STATE OF CONNECTICUT

AUDITORS' REPORT
STATE OF CONNECTICUT HEALTH AND
EDUCATIONAL FACILITIES AUTHORITY
FOR THE FISCAL YEARS ENDED JUNE 30, 2000 AND 2001

AUDITORS OF PUBLIC ACCOUNTS
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April 26, 2002

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We have made an examination of the financial records of the State of Connecticut Health and Educational Facilities Authority for the fiscal years ended June 30, 2000 and 2001. We have relied on the financial and compliance audits conducted of the Authority by independent public accountants covering these fiscal years after having satisfied ourselves as to the firm’s professional reputation, qualifications and independence, and verifying that generally accepted accounting principles and auditing standards were followed in the audits and in the preparation of the reports. Financial statements are included in the Authority’s annual reports for the fiscal years ended June 30, 2000 and 2001. In addition to reviewing the audits and related working papers prepared by the independent public accountants, we reviewed the Authority’s compliance with State statutory annual reporting requirements. We also reviewed the minutes of the Authority. We conducted our audit in accordance with generally accepted government auditing standards for financial related audits. This report on our examination consists of the following Comments and Recommendations.

COMMENTS

FOREWORD:

The State of Connecticut Health and Educational Facilities Authority (CHEFA) operates under Title 10a, Chapter 187, of the General Statutes.

The Authority is a public instrumentality, created as a public benefit corporation whose purpose is to assist institutions of higher education, health care institutions, nursing homes and qualified nonprofit organizations in the construction, financing and refinancing of projects. Section 10a-186a of the General Statutes provides for the maintenance of Special Capital Reserve Funds to be used for the payment of principal and interest on Authority bonds used to finance projects at participating nursing homes and public institutions of higher education. According to Section 10a-186a, the State is contingently liable to provide annual debt service requirements for such bonds, if Authority funds are not sufficient to meet minimum reserve requirements for the Special Capital Reserve Funds. The Authority is empowered to issue its bonds, bond anticipation notes and any other obligations of the Authority for any of its corporate purposes and to fund and refund the same.

Debt issued by the Authority is not a debt of the State of Connecticut and the State is not obligated for such debt, except as specified in Section 10a-186a of the General Statutes. In addition, the Authority does not expend any State funds. However, in accordance with Section 2-90 of the General Statutes, the Authority, as a quasi-public body created by the General Assembly, is still subject to audit by the Auditors of Public Accounts.

The Authority consists of ten members, including the State Treasurer and the Secretary of the Office of Policy and Management, who serve as ex officio members and eight members who are appointed by the Governor. At the time of our review (March 2002), the Governor was in the process of appointing three members of the Board for positions vacated during the 2001 calendar year. The five-year term for Phyllis C. DeLeo expired on June 30, 2001, but she continues to serve until a successor is appointed. In addition, James R. Birle resigned from the Authority on May 14, 2001, and Dr. John A. Barone resigned from the Authority on September 10, 2001. John M. Biancamano was appointed to the Authority effective August 29, 2000; and Herbert B. Price was appointed to the Authority on January 21, 1999, serving until June 30, 2000, when Laurence R. Smith, Jr. replaced him.

As of June 30, 2001, the members of the Authority were as follows:

Ex-Officio:
Denise L. Nappier, State Treasurer
Marc S. Ryan, Secretary, Office of Policy and Management

Appointed by the Governor:
Barbara Rubin, Chairman
Dr. John A. Barone
John M. Biancamano
William J. Cibes, Jr., Ph.D.
Patrick A. Colangelo
Phyllis C. DeLeo
Laurence R. Smith, Jr.

Richard D. Gray was appointed Executive Director on May 23, 1996 and served in that capacity throughout the audited period. There have been no changes in key personnel.

Significant Legislation:

One public act was passed during the audited period that affected the Authority's operations. Public Act 00-192 amended Section 11 of Special Act 99-10 and Section 1 of Special Act 00-13 to allow the transfer of up to $1,000,000, in the fiscal year ended June 30, 2001, from the General Fund Debt Service account to the CHEFA Day Care Security account for the Childcare Facilities Program. The funding is to be used only for the capital costs associated with the rehabilitation or relocation of existing childcare facilities. The transfer must be approved by the Finance Advisory Committee and is contingent upon the childcare facilities having received a commitment for matching funding of not less than 15 percent of the total costs for such capital improvement from foundations or other nonprofit 501c(3) organizations.

Accounting Policies:

The Authority maintains books of accounts for its own operations and for each of the issues of debt outstanding. In accordance with the requirements of bond issue documents, separate funds are maintained for each issue. A brief description of each fund and its purpose follows:

General Fund - Revenues and expenses applicable to the operations of the Authority are accounted for within this account. The retained earnings of the Authority's General Account exists as the total of a reserve designated for operations representing approximately 2.5 times current year operating expenses and a reserve designated for contingencies that is to equal the annual interest due on all bond issues rated less than AA, not insured and not collateralized by letters of credit. This reserve could be used to avoid default in the event of a failure on the part of any general obligation bond issue.

Construction and Project Funds - The receipt and disbursement of moneys for the payment of construction and equipment of projects are accounted for in these funds.

Debt Service and Bond Funds - These funds account for the receipt and disbursement of moneys for the payment of bond or note 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 balances are generally required to be maintained at an amount equal to the greatest amount of principal and interest payable in the then current or any future bond year.

Project Reserve Funds - Bond issue documents for specific issues establish balances to be held in reserve should major repairs be necessary. These funds account for the receipt and disbursement of assets held for such reserves.

Redemption Funds - The accumulation of assets not required by other funds for the eventual redemption or purchase of bonds are accounted for in these funds.

Rebate Funds - The Federal government requires the rebate of amounts earned on the investment of bond proceeds in excess of the yield on the bonds. Rebate funds are established for the institutions to account for the accumulation of assets to pay the rebate liability.

Renewal and Replacement Funds - These funds account for the cost of renewal, renovation, repair or replacement of the mortgaged premises or the project equipment.

Loan Reserve Funds - These funds are used to repay the principal and interest portions of the institutions' repayment schedule.

Working Capital Funds - To account for the receipt and disbursement of monies for the payment of all or a portion of the operating expenses of the institution, as well as, the debt service payments by the institution on indebtedness other than bonds.

Special Capital Reserve Funds - These funds are maintained to ensure compliance with minimum capital reserve requirements of each bond issue. Any deficiencies in the reserves are required to be funded by the institution after notification by the trustee. If the institution does not replenish this fund, the State is obligated to do so, in accordance with Section 10a-186a of the General Statutes.

Working Capital Reserve Funds - The trustee shall transfer amounts on deposit in the Working Capital Reserve Fund to the Debt Service and Bond Funds to the extent that an institution has failed to make its principal or interest payments on its loan. This is done before any withdrawals from the Special Capital Reserve Fund are made. Also, if the institution certifies to the Authority that it has no other source of moneys to pay operating expenses and the State Treasurer consents, transfer can be made from this fund for operating expenses.

The assets of the Debt Service and Bond Funds, Debt Service Reserve, Project Reserve, Redemption Funds, Escrow Funds, Working Capital Funds, Loan Reserve Funds and Special Capital Reserve Funds are held by trustees in accordance with the bond resolutions.

Financial and Compliance Audits:

A firm of certified public accountants audited the books and accounts of the Authority during each of the fiscal years under review as required by the provisions of Section 10a-194 of the General Statutes. We accepted the financial statements as audited, after satisfying ourselves as to the professional reputation, qualifications and independence of the auditors, and verifying that generally accepted accounting principles and auditing standards were followed.

There were no recommendations contained in the audit reports covering the fiscal years ended June 30, 2000 and 2001, respectively.

We reviewed the status of the three audit recommendations issued in the June 30, 1999 audit of the Authority. We confirmed that cash reconciliation is independently reviewed and approved by management and that additional staff has been hired to monitor compliance of client institutions. The Authority described the credit approval process that loan applicants for Child Care Facilities Guarantee Loan Fund Program must undergo. Loan applications are scrutinized by representatives from seven banks and approved by the Authority. Accordingly, we consider the recommendation implemented.

The firm of certified public accountants also performed a test of compliance with statutory requirements in accordance with Section 1-122 of the General Statutes. The results of those tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

RÉSUMÉ OF OPERATIONS:

From the inception of the Authority on July 1, 1965, to June 30, 2001, approximately 250 bond series have been issued in the aggregate amount of $5,759,615,000 of which the amount of $3,687,250,000 was outstanding as of June 30, 2001. From its inception, through July 1, 1979, the Authority issued general obligation bonds for which the Authority is ultimately responsible for payment. Subsequent to July 1, 1979, the Authority issued only special obligation bonds for which payment is made from the revenues of the benefited institutions. These bonds are considered conduit debt obligations of the Authority and are not considered obligations of the Authority. Payments for principal and interest of $1,710,000 and $183,000, respectively, on general obligation bonds were made on July 1, 2000. Payments for principal and interest of $1,665,000 and $135,000 respectively, on general obligation bonds were made on July 1, 2001.

Operating revenue of the Authority for the fiscal years ended June 30, 2000 and 2001, totaled $3,495,911 and $4,750,431, respectively, as compared to the previous fiscal year as summarized below:

	Fiscal Year Ended June 30, 1999	2000	2001
	$	$	$
Annual Administrative fees	2,337,911	2,648,822	3,615,768
Bond issuance fees income	134,100	89,751	128,060
Investment income	698,533	757,338	1,006,602
Total	**$3,170,544**	**$3,495,911**	**$4,750,431**

The chief source of revenue for the Authority is an annual administrative fee paid by each institution for each bond series issued and outstanding. The amount of the annual fee is specified in each bond issue resolution. No Special Capital Reserve Fund (SCRF) Program issues were made during the audited period because such issues were restricted by Section 10a-186a Subsection (b) of the General Statutes. An annual fee of 15 basis points on the outstanding par amount was charged in prior years; all others are charged ten basis points. In addition, the Authority charges a bond issuance fee of fifteen thousand dollars, five thousand of which is collected at issuance.

During the fiscal years ended June 30, 2000 and 2001, operating expenses of the Authority totaled $2,088,996 and $2,430,949, respectively, as summarized below. These totals exclude the trustee, accounting, and special fees that are recovered from the various institutions as part of bond issue expenses. Significant changes resulted from one-time events occurring in fiscal year 1999 and 2001, respectively. A reserve in the amount of $500,000 was set up during fiscal year 1999 for the Child Care Program. In fiscal year 2001, the Authority provided a $250,000 grant to the science and technology attraction at Adriaen's Landing. The grant represents a majority of the reported $269,586 contribution expense. The fund is to be used as initial seed money to start the development process of the science center attraction.

	Fiscal Year Ended June 30, 1999	2000	2001
	$	$	$
Personal services	983,293	1,017,111	1,024,880
Employee benefits	211,715	203,258	204,132
Rent	160,838	169,152	178,230
Legal and accounting	122,285	93,845	136,001
Consultants	4,483	22,830	30,765
Insurance	87,344	86,876	86,628
Office supplies and expenses	100,850	106,615	94,267
Travel, conferences and seminars	28,359	37,781	36,137
Depreciation expense	52,699	52,306	56,227
Issuance cost	57,485	55,719	24,504
Provision for uncollectible accounts	335,451	322,486	267,853
Child care funding reserve	500,000	3,514	64,773
Contributions	-0-	-0-	269,586
All other expenses	126,636	100,295	96,305
Refund of expenses	(646,318)	(182,792)	(139,340)
Total	**$2,125,120**	**$2,088,996**	**$2,430,949**

The retained earnings of the Authority's General Fund increased during the audited period. A summary of the changes in the General Fund balance for the fiscal years ended June 30, 2000 and 2001, follows:

	Fiscal Year Ended June 30, 1999	2000	2001
	$	$	$
Revenues	3,170,544	3,495,911	4,750,431
Expenses	2,125,120	2,088,996	2,430,949
Excess of Revenues over Expenses	1,054,424	1,406,915	2,319,482
Retained Earnings, beginning of year	13,733,199	14,778,623	16,185,537
Retained Earnings, End of Year	**$14,778,623**	**$16,185,537**	**$18,505,019**

During the audited period the cash surplus balance of the Authority's General Fund was invested in a collateralized money market fund and obligations of the U. S. Treasury.

Outstanding bonds issued under the SCRF program for which the State has a contingent liability totaled $167,000,000 and $154,185,000 for fiscal years ended June 30, 2000 and 2001, respectively. The reduction of approximately $12,815,000 in fiscal year 2000-2001 from the previous fiscal year is primarily due to the defeasance of the SCRF bonds issued by Sharon Health Care. The facility was purchased and proceeds from the sale were used to repay the bonds. There are no loans in default as of June 30, 2001.

CONDITION OF RECORDS

We did not note any reportable conditions during our current review.

RECOMMENDATIONS

Status of prior recommendations:

- There were no prior recommendations.

Current Audit Recommendations:

- No audit recommendations resulted from our current review.

CONCLUSION

In conclusion, we wish to express our appreciation for the courtesy and cooperation extended to our office by the personnel of the State of Connecticut Health and Educational Facilities Authority during the course of our examination.

Matthew S. Rugens
Principal Auditor

Approved:

Kevin P. Johnston	Robert G. Jaekle
Auditor of Public Accounts	Auditor of Public Accounts

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