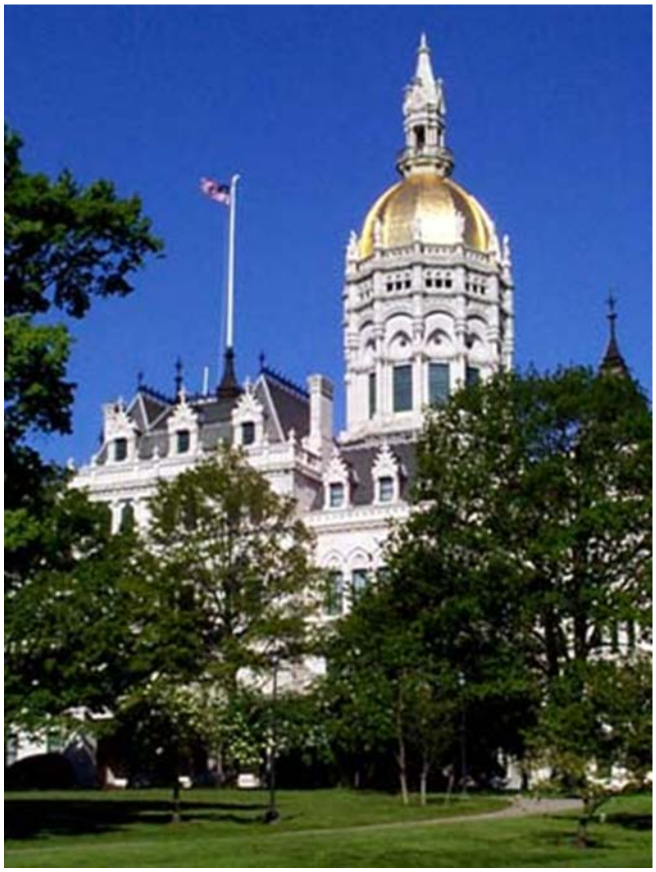
STATE OF CONNECTICUT



AUDITORS' REPORT
CONNECTICUT HEALTH AND EDUCATIONAL FACILITIES AUTHORITY
CONNECTICUT HIGHER EDUCATION SUPPLEMENTAL LOAN AUTHORITY
CONNECTICUT STUDENT LOAN FOUNDATION
FOR THE FISCAL YEARS ENDED JUNE 30, 2016 AND 2017

AUDITORS OF PUBLIC ACCOUNTS
JOHN C. GERAGOSIAN ❖ ROBERT J. KANE

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STATE OF CONNECTICUT

AUDITORS OF PUBLIC ACCOUNTS

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ROBERT J. KANE

April 4, 2019

INTRODUCTION

AUDITORS' REPORT
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CONNECTICUT HIGHER EDUCATION SUPPLEMENTAL LOAN AUTHORITY
CONNECTICUT STUDENT LOAN FOUNDATION
FOR THE FISCAL YEARS ENDED JUNE 30, 2016 and 2017

We have audited certain operations of the Connecticut Health and Educational Facilities Authority (CHEFA), Connecticut Higher Education Supplemental Loan Authority (CHESLA), and Connecticut Student Loan Foundation (CSLF) in fulfillment of our duties under Sections 1-122 and 2-90 of the Connecticut General Statutes. The scope of our audit included, but was not necessarily limited to, the fiscal years ended June 30, 2016 and 2017.

Throughout this audit report, CHEFA, CHESLA and CSLF are referred to as the authority on a consolidated basis.

The objectives of our audit were to:

1. Evaluate the authority's internal controls over significant management and financial functions;

2. Evaluate the authority's compliance with policies and procedures internal to the authority or promulgated by other state agencies, as well as certain legal provisions, including but not limited to whether the authority has complied with regulations concerning affirmative action, personnel practices, the purchase of goods and services, the use of surplus funds and the distribution of loans, grants and other financial assistance, as applicable; and

3. Evaluate the effectiveness, economy, and efficiency of certain management practices and operations, including certain financial transactions.

Our methodology included reviewing written policies and procedures, financial records, minutes of meetings, and other pertinent documents; interviewing various personnel of the authority; and testing selected transactions. We obtained an understanding of internal controls that we deemed significant within the context of the audit objectives and assessed whether such controls have been properly designed and placed in operation. We tested certain of those controls to obtain evidence regarding the effectiveness of their design and operation. We also obtained an understanding of legal provisions that are significant within the context of the audit objectives, and we assessed the risk that illegal acts, including fraud, and violations of contracts, grant agreements, or other legal provisions could occur. Based on that risk assessment, we designed and performed procedures to provide reasonable assurance of detecting instances of noncompliance significant to those provisions.

We conducted our audit in accordance with the standards applicable to performance audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform our audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides such a basis.

The accompanying Résumé of Operations is presented for informational purposes. This information was obtained from various available sources including, but not limited to, the authority's management and the state’s information systems, and was not subjected to the procedures applied in our audit of the authority. For the areas audited, we identified:

1. No deficiencies in internal controls;
2. No apparent noncompliance with legal provisions; and
3. No need for improvement in management practices and procedures that we deemed to be reportable.

COMMENTS

FOREWORD

Connecticut Health and Educational Facilities Authority

The Connecticut Health and Educational Facilities Authority (CHEFA) is a quasi-public agency that primarily operates under the provisions of Chapter 187 of the General Statutes. Pursuant to Section 10a-179, CHEFA is constituted as a public instrumentality and political subdivision of the state. As a quasi-public agency, CHEFA is included as a nonmajor component unit in the State of Connecticut's Comprehensive Annual Financial Report.

CHEFA was established to provide financial assistance to non-profit healthcare institutions, higher education institutions and independent schools, childcare facilities, long-term care facilities, cultural institutions and various other qualified non-profit institutions. It is a conduit issuer of tax-exempt bonds issued on their behalf. These tax-exempt bonds are financial obligations of the institution on whose behalf CHEFA issues the bonds. The bonds can provide funds for new construction projects, the refinancing of eligible existing debt, funding of debt service reserve funds (if applicable) and funding of issuance costs.

CHEFA primarily generates revenue from fees charged on its portfolio of bonds to the conduit borrowers. As a result, CHEFA operations do not rely upon state appropriations from the General Fund or bond funds. CHEFA is empowered to issue its own bonds, bond anticipation notes and any other obligations for any of its corporate purposes and to fund and refund the same. Interest on bonds issued by CHEFA is generally exempt from federal income tax to the bondholder.

The CHEFA outstanding bond portfolio consists of special obligation bonds for which payments of principal and interest are the responsibility of the institutions and are not a debt of CHEFA or the state. Neither the state nor CHEFA is obligated for such debt except for loans or bonds issued under the Child Care Facilities Loan Program (discussed in more detail in the Authority Programs section of this report) and bonds backed by special capital reserve funds. Additionally, CHEFA provided a first-loss guarantee to participating credit unions not to exceed 20% of the outstanding principal amount of each qualifying student loan originated by the credit unions under the Connecticut Credit Union Student Loan Program.

A special capital reserve fund is a debt service reserve fund set up at the time the bonds are issued, in an amount equal to the lesser of either one year's principal and interest on the bonds or ten percent of the issue. If the borrower makes the scheduled debt service payments, the interest earnings on the reserve fund will pay the interest on the bonds that created it and the principal will go to retire the final maturity of the bond issue.

If the borrower is unable to pay all or part of the scheduled debt service payments, the reserve may be drawn upon to pay debt service. When the special capital reserve fund has been partially or completely drawn down, a draw on the state's General Fund is authorized and the reserve is fully restored. The draw on the General Fund is deemed to be appropriated and is not subject to the constitutional or statutory appropriations cap. During the audited period, the state did not make any payments into the reserve fund.

Under section 10a-186a of the General Statutes, CHEFA is authorized to issue tax-exempt and taxable revenue bonds secured by one or more special capital reserve funds to finance projects for housing, student centers, food service facilities and other auxiliary service facilities at public institutions of higher learning, including the Connecticut State University System. CHEFA also issues bonds for clinical services projects for the University of Connecticut Health Center, and up to $100,000,000 million to finance equipment acquisitions by hospitals. The state's contingent liability related to these special capital reserve funds totaled $302,815,000 as of June 30, 2016 and $338,745,000 as of June 30, 2017.

Connecticut Higher Education Supplemental Loan Authority

The Connecticut Higher Education Supplemental Loan Authority (CHESLA) is a quasi-public agency that primarily operates under the provisions of Chapter 187b of the General Statutes. CHESLA is constituted as a subsidiary of the Connecticut Health and Educational Facilities Authority pursuant to Section 10a-179a. As a subsidiary of CHEFA, CHESLA retains its legal identity as a separate quasi-public authority and has no recourse to the general funds, revenues, resources or other assets of CHEFA.

CHESLA provides financial assistance in the form of education loans to students in or from the state. CHESLA issues tax exempt bonds and the proceeds of those bonds are used to fund education loans to applicants meeting certain eligibility criteria. CHESLA bonds are repaid from student loan repayments and are supported by a special capital reserve fund.

Section 10a-232 of the General Statutes authorizes CHESLA to create and establish one or more special capital reserve funds for which the State of Connecticut has a contingent liability. The state is obligated to replenish the funds if necessary to restore the minimum capital reserve. As of June 30, 2017, this has not been necessary. The state's contingent liability related to these special capital reserve funds totaled $152,785,000 as of June 30, 2016 and $157,465,000 as of June 30, 2017.

Connecticut Student Loan Foundation

The Connecticut Student Loan Foundation (CSLF) was established as a chartered nonprofit corporation pursuant to Chapter 187a of the General Statutes for the purpose of improving educational opportunity. CSLF became a state quasi-public agency when it was consolidated with CHEFA as a subsidiary effective July 1, 2014.

The CSLF purpose was to improve educational opportunity by originating and acquiring student loans and providing related services. However, CSLF ceased serving as guarantor in 2009 and ceased issuing new loans in 2010. CSLF continues to hold and administer a portfolio of loans and bonds. At the direction of the CSLF board, it can transfer funds to CHESLA for purposes of providing financial aid to students.

CSLF does not have any employees. Its day to day business activities and financial records are managed by an administrative agent, with the exception of CSLF accounting, which was transitioned to CHEFA accounting staff as of January 1, 2018.

BOARDS, COMMITTEES, AND ADMINISTRATIVE OFFICIALS

CHEFA Board of Directors

Pursuant to Section 10a-179(a) of the General Statutes, CHEFA operates under a 10-person board of directors. The board consists of the State Treasurer and the Secretary of the Office of Policy and Management as ex-officio members and 8 residents of the state who are appointed by the Governor. Not more than 4 of the 8 appointed members can be of the same political party. In addition, 3 appointed members shall be current or retired trustees, directors, officers, or employees of institutions for higher education, 2 appointed members shall be current or retired trustees, directors, officers or employees of healthcare institutions, and 1 shall be a person having a favorable reputation for skill, knowledge, and experience in state and municipal finance, either as a member of the financial business industry or as an officer or employee of an insurance company or bank whose duties relate to the purchase of state and municipal securities as an investment and to the management and control of a state and municipal securities portfolio.

As of June 30, 2017, the CHEFA board of directors was composed as follows:

Ex-Officio Members:

Benjamin B. Barnes	Secretary, Office of Policy and Management
Denise L. Nappier	State Treasurer

Appointed Members:

Dr. Peter W. Lisi	Chair
John M. Biancamano	Vice-Chair
Patrick A. Colangelo	
Barbara B. Lindsay, Esq.	
Dr. Estela R. Lopez	
Elizabeth C. Hammer	
Barbara Rubin	
Mark Varholak	

Paul Mutone also served on the CHEFA board of directors during the audited period.

CHESLA Board of Directors

Pursuant to Section 10a-179a of the General Statutes, CHESLA operates under a 9-person board of directors. The board consists of the State Treasurer, Secretary of the Office of Policy and Management, and the president of the Board of Regents for Higher Education as ex-officio members, the chairperson of the CHEFA board of directors, the executive director of CHEFA, and 4 state residents who are appointed by the CHEFA board of directors.

Two of the 4 must be active or retired trustees, directors, officers or employees of a Connecticut institution for higher education; 1 must have a favorable reputation for skill, knowledge and experience in the higher education loan field; and 1 must have a favorable reputation for skill, knowledge and experience in either the higher education loan field or in state and municipal finance. Of the 4 appointed members, not more than 2 may be members of the same political party. The chairperson of the CHEFA board of directors also serves as the chairperson of the CHESLA board of directors.

As of June 30, 2017, the CHESLA board of directors was composed as follows, with 2 vacancies:

Ex-Officio Members:

Benjamin B. Barnes	Secretary, Office of Policy and Management
Mark Ojakian	President, Board of Regents for Higher Education
Denise L. Nappier	State Treasurer

Appointed Members:

Dr. Peter W. Lisi	Chair
Julie B. Savino	Vice-Chair
Jeanette Weldon	Executive Director, CHEFA
Martin L. Budd	

Paul Mutone and Barbara Rubin also served on the CHESLA board of directors during the audited period.

CSLF Board of Directors

Pursuant to Section 10a-203a of the General Statutes, the CHESLA board of directors also serves as the board of directors for CSLF.

CHESLA Advisory Committee

In accordance with Section 10a-245 of the General Statutes, CHESLA appoints an advisory committee of not more than 15 persons who meet with the members of its board of directors and with staff at least once each calendar year in accordance with guidelines established by the authority. The members of the advisory council may include representatives of the various interests served by the authority such as students, faculty and administrators of both public and private secondary schools, state and local education officials, parents, bankers, insurance companies and investment bankers and other citizens interested in the financing of higher education in the state.

Administrative Officials

Jeanette Weldon served as executive director of the authority throughout the audited period.

SIGNIFICANT LEGISLATION

- Public Act 15-18 – Repealed the October 1, 2015 exclusion of CSLF from the list of quasi-public agencies in Section 1-120 of the General Statutes by Public Act 14-222. Public Act 14-217 previously consolidated CSLF as a subsidiary of CHEFA, making it a quasi-public agency of the State of Connecticut effective July 1, 2014.

- Public Act 15-146, Section 38 – required CHEFA to study financing operations for various acquisitions and improvements by community hospitals, and report thereon to the joint standing committees of the General Assembly having cognizance of matters relating to public health and commerce by January 1, 2016.

- Public Act 15-200 – authorized CHESLA to issue refinancing loans, taxable revenue bonds, and education grants. It also revised the membership criteria of the CHESLA board of directors and required the board chairperson to report to the Banking and Higher Education committees on the authority's progress toward (a) targeting lending to individuals with a demonstrated financial need and (b) effectively serving the highest number of such individuals.

- Public Act 15-244, Sections 94 and 95 – required CHEFA to transfer $3,500,000 annually to the General Fund in the 2015-2016 and 2016-2017 fiscal years.

- Public Act 16-185 – adjusted the statutory description for the CHEFA board member with the requisite background in state and municipal finance.

- Public Act 17-2, Section 686 – required CHEFA to transfer $900,000 annually to the General Fund in the 2017-2018 and 2018-2019 fiscal years.

- Public Act 17-51, Section 8 – authorized the Secretary of the Office of Policy and Management to approve the transfer of up to $875,000 from CHEFA to the General Fund in the 2016-2017 fiscal year.

- The federal Tax Cuts and Jobs Act eliminated the ability to issue tax-exempt advance refunding bonds after December 31, 2017.

AUTHORITY PROGRAMS

CHEFA Programs

Tax Exempt Bond Financing

CHEFA offers tax-exempt financing programs for eligible nonprofit organizations. Bond offerings can be publicly sold or can be issued as private placement offerings. Both types of offerings can be issued unenhanced or with credit enhancement, bear interest at fixed or variable interest rates, and have a maturity of not greater than fifty years. CHEFA can finance an institution's capital projects and related costs, so long as the project is related to the tax-exempt purpose of that institution. These projects may consist of larger components such as acquisition, construction or renovation of real property, purchase of furniture and equipment and other capital needs. They may also include smaller elements including computers, telecommunications equipment and health care technology. Other eligible projects include refinancing outstanding taxable or tax-exempt debt, mortgages, and loans.

CHEFA issued 30 bonds during the 2015-2016 fiscal year totaling $1,358,355,000, $469,892,000 in new issues and $888,463,000 in refundings. CHEFA issued 27 bonds during the 2016-2017 fiscal year totaling $1,409,424,000, $171,339,000 in new issues and $1,238,085,000 in refundings.

EasyLoan Equipment Financing

The CHEFA tax-exempt equipment loan program (EasyLoan) features an abridged application process, standardized loan documentation, and reduced financing fees compared to a traditional bond financing. Debt issued through this program is secured by the assets financed and is privately placed with one lending company through a competitive bid process, or through the borrower’s selection process.

A pass through is created between the lender and CHEFA to distribute the funds to the borrower. A lien is placed on the equipment and other financed improvements as collateral. The borrower makes payments directly to the lender during the term of the loan. Upon full payment of the loan, the borrower becomes the owner of the equipment for the sum of one dollar. CHEFA assumes no responsibility for conducting any credit evaluation of the borrower. Each loan is non-recourse to CHEFA. There was one EasyLoan during the 2015-2016 fiscal year to the University of Bridgeport in the amount of $1,400,000. There were no EasyLoans during the 2016-2017 fiscal year.

Child Care Facilities Loan Fund

CHEFA is authorized to issue Child Care Facilities Bonds and loan the proceeds to various entities to finance child care facilities. Debt service payments are made by the State Treasurer and the State Office of Early Childhood is obligated to reimburse a portion of the debt service payments from intercepts of revenues from providers. Any obligation by the State Treasurer to pay such debt service is subject to annual appropriation.

Originally, the departments of Social Services (DSS) and Education managed the programs and administered through CHEFA. However, effective July 1, 2014, management responsibility was transferred to the Office of Early Childhood. There are three programs under the Child Care Facilities Loan Fund, the Tax-Exempt Financing Program, the Guaranteed Loan Program and the Small Direct Loan Program.

The Tax Exempt Financing Program (currently closed to new applicants) provides low interest loans to eligible childcare providers for new construction or renovation of child care centers. CHEFA is not obligated for debt issued under this program. The state allocates funds to pay at least 80% of loan repayments.

The Guaranteed Loan Program (currently closed to new applicants) guarantees loans for the expansion or development of childcare and child development centers in the state. Loans are for moderate to large-scale construction, expansion and renovation of child care centers. CHEFA is responsible for guaranteeing 20% to 50% of each loan outstanding. The loan guarantee usually starts at 50% and decreases as the loan seasons (the length of time the loan has been outstanding increases). This allows CHEFA to free up resources allocated to support guaranteed amounts, so they are available to guarantee new loans. Loans issued under this program are approved, granted and administered by participating financial institutions. If a facility defaults on its loan, funds are withdrawn from the guaranteed pool to cover the portion of the guaranteed debt. The program has not issued loans since the 2013-2014 fiscal year and there were no loan defaults during our audited period.

The Small Direct Loan Program provides loans for pre-development, minor renovations, equipment, or start-up costs for home-based care. The program is administered by the Connecticut Community Investment Corporation (CTCIC), formerly known as New Haven Community Investment Corporation. Loans are guaranteed for 80% of the outstanding principal amount of the loan. The program issued 2 loans during the 2015-2016 fiscal year totaling $50,000 and 2 loans during the 2016-2017 fiscal year totaling $41,000. DSS originally transferred $750,000 to CHEFA to guarantee loans made under the program in the 1997-1998 fiscal year. CHEFA invested the funds in a Short-Term Investment Fund account administered by the State Treasury. If a facility defaults on its loan, funds are withdrawn from the guaranteed pool to cover the portion of the debt that was guaranteed following a request from CTCIC. Funds in the guaranteed pool are not replenished if they are withdrawn. The program will end once all funds in the guaranteed pool are exhausted.

Client and Nonprofit Grant Programs

Grants under the Client Grant Program are open to all existing CHEFA clients. The fields of interest of all client grants are limited to the CHEFA mission areas, which include healthcare, education, childcare and cultural facilities. Grant awards are $75,000 or less. Applications are accepted once a year and are submitted directly to CHEFA. CHEFA awarded 18 client grants during the 2015-2016 fiscal year totaling $875,235 and 14 client grants during the 2016-2017 fiscal year totaling $846,945.

Grants under the Nonprofit (Open Grant) Program are available to any nonprofit organization that is currently not a client of CHEFA. Grants are awarded once a year and can be up to $75,000. Applications are submitted directly to CHEFA and are strictly limited to capital purchases, capital projects (CHEFA funds must be the only or final funds), programmatic support, and in extraordinary circumstances operating funds, for the following types of organizations: childcare, cultural, educational, food insecurity, and healthcare. During the 2015-2016 fiscal year, CHEFA awarded 23 Nonprofit Program grants totaling $1,125,235. During the 2016-2017 fiscal year CHEFA did not award any grants under the program.

Targeted Investment Program

The Targeted Grant Program is a focused investment plan that provides grants to institutions that work in areas approved by the board of directors. The board of directors then determines guidelines and application requirements for the program. The project period may not exceed 2 years. No awards were made during the 2015-2016 fiscal year. The program made one award, totaling $250,000, during the 2016-2017 fiscal year.

CHESLA Programs

Student Loan Program

The CHESLA in-school fixed rate loans are available to qualifying students who attend eligible higher education institutions in Connecticut and to Connecticut residents who attend eligible higher education institutions in other states. Loans range from $2,000 up to the total cost of education per academic year (less any other financial aid received), to a cumulative maximum total of $125,000. CHESLA disbursed $18,691,594 and $22,082,308 in education loans during the 2015-2016 and 2016-2017 fiscal years.

Need-Based Scholarship Program

On June 9, 2015, the CHESLA board approved and created the CHESLA Need-Based Scholarship program. This program was funded with a $2,000,000 transfer from CSLF. The program provides scholarships to undergraduate students in need of assistance. Scholarships totaling $1,886,500 were disbursed to 1,088 students during the 2015-2016 fiscal year. Scholarships totaling $2,000,000 were disbursed to 1,120 students during the 2016-2017 fiscal year.

Refi CT

The CHESLA board approved a pilot refinance program, Refi CT, on May 1, 2016. This program was funded by a $6,000,000 contribution from CSLF. During the 2016-2017 fiscal year there were 56 loan originations totaling $2,815,181 made under this program.

CSLF Programs

CSLF was established to improve educational opportunity by providing or guaranteeing loans under the Federal Family Education Loan Program and alternative student loan programs. The loans made or acquired by CSLF were financed through the issuance of bonds secured from the revenues received from such loans.

CSLF has not issued any bonds since the 2006-2007 fiscal year. CSLF ceased serving as a guarantor in the 2008-2009 fiscal year and no longer originates or acquires student loans. CSLF continues to hold and administer a portfolio of loans and bonds. CSLF funds may be used to support CHESLA financial aid programs.

RÉSUMÉ OF OPERATIONS

The revenues, expenses, and changes in net position of CHEFA as of June 30, 2015, 2016 and 2017, and for the years then ended, per the management discussion and analysis reported with its audited financial statements are presented below (amounts expressed in thousands):

	June 30		
	2015	**2016**	**2017**
Operating Revenues:			
Administrative Fees	$ 7,513	$ 7,498	$ 7,458
General and Administrative Fees	200	205	234
Bond Issuance Fees	90	86	60
Other Revenues	15	13	41
Total Operating Revenues	7,818	7,802	7,793
Operating Expenses:			
Salaries and Related Expenses	2,896	2,664	2,777
General and Administrative Expenses	819	549	545
Contracted Services	195	279	129
Total Operating Expenses	3,910	3,492	3,451
Total Operating Income	3,908	4,310	4,342
Non-operating Activity:			
Investment Income	13	43	84
Payment to State		(3,500)	(4,375)
Grants and Childcare Subsidies	(2,993)	(2,260)	(1,226)
Change in Net Position	**$ 928**	**$ (1,407)**	**$ (1,175)**

CHEFA's net position decreased primarily because of statutorily required transfers to the state's General Fund. Public Act 15-244 required CHEFA to transfer $3,500,000 annually to the General fund in the 2015-2016 and 2016-2017 fiscal years. Public Act 17-51 authorized an additional transfer of $875,000 in the 2016-2017 fiscal year.

CHEFA is a conduit issuer of tax-exempt bonds issued on behalf of various institutions. It charges the conduit borrowers for administration and upfront fees, its primary source of revenues. CHEFA is self-supporting. It does not rely on state appropriations.

Conduit debt obligations are debt instruments issued by a state or local governmental entity to provide capital financing for a specific third party that is not a part of the issuer's financial reporting entity. Although conduit debt obligations bear the name of the governmental issuer, the issuer has no obligation for such debt beyond the resources provided by a lease or loan with the third party on whose behalf they are issued.

Administrative fees revenues were relatively stable during the audited period. They decreased slightly by $15,000 from $7,513,000 for the 2014-2015 fiscal year to $7,498,000 for the 2015-2016 fiscal year and decreased again by $40,000 to $7,458,000 for the 2016-2017 fiscal year. The decreases were due to changes in the par value of loans outstanding.

Administrative fees are calculated on the total par amount outstanding in any given year. The balance of the par value of debt outstanding decreased from $8,412,187,000 as of June 30, 2015 to $8,314,847,000 as June 30, 2016 and decreased again to $8,219,002,000 as of June 30, 2017.

Grant and childcare subsidy expense decreased by $733,000 from $2,993,000 for the 2014-2015 fiscal year to $2,260,000 for the 2015-2016 fiscal year and decreased again by $1,034,000 to $1,226,000 for the 2016-2017 fiscal year. The decreases were attributable to the reduction in loans outstanding and a reduction in grants issued. Childcare subsidy expense involves loans made under the Child Care Facility Loan Funds Program authorized by Section 10a-194c of the General Statutes where CHEFA subsidizes the interest rate to make the loans more affordable.

Operating expenses decreased by $418,000 from $3,910,000 for the 2014-2015 fiscal year to $3,492,000 for the 2015-2016 fiscal year. They decreased again by $41,000 to $3,451,000 for the 2016-2017 fiscal year. Salaries and related expenses comprised the largest category of operating expenses.

The revenues, expenses, and changes in net position of CHESLA as of June 30, 2015, 2016 and 2017, and for the years then ended, per the management discussion and analysis reported with the CHEFA audited financial statements are presented below (amounts expressed in thousands):

	June 30		
	2015	**2016**	**2017**
Operating Revenues:			
Interest Income on Loans Receivable	$ 7,260	$ 7,576	$ 7,433
Administrative Fees	1,108	555	655
Contribution from CSLF		6,000	1,889
Total Operating Revenues	8,368	14,131	9,977
Operating Expenses:			
Interest Expense	6,690	6,064	5,743
Salaries and Related Expenses	192	118	217
General and Administrative Expenses	443	473	541
Refinance Pilot Program		171	201
Scholarships			1,887
Loan Service Fees	563	561	574
Contracted services	41	43	37
Bond Issuance Costs	104	888	555
Provision for Loan Losses (Benefit)	760	343	73
Total Operating Expenses	8,793	8,661	9,828
Total Operating Income	(425)	5,470	149
Non-operating Revenues (Expenses):			
Investment Income	1,148	1,261	283
Contributions from CSLF	4,000	2,000	
Scholarship Program	(2000)		
Change in Net Position	**$ 2,723**	**$ 8,731**	**$ 432**

CHESLA provides financial assistance in the form of education loans to students in or from the state. CHESLA is authorized to issue tax-exempt bonds, the proceeds of which are used to fund education loans to applicants meeting certain eligibility requirements. The repayments of such loans service the debt on CHESLA bonds. Related revenues, which decreased slightly during the audited period, include administrative fees and the interest charged on the loans. These revenues totaled $8,368,000, $8,131,000 and $8,088,000 for the 2014-2015, 2015-2016 and 2016-2017 fiscal years.

Contributions from CSLF were also a significant source of funding. Contributions were $4,000,000, $8,000,000 and $1,889,000 for the 2014-2015, 2015-2016 and 2016-2017 fiscal years. The 2014-2015 amount included $2,000,000 for the CHESLA 1990 Trust and $2,000,000 for the scholarship program. The fiscal year 2015-2016 amount included $2,000,000 for the CHESLA 1990 Trust and $6,000,000 for the refinancing program. The fiscal year 2016-2017 amount included $1,889,000 for the scholarship program. CHESLA does not rely on state appropriations for support.

Interest expense was CHESLA's primary expense category. CHESLA's interest expense decreased by $626,000 from $6,690,000 for the 2014-2015 fiscal year to $6,064,000 for the 2015-2016 fiscal year and again by $321,000 to $5,743,000 for the 2016-2017 fiscal year. The decreases were attributable to reductions in the principal balance of outstanding debt.

The revenues, expenses, and changes in net position of CSLF as of June 30, 2015, 2016 and 2017, and for the years then ended, per the management discussion and analysis reported with CHEFA's audited financial statements are presented below (amounts expressed in thousands):

	June 30		
	2015	**2016**	**2017**
Operating Revenues:			
Interest on loans	$ 11,586	$ 10,749	$ 10,224
Non-for-Profit Servicing	183	176	188
Other Revenues	9		
Total Operating Revenues	11,778	10,925	10,412
Operating Expenses:			
Interest Expense	4,256	3,974	4,493
General and Administrative Expenses	307	295	258
Loan Service Fees	1,453	1,192	1,003
Consolidation Rebate Fees	2,013	1,797	1,604
Contracted Services	587	517	503
Provision for loan losses	150	100	
Total Operating Expenses	8,766	7,875	7,861
Total Operating Income	3,012	3,050	2,551
Non-operating Activity:			
Investment Income	69	29	37
Payment to State	(25,000)		
Contribution Revenue (Expense)	(4,000)	(9,889)	(2,000)
Special Item	1,259		
Change in Net Position	**$ (24,660)**	**$ (6,810)**	**$ 588**

CSLF's primary source of revenue is interest on loans. These interest revenues decreased by $837,000 from $11,586,000 for the 2014-2015 fiscal year to $10,749,000 for the 2015-2016 fiscal year. They decreased again by $525,000 to $10,224,000 for the 2016-2017 fiscal year. The decreases reflect the decrease in the loan balances and the fact that CSLF is no longer issuing new loans.

This revenue source is variable in nature. Interest rates for student borrowers in the CSLF portfolio are fixed but lender yields are limited and vary as Congress and market conditions dictate. Loan interest revenue calculated to be in excess of congressionally established levels (excess yield) is paid to the U.S. Department of Education. CSLF payments to the U.S. Department of Education relating to excess yield were $7,800,000, $7,120,000 and $5,381,000 for the 2014-2015, 2015-2016 and 2016-2017 fiscal years.

General economic conditions have a smaller impact on CSLF. CSLF made most of its loans under the Federal Family Education Loan Program. In effect, these loans were underwritten and guaranteed by the federal government. Loan defaults and the resulting claim payments merely accelerate repayment of the loan portfolio. Additionally, interest rate risk is minimized as both the loan portfolio and the outstanding bonds have variable interest rates tied to market rates.

Operating expenses decreased by $891,000 from $8,766,000 for the 2014-2015 fiscal year to $7,875,000 for the 2015-2016 fiscal year. They decreased again, slightly, by $14,000 to $7,861,000 for the 2016-2017 fiscal year. The largest expense was for interest expense on the Auction Rate Certificates (ARC) issued to raise money to make or acquire student loans. The interest rate on the ARC is variable and auctioned every twenty-eight days. Due to the continued failure of the auctions, all investors are being paid at Treasury-Bill plus 1.20%, the maximum rate defined in the indenture based upon the current ratings of the bonds.

In the 2014-2015 fiscal year, Public Act 14-47 required the transfer of $25,000,000 to the state to fund certain separately administered higher education programs. No such transfers were required during the 2015-2016 and 2016-2017 fiscal years.

Contributions to CHESLA were $4,000,000, $9,889,000 and $2,000,000 for the 2014-2015, 2015-2016 and 2016-2017 fiscal years. These numbers differ from those shown in the preceding schedule of revenues, expenses, and changes in net position of CHESLA because of timing differences. CHESLA recorded amounts of $1,889,000 and $2,000,000 received from CSLF during the 2015-2016 and 2016-2017 fiscal years as deferred inflows, postponing the recognition of these amounts as revenue until the following years.

The consolidating financial position of CHEFA, CHESLA and CSLF as of June 30, 2017 per CHEFA's audited financial statements is presented below (amounts expressed in thousands):

	Primary Government CHEFA	Component Units CHESLA	Component Units CSLF	TOTAL
Assets				
Current Assets:				
Unrestricted Assets:				
Cash	$ 767	$ 1,362	$ 598	$ 2,727
Investments	7,588	2,835		10,423
Accounts Receivable, Net	87		16	103
Related Parties Receivables, Net	31			31
Prepaid Expenses and Other Assets	64	71	1	136
Total Unrestricted Assets	8,537	4,268	615	13,420
Restricted Assets:				
Investments:				
Institutions	216,998			216,998
Bond Indenture Trusts		40,275	9,958	50,233
Other		3,785		3,785
Loans Receivable, Current, Net		20,755	15,911	36,666
Interest Receivable on Investments		134		134
Loan Interest Receivable		416	4,129	4,545
Total Restricted Assets	216,998	65,365	29,998	312,361
Total Current Assets	225,535	69,633	30,613	325,781
Non-current Assets:				
Unrestricted Assets:				
Capital Assets, Net	81			81
Restricted Assets:				
Restricted Investments	6,845	21,416		28,261
Loans Receivable, Non-Current		100,036	228,106	328,142
Total Non-current Assets	6,926	121,452	228,106	356,484
Total Assets	**$ 232,461**	**$ 191,085**	**$ 258,719**	**$ 682,265**
Liabilities and Net Position				
Current Liabilities:				
Accounts Payable	$ 17	$ 63	$ 47	$ 127
Accrued Expenses	162	10	66	238
Amounts held for Institutions	216,998			216,998
Accrued Interest Payable		807		807
U.S. Department of Education Payable			1,001	1,001
Trust Estate Payable			284	284
Bonds Payable, Current		10,000		10,000
Total Current Liabilities	217,177	10,880	1,398	229,455
Non-current Liabilities:				
Bonds Payable, Non-Current		150,702	231,508	382,210
Amount held on behalf of the State of CT	2,176			2,176
Total Non-current Liabilities	2,176	150,702	231,508	384,386
Total Liabilities	219,353	161,582	232,906	613,841
Net Position:				
Net Investment on Capital Assets	81			81
Restricted	4,563	19,076	6,381	30,020
Unrestricted	8,464	8,427	19,432	36,323
Total Net Position	13,108	27,503	25,813	66,424
Total Liabilities and Net Position	**$ 232,461**	**$ 191,085**	**$ 258,719**	**$ 682,265**

A summary of the components of the net position of CHEFA, CHESLA and CSLF as of June 30, 2017 per CHEFA's audited financial statements is presented below (amounts expressed in thousands):

	Primary Government	Component Units		
	CHEFA	**CHESLA**	**CSLF**	**TOTAL**
Invested in Capital Assets	$ 81	$	$	$ 81
Restricted:				
Child care facilities loan program	4,320			4,320
Student loan guarantee program	243			243
Bond funds		19,076		19,076
Trust Estate			6,381	6,381
Total Restricted	4,563	19,076	6,381	30,020
Unrestricted	8,464	8,427	19,432	36,323
Total Net Position	**$ 13,108**	**$ 27,503**	**$ 25,813**	**$ 66,424**

Changes in CHESLA and CSLF Bonds Payable

Changes in CHESLA and CSLF bonds payable for the fiscal year 2016-2017 per CHEFA's audited financial statements is presented below (amounts expressed in thousands):

	BALANCES AT 7/1/2016	**INCREASES**	**DECREASES**	**BALANCES AT 6/30/17**	**CURRENT PORTION**
CHESLA					
Principal	$ 152,785	$ 27,880	$ 23,200	$ 157,465	$ 10,000
Premiums	2,999	1,132	154	3,977	
Discounts	(804)		(64)	(740)	
Total CHESLA	**$ 154,980**	**$ 29,012**	**$ 23,290**	**$ 160,702**	**$ 10,000**
CSLF					
Principal	$ 274,800	$	$ 42,750	$ 232,050	$
Discounts	(710)		(168)	(542)	
Total CSLF	**$ 274,090**	**$**	**$ 42,582**	**$ 231,508**	**$**

CHEFA Bonds Issued

The total outstanding principal balances of CHEFA special obligation bonds were $8,412,187,000, $8,314,847,000 and $8,219,002,000 as of June 30, 2015, 2016 and 2017. 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 CHEFA and do not constitute obligations of CHEFA. CHEFA is indemnified under the terms of the bond agreements. Legal costs related to the issuances are obligations of the borrowers.

A breakdown of the outstanding bonds as of June 30, 2016 and 2017 per the CHEFA audited financial statements is presented below (amounts expressed in thousands):

	June 30	
	2016	**2017**
Assisted Living Facilities	$ 15,295	$ 14,890
Charter Schools	4,948	4,849
Child Care Facilities	55,960	53,580
Continuing Care Retirement Community	199,281	215,690
Cultural / Educational	11,650	11,349
Family Services	8,881	8,447
Higher Education	4,565,003	4,518,697
Hospitals	2,735,653	2,649,633
Human Services	8,865	8,685
Independent Living	12,000	30,920
Independent Schools	630,805	638,430
Nursing Homes	36,441	34,737
YMCA / YWCA	30,065	29,095
Total Bonds Outstanding	**$ 8,314,847**	**$ 8,219,002**

CSLF Loan Portfolio

CSLF made loans to students from bond proceeds until 2010. The foundation's portfolio consisted of loans that originated from the Federal Family Education Loan Program (FFELP) and the foundation's Solutions Alternative Loan Program. FFELP loans are student loans insured by the U.S. Department of Education. These loans are repaid by borrowers on a monthly basis for a term of up to 30 years. The interest rate on these loans varies and ranges from approximately 1% to 12%. Alternative loans are student loans that are not insured by the U.S. Department of Education. These loans are repaid monthly over a period of years ranging from 10 to 30 years and the interest rate varies.

A summary of CSLF loan portfolio assets at June 30, 2016 and June 30, 2017 per the CHEFA audited financial statements, is presented below (amounts expressed in thousands):

	June 30, 2016			June 30, 2017		
	FFELP	**ALTERNATIVE**	**TOTAL**	**FFELP**	**ALTERNATIVE**	**TOTAL**
Current Portion	$ 18,615	$ 395	$ 19,010	$ 15,562	$ 349	$ 15,911
Long-Term Portion	260,148	6,222	266,370	223,785	5,198	228,983
Less Allowance	(641)	(481)	(1,122)	(569)	(308)	(877)
Net Long-Term Portion	259,507	5,741	265,248	223,216	4,890	228,106
Total Net Receivables	**$ 278,122**	**$ 6,136**	**$ 284,258**	**$ 238,778**	**$ 5,239**	**$ 244,017**

Staffing Levels

CHEFA had 20, 18 and 19 employees as of June 30, 2015, 2016 and 2017. CHESLA had 2 employees as of as of June 30, 2015, 2016 and 2017. The CHESLA executive director is also a CHEFA employee and is only included in the CHEFA employee count. CSLF had no employees; its day to day business activities and financial records are managed by an administrative agent, with the exception of the CSLF accounting that transitioned to CHEFA accounting staff as of January 1, 2018.

Other Audits and Engagements

An independent public accounting firm performed audits of the authority's financial statements for the 2015-2016 and 2016-2017 fiscal years. Those audits reported that the financial statements presented fairly, in all material respects, the financial position of the business-type activities and discreetly presented component units of the authority for the audited periods, and the respective changes in financial position and, where applicable, cash flows thereof for the periods in accordance with accounting principles generally accepted in the United States of America.

As an integral part of their financial statement audits, the independent public accounting firm also provided reports on internal control over financial reporting and compliance. The reports on internal control over financial reporting disclosed no deficiencies in internal control that were considered to be material weaknesses. The reports on compliance with certain laws, regulations, contracts and grant agreements disclosed no instances of noncompliance.

On May 17, 2017, CHEFA engaged an independent public accounting firm to perform several internal audit consulting services regarding CSLF's internal controls over bond redemptions, the Child Care Loan Program, and wire transfers. Conditions noted included the following:

- Bond redemptions, and bank account reconciliations performed by the CSLF administrative agent were not reviewed by a second person. This condition was addressed when CSLF accounting transitioned from the administrative agent to CHEFA accounting staff effective January 1, 2018.

- The Child Care Loan Program, and recipient loan amounts under the tax-exempt program were not being reported to the Office of Early Childhood as required. Additionally, the review of quarterly reports and supporting documentation submitted to the Office of Early Childhood was not documented. CHEFA agreed to implement the consultant's recommendations to report the tax-exempt program loan balances and document the review.

- CHEFA did not prepare and review wire transfers and bank account reconciliations on a timely basis. CHEFA did not prepare and review bank account reconciliations for the entire 2016-2017 fiscal until July 2017. CHEFA agreed to prepare and review bank account reconciliations on a timely basis.

The independent public accounting firm performed 3 assessments of the CHEFA information technology infrastructure related to security, network, and Microsoft Exchange. The review identified potential risks and/or issues. A CHEFA representative stated that it made all the necessary security changes related to end users, and conducted cybercrime training for all staff.

STATE AUDITORS' FINDINGS AND RECOMMENDATIONS

There were no findings and recommendations developed as a result of this audit.

RECOMMENDATIONS

Our prior audit report on the authority contained 2 recommendations for improving operations, neither of which were repeated in the current audit report. Our current audit report does not present any recommendations.

Status of Prior Audit Recommendations:

- **The Connecticut Health and Educational Facilities Authority should follow its short-term disability policy and procedures regarding use of sick and vacation time to ensure that employees are using only earned leave time.** The authority took corrective action. Therefore, this recommendation is not being repeated.

- **CHEFA should strengthen internal controls to ensure that final projects reports are obtained within 60 days of the grant period end.** The authority took corrective action. Therefore, this recommendation is not being repeated.

Current Audit Recommendations and Findings:

There were no findings and recommendations developed as a result of this audit.

CONCLUSION

In conclusion, we wish to express our appreciation for the cooperation and courtesies extended to our representatives by the staff of the Connecticut Health and Educational Facilities Authority, Connecticut Higher Education Supplemental Loan Authority, and Connecticut Student Loan Foundation during the course of our examination.

Natercia Freitas
Principal Auditor

Approved:

John C. Geragosian
State Auditor

Robert J. Kane
State Auditor