 20,289</u>

The accompanying notes are an integral part of these basic financial statements.

**STATE OF CONNECTICUT
HEALTH AND EDUCATIONAL FACILITIES AUTHORITY
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2005 AND 2004**

(Amounts Expressed in Thousands)

	<u>2005</u>	<u>2004</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received for administrative fees	\$ 4,090	\$ 4,106
Cash received from other operating income	73	107
Cash paid for interest	-	(49)
Cash paid for client grant expense	-	(1,370)
Cash paid for grant expense	(696)	(1,557)
Cash paid for other expenses	(1,174)	(1,095)
Cash paid to employees	(1,601)	(1,590)
Net cash provided by (used in) operating activities	<u>692</u>	<u>(1,448)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Proceeds from bond sales, net	329,115	329,569
Proceeds from institutions	505	354
Net transfers to restricted funds	(217,304)	(127,802)
Construction expenses paid	(365,019)	(229,694)
Net cash used in noncapital financing activities	<u>(252,703)</u>	<u>(27,573)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Bonds retired and redeemed	-	(1,960)
Reimbursements to institutions/loan payoffs	-	(8,000)
Net purchases of capital assets	(98)	(60)
Net cash used in capital and related financing activities	<u>(98)</u>	<u>(10,020)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Net proceeds from investments	247,364	33,454
Cash from restricted investment earnings	5,032	5,128
Cash received from investments	467	245
Charter School principal repayments	47	60
Notes issued to charter schools	-	(200)
Net cash provided by investing activities	<u>252,910</u>	<u>38,687</u>
NET INCREASE (DECREASE) IN CASH	801	(354)
CASH, beginning of year	149	503
CASH, end of year	<u>\$ 950</u>	<u>\$ 149</u>

The accompanying notes are an integral part of these basic financial statements.

STATE OF CONNECTICUT
HEALTH AND EDUCATIONAL FACILITIES AUTHORITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005 AND 2004
(Amounts Expressed in Thousands)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying basic financial statements of the State of Connecticut Health and Educational Facilities Authority ("Authority") have been prepared in conformity with accounting principles generally accepted in the United States of America as prescribed in pronouncements of the Governmental Accounting Standards Board ("GASB") and the Financial Accounting Standards Board ("FASB"), as applicable. Following is a summary of significant accounting policies of the Authority:

REPORTING ENTITY

The Authority is a public benefit corporation 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 ("Act"). The Authority is constituted as a public instrumentality and political subdivision of the State whose board of directors is appointed by the Governor of the State of Connecticut (except for the Child Care Facilities Loan Program, the State of Connecticut is not responsible for any liabilities of the Authority). The purpose of the Authority, as stated in the Act, is to assist certain health care institutions, institutions of higher education and qualified for-profit and not-for-profit institutions in the financing and refinancing of projects to be undertaken in relation to the programs for these institutions. Debt issued by the Authority is payable from the revenues of the institutions and is not the debt of the State of Connecticut, and the State is not obligated for such debt, except for the bonds issued under the Child Care Facilities Loan Program which is discussed in Note 4 and the Special Capital Reserve Program. Under the Special Capital Reserve Fund Program, the State is obligated for replenishment of funds for debt service.

The Authority is not obligated for the debt it issues except for general obligation bonds and for the guarantees of loans issued under the Child Care Facilities Loan Program discussed in Note 4.

The Authority operates a program which makes loans to charter schools within the State of Connecticut. The individual loans are made in amounts up to \$150. The maximum amount of loans outstanding under this program are not to exceed \$1,500.

MEASUREMENT FOCUS AND BASIS OF ACCOUNTING

The Authority's financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

The statements of revenues, expenses and changes in net assets distinguishes operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services in connection with the Authority's principal ongoing operations. The principal operating revenues of the Authority consists of authority fees charged to institutions. Operating expenses of the Authority consist of salaries and related expenses and other operating expenses, including depreciation and amortization on capital assets. Revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

**STATE OF CONNECTICUT
HEALTH AND EDUCATIONAL FACILITIES AUTHORITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005 AND 2004
(Amounts Expressed in Thousands)**

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (Continued)

MEASUREMENT FOCUS AND BASIS OF ACCOUNTING (Continued)

The Authority has elected to apply the provisions of all relevant pronouncements of the FASB, including those issued after November 30, 1989, except for those that conflict or contradict GASB pronouncements.

CASH AND CASH EQUIVALENTS

Cash and cash equivalents include all highly liquid investments purchased with an original maturity of three months or less. The State Treasurer's Short Term Investment Fund is excluded from cash equivalents because it is considered to be an investment. The Authority had no cash equivalents at June 30, 2005 and 2004.

INVESTMENTS

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

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

RESTRICTED ASSETS

Restricted assets are maintained under trust agreements in separate funds for each debt issue in accordance with the requirements of the underlying bond issue documents. Restricted assets include assets related to general obligation bonds issued by the Authority and assets held in the construction fund for which the Authority has fiduciary responsibility.

Fund descriptions are as follows:

- Construction and Project Funds – The 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.
- Debt Service and Bond Funds – These funds record the receipt of payments from the institutions and disbursement of monies for the payment of bond interest and principal.
- Debt Service Reserve Funds – These funds record the receipt of a portion of the bond proceeds held in reserve to comply with the various bond resolutions. The net assets generally are required to be maintained at an amount equal to the greatest amount of interest and principal payable in the current or any future bond year.

**STATE OF CONNECTICUT
HEALTH AND EDUCATIONAL FACILITIES AUTHORITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005 AND 2004
(Amounts Expressed in Thousands)**

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (Continued)

RESTRICTED ASSETS (Continued)

- Redemption Funds – These funds account for the accumulation of assets not required by other funds for the eventual redemption or purchase of bonds.

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

Cash included in restricted assets is generally held by the trustee in amounts equal to the reported carrying amount and is uncollateralized.

Income earned on restricted assets is not reflected in the statements of revenues, expenses, and changes in net assets as such income accrues to the benefit of the institutions.

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.

The assets of the funds were held by trustee banks in accordance with the related bond indentures.

Other restricted investments include transfers to the Authority under its agency relationship with the State of Connecticut Department of Social Services (DSS) described in Note 5.

AMOUNTS HELD FOR INSTITUTIONS

Amounts held for institutions represent amounts payable to institutions, bondholders, and others from the Authority'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 the Authority under its agency relationship with DSS related to the childcare program pursuant to Public Act 97-259.

CAPITAL ASSETS

Capital assets, which include property, plant and equipment, are stated at cost. The Authority defines capital assets as assets with an initial cost exceeding \$500. Depreciation and amortization is computed on a straight line basis over estimated service lives generally ranging from three to five years.

Maintenance and repairs that do not add to the value of the asset or materially extend their lives, are charged to expense as incurred, while significant renewals and betterments are capitalized.

**STATE OF CONNECTICUT
HEALTH AND EDUCATIONAL FACILITIES AUTHORITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005 AND 2004
(Amounts Expressed in Thousands)**

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (Continued)

NET ASSETS

The accompanying balance sheets present the Authority's non-fiduciary assets and liabilities, with the difference reported as net assets. Net assets are 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 assets - This category consists of net assets whose use is restricted either through external restrictions imposed by creditors, grantors, contributors, and the like, or through restrictions imposed by law through constitutional provisions or enabling legislation.
- Unrestricted net assets - This category consists of net assets which do not meet the definition of the two preceding categories.

When both restricted and unrestricted resources are available for use, it is the Authority's policy to use restricted resources first, then unrestricted resources as they are needed.

AUTHORITY FEES

The Authority charges an administrative fee to institutions with outstanding bond issues to cover the operating expenses of the Authority. All issues other than those under the Special Capital Reserve Fund Program were charged an annual fee of nine basis points, billed semi-annually, in arrears, on the outstanding par amount of the bonds at each principal and interest payment date. Bonds issued under the Special Capital Reserve Fund Program were charged an annual fee of fourteen basis points, billed semi-annually, in arrears, on the outstanding par amount of the bonds at each principal and interest payment date. In addition the Authority charges a bond issuance fee of five thousand dollars for each bond issue.

FAIR VALUES OF FINANCIAL INSTRUMENTS

- Investments – Guaranteed investment contracts are stated at cost which approximates fair value. All other investments are based on quoted market prices of individual investment instruments at year end.
- Accounts receivable and accounts payable and accrued expenses – The carrying amounts approximate their fair values because of the short-term maturity of these instruments.
- Amounts held for institutions – The carrying amounts approximate fair value because of the short-term maturity of these instruments.
- Amounts held on behalf of the State of Connecticut – The carrying amounts approximate fair value because of the short-term maturity of the underlying investments being held.

**STATE OF CONNECTICUT
HEALTH AND EDUCATIONAL FACILITIES AUTHORITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005 AND 2004
(Amounts Expressed in Thousands)**

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (Continued)

USE OF ESTIMATES

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts and disclosures in the financial statements. Actual results could differ from those estimates.

NOTE 2 - CASH DEPOSITS AND INVESTMENTS

CASH DEPOSITS - CUSTODIAL CREDIT RISK

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

As of June 30, 2005 and 2004, \$960 and \$902 of the Authority's bank balance of \$1,060 and \$1,002, respectively was exposed to custodial credit risk as follows:

	<u>2005</u>	<u>2004</u>
Uninsured and uncollateralized	\$ 854	\$ 802
Uninsured and collateralized with securities held by the pledging bank's trust department or agent but not in the Authority's name	106	100
	<u>\$ 960</u>	<u>\$ 902</u>

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

A reconciliation of the Authority's cash deposits as of June 30, 2005 and 2004 is as follows:

	<u>2005</u>	<u>2004</u>
Unrestricted assets:		
Cash	\$ 854	\$ 62
Restricted assets:		
Cash	96	87
	<u>\$ 950</u>	<u>\$ 149</u>

**STATE OF CONNECTICUT
HEALTH AND EDUCATIONAL FACILITIES AUTHORITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005 AND 2004
(Amounts Expressed in Thousands)**

NOTE 2 - CASH DEPOSITS AND INVESTMENTS (Continued)

INVESTMENTS

As of June 30, 2005, the Authority's investments consisted of the following:

Investment type	Fair Value	Investment Maturities (In Years)	
		Less Than 1	1 to 5
Debt Securities:			
Short Term Investment Fund (STIF)	\$ 48,038	\$ 48,038	\$ -
Guaranteed investment contracts	40,306	40,306	-
Money market funds	117,394	117,394	-
Total	<u>\$ 205,738</u>	<u>\$ 205,738</u>	<u>\$ -</u>

As of June 30, 2004, the Authority's investments consisted of the following:

Investment type	Fair Value	Investment Maturities (In Years)	
		Less Than 1	1 to 5
Debt Securities:			
Short Term Investment Fund (STIF)	\$ 61,530	\$ 61,530	\$ -
Guaranteed investment contracts	130,047	-	130,047
Money market funds	261,546	261,546	-
Total	<u>\$ 453,123</u>	<u>\$ 323,076</u>	<u>\$ 130,047</u>

Because the STIF, and money market funds had weighted average maturities of 35 days and 90 days, respectively, they were presented as investments with maturities of less than one year.

A reconciliation of the Authority's investments as of June 30, 2005 and 2004 is as follows:

	2005	2004
Unrestricted assets:		
Investments	\$ 20,384	\$ 20,142
Restricted assets:		
Fund investments	180,065	427,769
Other investments - current	3,042	2,962
Investments - noncurrent	2,247	2,250
	<u>\$ 205,738</u>	<u>\$ 453,123</u>

STATE OF CONNECTICUT
HEALTH AND EDUCATIONAL FACILITIES AUTHORITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005 AND 2004
(Amounts Expressed in Thousands)

NOTE 2 - CASH DEPOSITS AND INVESTMENTS *(Continued)*

INVESTMENTS *(Continued)*

Interest Rate Risk

As a means of limiting its exposure to fair value losses arising from rising interest rates, the Authority's investment policy provides that the Authority's investment portfolio for its unrestricted investments be designed with the objective of regularly exceeding the average return of ninety day U.S. Treasury Bills. This is generally considered to be a benchmark for riskless investment transactions and therefore represents a minimum standard for the portfolio's rate of return. The Authority's investment policy as it relates to restricted investments provides that all restricted accounts be invested in strict accordance with the bond issue trust indentures, with the above policy and with applicable Connecticut State Law. Whenever possible, restricted investments are to be held to maturity and be invested in an appropriate manner as to ensure the availability for specified payment dates, planned construction draws and other intended purposes as set forth in the relevant trust indentures and agreements, and to ensure a rate of return at least equal to the restricted bond yield, all with minimal risk to capital.

Credit Risk

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

Investments that may be purchased by the Authority with the written approval of an officer, provided the instrument has a maturity date of 365 days or less from the date of purchase are as follows: obligations issued or guaranteed by the U.S. Government, including FDIC; qualified money market funds or institutional money market funds investing in short-term securities as permitted by the Authority's enabling legislation; Connecticut State Treasurer's Short-Term Investment Fund (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 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.

**STATE OF CONNECTICUT
HEALTH AND EDUCATIONAL FACILITIES AUTHORITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005 AND 2004
(Amounts Expressed in Thousands)**

NOTE 2 - CASH DEPOSITS AND INVESTMENTS (Continued)

INVESTMENTS (Continued)

Credit Risk (Continued)

Pursuant to the General Statutes of the State of Connecticut, the Authority may only invest funds in 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 this State, or in 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, or investment agreements fully secured by obligations of, or guaranteed by, the United States or agencies or instrumentalities of the United States or in securities or obligations which are legal investments for savings banks in this State, subject to repurchase agreements in the manner in which such agreements are negotiated in sales of securities in the marketplace, provided that the Authority shall not enter into any such agreement with any securities dealer or bank acting as a securities dealer unless such dealer or bank is included in the list of primary dealers, effective at the time of such agreement, as prepared by the Federal Reserve Bank of New York.

As of June 30, 2005 and 2004, all of the Authority's investments were rated AAA by Standard & Poor's.

Custodial Credit Risk

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

Concentrations of Credit Risk

For unrestricted investments, the Authority places limits on the amount of investment in any one issuer. No issuer other than the United States Treasury or the Connecticut State Treasurer's Short-Term Investment Fund shall constitute greater than 5% of unrestricted investments, except for qualified money market or mutual bond funds, none of which shall constitute greater than 50% of general fund investments. The Authority's investment portfolio as of June 30, 2005 and 2004 was in compliance with this policy.

**STATE OF CONNECTICUT
HEALTH AND EDUCATIONAL FACILITIES AUTHORITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005 AND 2004
(Amounts Expressed in Thousands)**

NOTE 2 - CASH DEPOSITS AND INVESTMENTS (Continued)

INVESTMENTS (Continued)

Concentrations of Credit Risk (Continued)

The Authority places no limit on the amount of investment in any one issuer for restricted investments. Investments held by any one issuer that exceeded 5% of the Authority's investments as of June 30, 2005 and 2004 is as follows:

Investment type	Issuer	Maturity Date	2005	2004
Guaranteed investment contracts	Trinity Funding, LLC	9/9/2005	\$ 11,796	\$ 41,600
Guaranteed investment contracts	Trinity Funding, LLC	12/10/2005	28,510	88,447

NOTE 3 - CAPITAL ASSETS

Capital asset activity for the years ended June 30, 2005 and 2004 is as follows:

	2005			
	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets, being depreciated:				
Leasehold Improvements	\$ 66	\$ 3	\$ -	\$ 69
Computer equipment	444	47	(59)	432
Furniture and fixtures	218	20	(14)	224
Office equipment	71	30	(1)	100
Total capital assets, being depreciated	799	100	(74)	825
Less accumulated depreciation and amortization for:				
Leasehold Improvements	(59)	(7)	-	(66)
Computer equipment	(289)	(62)	59	(292)
Furniture and fixtures	(208)	(4)	14	(198)
Office equipment	(56)	(16)	1	(71)
Total accumulated depreciation and amortization	(612)	(89)	74	(627)
Total capital assets, being depreciated, net	187	11	-	198
Governmental activities capital assets, net	\$ 187	\$ 11	\$ -	\$ 198

**STATE OF CONNECTICUT
HEALTH AND EDUCATIONAL FACILITIES AUTHORITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005 AND 2004
(Amounts Expressed in Thousands)**

NOTE 3 - CAPITAL ASSETS (Continued)

	2004			
	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets, being depreciated:				
Leasehold Improvements	\$ 66	\$ -	\$ -	\$ 66
Computer equipment	385	59	-	444
Furniture and fixtures	218	-	-	218
Office equipment	70	1	-	71
Total capital assets, being depreciated	739	60	-	799
Less accumulated depreciation and amortization for:				
Leasehold Improvements	(45)	(14)	-	(59)
Computer equipment	(239)	(50)	-	(289)
Furniture and fixtures	(200)	(8)	-	(208)
Office equipment	(46)	(10)	-	(56)
Total accumulated depreciation and amortization	(530)	(82)	-	(612)
Total capital assets, being depreciated, net	209	(22)	-	187
Governmental activities capital assets, net	\$ 209	\$ (22)	\$ -	\$ 187

NOTE 4 - BONDS PAYABLE

The Authority issued general obligation bonds through July, 1979 for which the Authority is ultimately responsible for the payment of principal and interest when due. Subsequent to July 1, 1979, the Authority has issued only special obligation bonds for which principal and interest is payable solely from the revenues of the institutions. As of June 30, 2005 and 2004 there were no general obligation bonds outstanding.

As of June 30, 2005 and 2004, the total outstanding principal balances of special obligation bonds were \$4,727,239 and \$4,666,725, respectively. The bonds are issued on behalf of institutions to finance the construction of various health and educational facilities. These bonds are conduit debt obligations of the Authority and do not constitute obligations of the Authority.

NOTE 5 - CHILD CARE FACILITIES LOAN PROGRAMS

The Authority has entered into a partnership with the State of Connecticut Department of Social Services (DSS), Department of Education 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. Since, June 30, 1998 the Authority has designated \$4,500 of its net assets to be used for loan guarantees and debt service funding under these programs if providers default on their loans.

STATE OF CONNECTICUT
HEALTH AND EDUCATIONAL FACILITIES AUTHORITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005 AND 2004
(Amounts Expressed in Thousands)

NOTE 5 - CHILD CARE FACILITIES LOAN PROGRAMS (continued)

From November 1998 to June 2005 the Authority has issued \$42,390 in revenue bonds under the Tax-exempt Pooled Bond Issue Program. The State of Connecticut is responsible for paying a portion of the debt service on these bonds. In conjunction with these bond issuances, in fiscal 1999 the Authority transferred \$500 into an irrevocable trust fund in order to service future debt service requirements. The Authority is under no obligation to make additional transfers into this irrevocable trust fund in order to service future debt service requirements and has no further obligation with respect to these bonds. In fiscal year 1998, DSS transferred \$3,750 to the Authority to be utilized by the Authority in providing debt service reserve funding and loan guarantees for loans made to child care providers. In 1999, \$1,500 of these DSS Funds were transferred into the debt service reserve fund.

In June 1999, the Board of Directors approved an amendment to the Guarantee Loan Fund and Small Revolving Direct Loan Programs to subsidize three-percent of the interest rate on future loans issue in conjunction with this program.

Approximately \$2,037 and \$1,908 in loans were issued to child care facilities under the Guarantee Loan Fund Program in 2005 and 2004, respectively. Loans issued under this program are approved, granted and administered by several participating banking institutions. The Authority is responsible for guaranteeing twenty-percent to fifty-percent of each loan outstanding. As of June 30, 2005, the Authority has guaranteed approximately \$8,876 of loan balances outstanding under this program.

NOTE 6 - NET ASSETS

A portion of unrestricted net assets has been designated by the Authority's Board of Directors for operations and the remainder for programs that are part of the Authorities mission and purpose, as well as for contingencies. In addition, as described in Note 4, since June 1998 the Authority has designated \$4,500 of its net assets for the loan guarantees and debt service funding under the child care facilities loan program pursuant to Public Act 97-259. The Authority has also designated \$500 to fund the Pharmacy Revolving Loan Program as required by Public Act 03-166.

A summary of net assets as of June 30, 2005 and 2004 based on the Board of Directors designations is as follows:

	2005	2004
Focused investment program	\$ 6,097	\$ 6,000
Child care facilities loan program	4,500	4,500
Special capital reserve fund program	3,903	3,903
Operations	2,005	2,037
Captive insurance demonstration grant program	500	1,500
Legal fee contingencies	896	1,250
Pharmacy revolving loan program	500	500
Grant program	-	212
Charter school loan program	200	200
Contingency	728	-
	<u>\$ 19,329</u>	<u>\$ 20,102</u>

STATE OF CONNECTICUT
HEALTH AND EDUCATIONAL FACILITIES AUTHORITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005 AND 2004
(Amounts Expressed in Thousands)

NOTE 7 - EMPLOYEE BENEFIT PLANS

The Authority maintains a defined contribution money purchase plan covering all employees with three months of continuous service and one-thousand anticipated hours of service annually. The plan is administered by the Authority and can be amended by the trustees of the plan. The Authority contributes annually to the Plan an amount equal to ten-percent of each qualified employee's annual salary. For the year ended June 30, 2005 and 2004, retirement plan expense was \$112 and \$113, 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. The Authority matches the first one thousand five hundred dollars of employee contributions. Related expense was \$24 and \$25 for the year ended June 30, 2005 and 2004, respectively.

NOTE 8 - OPERATING LEASES

The Authority leases office space and other office equipment for use in operations. As of June 30, 2005 minimum future rental commitments of the leases are as follows:

Year ending June 30,	
2006	\$ 211
2007	207
2008	216
2009	224
2010	228
Thereafter	19
	<u>\$ 1,105</u>

Rental expense for these leases during the years ended June 30, 2005 and 2004 was \$214 and \$200, respectively.

NOTE 9 - LEGAL MATTERS

The Authority, in the normal course of business, is involved in various legal matters. Under terms of the agreements between the Authority and its borrowers, any costs associated with the litigation are the obligations of the borrowers. As of June 30, 2005 there was one legal matter known by the Authority arising from a bond default of a special capital reserve fund. The outcome and eventual liability to the Authority, in this case is not known at this time. The Authority's management, based upon consultation with legal counsel, estimates that potential claims against the Authority, not covered by insurance, resulting from such litigation would not materially affect the financial position of the Authority. The Authority has accrued for the legal expense and believes that the legal fee contingencies that it has reserved for is substantial enough to cover costs arising from the bond default.

**STATE OF CONNECTICUT
HEALTH AND EDUCATIONAL FACILITIES AUTHORITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005 AND 2004
(Amounts Expressed in Thousands)**

NOTE 10 - RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES

The following is a reconciliation of operating income (loss) to net cash provided by (used in) operating activities for the years ended June 30, 2005 and 2004.

	<u>2005</u>	<u>2004</u>
Operating (loss) income	\$ (1,216)	\$ 69
Adjustments to reconcile operating (loss) income to net cash provided by (used in) operating activities:		
Depreciation and amortization	89	82
Bad debt expense	2	60
Changes in assets and liabilities:		
Accounts payable and accrued expenses	1,795	(200)
Prepaid expenses and other	16	(84)
Accounts receivable	6	(1,375)
Net cash provided by (used in) operating activities	\$ <u>692</u>	\$ <u>(1,448)</u>

**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***



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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

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

We have audited the financial statements of the State of Connecticut Health and Educational Facilities Authority (a component unit of the state of Connecticut), ("Authority") as of and for the year ended June 30, 2005, and have issued our report thereon dated August 12, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing our audit, we considered the Authority's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level of risk that a material misstatement caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

COMPLIANCE AND OTHER MATTERS

As part of obtaining reasonable assurance about whether the Authority's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants 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*.

- 25 -

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

Carlton Chavon + Rosen, LLP

Glastonbury, Connecticut
August 12, 2005