STATE OF CONNECTICUT HEALTH AND EDUCATIONAL FACILITIES AUTHORITY

Final Approved Minutes of
The Audit-Finance Committee Meeting
of September 12, 2006

The Audit-Finance Committee of the State of Connecticut Health and Educational Facilities Authority met in session at 1:00 p.m. on Tuesday, September 12, 2006.

The meeting was called to order by Mr. Cohn, Committee Chair, and, upon roll call, those present and absent were as follows:

PRESENT:	Benson R. Cohn, Committee Chair John M. Biancamano Patrick A. Colangelo Howard G. Rifkin (rep. Hon. Denise Nappier) Barbara Rubin
ABSENT:	Anne Gnazzo (rep. Hon. Robert Genuario)
ALSO PRESENT:	Richard D. Gray, Executive Director, Jeffrey A. Asher, Managing Director/CFO, David A. Williams, Managing Director, Cynthia D. Peoples, Assistant Director, Eileen MacDonald, Manager New Business/Easy Loan Program, JoAnne Mackewicz, Manager, Accounting/Client Financial Services, and Kathy Owens, Receptionist/Administrative Assistant, of the Connecticut Health and Educational Facilities Authority
CONSULTANTS:	Dana A. Wilson, CPA, Partner, of Carlin, Charron & Rosen LLP

The Notice of Meeting was read and ordered spread upon the Minutes of this Meeting and filed for the record.

MINUTES OF THE AUDIT-FINANCE COMMITTEE MEETING

September 12, 2006

The Meeting of the Audit-Finance Committee of the Connecticut Health and Educational Facilities Authority was called to order by Benson R. Cohn, Committee Chair, at 1:00 p.m.

The purpose of the Meeting was to: 1) Approve the Minutes of the Audit-Finance Committee Meeting of June 27, 2006; 2) Review of the Draft Audit Results of the Authority for FYE June 30, 2006; 3) Conduct an Executive Session; and 4) Discuss the Interview Process for the Compliance/Internal Audit Manager Position.

MINUTES

Mr. Cohn moved to approve the Minutes of the Audit-Finance Committee Meeting of June 27, 2006. Ms. Rubin seconded the motion.

Upon roll call, the "Ayes," "Nays" and "Abstentions" were as follows:

AYES	**NAYS**	**ABSTENTIONS**
Benson R. Cohn	None	None
John M. Biancamano		
Patrick A. Colangelo		
Howard G. Rifkin		
Barbara Rubin		

REVIEW OF THE DRAFT AUDIT RESULTS FOR FYE JUNE 30, 2006

Mr. Wilson reported that the audit team of Carlin, Charron & Rosen ("CCR") has completed the FYE 2006 Audit of Authority operations. The audit team this year was almost the same as the team from prior years and was comprised of accountants familiar with the operations of the Authority. Mr. Wilson commenced his report to the Audit-Finance Committee by informing the Members that there have been eight changes in auditing standards of which one will impact the Authority. This item will be reviewed with Mr. Gray, Mr. Asher, and Ms. Mackiewicz prior to the next audit cycle. In addition to providing the financial information for the audit, management of the Authority will be required to prepare the footnotes to the audit report and the auditors will review these as part of the audit. Mr. Wilson said that previously, preparation of footnotes by management was optional, but now is a requirement. If management declines to fully prepare the financial statements and footnotes, it will be considered a material weakness and it will be reported in the audit. Carlin, Charron & Rosen will review the new requirements with all its clients, audit committees, finance committees and Boards.

Ms. Rubin asked Mr. Wilson whether the auditors prepare the audited financial statements and footnotes of the Authority. Mr. Wilson replied that the firm does prepare the financial statements at CHEFA but they do not create the numbers, they audit the numbers. The actual footnotes in the audited financials are prepared by the audit firm and are edited by management and included in the audit report. Mr. Wilson estimated that they prepare audit reports in a manner similar to CHEFA in about 85% of audits across the firm's client base. The only businesses that fully prepare their own financial statements are public companies.

Mr. Asher asked what the rationale for this standard is. Mr. Wilson explained that the standards board desires management to fully prepare and therefore be fully accountable for all aspects of financial reporting. If management is unwilling or unable to do so, the standard requires the independent auditing firm to report this unwillingness or inability to the Board of Directors. The idea of the material weakness conjures up the problem with financial management of organizations. There are two delineations in that there are companies who have their auditors prepare the financials and do not have the expertise, and there are companies who prepare the financials and do have the expertise but may have somewhat of a timing issue. They do not want the delineation to be that way, as it would be considered as a material weakness. He said that out of 85% of their clients, 80% have the capability to prepare their financial statements and the other 5% do not have the expertise.

Ms. Rubin asked if the footnotes on CHEFA's financial statements changed nominally from year-to-year and if the Authority can prepare its financial statements. If so, would the auditors still be able to review and comment; Mr. Wilson answered affirmatively. Ms. Rubin asked if changes to the footnotes would be considered a material weakness. Mr. Wilson said it would be a matter of adding to our system. Mr. Wilson will discuss with Mr. Gray, Mr. Asher and Ms. Mackiewicz. Mr. Gray said it will not be a problem for us to do this, but one change has a big effect on many of CHEFA's clients. Mr. Asher was concerned that there would be a problem with the firms reporting to the Auditors. The State is going to have to deal with the material weakness. Ms. Rubin wanted to know if there are any other quasi-state agencies that prepare their own financial statements, to which Mr. Wilson replied none do. The purpose of the audit has been that the client provides the trial balance and the audit firm prepares the Audited Financial Statement with footnotes. The difference is that the Auditors prepare. Mr. Colangelo said that the client needs to know what it puts in its financials. Mr. Wilson said some of the small nonprofits who do not have a financial team capable of preparing the financial statements have two options. The Board will either acknowledge a material weakness or engage an outside firm to prepare the financial statements which may lead to further problems in the future for CHEFA or its clients.

These currently are the only requirements that will have an impact on CHEFA. The question of timing was raised. Mr. Wilson said it will be in effect next year, December

31, 2007, but it will be effective for CHEFA beginning July 2006. Mr. Gray asked if there would be any change in the opinion standards. Mr. Wilson answered in the negative stating the draft standard did not include any changes in the audit opinion. Six have been out there almost three years and one has been out there about a year and a half. He said the firm has 90 days to close the file.

Mr. Wilson discussed the Required Auditor Communication as follows. 1.) The auditors' responsibility under auditing standards generally accepted in the United States of America where the firm states that it has audited the basic financial statements of CHEFA as a component unit of the State of Connecticut for the year ended June 30, 2006. The basic financial statements are the responsibility of CHEFA and Carlin, Charron & Rosen's responsibility is based on their audit. 2.) Significant accounting policies—There were no changes this year to CHEFA's policies, and there were also no changes in the industry that impacted CHEFA's accounting policy. Normally if there were any promulgations, such as under FASB or GASB requirements, they would be communicated at this time. CHEFA's footnotes and numbers were accounted for in conformity with prior years. 3.) Audit adjustments—There were no audit adjustments during the course of conducting the audit. 4.) Management Judgments and Accounting Estimates—The firm communicates to the Audit Committee or the committees with audit responsibility that the financial statements are subject to the use of estimates. For example, depreciable lives on capital assets are pretty much the standard to follow. 5.) Auditors' judgments about the quality of the entity's accounting principles—There were no changes in CHEFA's principals from prior years. 6.) Other information in documents containing audited financial statements—Management's Discussion and Analysis is required as the portion of the document that Authority Staff prepares which discusses year-to-year snapshots, and comparison to the prior year. It discusses CHEFA's financial position and gives the reader the ability to read five or six pages and know exactly what happened at CHEFA this year. This is the third year this has been done. It discusses CHEFA's cash flow as well as its liquidity, bond activity and any significant increases or decreases.

The other items that are considered other information within the financial statements, including supplemental schedules which were audited as part of a larger audit. The supplemental schedules showed the outstanding debt schedules; for example, Yale. The last item is the Federal Internal Control Report and Carlin, Charron & Rosen did conduct our audit report on those standards as well. 7) Disagreements with Management on Financial Accounting and Reporting Matters—There were no disagreements with management on accounting reporting matters, no consultation with other accountants; no major issues were discussed; no serious difficulties encountered from the audit, no material errors; there were no fees other than those quoted for the audit engagement services. Carlin Charron & Rosen will include a management letter which will update progress on CHEFA's corporate governance and also discuss some of the topics that are pending in the accounting industry. In terms of CHEFA's financial statements, the notes are the exact same notes as last year except the numbers have changed; there have been no changes in anything that affects the Authority.

8.) Management letter comments—Carlin, Charron & Rosen will update the Authority's corporate governance in the management letter comments and will discuss two things: 1) the new issuance from PCOP which is expected to be adopted by many of the federal and state government entities. The federal government has voluntarily adopted SOX#404 and a number of entities feel that at some point in the future they will require that whoever they do business with will be held to a higher level of corporate governance whether that is a full SOX#404 or a new smaller, better SOX#404. Recently they came out with a revised version of SOX#404 for small business users which is an abbreviated and tailored version, and easier to adapt to smaller size companies. In that, it was revealed that many mid-level small companies were having significant difficulties conforming to the requirements of the huge-boiler plate SOX 404 which was very cost prohibitive to many companies and not a one-size-fits-all solution. Mr. Wilson's opinion as to the revised version of SOX#404 is that it partially achieved its goal of simplification but remains very complicated and not easy to implement or maintain. He expects at some point once the governmental units have to apply it, SOX#404 will be a helpful tool. He said Carlin, Charron & Rosen asked the sponsoring committee to come out with a small business framework. Our comment will really update in a snapshot what was just discussed, so I could let you know what is out there. For public companies, for 2007, they are supposed to develop the small business approach to SOX#404 and that their CEO/CFO are supposed to be in a position to give their personal opinion as the effectiveness in their internal control environment. The Carlin, Charron & Rosen auditors will not express an opinion in 2007. The auditors will however express their opinion in 2008.

Mr. Wilson then asked if there were any questions. Ms. Rubin asked what is PCOP. Mr. Wilson said that is the new body created by the SEC to oversee accounting firms and accounting, which issues the ordinances. Mr. Asher asked if CHEFA would have to issue a CEO/CFO letter for FY 2007 or FY 2008. Mr. Wilson did not know; Public companies do currently issue a CEO/CFO letter. Ms. Rubin asked if there are any changes to the interaction with staff here from prior years. Mr. Wilson said no, that the audit went very smoothly.

Mr. Cohn offered two observations, first that the CHEFA staff again deserves congratulations for doing a fine job keeping the audit boring. Secondly, in regard to the new requirement that the Authority prepare its own financial statements, he suspects that if we do not, we will not keep our clean state auditors' report. They will still recommend that we do it and we will preempt that and do it. Mr. Cohn asked if there were additional questions, and if not, he requested a motion to accept the Audit Report. The motion was made by Ms. Rubin and seconded by Mr. Colangelo to accept the Audit Report.

Upon roll call, the "Ayes," "Nays" and "Abstentions" were as follows:

AYES	NAYS	ABSTENTIONS
John M. Biancamano	None	None
Benson R. Cohn		
Patrick A. Colangelo		
Howard G. Rifkin		
Barbara Rubin		

At 1:30 p.m. the Committee went into Executive Session until 1:40 p.m. to discuss the audit results. No votes were taken.

Regarding the interview process for the internal Compliance/Internal Audit Manager, position, Mr. Asher reported that Staff has interviewed two candidates for Compliance/Internal Audit Manager and a third is scheduled next week. All of the candidates so far have extensive experience in public accounting. One worked as a controller at a local cultural institution, and prior to that served as a public accountant for a couple of small firms in Massachusetts. Mr. Asher said that, given the difficulty in attracting candidates due largely to the high demand for these individuals, Staff needs to get some sense from the Audit-Finance Committee of how to handle the interview process. Staff had suggested that it would conduct the initial interview; the process for the second interview must be determined. Staff feels that we should not wait until the next Board meeting to conduct the second interviews. The question of how to conduct second interviews was raised. Mr. Asher asked if there should be a special meeting scheduled or perhaps the Committee may delegate some responsibility to some of the Members to conduct the second interviews of the candidates. Mr. Asher said he is looking to the Audit-Finance Committee for input in the interview process. Staff could conduct the interview and select someone, but the Committee should hire the individual for the position.

Mr. Cohn asked if the second interviews could be done on the 28th of this month. Mr. Asher said probably not, because he wanted to have at least six candidates and narrow it down to three, and currently there have only been two interviews. He just received another resume from someone with an extensive background. Mr. Cohn said that he would be away from the 28th of September to the 11th of November, which would delay the final interview until November. Mr. Asher said that he would expect that the candidates interviewed would have accepted another job by that time. Mr. Cohn said that because this position effectively does report to the Board, some of the Board should be involved in the second interview and report back to the Committee or Board.

Ms. Rubin asked who is officially on the Audit-Finance Committee. Mr. Gray replied that those committee members are Mr. Cohn, Mr. Biancamano, Mr. Colangelo, Ms. Gnazzo and Mr. Rifkin. Mr. Rifkin said Staff should set up the second interviews and then share the schedule with Members. Perhaps one or two committee members can commit to conducting the interviews. Mr. Asher said he presumed that the hiring of this person does not have to come to the full Board; Mr. Gray said the position has been approved by the Board. Therefore, the person could be hired by CHEFA with input from the Audit-Finance Committee. Mr. Rifkin said perhaps a motion at the full Board Meeting could be made to authorize the Committee, absent the chair, to make a decision about the hiring of this individual. Ms. Rubin said that means we might have a meeting of the Committee and asked if there was a vice-chair of this Committee. Ms. Rubin nominated Mr. Rifkin to be vice-chair. Mr. Rifkin accepted for this purpose only. Mr. Cohn said that as a matter of process for one item, perhaps a telephonic meeting could take place. Mr. Cohn said it is his understanding that Mr. Rifkin as vice-chair will convene an Audit-Finance Committee Meeting to interview the Compliance/Internal Audit Manager at the same. The Board has delegated authority to the Committee regarding the hiring for this position. Mr. Asher hopes to have three viable candidates to present to the Committee for second interviews. Mr. Rifkin asked that Staff distribute the resumes to Members in order to be available for the interviews.

There being no further business, Mr. Rifkin at 1:50 p.m. moved to adjourn. The motion was seconded by Mr. Biancamano.

Upon roll call, the "Ayes," "Nays" and "Abstentions" were as follows:

AYES	**NAYS**	**ABSTENTIONS**
John M. Biancamano		
Benson R. Cohn	None	None
Patrick A. Colangelo		
Howard G. Rifkin		
Barbara Rubin		

Respectfully submitted,

Benson R. Cohn
Audit-Finance Committee Chair