

**STATE OF CONNECTICUT
HEALTH AND EDUCATIONAL FACILITIES
AUTHORITY**

(A Component Unit of the State of Connecticut)

**BASIC FINANCIAL STATEMENTS
AS OF JUNE 30, 2011 AND 2010**

**TOGETHER WITH
INDEPENDENT AUDITORS' REPORT**



WHITTLESEY & HADLEY PC
Certified Public Accountants/Consultants

"Advisors to Successful People"

STATE OF CONNECTICUT
HEALTH AND EDUCATIONAL FACILITIES AUTHORITY
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MANAGEMENT'S DISCUSSION AND ANALYSIS

MANAGEMENT'S DISCUSSION AND ANALYSIS

This Management's Discussion and Analysis (MD&A) of the State of Connecticut Health and Educational Facilities Authority's (the Authority's) activities and financial performance provides the reader with an introduction and overview of the audited financial statements for the fiscal years ended June 30, 2011 and 2010 with an additional comparison to fiscal year (FY) 2009. 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 institutions and private secondary schools, childcare facilities, long-term care facilities, cultural institutions and various other qualified non-profit institutions pursuant to Connecticut General Statutes Chapter 187, Sections 10a-176 through 10a-198. These tax-exempt bonds are financial obligations of the institution on whose behalf the Authority issues the bonds. The issuance of tax-exempt bonds provides funds for new construction projects, the refinancing of existing debt, funding of Debt Service Reserve Funds, and funding of issuance costs.

The Authority's financial statements use proprietary fund reporting and report its financial position in three basic financial statements: (1) 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 2011, FY 2010 and FY 2009. The bonds issued during FY 2011 include \$311,950 for new projects and \$188,378 in refinancing of existing bond issues. While the number of bond issues increased in FY 2011, the par amount issued declined relative to FY 2010 levels. However, close to 50% of FY 2010 volume was attributable to a single borrower, Yale University. Excluding the Yale transactions, FY 2011 and FY 2010 volume is comparable. The municipal market as a whole experienced lower new issue supply in FY 2011 and this contributed to lower market yields over most sectors. This led to a significant number of refinancings; 10 in the fiscal year, some of which were combined with new money. Most of the new project issuance during FY 2011 was in the health care sector. There was also a marked increase in the number of direct placements with banks, in lieu of public bond offerings; a phenomenon consistent with industry trends.

In FY 2010, the markets stabilized from previous market turmoil and borrowers began to access the market based on their own credit ratings rather than delaying transactions due to a lack of credit enhancement. The volume decline in FY 2009 was reflective of the turmoil in the credit markets including the loss of triple A rated bond insurers and bank credit downgrades. This resulted in significant widening of credit spreads, particularly for borrowers of less than A credit quality. This increased cost of borrowing and, combined with the severe recession, caused many borrowers to defer capital projects and also prohibited debt restructuring.

	Fiscal Year 2011		Fiscal Year 2010		Fiscal Year 2009	
	Number of issues	Par Amount	Number of issues	Par Amount	Number of issues	Par Amount
Healthcare	10	\$ 321,963	3	\$ 245,815	2	\$ 48,940
Higher Education	7	145,345	9	843,700	3	169,555
Private Secondary Schools	-	-	3	22,500	5	79,540
Long-Term Care	1	21,000	-	-	-	-
Child Care	-	-	-	-	1	16,875
Other	1	12,020	-	-	1	26,580
Total	19	\$ 500,328	15	\$ 1,112,015	12	\$ 341,490

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

Annual Fees (Dollars in Thousands)

The following is a summary of the revenues generated from annual administrative fees charged during FY 2011, FY 2010, and FY 2009 based on the Board approved administrative fee of 9 basis points (or .0009) on the outstanding balance for all market segments with the exception of Special Capital Reserve Fund long-term care bond issues which have a 14 basis points (or .0014) fee:

	Fiscal Year 2011	Fiscal Year 2010	Fiscal Year 2009
Healthcare	\$ 1,841	\$ 1,681	\$ 1,704
Higher Education	3,908	3,631	3,502
Private Secondary Schools	578	568	574
Long-Term Care	223	220	238
Child Care	65	67	70
Other	72	80	79
Total	\$ 6,687	\$ 6,247	\$ 6,167

The Authority's fee revenue has increased, reflecting the impact of new issuances and the par amount of bonds outstanding.

Balance Sheets (Dollars in Thousands)

	Fiscal Year 2011	Fiscal Year 2010	Fiscal Year 2009
ASSETS			
Unrestricted Assets	\$ 7,749	\$ 6,105	\$ 3,988
Restricted Assets	364,483	451,766	446,230
Non-Current Assets			
Investments (restricted by statute)	10,580	10,040	10,045
Capital assets, net	188	271	349
Total Assets	\$ 383,000	\$ 468,182	\$ 460,612
LIABILITIES			
Current Liabilities	\$ 368,664	\$ 452,773	\$ 447,599
Non-Current Liabilities	2,207	2,220	2,225
Total Liabilities	370,871	454,993	449,824
NET ASSETS			
Invested in capital assets	188	271	349
Restricted	5,373	7,820	7,820
Unrestricted	6,568	5,098	2,619
Total Liabilities and Net Assets	\$ 383,000	\$ 468,182	\$ 460,612

MANAGEMENT'S DISCUSSION AND ANALYSIS (*Continued*)

Unrestricted Assets (Dollars in Thousands) - The following is an overview of the major changes in unrestricted current assets:

Cash – A decrease of \$111 in unrestricted cash in FY 2011 results from normal operating activity. The decrease of \$154 for FY 2010 from FY 2009 is derived from the reduction in accounts payable and accrued expenses.

Board Designated Investments – During FY 2011, Board Designated funds increased by \$1,757, derived from Operating Income. The increase of \$2,226 for FY 2010 was derived from the Operating Income for FY 2010. The decrease in investments in FY 2009 reflects the transfer of \$13,150 to the State of Connecticut as required by the State's deficit mitigation plan pursuant to Public Acts No. 09-2 and 09-111. Authority funds are invested in accordance with the Authority's Board approved investment policy.

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

Restricted Assets (Dollars in Thousands) – The following is an overview of the major changes in restricted assets:

Fund Investments – Fund investments are investments associated with construction funds managed and held by the Authority on behalf of its client institutions and include the construction account, capitalized interest account and the cost of issuance account. Although \$311,950 of new projects were funded in FY 2011, fund investment balances at June 30, 2011 were \$87,223 less than at fiscal year end (FYE) 2010, reflecting the net effect of disbursements of funds.

For FY 2010 after interest earnings and expenditures from all construction funds during the fiscal year, cash and fund investments at June 30, 2010 was \$445,626, a 1.3% increase from the June 30, 2009 level. At FYE June 30, 2009, construction funds managed by the Authority were \$439,754.

Exhibit A attached to this Management's Discussion and Analysis details the construction fund balances, including cash and investments, as of June 30, 2011, 2010 and 2009 and the corresponding Authority bond issue.

The Construction Funds are managed by the Authority on behalf of the borrowing institutions. The proceeds are invested and managed in accordance with an investment policy that is approved by the Authority's Board of Directors and are invested in strict accordance with the relevant provisions of the respective bond issue trust indentures and with Connecticut state law. Bond funds are generally invested in a Fidelity Institutional Government Money Market Fund, Class 1; State of Connecticut Treasurer's Short-Term Investment Fund; obligations issued or guaranteed by the U.S. Government; and Qualified Guaranteed Investment Contracts complying with Connecticut General Statutes Section 10a-180(s).

Other Investments – Other investments represent debt service reserve funds associated with the Authority's Tax-Exempt Pooled Issue Loan Program for child care providers and held by the Bond Trustee.

MANAGEMENT'S DISCUSSION AND ANALYSIS (*Continued*)

Non-Current Assets (Dollars in Thousands) - The following is an overview of the major changes in non-current assets:

In order to clarify the commitment of certain Authority assets to specific purposes, management has identified as "NONCURRENT ASSETS Investments (restricted by statute)" those assets which are legally required to be held for a specific program or purpose. NON-CURRENT ASSETS Investments (restricted by statute) for FY 2011 includes \$4,320 for the School Readiness and Child Daycare Guaranteed Loan Fund Program, \$2,207 in amounts held for the State of Connecticut in connection with the child care Small Direct loan and Guaranteed Loan Programs, \$1,053 for the Connecticut Credit Union Student Loan Guarantee Program, and \$3,000 for the Connecticut Green Technology, Life Science, and Health Information Technology Loan Forgiveness Program. Pursuant to Public Act 10-75, the Authority will transfer this \$3,000 to the State of Connecticut on January 1, 2012. The Connecticut Credit Union Student Loan Guarantee Program is not currently accepting new loans and the Authority is only holding an amount equal to its current exposure under the program.

NON-CURRENT ASSETS Investments (restricted by statute) for FY 2010 of \$10,040 includes \$4,320 for the School Readiness and Child Daycare Guaranteed Loan Fund Program, \$2,220 in amounts held for the State of Connecticut in connection with the child care Small Direct Loan and Guaranteed Loan Programs, \$1,265 for the Connecticut Credit Union Student Loan Guarantee Program established in FY 2009, and \$2,235 for the Connecticut Green Technology, Life Science, and Health Information Technology Loan Forgiveness Program. In FY 2009, NON-CURRENT ASSETS Investments (restricted by statute) included \$4,320 for the School Readiness and Child Daycare Guaranteed Loan Program, \$2,225 in amounts held for the State of Connecticut in connection with the child care Small Direct Loan and Guaranteed Loan Programs, and \$3,500 for the Connecticut Credit Union Student Loan Guarantee Program.

Liabilities (Dollars in Thousands) - The following is an overview of the major changes in liabilities:

Accounts Payable and Accrued Expenses – In FY 2011, Accounts Payable and Accrued Expenses increased by \$3,174, primarily as the result of an accrual of the \$3,000 due to the State of Connecticut in connection with the Connecticut Green Technology, Life Science, and Health Information Technology Loan Forgiveness Program. The \$1,007 in Accounts Payable and Accrued Expenses for FY 2010, reflects a decrease of \$365 from FY2009.

Amounts Held for Institutions – The \$364,483 for FY 2011, the \$451,766 for FY 2010 and the \$446,227 for FY 2009 reflect the amount held by the Authority for client construction funds, including the construction account, the cost of issuance account and the capitalized interest account. Fluctuations in the amount occur as new projects are funded and as disbursements are made on new or existing projects.

Amount Held on Behalf of the State of Connecticut – This reflects the amounts held by the Authority pursuant to Public Act 97-259 for School Readiness and Child Day Care Guaranteed Loan programs. The Act provided \$1,500 to fund the loan guarantees for the Guaranteed Loan Fund Program managed by Peoples United Bank and \$750 to fund the guarantees for the Small Direct Loan Fund Program managed by the Connecticut Community Investment Corporation (CTCIC). To date there have been \$43 of calls on these loan guarantee funds.

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

Net Assets (Dollars in Thousands) - The following is an overview of the major changes in net assets:

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

Total net assets for FY 2010 increased by \$2,401 compared to FY 2009 due to the excess of revenues over expenses for FY 2010. FY 2009, Net Assets reflect the impact of the transfer of \$13,150 to the State of Connecticut as required by the State's Deficit Mitigation Plan, offset by operating income of \$1,521 and income from investments of \$301.

Change in Net Assets (Dollars in Thousands)

	Fiscal Year 2011	Fiscal Year 2010	Fiscal Year 2009
Total Operating Revenues	\$ 6,788	\$ 6,337	\$ 7,067
Total Operating Expenses	(3,885)	(3,968)	(4,095)
Total Operating Income	2,903	2,369	2,972
Non-Operating activity - Income/(expense)	(963)	32	(1,150)
Transfer to State of Connecticut	(3,000)	-	(13,150)
Change in Net Assets	<u>\$ (1,060)</u>	<u>\$ 2,401</u>	<u>\$ (11,328)</u>

Operating Revenues (Dollars in Thousands)

Administrative Fees – The Authority's fee revenue increased by \$440 in FY 2011 and in FY 2010 increased by \$80 over FY 2009 levels. 19 bond issues closed in FY 2011; 15 bond issues closed in FY 2010; and 12 in FY 2009. Despite fluctuations in annual issuance volume, the Authority's fee revenue maintains a degree of consistency because fees are based on the total par amount outstanding in any given year.

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

Other Revenues – Other revenues reflect recovered grants.

Operating Expenses (Dollars in Thousands)

Salaries and Related Expenses – In FY 2011, salaries and related expenses increased by \$37 relative to FY 2010 levels. The increase reflects merit increases and modifications to the Authority's compensation structure. The increase of \$61 for FY 2010 as compared to FY 2009 reflects merit increases net of reduction in employee benefit costs.

Other Operating Expenses – For FY 2011, Other Operating Expenses declined \$120. Most of the reduction came from board and staff education savings and from reduced use of consultants. There was a decrease of \$188 for FY 2010 as compared to FY 2009 which includes a reduction of \$67 for the use of outside consultants. Other operating expenses were \$1,471 for FY 2009. The 2009 figure reflects increased consultant expense in connection with arbitrage rebate calculations, and increased expense in FY 2009 for the Early Childhood Education Cabinet expense.

MANAGEMENT'S DISCUSSION AND ANALYSIS (*Continued*)

Non-Operating Revenues/(Expenses) (Dollars in Thousands)

Investment income - Investment income in FY 2011 was slightly below 2010 levels, dropping by \$10. Investment income for FY 2010 decreased by \$269 as compared to FY 2009 due in part to a reduction in funds available for investment after the transfer to the state of \$13,150 as required by PA 09-2 and 09-111.

Grant Expense – The Authority's grant program was reinstated for FY 2011 and a \$985 grant was made to the CERC Foundation for the Connecticut Data Collaborative. During FY 2010 no grants were awarded. During FY 2009, the Authority's open grant and client grant programs were suspended by the Authority's Board in response to the State's budget crisis and the Authority's participation in the State's Deficit Mitigation Plan. Commitments under the targeted grant program were honored. In FY 2009, \$1,451 in grant dollars were expensed for the targeted investment program with \$436 spent on violence prevention, and \$1,015 on educational endeavors.

Transfer to State of Connecticut

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

Under Public Acts 09-2 and 09-111, the Authority was required to transfer a total of \$13,150 during FY 2009 to the State of Connecticut as part of the State's Deficit Mitigation Plan.

Summary of Cash Flow Activities (Dollars in Thousands)

Net cash provided and used by Operating Activities – For FY 2011, net cash provided by operating activities was \$2,192. Cash paid in salaries and related expenses totaled \$2,916, net cash paid for grants was \$702, and cash paid for other expenses was \$969. For FY 2010, net cash from operating activities was \$2,070, after funding salaries and related expenses of \$2,690, grant expense of \$349, and other operating expenses of \$1,160. In FY 2009, net cash provided by operations was \$1,336. During FY 2009, net cash flow funded employee related costs of \$2,622, grant expenses of \$1,661 and other expenses of \$1,499.

Cash Flows from Non-Capital Financing Activities – For FY 2011, net proceeds from bond sales totaled \$486,844. Although more issues occurred in FY 2011 (19 compared to 15 in FY 2010), net bond sale proceeds were significantly below the \$1,168,817 achieved in FY 2010. During FY 2009, net proceeds from bond sales yielded \$343,011 from 12 bond issues. Cash used for construction expenses represents funds disbursed to institutions to reimburse them for qualified capital projects paid with their own funds, or payments made to contractors for construction projects as provided for in the institution's TEFRA public hearing notice and approved by the Governor.

Cash Flows from Investing Activities – reflects net proceeds from investments, both restricted and unrestricted and cash from investment earnings. In FY 2011, cash flow provided by investing activities totaled \$86,069 vs. a net use of cash in FY 2010 in the amount of \$4,992. For FY 2009, it also includes the \$13,150 transferred to the State of Connecticut as part of its Deficit Mitigation Plan.

Contacting the Connecticut Health and Educational Facilities Authority

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

CONSTRUCTION ACCOUNT BALANCES*

AS OF JUNE 30, 2009 - 2011

(AMOUNTS EXPRESSED IN THOUSANDS)

Issue Name	Date of Bond Issue	Scheduled Completion Date	Construction Fund Balance 2011	Construction Fund Balance 2010	Construction Fund Balance 2009
William W. Backus Hospital F	08/10/05	08/07	-	46	105
Connecticut Children's Medical Center D	06/30/11	06/13	719	-	-
Eastern Connecticut Health Network D	05/14/09	05/11	-	-	52
Eastern Connecticut Health Network E	12/21/10	12/12	1,067	-	-
Griffin Hospital C	05/15/07	05/09	-	-	4,284
Griffin Hospital D	05/15/07	05/09	-	-	305
Hospital of Central Connecticut A	08/08/08	08/10	-	60	60
Middlesex Hospital M	12/07/06	12/08	-	-	6
Norwalk Hospital G	12/09/10	12/12	24,350	-	-
Saint Francis Hospital F	06/30/08	06/10	-	41,052	112,976
Stamford Hospital I	05/27/10	05/12	1,360	13,721	-
Waterbury Hospital D	12/22/10	12/12	6,642	-	-
Western Connecticut Health Network K	06/17/11	06/13	114	-	-
Windham Hospital D	11/15/07	11/09	-	8	794
Yale New Haven Hospital J-1, J-2, J-3	09/25/06	09/08	-	-	69,355
Yale New Haven Hospital K-1	05/14/08	05/10	-	-	28
Yale New Haven Hospital L-1	05/14/08	05/10	-	-	90
Yale New Haven Hospital M	12/22/10	12/12	85,292	-	-
Summerwood B	11/07/07	10/08	-	-	264
Masonicare C	10/31/07	10/09	-	238	2,254
Masonicare D	10/31/07	10/09	-	-	440
Connecticut College H-1	06/30/11	06/13	12,136	-	-
Connecticut College H-2	06/30/11	06/13	47	-	-
Fairfield University O	03/17/10	03/12	15,580	57,736	-
Mitchell College A	11/02/10	11/12	20	-	-
Quinnipiac University I	12/20/07	11/08	16,992	36,131	107,362
Quinnipiac University J	12/20/07	11/08	-	-	21,124
Quinnipiac University K-1	12/20/07	11/08	-	-	35
Quinnipiac University K-2	12/20/07	11/08	-	-	30
Sacred Heart University F	12/11/03	11/04	-	-	157
Sacred Heart University G	06/29/11	06/13	28,650	-	-
Trinity College J	03/07/07	02/07	-	-	6
Trinity College L	08/05/08	08/10	-	-	15
Trinity College M	06/29/10	06/12	-	272	-
University of Bridgeport C	12/09/10	12/12	4,957	-	-
University of New Haven H	07/02/08	07/10	-	7,166	13,262
Wesleyan University G	05/18/10	05/12	-	142	-
Wesleyan University H	05/18/10	05/12	-	13	-
Yale University 2010A	02/24/10	02/12	127,991	274,871	-
Yale University Z-1, Z-3	10/04/07	09/07	-	-	56,650
Connecticut St. Univ. Sys. D	03/26/02	02/02	-	4,248	6,403
Connecticut St. Univ. Sys. E	05/30/03	04/03	4,361	4,445	4,482
Connecticut St. Univ. Sys. G	06/17/05	05/05	1,720	2,636	2,824
Connecticut St. Univ. Sys. H	06/17/05	05/05	-	-	7
Connecticut St. Univ. Sys. I	04/18/07	04/07	-	-	60
Connecticut St. Univ. Sys. J	06/22/11	06/13	26,119	-	-
Connecticut St. Univ. Sys. K	06/22/11	06/13	127	-	-
Greenwich Academy E	03/22/07	03/09	-	-	3
Hamden Hall A	07/31/08	07/10	-	-	3,928
Hopkins School C	12/10/09	12/11	-	10	-
Kent School E	12/17/08	12/10	-	-	23
Loomis Chaffee G	07/22/08	07/10	-	1,380	5,373
Renbrook A	09/13/07	09/09	-	-	67
Salisbury C	05/22/08	05/10	-	8	9,708
Westminster F	04/14/10	04/12	-	15	-
Westover B	07/11/07	07/07	-	-	6
Greater Hartford YMCA B	12/01/08	12/10	-	1	10,291
Child Care Fac Prog. F	12/20/06	12/08	-	63	792
Child Care Fac Prog. G	10/23/08	10/10	153	1,364	6,133
Total			\$ 358,397	\$ 445,626	\$ 439,754

*includes All Cash, Investments, Cost of Issuance Accounts, Capitalized Interest Accounts, and Equity Accounts

INDEPENDENT AUDITORS' REPORT

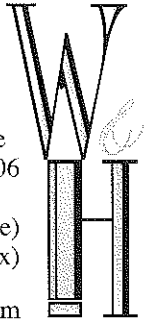
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INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying basic financial statements of the State of Connecticut Health and Education Facilities Authority ("Authority"), a component unit of the State of Connecticut, as of and for the years ended June 30, 2011 and 2010, 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 control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our 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, 2011 and 2010, and the changes in its financial positions 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 September 13, 2011, 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 audits.

The accompanying Management's Discussion and Analysis 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.

Whittlesey & Hadley

September 13, 2011

BASIC FINANCIAL STATEMENTS

STATE OF CONNECTICUT
HEALTH AND EDUCATIONAL FACILITIES AUTHORITY
BALANCE SHEETS
JUNE 30, 2011 AND 2010
(Amounts Expressed in Thousands)

	2011	2010
ASSETS		
CURRENT ASSETS		
Unrestricted assets:		
Cash	\$ 240	\$ 351
Accounts receivable, net of allowance of \$86 in 2011 and \$82 in 2010	200	191
Board designated - investments	7,189	5,432
Prepaid expenses and other	120	131
Total unrestricted assets	7,749	6,105
Restricted assets:		
Cash	36	42
Fund investments	358,361	445,584
Other investments	6,037	6,036
Interest receivable	49	103
Other receivables	-	1
Total restricted assets	364,483	451,766
Total current assets	372,232	457,871
NONCURRENT ASSETS		
Investments (restricted by statute)	10,580	10,040
Capital assets, net	188	271
Total assets	\$ 383,000	\$ 468,182
LIABILITIES		
CURRENT LIABILITIES		
Accounts payable and accrued expenses	\$ 4,181	\$ 1,007
Amounts held for institutions	364,483	451,766
Total current liabilities	368,664	452,773
NONCURRENT LIABILITIES		
Amount held on behalf of the State of Connecticut	2,207	2,220
Total liabilities	370,871	454,993
NET ASSETS		
Invested in capital assets	188	271
Restricted	5,373	7,820
Unrestricted	6,568	5,098
Total net assets	12,129	13,189
Total liabilities and net assets	\$ 383,000	\$ 468,182

The accompanying notes are an integral part of the 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, 2011 AND 2010
(Amounts Expressed in Thousands)

	2011	2010
OPERATING REVENUES		
Revenues from institutions:		
Administrative fees	\$ 6,687	\$ 6,247
Bond issuance fees	97	67
Other revenues	4	23
Total operating revenues	6,788	6,337
Operating expenses:		
Salaries and related expenses	2,722	2,685
Other operating expenses	1,163	1,283
Total operating expenses	3,885	3,968
Operating Income	2,903	2,369
NONOPERATING - Revenues/(expenses)		
Income from investments	22	32
Grant expense	(985)	-
Income before capital transfers	1,940	2,401
CAPITAL TRANSFERS		
Transfer to State of Connecticut	(3,000)	-
Increase/(decrease) in net assets	(1,060)	2,401
Net assets, beginning of year	13,189	10,788
Net assets, end of year	\$ 12,129	\$ 13,189

The accompanying notes are an integral part of the financial statements.

STATE OF CONNECTICUT
HEALTH AND EDUCATIONAL FACILITIES AUTHORITY
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2011 AND 2010
(Amounts Expressed in Thousands)

	2011	2010
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received for administrative fees	\$ 6,678	\$ 6,179
Cash received from other operating income	101	90
Cash paid to employees	(2,916)	(2,690)
Cash paid to grantees	(702)	(349)
Cash paid for other expenses	(969)	(1,160)
Net cash provided by operating activities	2,192	2,070
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:		
Proceeds from bond sales, net	486,844	1,168,817
Proceeds from institutions	1,017	18,801
Construction expenses paid	(380,458)	(745,878)
Net transfers to restricted funds	(195,766)	(438,981)
Net cash provided by/(used in) noncapital financing activities	(88,363)	2,759
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Net purchases of capital assets	(15)	(30)
Net cash (used in) capital and related financing activities	(15)	(30)
CASH FLOWS FROM INVESTING ACTIVITIES		
Cash from restricted investment earnings	1,077	2,902
Net proceeds/(purchases) from investments	84,970	(7,926)
Cash received from investments	22	32
Net cash provided by/(used in) investing activities	86,069	(4,992)
Net change in cash	(117)	(193)
Cash, beginning of year	393	586
Cash, end of year	\$ 276	\$ 393

The accompanying notes are an integral part of the financial statements.

STATE OF CONNECTICUT
HEALTH AND EDUCATIONAL FACILITIES AUTHORITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011 AND 2010
(Amounts Expressed in Thousands)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

REPORTING ENTITY

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

MEASUREMENT FOCUS AND BASIS OF ACCOUNTING

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 (GAAP).

The Funds of the Authority are proprietary fund types. Proprietary funds are used to account for governmental activities that are similar to those found in the private sector where the determination of net income is necessary or useful to sound financial administration. Accounting principles generally accepted in the United States of America ("GAAP") used for proprietary funds are similar to those applicable to businesses in the private sector. They are reported using the economic resources of measurement focus and the accrual basis of accounting. Revenues are recognized when earned, and expenses are recognized when the liability is incurred, regardless of the timing of related cash flows. GAAP applicable to state and local governmental entities is promulgated by the Governmental Accounting Standards Board ("GASB"). The Authority is following Paragraph No. 6 of GASB Statement No. 20 which states that proprietary funds should follow all GASB pronouncements as well as pronouncements, issued on or before November 30, 1989, of the Financial Accounting Standards Board ("FASB"), Accounting Principles Board ("APB") and the Committee on Accounting Procedure ("ARB") unless those pronouncements conflict with 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, 2011 and 2010.

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NOTES TO FINANCIAL STATEMENTS
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NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 held in the construction fund for which the Authority has fiduciary responsibility.

Construction and Project Funds reflect the receipt of bond proceeds, costs of issuance and disbursement of monies for the payment of construction or renovation projects and equipment for the institutions.

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

Income earned on restricted assets is not reflected in the statements of revenues, expenses, and changes in net 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.

Other restricted investments include funds held by the Authority under its agency relationship with the State of Connecticut Department of Social Services (DSS) described in Note 5 and investments held in connection with the Connecticut Credit Union Student Loan Guarantee program and the Connecticut Green Technology, Life Science, and Health Information Technology Loan Forgiveness Program.

AMOUNTS HELD FOR INSTITUTIONS

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

STATE OF CONNECTICUT
HEALTH AND EDUCATIONAL FACILITIES AUTHORITY
NOTES TO FINANCIAL STATEMENTS
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NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (Continued)

AMOUNTS HELD ON BEHALF OF THE STATE OF CONNECTICUT

Amounts held on behalf of the State of Connecticut represent funds transferred to the Authority under its agency relationship with 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.

NET ASSETS

The accompanying balance sheets present the Authority's fiduciary and 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, 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.

AUTHORITY FEES

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

**STATE OF CONNECTICUT
HEALTH AND EDUCATIONAL FACILITIES AUTHORITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011 AND 2010
(Amounts Expressed in Thousands)**

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (Continued)

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, 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.

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.

SUBSEQUENT EVENTS MEASUREMENT DATE

The Authority monitored and evaluated any subsequent events for footnote disclosures or adjustments required in its financial statements for the year ended June 30, 2011 through September 13, 2011, the date on which financial statements were available to be issued.

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, 2011 and 2010, \$26 and \$143 of the Authority's bank balances of \$276 and \$393, respectively were exposed to custodial credit risk as follows:

	2011	2010
Uninsured and uncollateralized	\$ 26	\$ 143
	\$ 26	\$ 143

STATE OF CONNECTICUT
HEALTH AND EDUCATIONAL FACILITIES AUTHORITY
NOTES TO FINANCIAL STATEMENTS
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(Amounts Expressed in Thousands)

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

CASH DEPOSITS – CUSTODIAL CREDIT RISK *(Continued)*

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, 2011 and 2010 is as follows:

	2011	2010
Unrestricted assets:		
Cash	\$ 240	\$ 351
Restricted assets:		
Cash	36	42
	\$ 276	\$ 393

INVESTMENTS

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

	Fair Value	Investment Maturities (in years) Less Than 1 1 to 5	
Debt securities:			
Money market funds	\$ 351,991	\$ 351,991	\$ -
Short-Term Investment Fund (STIF)	12,193	12,193	-
Guaranteed investment contracts	16,987	-	16,987
US Treasuries	996	996	-
	\$ 382,167	\$ 365,180	\$ 16,987

STATE OF CONNECTICUT
HEALTH AND EDUCATIONAL FACILITIES AUTHORITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011 AND 2010
(Amounts Expressed in Thousands)

NOTE 2 - CASH DEPOSITS AND INVESTMENTS (Continued)

INVESTMENTS (Continued)

As of June 30, 2010, the Authority's investments consisted of the following:

Investment type	Fair Value	Investment Maturities (in years)	
		Less Than 1	1 to 5
Debt securities:			
Money market funds	\$ 412,676	\$ 412,676	\$ -
Short-Term Investment Fund (STIF)	16,793	16,793	-
Guaranteed investment contracts	36,127	-	36,127
US Treasuries	1,496	1,496	-
	<u>\$ 467,092</u>	<u>\$ 430,965</u>	<u>\$ 36,127</u>

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

A reconciliation of the Authority's investments as of June 30, 2011 and 2010 is as follows:

	2011	2010
Unrestricted assets:		
Investments	\$ 7,189	\$ 5,432
Restricted assets:		
Fund investments	358,361	445,584
Other investments - current	6,037	6,036
Investments - noncurrent	10,580	10,040
	<u>\$ 382,167</u>	<u>\$ 467,092</u>

Interest Rate Risk

The Authority invests its unrestricted funds in money markets and the Connecticut State Treasurer's Short Term Investment Fund (STIF), which have historically maintained their net asset values such that the principal of the Authority's investments is not eroded by interest rate fluctuations. The Authority's investment policy provides that the Authority's investment portfolio for its unrestricted investments be designed with the objective of regularly exceeding the average return of ninety day U.S. Treasury Bills. The Authority's investment policy as it relates to restricted investments provides that all restricted accounts be invested in strict accordance with the bond issue trust indentures and with applicable

STATE OF CONNECTICUT
HEALTH AND EDUCATIONAL FACILITIES AUTHORITY
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NOTE 2 - CASH DEPOSITS AND INVESTMENTS (Continued)

INVESTMENTS(Continued)

Connecticut State law. Whenever possible, restricted investments are to be held to maturity and invested in an appropriate manner so as to ensure the availability for specified payment dates, planned construction draws and other intended purposes as set forth in the relevant trust indentures and agreements, and to ensure a rate of return at least equal to the restricted bond yield, all with minimal risk to capital.

Credit Risk

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

Investments that may be purchased by the Authority with the written approval of an officer, provided the instrument has a maturity date of 365 days or less from the date of purchase, are as follows: obligations issued or guaranteed by the U.S. Government, including 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.

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.

STATE OF CONNECTICUT
HEALTH AND EDUCATIONAL FACILITIES AUTHORITY
NOTES TO FINANCIAL STATEMENTS
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NOTE 2 - CASH DEPOSITS AND INVESTMENTS (Continued)

Custodial Credit Risk

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

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, 2011 and 2010 was in compliance with this policy. The Authority places no limit on the amount of investment in any one issuer for restricted investments. Restricted investments invested in guaranteed investment contracts as of June 30, 2011 and 2010 are detailed as follows:

Investment type	Issuer	Maturity Date	2011	2010
Guaranteed investment contracts	Trinity Funding LLC	3/1/2012	\$ 16,987	\$ 36,127

NOTE 3 - CAPITAL ASSETS

Capital asset activity for the years ended June 30, 2011 and 2010 is as follows:

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

STATE OF CONNECTICUT
HEALTH AND EDUCATIONAL FACILITIES AUTHORITY
NOTES TO FINANCIAL STATEMENTS
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NOTE 3 - CAPITAL ASSETS (Continued)

	2010			Ending Balance
	Beginning Balances	Increases	Decreases	
Capital assets: being depreciated				
Leasehold improvements	\$ 138	\$ 9	\$ -	\$ 147
Computer equipment	550	17	-	567
Furniture and fixtures	253	2	-	255
Office equipment	382	2	-	384
Total capital assets, being depreciated	<u>1,323</u>	<u>30</u>	<u>-</u>	<u>1,353</u>
Less: accumulated depreciation and amortization for:				
Leasehold improvements	(107)	(19)	-	(126)
Computer equipment	(474)	(29)	-	(503)
Furniture and fixtures	(211)	(7)	-	(218)
Office equipment	(182)	(53)	-	(235)
Total accumulated depreciation and amortization	<u>(974)</u>	<u>(108)</u>	<u>-</u>	<u>(1,082)</u>
Capital assets, net	<u>\$ 349</u>	<u>\$ (78)</u>	<u>\$ -</u>	<u>\$ 271</u>

NOTE 4 - BONDS PAYABLE

As of June 30, 2011 and 2010, the total outstanding principal balances of special obligation bonds were \$7,570,456 and \$7,393,395, 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.

The Authority issued general obligation bonds through July 1979 for which the Authority was ultimately responsible for the payment of principal and interest when due. Subsequent to July 1, 1979, the Authority has issued only special obligation bonds for which principal and interest is payable solely from the revenues of the institutions. As of June 30, 2011 and 2010, there were no general obligation bonds outstanding.

STATE OF CONNECTICUT
HEALTH AND EDUCATIONAL FACILITIES AUTHORITY
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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.

Tax-Exempt Pooled Bond Issue Program

From November 1998 to June 2011, the Authority issued \$78,430 in revenue bonds under the Tax-Exempt Pooled Bond Issue Program. As of June 30, 2011 and 2010, there was approximately \$66,575 in loans balance outstanding under this 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 year 1998 the Authority transferred \$500 into an irrevocable trust fund for future debt service requirements. The Authority is under no obligation to make additional transfers into this irrevocable trust fund and has no further obligation with respect to these bonds. In FY 1998, DSS transferred \$1,500 to the Authority to fund a portion of the Debt Service Reserve Fund for pooled loan program bonds. In FY 2000, DSS transferred another \$454 to this reserve, in FY 2007 transferred another \$1,310, and in FY 2009 transferred another \$1,249 to the reserve. All of these contributions in connection with the Tax-Exempt Pooled Bond Issue Program, combined with interest earnings, are reflected as Other Investments under Restricted Assets but are held by the bond issue trustee.

Guaranteed Loan Fund Program

The Authority is responsible for guaranteeing twenty-percent to fifty-percent of each loan outstanding. As of June 30, 2011, the Authority guaranteed approximately \$6,891 of outstanding loan balances under this program.

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

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

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

STATE OF CONNECTICUT
HEALTH AND EDUCATIONAL FACILITIES AUTHORITY
NOTES TO FINANCIAL STATEMENTS
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NOTE 5 - CHILD CARE FACILITIES LOAN PROGRAMS (Continued)

Small Revolving Direct Loan Program

In FY 1999, DSS transferred \$750 to the Authority to support the Small Direct Loan Program. As of June 30, 2011 and 2010, the balance of those funds remaining was \$707 and \$720, reflecting draw downs for prior year loan defaults.

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

NOTE 6 - STUDENT LOAN PROGRAMS MANDATED BY STATE STATUTE

Pursuant to Public Act 09-110, which established the Connecticut Credit Union Student Loan Program, the Authority was required to fund first loss loan guarantee of 20% on the outstanding balance on each loan. The maximum required loan guarantees as of the end of FY 2011 was \$1,053. The \$1,053, is included in NON-CURRENT ASSETS Investments (restricted by statute).

Pursuant to Public Act 10-75, which established the Connecticut Green Technology, Life Science, and Health Information Technology Loan Forgiveness Program, to be administered by the State Department of Higher Education, the Authority will be required to transfer \$3,000 to the State General Fund on January 1, 2012. As of June 30, 2011, the Authority has expensed the required funding and included it in NON-CURRENT ASSETS Investments (restricted by statute) and CURRENT LIABILITIES Accounts Payable.

NOTE 7 - 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 Authority's mission and purpose, as well as for contingencies. In addition, as described in Note 5, the Authority designated \$4,320 of its net assets for the Guaranteed Loan Fund Program for child care facilities pursuant to Public Act 97-259. The \$4,320, along with \$1,053 set aside for the Student Loan Program for FY 2011 are reflected as Restricted Net Assets.

The \$2,235 previously held for the State of Connecticut Loan Forgiveness Program and a portion of the \$1,265 Student Loan Guarantee Program were expensed in FY 2011 and accrued for the Connecticut Green Technology, Life Science, and Health Information Technology Loan Forgiveness Program.

STATE OF CONNECTICUT
HEALTH AND EDUCATIONAL FACILITIES AUTHORITY
NOTES TO FINANCIAL STATEMENTS
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(Amounts Expressed in Thousands)

NOTE 7 - NET ASSETS (Continued)

A summary of net assets as of June 30, 2011 and 2010 based on the Board of Directors designations is as follows:

	<u>2011</u>	<u>2010</u>
Investment in capital assets	\$ 188	\$ 271
Restricted:		
Child care facilities loan program	4,320	4,320
State of CT Loan Forgiveness Program	-	2,235
Student Loan Guarantee Program	<u>1,053</u>	<u>1,265</u>
Total restricted	<u>5,373</u>	<u>7,820</u>
Unrestricted:		
Focused investment program	1,025	2,010
Legal fee contingencies	1,500	1,500
Operations and contingency	<u>4,043</u>	<u>1,588</u>
Total unrestricted	<u>6,568</u>	<u>5,098</u>
	<u>\$ 12,129</u>	<u>\$ 13,189</u>

NOTE 8 - 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, 2011 and 2010, retirement plan expense was \$214 and \$197, 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 up to one thousand five hundred dollars of employees' contributions. Related expense was \$30 and \$29 for the years ended June 30, 2011 and 2010, respectively.

STATE OF CONNECTICUT
HEALTH AND EDUCATIONAL FACILITIES AUTHORITY
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NOTE 9 - OPERATING LEASES

Rental expense for these leases during the years ended June 30, 2011 and 2010 was \$284 and \$277, respectively.

The Authority leases office space and other office equipment for use in operations. As of June 30, 2011, minimum future rental commitments of the leases are as follows:

Year ending June 30,:

2012	\$ 298
2013	299
2014	29
2015	2

NOTE 10 - LEGAL MATTERS

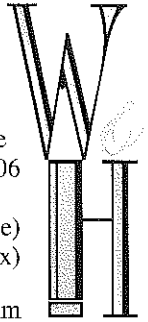
The Authority, in the normal course of business, is involved in various legal matters. Under terms of the agreements between the Authority and its borrowers, any costs associated with the litigation are the obligations of the borrowers.

NOTE 11 - RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES

The following is a reconciliation of operating income provided by operating activities for the years ended June 30, 2011 and 2010.

	2011	2010
Net assets increase/(decrease)	\$ (1,060)	\$ 2,401
Adjustments to reconcile operating income to net cash from operating activities:		
Depreciation	98	108
Income from investments	(22)	(32)
Changes in assets and liabilities:		
Accounts receivable	(9)	(68)
Prepaid assets and other	11	23
Accounts payable and accrued expenses	3,174	(362)
Net cash provided by operating activities	\$ 2,192	\$ 2,070

INTERNAL CONTROL AND COMPLIANCE REPORT



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

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

We have audited the basic financial statements of Connecticut Health and Educational Facilities Authority ("Authority") a component unit of the State of Connecticut, as of and for the year ended June 30, 2011, and have issued our report thereon dated September 13, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency or combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of the Authority's financial statements will not be prevented, or detected and corrected on a timely basis.

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

Compliance and Other Matters

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

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

Whittlesey & Hadley

September 13, 2011