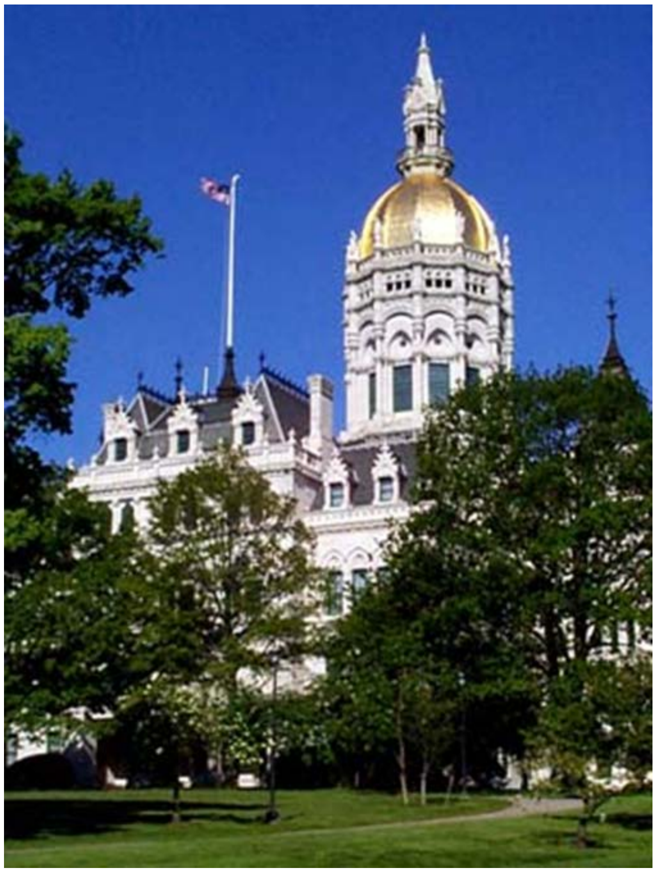
STATE OF CONNECTICUT



AUDITORS' REPORT

CONNECTICUT HEALTH AND EDUCATIONAL FACILITIES AUTHORITY
CONNECTICUT HIGHER EDUCATION SUPPLEMENTAL LOAN AUTHORITY
CONNECTICUT STUDENT LOAN FOUNDATION
CHEFA COMMUNITY DEVELOPMENT CORPORATION
FISCAL YEARS ENDED JUNE 30, 2018 AND 2019

AUDITORS OF PUBLIC ACCOUNTS

JOHN C. GERAGOSIAN ❖ ROBERT J. KANE

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July 14, 2020

EXECUTIVE SUMMARY

In accordance with the provisions of Sections 1-122 and 2-90 of the Connecticut General Statutes, we have audited certain operations of the Connecticut Health and Educational Facilities Authority (CHEFA), Connecticut Higher Education Supplemental Loan Authority (CHESLA), Connecticut Student Loan Foundation (CSLF), and CHEFA Community Development Corporation (CHEFA CDC). The objectives of this review were to evaluate the department's internal controls; compliance with policies and procedures, as well as certain legal provisions; and management practices and operations for the fiscal years ended June 30, 2018 and 2019.

A key finding and recommendation is presented below:

Page 19	The Connecticut Health and Educational Facilities Authority (CHEFA), the Connecticut Higher Education Supplemental Loan Authority (CHESLA), and the Connecticut Student Loan Foundation (CSLF) did not submit 12 quarterly reports to the General Assembly's Office of Fiscal Analysis in a timely manner. CHEFA submitted 2 reports between 4 and 6 months after the quarters ended, CHESLA submitted 3 reports between 4 and 9 months after the quarters ended, and CSLF submitted 7 reports between 4 and 21 months after the quarters ended. The Connecticut Health and Educational Facilities Authority, Connecticut Higher Education Supplemental Loan Authority, and Connecticut Student Loan Foundation should submit statutorily required reports in a timely manner. (Recommendation 1.)

STATE OF CONNECTICUT

AUDITORS OF PUBLIC ACCOUNTS

JOHN C. GERAGOSIAN

State Capitol
210 Capitol Avenue
Hartford, Connecticut 06106-1559

ROBERT J. KANE

July 14, 2020

AUDITORS' REPORT

We have audited certain operations of the Connecticut Health and Educational Facilities Authority (CHEFA), Connecticut Higher Education Supplemental Loan Authority (CHESLA), Connecticut Student Loan Foundation (CSLF), and CHEFA Community Development Corporation (CHEFA CDC) 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, 2018 and 2019.

Throughout this audit report, CHEFA, CHESLA, CSLF, and CHEFA CDC 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; 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. Deficiencies in internal controls;

2. Apparent noncompliance with policies and procedures or legal provisions; and

3. No need for improvement in management practices and procedures that we deemed to be reportable.

The State Auditors' Findings and Recommendations in the accompanying report presents any findings arising from our audit of the Connecticut Health and Educational Facilities Authority, Connecticut Higher Education Supplemental Loan Authority, Connecticut Student Loan Foundation, and CHEFA Community Development Corporation.

COMMENTS

FOREWORD

CHEFA

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

CHEFA is a conduit issuer of tax-exempt bonds issued on behalf of non-profit healthcare institutions, higher education institutions and independent schools, childcare facilities, long-term care facilities, cultural institutions, and various other qualified non-profit entities. These institutions are financially responsible for their tax-exempt bonds, except for bonds issued under the Child Care Facilities Loan Program and bonds backed by special capital reserve funds. The bonds can provide funds for construction and renovation projects, the refinancing of eligible existing debt, funding of debt service reserve funds, and funding of issuance costs. CHEFA also provides other financial assistance to qualified non-profit institutions in the form of loans and grants.

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 may also issue bonds for clinical services projects for the University of Connecticut Health Center, and up to $100 million to finance equipment acquisitions by hospitals. The state is obligated to replenish the funds, if necessary, to restore the minimum capital reserve. As of June 30, 2019, that has not been necessary. The state's contingent liability related to these special capital reserve funds totaled $318,690,000 and $351,690,000 as of June 30, 2018 and 2019, respectively.

CHEFA primarily generates revenue from administrative fees charged to the conduit borrowers on its portfolio of bonds. As a result, CHEFA's 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 other obligations for any of its corporate purposes and to fund and refund the same. Interest on CHEFA-issued bonds is generally exempt from federal income tax to the bondholder.

CHESLA

The Connecticut Higher Education Supplemental Loan Authority (CHESLA) is a quasi-public agency that operates primarily under the provisions of Chapter 187b of the General Statutes. Section 10a-179a constitutes CHESLA as a subsidiary of CHEFA. 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 issues tax-exempt bonds, supported by special capital reserve funds, in order to fund student loans for the higher education of students in or from the state meeting certain eligibility criteria. CHESLA repays its bonds using student loan repayments.

Pursuant to Section 10a-232 of the General Statutes, CHESLA may 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, 2019, that has not been necessary. The state's contingent liability related to these special capital reserve funds totaled $147,810,000 and $171,570,000 as of June 30, 2018 and 2019, respectively.

CSLF

Chapter 187a of the General Statutes established the Connecticut Student Loan Foundation (CSLF) as a chartered nonprofit corporation for the purpose of improving educational opportunity by originating and acquiring student loans and providing related services. CSLF consolidated as a subsidiary of CHEFA, effective July 1, 2014.

CSLF ceased serving as a 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 of directors, CSLF can transfer funds to CHESLA to provide financial aid to students.

CSLF does not have any employees. An administrative agent manages CSLF's day-to-day business activities and financial records, with the exception of CSLF accounting, which transitioned to CHEFA accounting staff as of January 1, 2018.

CHEFA CDC

Pursuant to Section 10a-179(k) of the General Statutes, CHEFA incorporated CHEFA Community Development Corporation (CHEFA CDC) as a subsidiary of CHEFA and as a quasi-public agency of the state, effective February 20, 2019. CHEFA CDC's primary activity is to provide financial assistance to institutions of higher education, healthcare institutions, nursing homes, and qualified non-profit organizations in low-income communities in the state. Acting as a certified community development entity, CHEFA CDC will distribute tax credits through a competitive application process in accordance with the federal New Markets Tax Credit Program.

BOARDS, COMMITTEES, AND ADMINISTRATIVE OFFICIALS

CHEFA Board of Directors

In accordance with 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 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 one appointed member shall be a person having a favorable reputation for skill, knowledge, and experience in state and municipal finance.

As of June 30, 2019, the CHEFA board of directors was composed as follows, with one vacancy:

Ex-Officio Members:

Melissa McCaw	Secretary, Office of Policy and Management
Shawn T. Wooden	State Treasurer

Appointed Members:

Dr. Peter W. Lisi	Chair
Michael Angelini	Vice-Chair
Elizabeth C. Hammer	

Barbara B. Lindsay, Esq.
Dr. Estela R. Lopez
Barbara Rubin
Mark Varholak

Benjamin B. Barnes, John M. Biancamano, Patrick A. Colangelo, and Denise L. Nappier 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, the president of the Board of Regents for Higher Education, the chairperson of the CHEFA board of directors, the executive director of CHEFA, and 4 state residents appointed by the CHEFA board of directors. Of the 4 appointed members, 2 must be active or retired trustees, directors, officers, or employees of a Connecticut institution for higher education; one must have a favorable reputation for skill, knowledge, and experience in the higher education loan field; and one must have a favorable reputation for skill, knowledge, and experience in either the higher education loan field or in state and municipal finance. Not more than 2 of the appointed members may be 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, 2019, the CHESLA board of directors was composed as follows, with one vacancy:

Ex-Officio Members:

Melissa McCaw	Secretary, Office of Policy and Management
Mark E. Ojakian	President, Board of Regents for Higher Education
Shawn T. Wooden	State Treasurer

Appointed Members:

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

Benjamin B. Barnes, Paul H. Mounds, Jr., and Denise L. Nappier 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.

CHEFA CDC Board of Directors

CHEFA CDC operates under a board of directors consisting of 3 to 20 members. Pursuant to Section 10a-179(k), at least one-half of the members must be members of the CHEFA board of directors, or their designees, or officers or employees of CHEFA.

As of June 30, 2019, the CHEFA CDC board of directors was composed as follows:

Ex-Officio Members:

Melissa McCaw	Secretary, Office of Policy and Management
Shawn T. Wooden	State Treasurer

Appointed Members:

Dr. Peter W. Lisi	Chair
Michael Angelini	Vice-Chair
Elizabeth C. Hammer	
Barbara B. Lindsay, Esq.	
Dr. Estela R. Lopez	
Barbara Rubin	
Mark Varholak	

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.

CHEFA CDC Advisory Board

As a certified community development entity, CHEFA CDC must maintain accountability to residents of the low-income communities it serves. To satisfy this requirement, CHEFA CDC maintains an advisory board consisting of 3 to 15 members that either are residents in low-income communities or otherwise represent the interests of residents in low-income communities. The purpose of the advisory board is to advise and make recommendations to the board of directors with respect to strategies and projects undertaken by CHEFA CDC. The advisory board serves solely in an advisory capacity and has no authority to take any action on behalf of the corporation.

Administrative Officials

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

SIGNIFICANT LEGISLATION

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

- **Public Act 19-83 –** This act, effective July 1, 2019, allows CHEFA and CHESLA to each obtain an insurance policy or policies in lieu of a surety bond to cover the authority if certain individuals fail to faithfully perform their duties.

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 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 50 years. CHEFA can finance an institution's capital projects and related costs, so long as the project relates to the institution's tax-exempt purpose. 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 31 bonds, totaling $1,365,548,000, during the audited period.

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. CHEFA issued 2 EasyLoans, totaling $5,307,000, during the audited period.

Child Care Facilities Loan Fund

CHEFA may issue Child Care Facilities Bonds and loan the proceeds to various entities to finance childcare facilities. The State Treasurer makes debt service payments 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. There are three programs under the Child Care Facilities Loan Fund, including the Tax-Exempt Financing Program, Guaranteed Loan Program, and Small Direct Loan Program.

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

The Guaranteed Loan Program 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 childcare centers. CHEFA is responsible for guaranteeing 20% to 50% of each loan outstanding. The program is currently closed to new applicants. There were no loan defaults during the audited period.

The Small Direct Loan Program provides loans for pre-development, minor renovations, equipment, or start-up costs for home-based care. CHEFA guarantees 80% of the outstanding principal amount of the loan. Connecticut Community Investment Corporation (CTCIC) administers the program. The program issued 2 loans, totaling $50,000, during the audited period.

Grant Programs

CHEFA administers three grant programs, including the Client Grant Program, Nonprofit Grant Program, and Targeted Grant Program.

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. CHEFA accepts applications once a year and awards grants of $75,000 or less. CHEFA awarded 33 client grants, totaling $2,035,646, during the audited period.

Grants under the Nonprofit Grant Program are available to any nonprofit organization that is not currently a client of CHEFA. CHEFA awards grants of up to $75,000 once a year. Grants are strictly limited to capital purchases, capital projects, programmatic support, and in extraordinary circumstances operating funds, for childcare, cultural, educational, food insecurity, and healthcare organizations. CHEFA awarded 50 nonprofit grants, totaling $2,957,236, during the audited period.

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 two years. CHEFA awarded 2 targeted grants, totaling $750,000, during the audited period.

CHESLA Programs

In-School Student Loan Program

CHESLA's in-school fixed rate loans are available to qualifying students who attend eligible higher education institutions in Connecticut and 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 funded new in-school loans, net of returns, of $47,057,000 during the audited period.

Refi CT

The CHESLA board approved a pilot refinance program, Refi CT, on May 1, 2016. Refi CT is available to Connecticut residents and non-residents who are refinancing a CHESLA loan. Loans range from $5,000 to $100,000 for terms of 5, 10, or 15 years. The interest rate on these loans ranges from approximately 4.5% to 7.0% depending on the term of the loan and the credit score of the borrower. CHESLA funded new Refi CT loans, net of returns, of $6,221,000 during the audited period.

Need-Based Scholarship Program

On June 9, 2015, the CHESLA board of directors approved and created the CHESLA Need-Based Scholarship Program, which CSLF primarily funds through transfers to CHESLA. The program provides scholarships to undergraduate students in need of assistance. CHESLA distributed $3,992,900 in scholarships to 2,155 students during the audited period.

CSLF Programs

CSLF was established to improve educational opportunity by providing or guaranteeing loans under the Federal Family Education Loan Program (FFELP) 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 may use its funds to support CHESLA financial aid programs.

CHEFA CDC Programs

New Markets Tax Credits Program

The Community Renewal Tax Relief Act of 2000 established the New Markets Tax Credits Program with the primary goal of economic development directed towards low-income residents and low-income communities. The federal government certified CHEFA CDC as a community development entity (CDE) on June 21, 2019. As a CDE, the U.S. Treasury has authorized CHEFA CDC to allocate available new markets tax credits to non-profits that have a significant impact on Connecticut's low-income communities. Non-profits will be able to use the tax credits to attract private investment in their capital projects. CHEFA CDC applied for a $70 million new markets tax credit allocation in October 2019, and plans to award tax credits through a competitive application process during the fiscal year ending June 30, 2021.

RÉSUMÉ OF OPERATIONS

CHEFA

Statement of Net Position

The financial position of CHEFA (including CHEFA CDC) as of June 30, 2017, 2018, and 2019, per the financial statements audited by an independent public accounting firm, is presented below (amounts expressed in thousands):

	June 30,		
	2017	**2018**	**2019**
Current and Other Assets	$232,380	$244,119	$226,948
Capital Assets (net)	81	106	223
Total Assets	232,461	244,225	227,171
Assets Held on Behalf of the State of Connecticut	2,176	2,170	2,165
Other Liabilities	217,177	228,062	210,543
Total Liabilities	219,353	230,232	212,708
Net Investment in Capital Assets	81	106	223
Restricted	4,563	4,487	4,448
Unrestricted	8,464	9,400	9,792
Total Net Position	**$13,108**	**$13,993**	**$14,463**

CHEFA's assets exceeded liabilities as of June 30, 2018 and 2019. Net position increased by $885,000 in the 2017-2018 fiscal year and by $470,000 in the 2018-2019 fiscal year. Net investment in capital assets increased by $25,000 in the 2017-2018 fiscal year and by $117,000 in the 2018-2019 fiscal year due to capital asset purchases related to office equipment and a network infrastructure project.

Statement of Changes in Net Position

The revenues, expenses, and changes in net position of CHEFA (including CHEFA CCDC) for the fiscal years ended June 30, 2017, 2018, and 2019, per the financial statements audited by an independent public accounting firm, are presented below (amounts expressed in thousands):

	June 30,		
	2017	**2018**	**2019**
Operating Revenues:			
Administrative Fees	$7,458	$7,463	$7,488
Supporting Services Fees	234	282	282
Bond Issuance Fees	60	59	45
Other Revenues	41	153	3
Total Operating Revenues	7,793	7,957	7,818
Operating Expenses:			
Salaries and Related Expenses	2,777	2,807	2,943
General and Administrative	545	545	611
Contracted Services	129	133	267
Total Operating Expenses	3,451	3,485	3,821
Total Operating Income (Loss)	4,342	4,472	3,997
Non-Operating Revenues (Expenses):			
Investment Income	84	192	330
Payment to State	(4,375)	(900)	(900)
Grants and Childcare Subsidy Expense	(1,226)	(2,879)	(2,957)
Total Non-Operating Income (Expense)	(5,517)	(3,587)	(3,527)
Change in Net Position	**($1,175)**	**$885**	**$470**

CHEFA charges borrowers for administration and application fees. The fee charged is a board-approved administrative fee of 9 basis points annually on the outstanding balance of bonds. Administrative fees are the largest revenue source and represent 93.8% and 95.8% of total revenues for the fiscal years ended June 30, 2018 and 2019, respectively. The increase in administrative fees is due to the change in the par value of loans outstanding.

Salaries and related expenses account for 80.6% and 77% of CHEFA's operating expenses for the fiscal years ended June 30, 2018 and 2019, respectively. The remaining balance includes general and administrative expenses and contracted services. CHEFA CDC's expenses amounted to $107,000 for the 2018-2019 fiscal year.

CHEFA's non-operating expenses totaled $3,587,000 and $3,527,000 for the fiscal years ended June 30, 2018 and 2019, respectively. Annual payments of $900,000 made to the state in the 2017-

2018 and 2018-2019 fiscal years offset the increases in investment income. Additionally, grant and childcare subsidy expense increased by $1,653,000 in the 2017-2018 fiscal year. This was primarily due to CHEFA releasing $788,000 in 2016-2017 grants in the 2017-2018 fiscal year.

Bonds Outstanding

As of June 30, 2018 and 2019, CHEFA had total outstanding principal balances of special obligations bonds of $8,349,699,000 and $8,408,386,000, respectively. A breakdown of the outstanding bonds by sector as of June 30, 2018 and 2019, per the financial statements audited by an independent public accounting firm, is presented below (amounts expressed in thousands):

	June 30,	
	2018	**2019**
Childcare	$53,765	$48,600
Connecticut State University System	318,690	351,690
Higher Education	4,484,406	4,468,308
Hospitals	2,530,442	2,385,556
Social and Other	59,549	74,978
Independent Schools	626,499	678,779
Senior Living	276,348	400,475
Total Bonds Outstanding	**$8,349,699**	**$8,408,386**

During the 2017-2018 fiscal year, CHEFA had 18 issues of new conduit debt totaling $947,000,000 in par value, of which 50.9% was the refinancing of pre-existing debt. During the 2018-2019 fiscal year, CHEFA had 13 new issues of new conduit debt totaling $418,445,000 in par value, of which 35.2% was the refinancing of pre-existing debt.

CHESLA

Statement of Net Position

The financial position of CHESLA as of June 30, 2017, 2018, and 2019, per the financial statements audited by an independent public accounting firm, is presented below (amounts expressed in thousands):

	June 30,		
	2017	**2018**	**2019**
Current and Other Assets	$191,085	$182,470	$212,005
Capital Assets (net)	-	3	3
Total Assets	191,085	182,473	212,008
Long-Term Liabilities Outstanding	160,702	151,965	176,543
Other Liabilities	880	843	1,070
Total Liabilities	161,582	152,808	177,613

Deferred Inflows of Resources	2,000	7	1,507
Total Liabilities and Deferred Inflows of Resources	163,582	152,815	179,120
Net Invested in Capital Assets	-	3	3
Restricted	19,076	18,087	26,471
Unrestricted	8,427	11,568	6,414
Total Net Position	**$27,503**	**$29,658**	**$32,888**

Assets exceeded liabilities as of June 30, 2018 and 2019. Due to the nature of operations, a significant portion of net position is subject to bond resolution restrictions. CHESLA's restricted net position was 60.99% and 80.49% and unrestricted net position was 39% and 19.5% as of June 30, 2018 and 2019, respectively. CHESLA's unrestricted net position consists primarily of board-designated assets for the refinance and scholarship programs.

Statement of Changes in Net Position

The revenues, expenses, and changes in net position of CHESLA for the fiscal years ended June 30, 2017, 2018, and 2019, per the financial statements audited by an independent public accounting firm, are presented below (amounts expressed in thousands):

	June 30,		
	2017	**2018**	**2019**
Operating Revenues:			
Interest Income on Loans Receivable	$7,433	$7,333	$7,433
Administrative Fees	655	669	738
Contributions from CSLF	1,889	3,993	4,000
Other Revenues	-	32	-
Total Operating Revenues	9,977	12,027	12,171
Operating Expenses:			
Interest Expense	5,743	5,994	5,898
Salaries and Related Expenses	217	137	184
General and Administrative	541	565	631
Refinance Program	201	40	53
Scholarships	1,887	1,993	2,000
Loan Service Fees	574	598	565
Contracted Services	37	39	51
Bond Issuance Costs	555	709	825
Provision for Loan Losses	73	581	660
Total Operating Expenses	9,828	10,656	10,867
Total Operating Income (Loss)	149	1,371	1,304

Non-Operating Revenues (Expenses):			
Investment Income	283	784	1,926
Change in Net Position	**$432**	**$2,155**	**$3,230**

Origination fees and the interest charged on education loans are the largest revenue source for CHESLA and represent 61% and 61.1% of total revenues for the fiscal years ended June 30, 2018 and 2019, respectively. CHESLA also received $3,993,000 and $4,000,000 in contributions from CSLF for the student loan and scholarship programs in the 2017-2018 and 2018-2019 fiscal years, respectively.

CHESLA's largest expense was for interest payments on debt, which totaled $5,994,000 and $5,898,000 for the fiscal years ended June 30, 2018 and 2019, respectively. The 2% decrease in interest expense during the 2018-2019 fiscal year is due to the change in the principal balance of outstanding debt, the issuance of new bonds, and the early redemption of bonds in September 2018.

Non-operating investment income increased by $501,000 and $1,142,000 in the 2017-2018 and 2018-2019 fiscal years, respectively. This is primarily due to the increase in market value of the Treasury notes held in the Special Capital Reserve Fund investment accounts of the 2009A and 2010A bond issues in addition to an increase in interest rates.

Bonds Payable

The bonds payable for CHESLA as of June 30, 2017, 2018, 2019, per the financial statements audited by an independent public accounting firm, are presented below (amounts expressed in thousands):

	June 30,		
	2017	**2018**	**2019**
Revenue Bonds	$157,465	$147,810	$171,570
Premiums / Discounts	3,237	4,155	4,973
Total Bonds Payable	**$160,702**	**$151,965**	**$176,543**

The decrease in the principal revenue bonds outstanding as of June 30, 2018 is a result of new issuances, totaling $20,455,000, net of the refunding of the 2007A bonds of $13,490,000, and early redemptions of $16,620,000. The increase in the principal revenue bonds outstanding as of June 30, 2019 is a result of new issuances, totaling $40,550,000, and redemptions of $16,790,000. CHESLA maintains an "A" rating from Fitch Ratings and an A1 rating from Moody's Investors Service for its state supported revenue bonds.

Loans Receivable

A summary of CHESLA loans receivable as of June 30, 2017, 2018, and 2019, per the financial statements audited by an independent public accounting firm, is presented below (amounts expressed in thousands):

	June 30,		
	2017	**2018**	**2019**
Active Loans	$119,102	$123,599	$130,849
Loans in Collection	1,689	1,603	1,784
Total Loans Receivable (net of allowance for uncollectibles)	**$120,791**	**$125,202**	**$132,633**

CHESLA funded $22,616,000 and $24,441,000 of in-school loans and $2,898,000 and $3,323,000 of Refi CT loans during the 2017-2018 and 2018-2019 fiscal years, respectively. CHESLA wrote off loans receivable of $466,000 and $366,000, which had previously been provided for through the allowance for loan losses, for the fiscal years ended June 30, 2018 and 2019, respectively.

CSLF

Statement of Net Position

The financial position of CSLF as of June 30, 2017, 2018, and 2019, per the financial statements audited by an independent public accounting firm, is presented below (amounts expressed in thousands):

	June 30,		
	2017	**2018**	**2019**
Current and Other Assets	$258,719	$226,083	$193,792
Total Assets	258,719	226,083	193,792
Long-Term Liabilities Outstanding	231,508	199,181	171,302
Other Liabilities	1,398	2,912	734
Total Liabilities	232,906	202,093	172,036
Restricted	6,381	4,693	4,759
Unrestricted	19,432	19,297	16,997
Total Net Position	**$25,813**	**$23,990**	**$21,756**

CSLF's assets exceeded liabilities as of June 30, 2018 and 2019. Due to the nature of CSLF's operations, a portion of net position is subject to bond covenant restrictions. The restricted net position was 19.6% and 21.9% as of June 30, 2018 and 2019, respectively. The remaining portion of net position is unrestricted and represents 80.4% and 78.1% as of June 30, 2018 and 2019, respectively. The decrease in net position during the audited period was due primarily to contributions to CHESLA for the student loan and scholarship programs.

Statement of Changes in Net Position

The revenues, expenses, and changes in net position of CSLF for the fiscal years ended June 30, 2017, 2018, and 2019, per the financial statements audited by an independent public accounting firm, are presented below (amounts expressed in thousands):

	June 30,		
	2017	**2018**	**2019**
Operating Revenues:			
Interest Income on Loans Receivable	$10,224	$10,475	$10,403
Not-for-Profit Servicing Income	188	207	210
Total Operating Revenues	10,412	10,682	10,613
Operating Expenses:			
Interest Expense	4,493	5,626	6,580
General and Administrative	258	262	247
Loan Service Fees	1,003	875	772
Consolidation Rebate Fees	1,604	1,430	1,281
Contracted Services	503	409	222
Provision for Loan Losses	-	-	394
Total Operating Expenses	7,861	8,602	9,496
Total Operating Income (Loss)	2,551	2,080	1,117
Non-Operating Revenues (Expenses):			
Investment Income	37	97	149
Contribution Revenue/Expense	(2,000)	(4,000)	(3,500)
Total Non-Operating Income (Expense)	(1,963)	(3,903)	(3,351)
Change in Net Position	588	(1,823)	($2,234)

Interest income represents the largest operating revenue component for CSLF, accounting for 98.1% and 98% of CSLF's revenues for the fiscal years ended June 30, 2017 and 2018, respectively. CSLF earns interest income, interest subsidies, and special allowance on student loans. These revenue sources are variable in nature and are a direct function of market conditions. Interest income increased during the 2017-2018 fiscal year due to rising rates, and interest income decreased during the 2018-2019 fiscal year due to decreasing loan balances outstanding. CSLF pays loan interest revenue in excess of congressionally established levels to the U.S. Department of Education. CSLF paid $4,529,000 and $1,695,000 to the U.S. Department of Education during the 2017-2018 and 2018-2019 fiscal years, respectively.

CSLF's largest expense is the interest expense on the Auction Rate Certificates (ARCs) issued to raise money or to make or acquire student loans. Such expense represents 65.4% and 69.3% of CSLF's expenses for the 2017-2018 and 2018-2019 fiscal years, respectively. The interest rate on the ARCs is variable and auctioned every 28 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. While interest expense increased during the audited period, loan servicing fees and consolidating rebate fees decreased, reflecting the decrease in the number of loans serviced and the principal balance of federal consolidation loans outstanding.

Fluctuations in non-operating expenses are the result of varying contributions made to CHESLA for the student loan and scholarship programs.

Bonds Payable

The bonds payable for CSLF as of June 30, 2017, 2018, 2019, per the financial statements audited by an independent public accounting firm, are presented below (amounts expressed in thousands):

	June 30,		
	2017	**2018**	**2019**
Revenue Bonds	$232,050	$199,600	$171,625
Premiums / Discounts	(542)	(419)	(323)
Total Bonds Payable	**$231,508**	**$199,181**	**$171,302**

The decrease in bonds payable was due to the redemption of $32,450,000 and $27,975,000 of bonds during the 2017-2018 and 2018-2019 fiscal years, respectively. CSLF maintains an AAA (senior debt) and AA+ (subordinate debt) rating from Standard & Poor's, and an AAA (senior debt) and AA (subordinate debt) rating from Fitch Ratings.

Loans Receivable

A summary of CSLF loans receivable as of June 30, 2017, 2018, and 2019, per the financial statements audited by an independent public accounting firm, is presented below (amounts expressed in thousands):

	June 30,		
	2017	**2018**	**2019**
Federal Family Education Loan Program (FFELP)	$238,778	$207,094	$177,895
Alternative	5,239	4,379	3,249
Total Loans Receivable (net of allowance for uncollectibles)	**$244,017**	**$211,473**	**$181,144**

Federal Family Education Loan Program (FFELP) loans are student loans insured by the U.S. Department of Education. FFELP loans are repaid by borrowers on a monthly basis for a term of up to 30 years at interest rates ranging from approximately 2.875% to 12%. Alternative loans are student loans not insured by the U.S. Department of Education that borrowers repay monthly over a period of 10 to 30 years at varying interest rates.

CSLF wrote off loans receivable of $202,000 and $192,000 for the fiscal years ended June 30, 2018 and 2019, respectively.

STAFFING LEVELS

CHEFA had 19 employees and CHESLA had 3 employees as of June 30, 2018 and 2019. The CHESLA executive director is also a CHEFA employee and is only included in the CHEFA employee count. CSLF and CHEFA CDC had no employees during the audited period.

OTHER AUDITS AND ENGAGEMENTS

Financial Statement Audits

An independent public accounting firm performed audits of the authority's financial statements for the 2017-2018 and 2018-2019 fiscal years. Those audits reported that the financial statements presented fairly, in all material respects, the financial position of the business-type activities and the 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.

Internal Audit Consulting Services

On April 3, 2018, CHEFA engaged an independent public accounting firm to perform several internal audit consulting services regarding bond covenants, tax-exempt equipment loans, travel and expense reimbursements, and human resources and payroll processing. The procedures performed did not constitute an audit made in accordance with auditing standards generally accepted in the United States of America. As a result, the independent public accounting firm did not express an opinion on any of the items specified in their reports to the authority.

STATE AUDITORS' FINDINGS AND RECOMMENDATIONS

Our examination of the records of the Connecticut Health and Educational Facilities Authority, Connecticut Higher Education Supplemental Loan Authority, Connecticut Student Loan Foundation, and CHEFA Community Development Corporation disclosed the following finding and recommendation, which is not repeated from the previous audit:

Untimely Reporting

Criteria:	Section 1-123 of the General Statutes requires quasi-public agencies to submit financial and personnel status reports to the General Assembly's Office of Fiscal Analysis (OFA) on a quarterly basis.
Condition:	The Connecticut Health and Educational Facilities Authority (CHEFA), the Connecticut Higher Education Supplemental Loan Authority (CHESLA), and the Connecticut Student Loan Foundation (CSLF) did not submit 12 quarterly reports to OFA in a timely manner. CHEFA submitted 2 reports between 4 and 6 months after the quarters ended, CHESLA submitted 3 reports between 4 and 9 months after the quarters ended, and CSLF submitted 7 reports between 4 and 21 months after the quarters ended.
Context:	During the audited period, CHEFA, CHESLA, and CSLF each submitted 8 quarterly reports to OFA. We reviewed all 24 quarterly reports.
Effect:	Untimely reporting limits the state's monitoring function over quasi-public agencies.
Cause:	This appears to be the result of limited staffing and a lack of management oversight.
Prior Audit Finding:	This finding has not been previously reported.
Recommendation:	The Connecticut Health and Educational Facilities Authority, Connecticut Higher Education Supplemental Loan Authority, and Connecticut Student Loan Foundation should submit statutorily required reports in a timely manner. (See Recommendation 1.)
Agency's Response:	"The OFA reports have been fully integrated within regular financial reporting processes. The reports are now formula driven and readily available for filing (once the quarterly financials receive board approval). All report creation has been successfully delegated to accounting staff, with management distributing the reports to OFA. A new procedure has also been put in place raising oversight to the officer

level for CHEFA and each subsidiary. All reports for the quarter ending December 31, 2019 were submitted timely in early March 2020 after board approval at the regularly scheduled meetings in February 2020. It is anticipated that reporting will continue to be timely going forward based on changes now in place."

RECOMMENDATIONS

Status of Prior Audit Recommendations

Our prior audit report on the Connecticut Health and Educational Facilities Authority, Connecticut Higher Education Supplemental Loan Authority, Connecticut Student Loan Foundation, and CHEFA Community Development Corporation contained no recommendations.

Current Audit Recommendations

1. **The Connecticut Health and Educational Facilities Authority, Connecticut Higher Education Supplemental Loan Authority, and Connecticut Student Loan Foundation should submit statutorily required reports in a timely manner.**

   Comment:

   The Connecticut Health and Educational Facilities Authority (CHEFA), the Connecticut Higher Education Supplemental Loan Authority (CHESLA), and the Connecticut Student Loan Foundation (CSLF) did not submit 12 quarterly reports to the General Assembly's Office of Fiscal Analysis in a timely manner. CHEFA submitted 2 reports between 4 and 6 months after the quarters ended, CHESLA submitted 3 reports between 4 and 9 months after the quarters ended, and CSLF submitted 7 reports between 4 and 21 months after the quarters ended.

ACKNOWLEDGMENTS

The Auditors of Public Accounts would like to recognize the auditors who contributed to this report:

Audrey Kelliher

CONCLUSION

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

Audrey Kelliher
Associate Auditor

Approved:

John C. Geragosian
State Auditor

Robert J. Kane
State Auditor