STATE OF CONNECTICUT HEALTH AND EDUCATIONAL FACILITIES AUTHORITY

(A Component Unit of the State of Connecticut)

BASIC FINANCIAL STATEMENTS
AS OF JUNE 30, 2007 AND 2006

TOGETHER WITH

INDEPENDENT AUDITORS' REPORT

CCR

CARLIN, CHARRON & ROSEN, LLP
Certified Public Accountants and Business Advisors

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HEALTH AND EDUCATIONAL FACILITIES AUTHORITY
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MANAGEMENT'S DISCUSSION AND ANALYSIS

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following Management's 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, 2007 and 2006 with an additional comparison to FY 2005. 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 pursuant to Connecticut General Statutes Chapter 187, Sections 10a-176 through 10a-198. These tax-exempt bonds are financial/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 balance sheet; (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 2007, FY 2006 and FY 2005. Approximately $833,865 in bonds were issued during FY 2007 including debt for one institution that exceeded $100,000 ($280,855 was issued for Yale-New Haven Hospital).

	Bond Issues	FY 2007	Bond Issues	FY 2006	Bond Issues	FY 2005
Healthcare	9	$415,920	8	$345,160	4	$104,745
Higher Education	8	269,095	10	546,925	4	147,480
Private Secondary Schools	5	106,800	3	59,265	6	86,135
Long-Term Care	2	16,050	1	7,095	0	0
Child Care	5	26,000	0	0	0	0
Other	0	0	2	24,195	0	0
Total	29	$833,865	24	$982,640	14	$338,360

Annual Fees (Dollars in Thousands)

The following is a summary of the revenues generated from annual administrative fees charged during FY 2007, FY 2006 and FY 2005 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 Long-Term Care which is 15 basis points (or .0015):

	FY 2007	FY 2006	FY 2005
Healthcare	$1,293	$1,268	$1,247
Higher Education	2,780	2,446	2,161
Private Secondary Schools	495	479	452
Long-Term Care	171	232	250
Child Care	57	28	40
Other	75	89	64
Total	$4,871	$4,542	$4,214

The increases in revenues from FY 2006 to FY 2007 for healthcare, higher education and private secondary schools were for bonds issued during FY 2007 for new projects. The decrease in long-term care revenues reflects the defeasance of three bond issues for facilities owned by the Diocese of Bridgeport (Saint Joseph's Manor, Pope John Paul II Center and Saint Camillus Health Center) and the sale/defeasance of 3030 Park Fairfield Nursing Home. The increase in child care fees resulted from the issuance of the Child Care Facilities Program Series F in December 2006.

The increases in revenues from FY 2005 to FY 2006 for healthcare, higher education and private secondary schools were for bonds issued during FY 2006 for new projects. The decrease in long-term care revenues reflects the defeasance of debt for Noble Horizons and the Jewish Home for the Elderly of Fairfield County. The reduction in child care resulted from a reclassification to other for three bond issues that were incorrectly labeled as child care.

Balance Sheets (Dollars in Thousands)

	FY 2007	FY 2006	FY 2005
ASSETS			
Unrestricted Assets	$21,943	$20,898	$ 21,698
Restricted Assets	541,397	471,613	183,305
Non-Current Assets	2,501	2,522	2,445
Total Assets	$565,841	$495,033	$207,448
LIABILITIES			
Current Liabilities	$543,134	$473,815	$185,674
Non-Current Liabilities	2,247	2,247	2,247
Total Liabilities	$545,381	$476,062	$187,921
NET ASSETS			
Invested in capital assets	254	275	198
Unrestricted	20,206	18,696	19,329
Total Liabilities and Net Assets	$565,841	$495,033	$207,448

Financial Operation Highlights (Dollars in Thousands)

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

Investments – for FY 2007 of $21,386 have increased $961 as compared to FY 2006 and for FY 2006 investments of $20,425 have increased $41 as compared to FY 2005. The increase for FY 2007 was primarily from the recovery of $1,280 in legal expenses incurred during the workout and sale of the 3030 Park Fairfield nursing home. Authority funds are invested in accordance with the Authority's Board approved investment policy, which permits investments in the Office of the State Treasurer's STIF (short-term investment fund).

Accounts Receivable – for FY 2007 was $256 as compared to FY 2006 of $252. This includes receivables for Authority annual fees and receivables for annual trustee fees. For FY 2006 receivables are $252 as compared to FY 2005 of $337. This includes receivables for Authority annual fees, receivables for annual trustee fees, and a note due related to the Common Ground Charter School loan (issued in August 2003 for $200 and has an outstanding balance of $72 as of July 2006).

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

Fund Investments – are investments associated with construction funds managed and held by the Authority for client institutions. The construction funds managed by the Authority for FY 2007 of $536,437 have increased by $68,197 as compared to FY 2006. The construction funds managed by the Authority for FY 2006 of $468,240 have increased by $304,175 as compared to FY 2005. Funds managed for higher education clients increased by over $200,000 primarily because of the issuance of the Yale University Issue Series Y with a construction fund balance of $208,700 at June 30, 2006. Funds managed for healthcare clients increased by over $67,000 including $51,800 for Danbury Hospital and $19,000 for Backus Hospital.

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 – there is no interest receivable for FY 2007 or for FY 2006. The amount for FY 2005 reflects the interest earnings due, but not yet paid on the Construction Fund investments managed by the Authority for its clients.

Other Receivables – FY 2007, 2006 and 2005 include 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.

Liabilities (Dollars in Thousands)

Accounts Payable and Accrued Expenses – of $1,799 for FY 2007, decreased by $431 as compared to FY 2006. This decrease was a reduction in grants payable of $144, a decrease of $120 in accrued legal expenses and a net decrease in other payables. Accounts Payable and Accrued Expenses for FY 2006 of $2,230 decreased by $157 as compared to FY 2005. Most of this decrease was related to a reduction in the amount of grants approved by the Authority Board's Grant Committee and the full Board during FY 2006.

Amounts Held for Institutions – are primarily the funds held by the Authority for client construction funds. As of June 30, 2007 this included the following major construction fund balances held: Yale-New Haven Hospital Issue, Series J - $249,047; Yale University Issue, Series Y - $23,366; Quinnipiac University Issue, Series H - $37,830; Trinity College Issue, Series K - $24,807; Connecticut State University Issue, Series D, E and G - $28,477 and Griffin Hospital Issue, Series C and D - $24,875.

Amount Held on Behalf of the State of Connecticut – reflect the amounts held by the Authority pursuant to Public Act 97-256 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 Bank and it provided $750 to fund the guarantees for the Small Direct Loan Fund Program managed by the Connecticut Community Investment Corporation (CTCIC). To date there has only been one call on the loan guarantee funds for a loan made by CTCIC for a loss of $3.

Net Assets (Dollars in Thousands)

Total net assets for FY 2007 have increased by $1,489 as compared to a decrease of $556 for FY 2006. Contributing to the increase in Net Assets for FY 2007 was the miscellaneous income associated with the recovery of $1,276 in legal fees incurred relating to the 3030 Park Fairfield nursing home workout and sale. Also contributing to the increase in Net Assets was the additional investment income generated by the increase in the yield for FY 2007 of 5.518% as compared to 4.404% for FY 2006. Total net assets for FY 2006 decreased because of the deficit of revenues over expenses of $556 (as compared to the budgeted deficit of $317). Additional expenses for FY 2006 included $793 in Board approved legal expenses associated with the receivership of the 3030 Park Fairfield Nursing Home.

Change in Net Assets (Dollars in Thousands)

	FY 2007	FY 2006	FY 2005
Total Operating Revenues	$6,293	$4,655	$ 4,287
Total Operating Expenses	5,832	6,055	5,503
Total Operating Income (Loss)	461	(1,400)	(1,216)
Non-Operating Revenues	1,028	844	454
Change in Net Assets	$1,489	$ (556)	$ (762)

Operating Revenues (Dollars in Thousands)

Administrative Fees – of $4,871 for FY 2007 increased by $329 as compared to FY 2006. During FY 2007 the Authority issued $834 in bonds which included $552 in new money and $282 in refinancings. The additional fees generated are associated with the new money bond issues. Fees of $4,542 for FY 2006 have increased by $329 as compared to FY 2005. During FY 2006, the Authority issued $982,640 in bonds that included $537,800 in new money and $444,900 in refinancings.

Income from Investments – for FY 2007 was $1,028 as compared to $844 for FY 2006, a $184 increase. This was due to an increase in interest rates during FY 2007 as compared to FY 2006. The average yield during FY 2007 was 5.518% as compared to 4.404% for FY 2006 and 2.401% for FY 2005.

Operating Expenses (Dollars in Thousands)

Salaries, Wages and Employee Benefits – for FY 2007 have increased by $382 as compared to FY 2006. This increase in cost is for two new positions approved and filled during FY 2007 including a Compliance/Internal Auditor and a Manager for the New Business/EasyLoan program for a total cost of $205. The increase also included labor grade adjustments recommended and approved by the Human Resources Committee (please see footnote number 1 for a more detailed explanation) totaling $80. The increase of $271 for FY 2006 as compared to FY 2005 was for the cost of two new positions approved and filled during FY 2006, merit increases, labor grade adjustments, health insurance, pension expense and incentive compensation. [1] Theses expenses for FY 2006 have increased by $271 as compared to FY 2005. This increase in cost included: merit increases effective July 1, 2005 of approximately $55, labor grade adjustments of $10, employee incentive increases and related taxes of $23, the annualized impact of two new staff positions approved for FY 2006 of $105, an increase in the cost of health insurance of $27 and an increase in pension cost of $19.

Grant Expense – for FY 2007 of $2,083 decreased slightly from the FY 2006 level of $2,216. Included in the FY 2007 expense were client grants of $861, domestic violence prevention and nursing education targeted investment grants of $363, non-client grants of $808 and Early Childhood Research and Policy Grants of $51. For FY 2006, grant expense of $2,216 decreased slightly from the FY 2005 level of $2,449. Included in the FY 2006 expense were client grants of $545, domestic violence prevention and nursing education targeted investment grants of $323, community foundation open grants of $549, malpractice captive grant program of $500, and the pharmacy (federally qualified health center "FQHC") grant program of $300.

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[1] In accordance with the Governor's request for boards of quasi-public agencies to review and alter compensation policies, the Authority's Board commenced a review of the Authority's compensation practices. On February 15, 2006 the Authority's Board engaged the firm of Owen-Pottier, Human Resources Consultants, to complete a compensation study and make recommendations to the Authority's Human Resources Committee and to the Board for changes in compensation as a result of the study. The Consultant's report was issued in final form to the Human Resources Committee and to the Board on June 27, 2006 and both the Committee and the Board voted to implement the Consultant's recommendations. The Consultant recommended changes in base salaries and the implementation of salary standards that resulted in approximately $85 in annual labor grade adjustments, a recommendation to continue an employee incentive (EIP) program and to make one minor change in the EIP level for managing directors, increasing the maximum eligible EIP from 12.5% to 15%.

Other Operating Expenses – have decreased by $472. This is due primarily to a decrease of $657 in legal expenses associated the workout and subsequent sale of the 3030 Park Fairfield Nursing Home during FY 2007. The increase also includes an increase of $152 in the Provision for Uncollectibles, an increase in the office lease and insurance expense, and a slight decrease in the Child Care Guaranteed Loan Fund Program interest rate subsidy of $60. FY 2006 Other Operating Expenses have increased by $514 as compared to FY 2005 due to an increase in legal fees related to the receivership for 3030 Park Fairfield Nursing Home. The facility was sold by the court-appointed receiver on August 15, 2006 and proceeds were delivered to the bond issue trustee. November 1, 2006 is the first available call date for the bonds for this issue. (The Board, at its meeting held on June 27, 2006 approved the transfer of $1,250 from the Authority's Contingency Reserve to the Legal Fee Reserve to replenish the reserve for charges against it for almost $1,000 in legal expenses associated with the workout for the 3030 Park Fairfield Nursing Home.)

Summary of Cash Flow Activities (Dollars in Thousands)

Net cash provided and used by Operating Activities – net cash available from operations totaled $339 for FY 2007 including cash received from annual fees and other operating income. Cash flow funded salary and related expenses of $2,291, other expenses of $1,401 and grant expenses of $2,227. For FY 2006 cash available from operations was $4,628 from annual fees and $143 from other operating income. Cash flow uses to fund grants, other expenses, and compensation and benefits exceeded cash flow by $1,325. This excess was funded in part by the $856 in cash derived from investments and from the cash balance of $854 at the beginning of the fiscal year.

Cash Flows from Non-Capital Financing Activities – bond sales of $824,370 reflect the net proceeds of the 29 bond issues closed during FY 2007. Net transfers to restricted funds reflect the bond proceeds transferred to the Authority to fund approved construction project expenses. The construction expenses paid reflect funds disbursed to the institution to reimburse them for qualified capital projects paid with their funds or payments made to contractors for construction projects as provided for in the institution's TEFRA public hearing notice and approved by the Governor.

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

INDEPENDENT AUDITORS' REPORT

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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, 2007 and 2006, 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 consideration of internal controls over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the 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, 2007 and 2006, 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 30, 2007 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, Charron & Rosen, LLP

Glastonbury, Connecticut
August 30, 2007

BASIC FINANCIAL STATEMENTS

STATE OF CONNECTICUT
HEALTH AND EDUCATIONAL FACILITIES AUTHORITY
BALANCE SHEETS
JUNE 30, 2007 AND 2006
(Amounts Expressed in Thousands)

	2007	2006
ASSETS		
CURRENT ASSETS		
Unrestricted assets:		
Cash	$ 180	$ 101
Accounts receivable, net of allowance of $109 in 2007 and $108 in 2006	256	252
Investments	21,386	20,425
Prepaid expenses and other	121	120
Total unrestricted assets	21,943	20,898
Restricted assets:		
Cash	162	129
Fund investments	536,437	468,240
Other investments	4,708	3,185
Other receivables	90	59
Total restricted assets	541,397	471,613
Total current assets	563,340	492,511
NONCURRENT ASSETS		
Investments (restricted)	2,247	2,247
Capital assets:		
Leasehold improvements	124	88
Computer equipment	461	448
Furniture and fixtures	243	242
Office equipment	223	215
Less: accumulated depreciation and amortization	(797)	(718)
Capital assets, net	254	275
Total assets	$ 565,841	$ 495,033
LIABILITIES		
CURRENT LIABILITIES		
Accounts payable and accrued expenses	$ 1,799	$ 2,230
Amounts held for institutions	541,335	471,585
Total current liabilities	543,134	473,815
NONCURRENT LIABILITIES		
Amount held on behalf of the State of Connecticut	2,247	2,247
Total liabilities	545,381	476,062
NET ASSETS		
Invested in capital assets	254	275
Unrestricted	20,206	18,696
Total net assets	20,460	18,971
Total liabilities and net assets	$ 565,841	$ 495,033

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, 2007 AND 2006

(Amounts Expressed in Thousands)

	2007	2006
OPERATING REVENUES		
Revenues from institutions:		
Administrative fees	$ 4,871	$ 4,542
Bond issuance fees	138	87
Miscellaneous revenues	1,284	26
Total operating revenues	6,293	4,655
OPERATING EXPENSES		
Salaries and related expenses	2,297	1,915
Grant expense	2,083	2,216
Other operating expenses	1,452	1,924
Total operating expenses	5,832	6,055
Operating gain (loss)	461	(1,400)
NONOPERATING REVENUES		
Income from investments	1,028	844
Change in net assets	1,489	(556)
Net assets, beginning of year	18,971	19,527
Net assets, end of year	$ 20,460	$ 18,971

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, 2007 AND 2006

(Amounts Expressed in Thousands)

	2007	2006
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received for administrative fees	$ 4,866	$ 4,628
Cash received from other operating income	1,392	143
Cash paid for other expenses	(1,401)	(1,724)
Cash paid to employees	(2,291)	(1,864)
Cash paid for grant expense	(2,227)	(2,508)
Net cash provided by (used in) operating activities	339	(1,325)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Proceeds from bond sales, net	824,370	975,721
Proceeds from institutions	1,046	2,147
Construction expenses paid	(516,762)	(268,746)
Net transfers to restricted funds	(288,569)	(447,455)
Net cash provided by noncapital financing activities	20,085	261,667
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Net purchases of capital assets	(79)	(171)
Net cash used in capital and related financing activities	(79)	(171)
CASH FLOWS FROM INVESTING ACTIVITIES		
Cash from restricted investment earnings	28,885	16,848
Cash received from investments	1,028	856
Charter School principal repayments	-	53
Net proceeds from investments	(50,145)	(278,648)
Net cash used in investing activities	(20,232)	(260,891)
NET INCREASE (DECREASE) IN CASH	112	(720)
CASH, beginning of year	230	950
CASH, end of year	$ 342	$ 230

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

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 (including municipalities, local boards of education, regional school districts and regional educational service centers but only for early childhood education facilities for three and four year olds) in the financing and refinancing of projects to be undertaken in relation to the programs for these institutions. Debt issued by the Authority is payable from the revenues of the institutions and is not 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 5 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 the guarantees of loans issued under the Child Care Facilities Loan Program discussed in Note 5.

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 non-operating 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 non-operating revenues and expenses.

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

MEASUREMENT FOCUS AND BASIS OF ACCOUTING *(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, 2007 and 2006.

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.

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 five-hundred dollars. Depreciation and amortization is computed on a straight line basis over estimated service lives generally ranging from three to five years.

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

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.

(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, 2007 and 2006, $166 and $257 of the Authority's bank balance of $266 and $357, respectively was exposed to custodial credit risk as follows:

	2007	2006
Uninsured and uncollateralized	$ 149	$ 221
Uninsured and collaterized with securities held by the pledging bank's trust department or agent but not in the Authority's name	17	36
	$ 166	$ 257

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, 2007 and 2006 is as follows:

	2007	2006
Unrestricted assets:		
Cash	$ 180	$ 101
Restricted assets:		
Cash	162	129
	$ 342	$ 230

(Amounts Expressed in Thousands)

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

INVESTMENTS

As of June 30, 2007, the Authority's investments consisted of the following:

		Investment Maturities (In Years)	
Investment type	Fair Value	Less Than 1	1 to 5
Debt Securities:			
Short Term Investment Fund (STIF)	$ 39,260	$ 39,260	$ -
Guaranteed investment contract	257,638		257,638
Money market funds	267,880	267,880	-
Total	$ 564,778	$ 307,140	$ 257,638

As of June 30, 2006, the Authority's investments consisted of the following:

		Investment Maturities (In Years)	
Investment type	Fair Value	Less Than 1	1 to 5
Debt Securities:			
Short Term Investment Fund (STIF)	$ 66,998	$ 66,998	$ -
Guaranteed investment contracts	37,396	-	37,396
Money market funds	389,704	389,704	-
Total	$ 494,098	$ 456,702	$ 37,396

Because the STIF, and money market funds had weighted average maturities of 60 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, 2007 and 2006 is as follows:

	2007	2006
Unrestricted assets:		
Investments	$ 21,386	$ 20,425
Restricted assets:		
Fund investments	536,437	468,240
Other investments - current	4,708	3,186
Investments - noncurrent	2,247	2,247
	$ 543,392	$ 494,098

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 it's 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.

(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.

The Authority's investments in debt securities were rated by Standard & Poor's as follows at June 30, 2007:

	Fair	Indicate Rating Agency	
Debt Securities	**Value**	**AAA**	**AA**
Short Term Investment Fund (STIF)	$ 39,260	$ 39,260	$ -
Guaranteed investment contracts	257,638	-	257,638
Money market funds	267,880	267,880	-
	$ 564,778	$ 307,140	$ 257,638

As of June 30, 2006, all of the Authority's investments were rated AAA by Standard & Poors.

Custodial Credit Risk

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

(Amounts Expressed in Thousands)

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

INVESTMENTS *(Continued)*

Concentrations of Credit Risk

For unrestricted investments, the Authority places limits on the amount of investment in any one issuer. No issuer other than the United States Treasury or the Connecticut State Treasurer's Short-Term Investment Fund shall constitute greater than 5% of unrestricted investments, except for qualified money market or mutual bond funds, none of which shall constitute greater than 50% of general fund investments. The Authority's investment portfolio as of June 30, 2007 and 2006 was in compliance with this policy.

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, 2007 and 2006 is as follows:

Investment type	Issuer	Maturity Date	2007	2006
Guaranteed investment contracts	AIG	9/10/2007		$37,396
Guaranteed investment contracts	AIG	1/20/2020	9,242	
Guaranteed investment contracts	Morgan Stanley	12/1/2008	168,700	
Guaranteed investment contracts	Raboboank	8/1/2008	79,696	

NOTE 3 - CAPITAL ASSETS

Capital asset activity for the years ended June 30, 2007 and 2006 is as follows:

	2007			
	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets, being depreciated:				
Leasehold Improvements	$ 88	$ 36		$ 124
Computer equipment	448	13		461
Furniture and fixtures	242	2	(1)	243
Office equipment	215	27	(19)	223
Total capital assets, being depreciated	993	78	(20)	1,051
Less accumulated depreciation and amortization for:				
Leasehold Improvements	(68)	(9)		(77)
Computer equipment	(355)	(56)		(411)
Furniture and fixtures	(203)	(5)	1	(207)
Office equipment	(92)	(29)	19	(102)
Total accumulated depreciation and amortization	(718)	(99)	20	(797)
Total capital assets, being depreciated, net	275	(21)	0	254
Capital assets, net	$ 275	$ (21)	$ -	$ 254

(Amounts Expressed in Thousands)

NOTE 3 - CAPITAL ASSETS (*Continued*)

	2006			
	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets, being depreciated:				
Leasehold Improvements	$ 69	$ 19	$ -	$ 88
Computer equipment	432	16	-	448
Furniture and fixtures	224	18	-	242
Office equipment	100	120	(5)	215
Total capital assets, being depreciated	-	-	-	-
	825	173	(5)	993
Less accumulated depreciation and amortization for:				
Leasehold Improvements				
Computer equipment	(66)	(2)	-	(68)
Furniture and fixtures	(292)	(63)	-	(355)
Office equipment	(198)	(5)	-	(203)
Total accumulated depreciation and amortization	(71)	(24)	3	(92)
	-	-	-	-
Total capital assets, being depreciated, net	(627)	(94)	3	(718)
Governmental activities capital assets, net	198	79	(2)	275

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, 2007 and 2006 there were no general obligation bonds outstanding.

As of June 30, 2007 and 2006, the total outstanding principal balances of special obligation bonds were $5,610,039 and $5,183,705, 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. As of June 30, 2007 the Net Asset designation was reduced to $4,320 a decreased of $180 which was due to a payment on a defaulted loan.

From November 1998 to June 2007 the Authority has issued $61,555 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 and in 2007, $1,310 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 to subsidize three-percent of the interest rate on future loans issue in conjunction with this program. As of June 30, 2007 there were approximately $8,000 in loans balances outstanding with no new loans issued in 2007. 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. During FY 2007 the Authority paid $180 from the Guaranteed Loan Protection Account on a child care loan where the provider defaulted on the loan and the facility closed. As of June 30, 2007, the Authority has guaranteed approximately $256 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 5, the Authority has designated $4,320 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.

(Amounts Expressed in Thousands)

NOTE 6 - NET ASSETS *(Continued)*

A summary of net assets as of June 30, 2007 and 2006 based on the Board of Directors designations is as follows:

	2007	2006
Focused investment program	$ 6,014	$ 6,042
Child care facilities loan program	4,320	4,500
Special capital reserve fund program	3,863	3,850
Operations	2,224	1,947
Legal fee contingencies	1,454	1,353
Contingency	1,215	608
Charter school loan program	-	200
ECE research and policy council	145	196
Strategic Initiatives Reserve	1,225	-
	$ 20,460	$ 18,696

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 years ended June 30, 2007 and 2006, retirement plan expense was $155 and $131, 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 $27 and $25 for the years ended June 30, 2007 and 2006, respectively.

(Amounts Expressed in Thousands)

NOTE 8 - OPERATING LEASES

The Authority leases office space and other office equipment for use in operations. As of June 30, 2007 minimum future rental commitments of the leases are as follows:

Year ending June 30,		
2008	$	265
2009		264
2010		267
2011		275
2012		278
Thereafter		315
	$	$1,664

Rental expense for these leases during the years ended June 30, 2007 and 2006 was $263 and $237, 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, 2006, there was one legal matter known by the Authority arising from a bond default of a special capital reserve fund. During the FYE June 30, 2007 this matter was settled and the Authority was reimbursed $1,277 for legal expenses incurred associated with the 3030 Park Fairfield Nursing Home workout.

(Amounts Expressed in Thousands)

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

The following is a reconciliation of operating loss to net cash (used in) provided by operating activities for the years ended June 30, 2007 and 2006.

	2007	2006
Operating gain (loss)	$ 461	$ (1,400)
Adjustments to reconcile operating loss to net cash (used in) provided by operating activities:		
Depreciation and amortization	99	94
Bad debt expense	215	50
Changes in assets and liabilities:		
Accounts payable and accrued expenses	(431)	(157)
Prepaid expenses and other	(1)	3
Accounts receivable	(4)	85
Net cash (used in) provided by operating activities	$ 339	$ (1,325)

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 basic 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, 2007, and have issued our report thereon dated August 30, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

INTERNAL CONTROL OVER FINANCIAL REPORTING

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

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Authority's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Authority's financial statements that is more than inconsequential will not be prevented or detected by Authority's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Authority's internal control.

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

COMPLIANCE AND OTHER MATTERS

As part of obtaining reasonable assurance about whether the Authority's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the 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.

Carlin, Charron & Rosen, LLP

Glastonbury, Connecticut
August 30, 2007