

# CHESLA

CONNECTICUT HIGHER EDUCATION SUPPLEMENTAL LOAN AUTHORITY

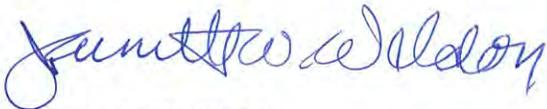
September 27, 2017

His Excellency, Dannel P. Malloy  
Governor  
State of Connecticut  
State Capitol  
Hartford, CT 06106

Dear Governor Malloy:

Pursuant to Chapter 187b of the Connecticut General Statutes, Section 10a-240, I am submitting the Connecticut Higher Education Supplemental Loan Authority's Annual Report for the Fiscal Year Ended June 30, 2017.

Sincerely,



Jeanette W. Weldon  
Executive Director

cc: Robert M. Ward  
John C. Geragosian  
Auditors of Public Accounts (2 copies)

Program Review and Investigations Committee (2 copies)  
Education Committee (2 copies)  
Finance, Revenue and Bonding Committee (2 copies)  
Higher Education and Employment Advancement Committee (2 copies)  
Connecticut State Library (2 copies)  
Legislative Library (2 copies)

10 Columbus Boulevard, 7<sup>th</sup> Floor, Hartford, Connecticut 06106  
(860) 520-4001 Outside CT • (800) 252-3357 In CT • FAX (860) 52--4004

[www.chesla.org](http://www.chesla.org)

**Sec. 10a-240. Report of authority.** The authority shall keep an accurate account of all its activities and of all its receipts and expenditures and shall, annually, in the month of December, make a report thereof to its board of directors, to the Governor, to the state Auditors of Public Accounts and to the joint standing committees of the General Assembly having cognizance of matters relating to education and finance, revenue and bonding. The report shall be in a form prescribed by the members, with the written approval of said auditors. The report shall include: (1) Summaries of all applications by borrowers for education loan financing assistance presented to the authority during such fiscal year; (2) summaries of all education loan programs which have received any form of financial assistance from the authority during such year; (3) the nature and amount of all such assistance; (4) a report concerning the financial condition of the various education loan series portfolios; (5) a statement of the number of students assisted by education loans who attended Connecticut institutions for higher education and the number of such students who attended institutions for higher education outside of the state and the amount loaned for each category of students, and (6) projected activities of the authority for the next fiscal year, including projections of the total amount of financial assistance anticipated and the amount of revenue bonds or notes or other evidences of indebtedness that will be necessary to provide the projected levels of assistance during the next fiscal year. The members or said auditors may investigate the affairs of the authority, may severally examine the properties and records of the authority, and may prescribe methods of accounting and the rendering of periodical reports in relation to projects undertaken by the authority.

(P.A. 82-313, S. 20, 28; P.A. 87-295, S. 6, 8; P.A. 88-266, S. 30, 46.)

History: P.A. 87-295 substituted "December" for "January", provided that the report be made to the joint standing committees of the general assembly having cognizance of matters relating to education and finance, revenue and bonding, in Subdiv. (1) substituted "borrowers" for "institutions for higher education", added new Subdiv. (5) re students attending in-state and out-of-state institutions, renumbered old Subdiv. (5) as new Subdiv. (6) and made technical changes; P.A. 88-266 substituted "board of directors" for "members"

# CHESLA

CONNECTICUT HIGHER EDUCATION SUPPLEMENTAL LOAN AUTHORITY



## Annual Report Fiscal Year Ended June 30, 2017

**Helping Students and Their Families Invest in the Future**

10 Columbus Boulevard, 7<sup>th</sup> Floor, Hartford, Connecticut 06106

Telephone: (860) 520-4001 Web: [www.chesla.org](http://www.chesla.org)

# CHESLA

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## Message from the Executive Director:

I am pleased to report that fiscal year 2017 was a successful one for CHESLA. One of the highlights was the creation of *CT Dollars & Sense*, a new web portal that is a “one-stop-shop” to help Connecticut students and their families plan, save and pay for college. *CT Dollars & Sense* resulted from a collaboration of CHESLA and four other state entities—the Treasurer’s Office CHET program, the Office of Higher Education, the Department of Consumer Protection, and the Department of Banking. The portal also features financial literacy content provided by iGrad, a leading provider of financial literacy resources and information. We look forward to increasing awareness of the portal in the months to come and hope that this platform will be the basis of ongoing collaborative efforts to help Connecticut students plan for their futures.

There were other noteworthy achievements in 2017 including the launch of our newsletter, [CHESLA Insight](#); redesign of our [chesla.org](http://chesla.org) website and addition of mobile compatibility; creation of a new logo for our in-school program; and continued funding of our need-based scholarships. CHESLA’s Refi CT refinancing product exhibited steady growth, with loan volume increasing dramatically over last year’s levels.

I would like to acknowledge the capable work of CHESLA’s dedicated staff, and the support of the Authority’s knowledgeable Board of Directors. Their efforts and guidance were critical to CHESLA’s success this year.

Jeanette W. Weldon  
Executive Director  
September, 2017



# Overview and Governance

CHESLA was established by Public Act No. 82-313, codified as Chapter 187B of the General Statutes of the State of Connecticut, Sections 10a-221 through 10a-246, inclusive, as amended (the "Act"). The purpose of the Act is "to provide a measure of financial assistance to students in or from the state, their parents and others responsible for the cost of their education and an alternative method to enable Connecticut institutions for higher education to assist qualified students to attend such institutions." The Authority is submitting this Annual Report in accordance with Sections 1-123 and 10a-240 of the Connecticut General Statutes. CHESLA became statutorily consolidated with the Connecticut Health and Educational Facilities Authority (CHEFA) on July 1, 2012. Additional information about CHEFA may be found in its Annual Report available at [www.chefa.com](http://www.chefa.com).

## CHESLA's 2016 – 2018 Mission, Vision and Values Statement

**Mission:** Expand higher educational opportunities and enhance the State's economic development through higher education by providing cost-effective education financing programs and information resources to Connecticut students, alumni and their families.

**Vision:** Serve as Connecticut's leading resource for students as they plan for their college education, not only by providing financing, but by providing information and tools for students to make informed decisions; enhance the competitiveness of Connecticut institutions of higher education by providing grants and additional financing options; encourage interest in higher education to help the State meet its workforce needs; and enhance economic development through innovative higher education programs.

### **Values:**

#### **Excellent Service**

Timely, responsive and effective service to the public and to our clients, both external and internal

#### **Respect**

Recognition through our attitudes and actions of the value of diversity and the worth and dignity of all, including the public, our clients and one another

#### **Can-Do Attitude**

A creative, leading-edge, open-minded approach to meeting the needs of the public and of our clients in a constantly changing environment

#### **Transparency**

Openness and accountability with respect to all aspects of the Authority and its operations

#### **Professionalism**

A commitment to teamwork, to expertise and to personal behavior that projects a positive image of the Authority

#### **Integrity**

Maintenance of an internal culture that reinforces the message that personal integrity and ethical behavior are valued and rewarded by the Authority



# Board Members

## CHESLA's Board Members FY 2017

### Statutorily Designated:



The Honorable Denise L. Nappier  
State Treasurer



Benjamin Barnes  
Secretary  
Office of Policy & Management



Mark E. Ojakian  
President  
Connecticut State Colleges and Universities



Dr. Peter W. Lisi\*  
Chair of the Board of CHEFA  
Chair of the Board of CHESLA



Jeanette W. Weldon\*  
Executive Director of CHEFA  
Executive Director of CHESLA

### Appointed Members:



Julie B. Savino  
Vice Chair of the Board of CHESLA



Martin L. Budd, Esq.

### Ex Officio Members

### Member's Designee

Sarah Sanders  
Assistant Treasurer of Debt Management

Steven Kitowicz  
Principal Budget Specialist

Erika H. Steiner  
Chief Financial Officer

### Expiration of Term

### Statutory Qualifications

July 1, 2018

Experience in Higher Education  
Financial Aid Field

July 1, 2017

Experience in State and  
Municipal Finance

There are currently two vacancies on the CHESLA Board. These members will be appointed by the CHEFA Board of Directors based on their qualifications, as specified in the enabling legislation.

\*Dr. Lisi and Ms. Weldon have terms coterminous with their service as Chair of the CHEFA Board and Executive Director of CHEFA, respectively.

### Advisory Committee Members

David Borus of West Hartford

Susan Harlan of Berlin

Matthew Rosen of Naugatuck

### CHESLA Staff Members



Jeanette W. Weldon  
Executive Director

Email address: [jweldon@chesla.org](mailto:jweldon@chesla.org)



Samuel E. Rush  
Deputy Director

Email address: [srush@chesla.org](mailto:srush@chesla.org)



Joshua Hurlock  
Assistant Director

Email address: [jhurlock@chesla.org](mailto:jhurlock@chesla.org)



## Non-discrimination, Equal Employment Opportunity and Sexual Harassment Policy

The Authority is an Equal Opportunity Employer and it is the Authority's policy not to tolerate discrimination or sexual harassment in any form. The Authority does not discriminate against any person in regard to any term or condition of employment based on race, color, religious creed, age, gender, sexual orientation, gender identity or expression, marital status or civil union status, national origin, ancestry, pregnancy, present or past history of mental disorder, intellectual disability, mental or physical disability (including, but not limited to, blindness), veteran's status, prior conviction of a crime, or any other reason prohibited by any applicable law or regulation. Further, it bases its employment decisions, including recruiting, hiring, training and promoting, on this nondiscriminatory principle.

If at any time an employee feels that she or he has been discriminated against or that the above guidelines have been in any way violated, the employee should immediately inform any officer of the Authority. Any employee found to have engaged in discriminatory conduct in violation of the above may be subject to disciplinary action up to and including dismissal. The ultimate responsibility for the implementation of this policy rests with the Executive Director.

Please be advised that, in addition to the above, the Authority will not tolerate disparaging comments about any of the above classes of individuals even if the person to whom the comments are made is not a member of such a class. Any Authority employee found to have made such comments or to have exhibited discriminatory behavior based on any of these or any other classifications may be subject to disciplinary measures up to and including dismissal.

It is the policy of the Authority that all employees have the right to work in an environment free from all types of discrimination including that of sexual harassment. The Authority's policy on this subject is as follows:

1. The Authority prohibits sexual harassment of employees in any form. Such conduct may result in disciplinary action up to and including dismissal.
2. Specifically, no supervisor or member of management shall threaten or insinuate, either explicitly or implicitly, that an employee's refusal to submit to sexual advances will adversely affect the employee's employment, assigned duties, or any other condition of employment or career development.
3. Other sexually harassing conduct at the workplace, whether committed by supervisors or non-supervisory personnel, is also prohibited. This includes: repeated offensive sexual flirtation; advances; propositions; continued or repeated verbal abuse of a sexual nature; graphic verbal commentaries about an individual's body; sexually oriented words used to describe an individual; and displays in the workplace of sexually suggestive objects or pictures.

Employees who feel they have been subjected to acts of sexual harassment or who feel their rights under the Sexual Harassment Policy have been violated should immediately inform any officer of the Authority. The officer(s) shall promptly investigate the complaint. Complaints will be examined impartially and, to the extent possible, confidentially. When merited, appropriate disciplinary action will be taken.

As of June 30, 2017, CHESLA had two employees: a Deputy Director (1 African-American Male) and an Assistant Director (1 Caucasian Male).



# Activities, News and Events

CHESLA launched *CT Dollars & Sense*, a financial literacy web portal in collaboration with four other state entities, the State Treasurer's CHET program, the Office of Higher Education, the Department of Consumer Protection, and the Department of Banking. The portal is a comprehensive resource for students and families who are planning for college.

[CTDollarsandSense.com](http://CTDollarsandSense.com)



CHESLA funded another \$2 million dollars in Need-based Scholarships in FY 2017.

The Authority is passionate about continuing to invest and help Connecticut's undergraduate students in their pursuit of higher education.

**Investment in Connecticut's Students**



*Refi CT*, CHESLA's student loan refinancing product experienced dramatic growth in FY 2017 with approximately \$2.8 million in loans outstanding at June 30.

**Refi CT**



*CHESLA Insight* is CHESLA's e-newsletter. It provides information on CHESLA products and activities to financial aid officers, high school guidance counselors and others interested in CHESLA

### CHESLA Insight

# CHESLA

CONNECTICUT HIGHER EDUCATION SUPPLEMENTAL LOAN AUTHORITY

## CHESLA INSIGHT

Fiscal Year 2017 – April, 2017

E-News Periodical 3



### CT Jump\$tart

CHESLA's Assistant Director, Josh Hurlock, has joined CT



### What's all the "Buzz" about Refinance Loans

On February 3rd, CHESLA

CHESLA's website was redesigned to improve the user experience and make the site compatible with mobile devices

### CHESLA.org





# Strategic Initiative Highlights

## Core Goal 1 – Superior Client Service



- CHESLA's in-school loan program remained an attractive financing option for borrowers, with a low 4.95% fixed interest rate
- CHESLA continued its participation and attendance at annual college fairs held by NACAC and the town of Enfield. Information about CHESLA's in-school loan program was disseminated at each event
- CHESLA issued RFP's for Loan Originator/Servicer, Arbitrage/Yield/UCap Analysis, Bond Counsel and Collections during the period. The process provided management the opportunity to analyze and assess the performance of the vendors against other prospective bidders. Customer service to CHESLA and its borrowers, experience, pricing and innovation were characteristics management sought in selecting its vendors. Firstmark, AMTEC, CCA and Day Pitney were selected, as these vendors reaffirmed their commitment to CHESLA.
- CHESLA's website was modified with a contemporary new look. A section devoted to Refi CT was added, as well as the new logo and name (My CHESLA Loan) for the in-school loan program. Additionally, the revised web site was developed to be compatible with mobile devices.

## Core Goal 2 – Programs and Services that Meet the Demands of a Changing Market



- With Board approval, staff developed programs and procedures specific to deceased and disabled borrowers, who utilized the in-school loan program.
- Staff undertook search engine marketing and enhanced CHESLA's social media presence to increase awareness of CHESLA products
- Led creation of financial literacy portal CT Dollars & Sense to better serve CT students and their families
- Distributed \$2,000,000 in CHESLA Need-Based Scholarships to 33 schools, impacting 1,120 students
- Launched CHESLA Insight, e-newsletter

## Core Goal 3 – Partner in Public Policy



- Executive Director met with members of Congressional delegation and highlighted importance of tax-exempt financing for CHESLA and met with state legislators to keep them informed on CHESLA activities
- Executive Director is active in Education Finance Council (EFC), the trade association for state related student lenders
- CHESLA's Assistant Director serves in leadership roles with CT Association of Professional Financial Aid Administrators (CAPFAA) and CT Jump\$tart

#### Core Goal 4 – Sustainable Organization



- CHESLA established a student intern position to be implemented in FY 2018

#### Core Goal 5 – Ethical Culture



- Clean independent audit for Fiscal Year Ended June 30, 2017



# Bond Issuance

The Authority priced \$37,035,000 in Revenue and Revenue Refunding Bonds on May 4, 2017. Series A of the transaction closed on May 16, 2017 for \$27,880,000. Series B of the transaction is scheduled to close on August 17, 2017 for \$9,155,000. The 2017 Series A and B Bonds were sold through a negotiated underwriting with RBC Capital Markets as the senior managing underwriter and Roosevelt & Cross Incorporated as the co-manager. FirstSouthwest, a division of Hilltop Securities serves as the Authority's financial advisor and Day Pitney LLP serves as bond counsel.

As of June 30, 2017, the Authority had issued Revenue Bonds and Revenue Refunding Bonds in the aggregate original principal amount of \$588,735,000. The principal amounts of the Authority's outstanding bonds as of June 30, 2017 total \$157,465,000, as shown below:

<u>Bond Series*</u>	<u>Principal Issued*</u>	<u>Principal Outstanding*</u>
1983 Series	\$15,500,000	\$0
1985 Series	\$15,500,000	\$0
1990 Series A	\$18,000,000	\$0
1990 Series B	\$420,000	\$0
1991 Series A	\$25,000,000	\$0
1991 Series B	\$445,000	\$0
1992 Series A	\$6,600,000	\$0
1993 Series A	\$10,000,000	\$0
1994 Series A	\$25,000,000	\$0
1996 Series A	\$25,000,000	\$0
1998 Series A	\$15,000,000	\$0
1998 Series B	\$3,560,000	\$0
1999 Series A	\$12,500,000	\$0
1999 Series B	\$4,390,000	\$0
2000 Series A	\$16,410,000	\$0
2000 Series B	\$5,975,000	\$0
2001 Series A	\$25,000,000	\$0
2003 Series A	\$18,000,000	\$0
2003 Series B	\$12,915,000	\$0
2005 Series A	\$31,455,000	\$0
2005 Series B	\$5,900,000	\$0
2006 Series A	\$33,270,000	\$0
2007 Series A	\$41,000,000	\$13,490,000
2009 Series A	\$30,000,000	\$13,885,000
2010 Series A	\$45,000,000	\$29,270,000
2012 Series A	\$13,085,000	\$1,190,000
2013 Series A	\$25,000,000	\$19,560,000
2014 Series A	\$23,000,000	\$21,120,000
2015 Series A	\$21,465,000	\$16,070,000
2016 Series A	\$15,000,000	\$15,000,000
2017 Series A	\$27,880,000	\$27,880,000
<b>Total</b>	<b>\$588,735,000</b>	<b>\$157,465,000</b>

The State's contingent liability, in connection with the outstanding bonds, is the Special Capital Reserve Fund requirement for such Bonds, as defined in Connecticut General Statutes Section 10a-232.

# BUSINESS

## Projected Activities and Payments in Excess of \$5,000 Bond Issuance

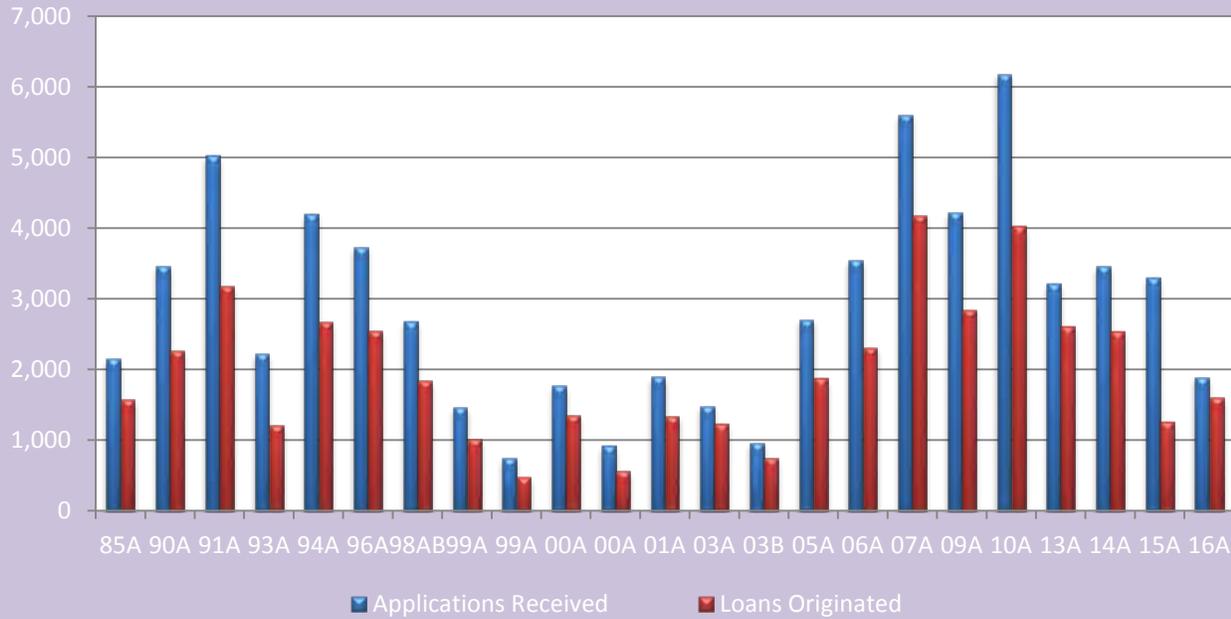
### Projected Activities

The Authority will continue to focus on its Core Goals and related strategic objectives. CHESLA's updated Strategic Plan for 2016 – 2018 is included as Exhibit D. All activities are expected to be consistent with the Fiscal Year 2018 operating budget, included as Exhibit E.

### Payments in Excess of \$5,000 (excluding loans for education):

Services and Account Disbursements in Excess of \$5,000 Fiscal Year End June 30, 2017
Paid from CHESLA Operating Budget
Bank of America CampusDoor Holdings, Inc. Connecticut Health and Education Facilities Authority (CHEFA) Connecticut Public Broadcasting, Inc. Education Finance Council, Inc. (EFC) Maier True Communications McGlinchey Stafford RMI Associates, LLC University Accounting Service (UAS) Willis of Connecticut, LLC WTNH
Paid from CHESLA 1990 & 2003 Bond Resolution Revenue Accounts
AMTEC Collection Company of America (CCA) Day Pitney, LLP Firstmark Services First Southwest Company Fitch Ratings Moody's Investors Service Shipman & Goodwin U.S. Bank (Trustee Fees)

## CHESLA Loan Program Applications Data - By Bond Series

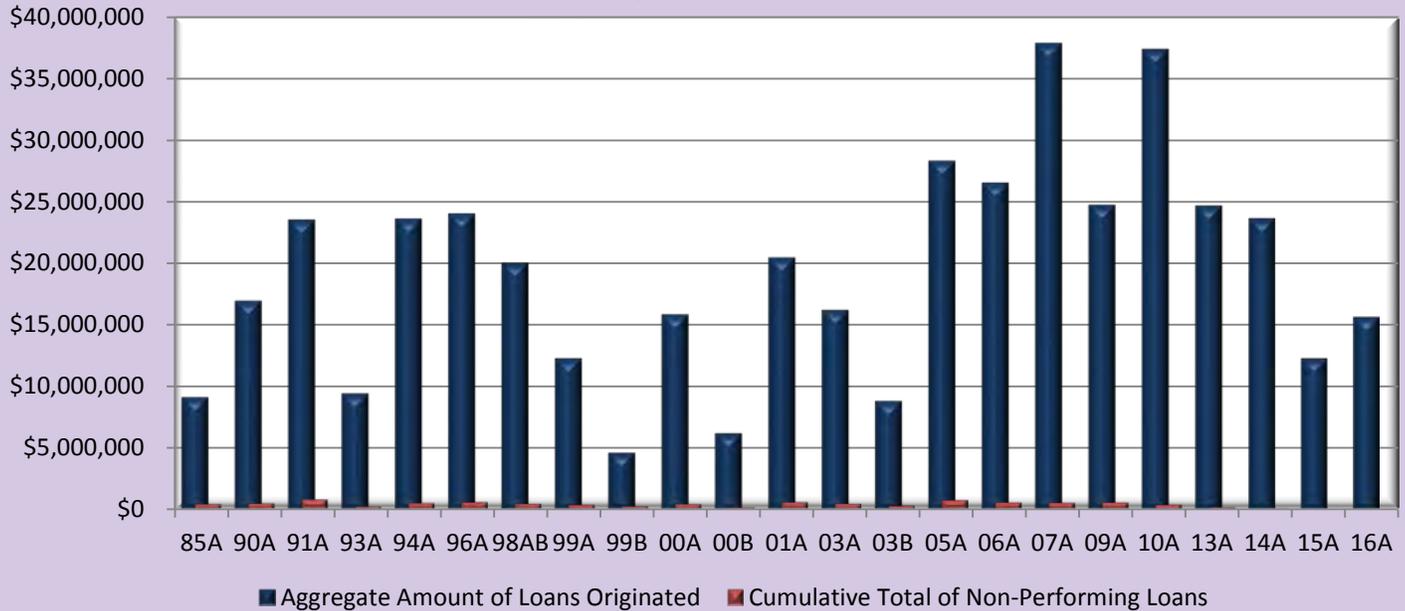


**Applications Received by Bond Series** – 85A (2,150), 90A (3,462), 91A (5,022), 93A (2,226), 94A (4,193), 96A (3,737), 98AB (2,681), 99A (1,460), 99B (739), 00A (1,771), 00B (915), 01A (1,900), 03A (1,484) 03B (964) 05A (2,710) 06A (3,552) 07A (5,607), 09A (4,223), 10A (6,188), 13A (3,207), 14A (3,468), 15A (3,296), and 16A (1,895)

**Applications Approved and Funded by Bond Series** – 85A (1,575), 90A (2,275), 91A (3,181), 93A (1,215), 94A (2,676), 96A (2,542), 98AB (1,840), 99A (1,014), 99B (475), 00A (1,360), 00B (564), 01A (1,341), 03A (1,225), 03B (743), 05A (1,866), 06A (2,308), 07A (4,188), 09A (2,848), 10A (4,029), 13A (2,613), 14A (2,535), 15A (1,255) and 16A (1,607)



## CHESLA Loan Program Origination Amount and Non-Performing Loan Data (By Bond Series)



**Aggregate Amount of Loans Originated** – 85A (\$9,138,627), 90A (\$16,978,127), 91A (\$23,509,883), 93A (\$9,457,002), 94A (\$23,601,441), 96A (\$24,002,867), 98AB (\$19,989,330), 99A (\$12,283,780), 99B (\$4,628,969), 00A (\$15,853,387), 00B (\$6,200,067), 01A (\$20,433,303), 03A (\$16,212,316), 03B (\$8,813,427), 05A (\$28,321,052), 06A (\$26,527,184), 07A (\$37,871,341), 09A (\$24,703,581), 10A (\$37,389,234), 13A (\$24,650,944), 14A (\$23,615,107), 15A (\$12,300,387) and 16A (\$15,656,267).  
**Total cumulative amount of loans originated: \$442,137,623**

**Cumulative Total of Non-Performing Loans** – 85A (\$433,731), 90A (\$495,866), 91A (\$826,749), 93A (\$239,768), 94A (\$520,002), 96A (\$603,184), 98AB (\$472,820), 99A (\$396,454), 99B (\$263,080), 00A (\$450,435), 00B (\$143,975), 01A (\$601,418), 03A (\$459,120), 03B (\$308,341), 05A (\$770,784), 06A (\$568,798), 07A (\$552,285), 09A (\$562,089), 10A (\$400,991), 13A (\$184,804), 14A (\$66,424), 15A (\$7,354), and 16A (\$13,400).  
**Total non-performing loans \$9,341,870**

**Total Net Non-Performing Default Rate** – 85A (4.75%), 90A (2.92%), 91A (3.52%), 93A (2.54%), 94A (2.20%), 96A (2.51%), 98AB (2.37%), 99A (3.23%), 99B (5.68%), 00A (2.84%), 00B (2.32%), 01A (2.94%), 03A (2.83%), 03B (3.50%), 05A (2.72%), 06A (2.14%), 07A (1.46%), 09A (2.28%), 10A (1.07%), 13A (0.75%), 14A (0.28%), 15A (0.06%), 16A (0.09%).  
**Total net non-performing default rate: 2.11%.**

Activity information was compiled from loans originated as follows:	
1985 Series A – 10/01/85 to 10/30/88	2005 Series A & B – 07/13/05 to 11/14/06
1990 Series A – 08/22/90 to 09/06/91	2006 Series A – 09/20/06 to 07/14/08 includes recycling
1991 Series A – 09/12/91 to 08/05/93	2007 Series A – 09/05/07 to 03/26/10 includes recycling
1993 Series A – 08/12/93 to 08/20/94	2009 Series A – 09/04/09 to 05/24/13 includes recycling
1994 Series A – 08/26/94 to 09/20/96	2010 Series A – 05/06/11 to 07/19/13 includes recycling
1996 Series A – 10/05/96 to 09/05/98	2013 Series A – 05/10/13 to 01/31/15
1998 Series A & B – 09/11/98 to 06/30/99	2013 Series B – 10/01/14 to 04/30/15
1999 Series A & B Bonds – 10/27/99 to 11/24/00	2014 Series A – 07/01/14 to 06/30/15
2000 Series A & B – 12/15/00 to 05/01/02	2015 Series A – 09/11/15 to 05/12/17
2001 Series A – 05/01/02 to 08/31/05 includes recycling	2016 Series A – 08/05/16 to present
2003 Series A & B – 07/23/03 to 07/13/05	

- A table showing loan disbursements by School and Bond Series, from proceeds of the 1985 through 2016 Series bond sales is attached as Exhibit B to this Annual Report.
- A copy of the Loan Program Manual is attached as Exhibit C to this Annual Report.

# CHESLA

CONNECTICUT HIGHER EDUCATION SUPPLEMENTAL LOAN AUTHORITY

## **Exhibit A – Audited Financials**

The Authority's FY 2017 audited financial statements are formatted on a component unit basis and reflect the operations of CHEFA, CHESLA, and CSLF.

**Connecticut Health and Educational Facilities Authority  
(A Component Unit of the State of Connecticut)**

**Financial Statements  
(With Supplementary Information)  
and Independent Auditor's Reports**

**June 30, 2017**

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**COHN  REZNICK**  
ACCOUNTING • TAX • ADVISORY

**Connecticut Health and Educational Facilities Authority  
(A Component Unit of the State of Connecticut)**

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# Financial Section

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Independent Auditor's Report

Board of Directors  
Connecticut Health and Educational Facilities Authority

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities and the discretely presented component units of the Connecticut Health and Educational Facilities Authority as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the Connecticut Health and Educational Facilities Authority's basic financial statements as listed in the table of contents.

*Management's Responsibility for the Financial Statements*

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

*Auditor's Responsibility*

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

### *Opinions*

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and the discretely presented component units of the Connecticut Health and Educational Facilities Authority as of June 30, 2017, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### *Other Matters*

#### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4 to 16 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

#### *Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Connecticut Health and Educational Facilities Authority's basic financial statements. The supplemental schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The supplemental schedules are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplemental schedules are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated September 26, 2017, on our consideration of the Connecticut Health and Educational Facilities Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Connecticut Health and Educational Facilities Authority's internal control over financial reporting and compliance.

A handwritten signature in black ink that reads "CohnReznick LLP". The signature is written in a cursive, flowing style.

Hartford, Connecticut  
September 26, 2017



## Management's Discussion and Analysis For the Year Ended June 30, 2017 (In Thousands)

As management of Connecticut Health and Educational Facilities Authority (CHEFA), we offer readers of CHEFA's financial statements this narrative overview and analysis of the financial activities for the fiscal year ended June 30, 2017. This Management's Discussion and Analysis presents separate discussion for the primary government (CHEFA) and each of the component units: Connecticut Higher Education Supplemental Loan Authority (CHESLA) and Connecticut Student Loan Foundation (CSLF), each addressing the operations of the individual entity.

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 institutions pursuant to Connecticut General Statutes Chapter 187, Sections 10a-176 through 10a-198. These tax-exempt bonds are financial obligations of the institution on whose behalf CHEFA issues the bonds. The issuance of tax-exempt 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.

CHESLA, a subsidiary of CHEFA, issues tax-exempt bonds in order to fund student loans for the higher education of students in or from the State of Connecticut. CHESLA's bonds are repaid from student loan repayments and are further supported by a Special Capital Reserve Fund, the replenishment of which is deemed appropriated by the State of Connecticut.

Pursuant to Public Act No. 14-217, CSLF was statutorily consolidated with CHEFA as a subsidiary thereof and became a quasi-public agency of the State of Connecticut.

CSLF is a Connecticut State-chartered non-profit corporation established pursuant to State of Connecticut General Statutes Chapter 187a and governed by Title IV, Part B of the Higher Education Act of 1965, as amended, for the purpose of improving educational opportunity. Generally, CSLF is empowered to achieve this purpose by originating and acquiring student loans and providing appropriate services incident to the administration of programs which are established to improve educational opportunities. CSLF no longer originates or acquires student loans.

### **Financial Highlights**

- CHEFA's net position decreased by \$1,175 for the fiscal year, due to the statutorily required payments of \$3,500 and \$875 to the State of Connecticut general fund. The former represents the final of two equal required payments totaling \$7M and the latter is an additional transfer established by Public Act 17-51, in June 2017.
- CHESLA's net position increased by \$432 for the fiscal year. The increase was due primarily to investment income.
- CSLF's net position increased by \$588 for the fiscal year. The increase was due primarily to loan interest revenue net of \$2,000 contributed to CHESLA for the scholarship program authorized by the Board.
- CHESLA's loan activity during the fiscal year was the issuance of new loans totaling \$22,082 from the In-School loan program and \$2,815 from the RefiCT program, which began in July 2016. Payments received of \$20,409, include \$20,158 from the In-School loans and the remainder from the RefiCT loans.
- CSLF's loan activity for the fiscal year resulted in principal payments received of \$46,628.

## **Management's Discussion and Analysis (Continued)**

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- CHESLA issued debt of \$27,880 for new loans and \$5,460 of the proceeds were used to defease the 2006A bonds.
- CSLF's bonds payable decreased by \$42,582 from voluntary redemptions made during the year.

### **Overview of the Financial Statements**

This discussion and analysis is intended to serve as an introduction to CHEFA's basic financial statements. CHEFA's basic financial statements comprise two components: 1) financial statements, and 2) notes to the financial statements. Separate financial statements are presented for CHEFA (primary government) and the two component units CHESLA and CSLF.

**Financial statements.** The financial statements are designed to provide readers with a broad overview of CHEFA's finances, in a manner similar to a private-sector business. CHEFA's operations are reported as business-type activities.

The *statement of net position* presents information on all of CHEFA's assets, liabilities, and deferred inflows of resources with the difference between these accounts reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of CHEFA is improving or deteriorating.

The *statement of revenues, expenses and changes in fund net position* presents information showing how CHEFA's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected loans and earned but unused vacation leave).

The *statement of cash flows* presents the cash flow by each type of activity.

The financial statements can be found on Exhibits A, B and C.

**Notes to financial statements.** The notes provide additional information that is essential to a full understanding of the data provided in the fund financial statements. The notes to financial statements can be found in Exhibit D.

### **Connecticut Health and Educational Facilities Authority (CHEFA)**

#### **Financial Analysis**

Assets exceeded liabilities at June 30, 2017. Net position may serve over time as a useful indicator of financial position. Due to the nature of operations, a significant portion of net position is subject to specific bond resolution restrictions. The restricted net position for CHEFA at fiscal year end was 34.8% of total net position. CHEFA's net position invested in capital assets was 0.6%.

## Management's Discussion and Analysis (Continued)

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A summary of the statement of net position is as follows:

### Summary Statement of Net Position (in thousands)

	CHEFA	
	2017	2016
Current and other assets	\$ 232,380	\$ 335,173
Capital assets (net)	<u>81</u>	<u>124</u>
Total assets	<u>\$ 232,461</u>	<u>\$ 335,297</u>
Assets held on behalf of the State of CT	\$ 2,176	\$ 2,174
Other liabilities	<u>217,177</u>	<u>318,840</u>
Total liabilities	<u>\$ 219,353</u>	<u>\$ 321,014</u>
Net investment in capital assets	\$ 81	\$ 124
Restricted	4,563	8,138
Unrestricted	<u>8,464</u>	<u>6,021</u>
Total net position	<u>\$ 13,108</u>	<u>\$ 14,283</u>

The remaining portion of net position is unrestricted and is 64.6%.

**Statement of Changes in Net Position.** The statement of changes in net position's purpose is presenting information on how the net position changed during the most recent fiscal year. For the fiscal year, CHEFA's net position decreased by \$1,175.

## Management's Discussion and Analysis (Continued)

A statement of changes in net position follows:

### Statement of Changes in Net Position (in thousands)

	CHEFA	
	2017	2016
Operating revenues:		
Administrative fees	\$ 7,458	\$ 7,498
General and administrative fees	234	205
Bond issuance fees	60	86
Other revenues	41	13
Total operating revenues	<u>7,793</u>	<u>7,802</u>
Operating expenses:		
Salaries and related expenses	2,777	2,664
General and administrative	545	549
Contracted services	129	279
Total operating expenses	<u>3,451</u>	<u>3,492</u>
Operating income	<u>4,342</u>	<u>4,310</u>
Nonoperating income (expenses):		
Investment income	84	43
Payment to State	(4,375)	(3,500)
Grants and child care subsidy expense	<u>(1,226)</u>	<u>(2,260)</u>
Total nonoperating expenses	<u>(5,517)</u>	<u>(5,717)</u>
Change in net position	(1,175)	(1,407)
Net position, July 1, 2016	<u>14,283</u>	<u>15,690</u>
Net position, June 30, 2017	<u>\$ 13,108</u>	<u>\$ 14,283</u>

Net position decreased by \$1,175 due substantially to the statutorily required transfers to the State of Connecticut general fund consisting of, 1) \$3,500, the second of two required payments and 2) \$875, an additional transfer mandated by Public Act 17-51, issued in June 2017.

### Revenues

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 institutions. CHEFA charges the conduit borrower for administration and upfront fees.

## **Management's Discussion and Analysis (Continued)**

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The fee charged is a Board approved administrative fee of 9 basis points (.0009) on the outstanding balance for all market segments with the exception of Special Capital Reserve Fund long-term care bond issues which have a 14 basis points (.0014) fee.

Revenues totaled \$7,793 for fiscal year 2017. Administrative fees are the largest revenue source and represent 95.7% of total revenues. General and administrative service fees for support services provided to CHESLA and CSLF totaled \$234, representing 3% of revenues for the year. The balance comprises upfront fees for the conduit debt issued and other revenues at 1.3%.

Significant changes from the prior year for revenues are as follows:

- Administrative fees decreased by \$40 to \$7,458 during the year. The decrease is due to the change in the par value of loans outstanding at June 30, 2017 compared to June 30, 2016. Fees are calculated on the total par amount outstanding in any given year.

The balance of the par value of debt outstanding at June 30, 2017 was \$8,219,002 as compared to \$8,314,847 at June 30, 2016.

During the year, CHEFA had 27 issues of new conduit debt totaling \$1,354,278 in par value, of which 88% was the refinancing of pre-existing debt.

- Nonoperating investment income increased by \$41 to \$84 from the \$43 recognized in fiscal year 2016. This is a result of interest rate increases as compared to the prior year.

### **Expenses**

Expenses totaled \$3,451 for the fiscal year. Of the expenses, 80.5% or \$2,777 was for salaries and related expenses. General and administrative expenses amounted to \$545, or 15.8%, while contracted services amounted to \$129 or 3.7% of the total expenses.

Significant changes from the prior year are as follows:

- Salaries and related expenses increased by \$113 from fiscal year 2016 to \$2,777 as vacant positions were filled.
- Contracted services decreased by \$150 from fiscal year 2016 to \$129. The prior year provided for a specialty research project, required per state mandate.
- Grant and child care subsidy expense decreased from fiscal year 2016 by \$1,034. The decrease was a result of the reduction in grants issued as well as the decrease in the loan amounts outstanding.

### **Capital Assets**

At June 30, 2017, CHEFA's capital assets amounted to \$81, net of depreciation. This includes leasehold improvements, furniture and fixtures, and computer and office equipment. Capital assets decreased by \$43 due to capital asset additions of \$9, offset by depreciation of \$52. Capital asset purchases during the year included \$9 for board room audio/visual equipment upgrades.

Additional information on the capital assets can be found in Exhibit D (II) C.

### **Economic Factors**

The significant factors impacting CHEFA include the interest rate environment and potential tax reform. In developing the 2018 budget, CHEFA is expecting a 2.3% increase in revenues as compared to fiscal year 2017. An increase of \$48 in the support fees charged to CHESLA and CSLF is also being anticipated. Operating expenses were projected to be relatively flat as compared to the fiscal year 2017 projected 7.8% decrease.

## Management's Discussion and Analysis (Continued)

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### Connecticut Higher Education Supplemental Loan Authority (CHESLA)

#### Financial Analysis

For CHESLA, assets exceeded liabilities at June 30, 2017. Due to the nature of operations, a significant portion of net position is subject to specific bond resolution restrictions. The restricted net position for CHESLA at fiscal year end was 69.4%. The remaining portion of net position (30.6%) is unrestricted.

A summary of the statement of net position is as follows:

#### **Summary Statement of Net Position (in thousands)**

	CHESLA	
	2017	2016
Current and other assets	\$ 191,085	\$ 185,137
Total assets	<u>\$ 191,085</u>	<u>\$ 185,137</u>
Long-term liabilities outstanding	\$ 160,702	\$ 154,980
Other liabilities	<u>880</u>	<u>1,197</u>
Total liabilities	<u>\$ 161,582</u>	<u>\$ 156,177</u>
Deferred inflows of resources	<u>\$ 2,000</u>	<u>\$ 1,889</u>
Restricted	\$ 19,076	\$ 18,502
Unrestricted	<u>8,427</u>	<u>8,569</u>
Total net position	<u>\$ 27,503</u>	<u>\$ 27,071</u>

**Statement of Changes in Net Position.** The statement of changes in net position's purpose is presenting information on how the net position changed during the most recent fiscal year. For the fiscal year, CHESLA's net position increased \$432.

## Management's Discussion and Analysis (Continued)

A statement of changes in net position follows:

### Statement of Changes in Net Position (in thousands)

	CHESLA	
	2017	2016
Operating revenues:		
Interest income on loans receivable	\$ 7,433	\$ 7,576
Administrative fees	655	555
Contribution from CSLF	1,889	6,000
Total operating revenues	9,977	14,131
Operating expenses:		
Interest expense	5,743	6,064
Salaries and related expenses	217	118
General and administrative	541	473
Refinance pilot program	201	171
Scholarships	1,887	-
Loan service fees	574	561
Contracted services	37	43
Bond issuance costs	555	888
Provision for loan losses	73	343
Total operating expenses	9,828	8,661
Operating income (loss)	149	5,470
Nonoperating income (expenses):		
Investment income	283	1,261
Contribution revenue/expense	-	2,000
Total nonoperating income (expenses)	283	3,261
Change in net position	432	8,731
Net position, July 1, 2016	27,071	18,340
Net position, June 30, 2017	\$ 27,503	\$ 27,071

The prior year 2016 revenue and expenses were reclassified by \$758 to reflect the elimination of Interfund revenue. Net position increased by \$432 for the fiscal year 2017. The increase reflects no significant change in the course of operations.

## Management's Discussion and Analysis (Continued)

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### Revenues

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. Revenues include administrative fees and the interest charged on the loans.

In fiscal year 2017, CHESLA disbursed \$22,082 of In-School loan dollars as compared to \$18,692 in fiscal year 2016, an increase of approximately 18% over fiscal year 2016. In addition, the RefiCT loan program began disbursing loans in July 2016, totaling \$2,815 in FY 2017.

Significant changes from the prior year for revenues are as follows:

- Administrative fees increased by \$100 to \$655 during the year.
- Contributions from CSLF totaled \$1,889 as compared to \$8,000 in fiscal year 2016. The current year contributions were authorized by the Board for the FY 2016 scholarship program, disbursed throughout FY 2017. The monies authorized in FY 2017 for the scholarship program (\$2,000), are recorded as a deferred inflow, to be disbursed in FY 2018.
- Nonoperating investment income decreased by \$978 primarily due to the market value of the Treasury-notes held in the SCRF investment accounts of the 2009A and 2010A Bond issues.

### Expenses

Expenses totaled \$9,828 for the fiscal year. The largest expense, 58.4% or \$5,743 was for interest payments on debt. This represents a decrease from the 70% in fiscal year 2016. Scholarship expenses amounted to \$1,887 or 19.2%. General and administrative expenses amounted to \$541, or 5.5%. Bond issue costs totaled \$555, or 5.6%, loan service fees totaled \$574 or 5.8% and provision for loan losses totaled \$73 or .7% of the total expenses.

Significant changes from the prior year are as follows:

- Interest expense decreased by \$321 as compared to fiscal year 2016 due to a reduction in the principal balance of outstanding debt as compared to fiscal year 2016, due to the refunding bonds issued at June 30, 2016 in addition to the early redemption of bonds throughout the fiscal year totaling \$7,245.
- Salaries and related expenses increased by \$99, due in part to a return to the full staff complement.
- General and administrative expenses increased by \$68.
- The refinance pilot program expenses increased by \$30. The program was funded during the FY 2016 by a contribution from CSLF (\$6,000). \$500 of the program funding was designated for the administrative costs for the program. \$171 was spent in FY 2016, \$201 in the current year with the remainder for this program to be spent in future years.
- Bond issuance and insurance cost decreased by \$333. One bond issue was issued this fiscal year as compared to two in FY 2016.
- Provision for loan losses decreased by \$270 reflecting a reduction in loans required to be written off.

## Management's Discussion and Analysis (Continued)

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### Debt Administration

#### Long-term debt

The change in long-term debt for CHESLA was as follows:

<b>Bonds Payable (in thousands)</b>	<b>CHESLA</b>	
	<b>2017</b>	<b>2016</b>
Revenue Bonds	\$ 157,465	\$ 152,785
Premiums/Discounts	3,237	2,195
Total Long-term liabilities	<u>\$ 160,702</u>	<u>\$ 154,980</u>

CHESLA's increase in the principal revenue bonds outstanding is a result of new issuances totaling \$27,880, net of the refunding of the 2006A bonds of \$5,460 and the annual payments totaling \$10,495 and early redemptions of \$7,245.

CHESLA maintains an "A" rating from Fitch and an A1 rating from Moody's Investors Service for its state supported revenue bonds.

Additional information on long-term debt can be found in Exhibit D (II) D.

### Economic Factors

The general economic conditions, direction of the economy and unemployment rates affect CHESLA as they may impact the ability of individuals to repay their loans and the rate of loan origination.

### Connecticut Student Loan Foundation (CSLF)

#### Financial Analysis

For CSLF, assets exceeded liabilities at June 30, 2017. Due to the nature of CSLF operations, a portion of net position is subject to bond resolution restrictions. The restricted net position for CSLF at fiscal year-end was \$6,381 and is 24.7%. The remaining portion of net position is unrestricted and represents 75.3% of the total net position.

## Management's Discussion and Analysis (Continued)

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A summary of the statement of net position is as follows:

### **Summary Statement of Net Position (in thousands)**

	CSLF	
	2017	2016
Current and other assets	<u>\$ 258,719</u>	<u>\$ 301,107</u>
Total assets	<u>\$ 258,719</u>	<u>\$ 301,107</u>
Long-term liabilities outstanding	\$ 231,508	\$ 274,090
Other liabilities	<u>1,398</u>	<u>1,792</u>
Total liabilities	<u>\$ 232,906</u>	<u>\$ 275,882</u>
Restricted	\$ 6,381	\$ 7,557
Unrestricted	<u>19,432</u>	<u>17,668</u>
Total net position	<u>\$ 25,813</u>	<u>\$ 25,225</u>

**Statement of Changes in Net Position.** The statement of changes in net position's purpose is presenting information on how the net position changed during the most recent fiscal year. For the fiscal year, CSLF's net position increased by \$588.

## Management's Discussion and Analysis (Continued)

A statement of changes in net position follows:

### Statement of Changes in Net Position (in thousands)

	CSLF	
	2017	2016
Operating revenues:		
Interest income on loans receivable	\$ 10,224	\$ 10,749
Not-for-profit servicing income	188	176
Total operating revenues	10,412	10,925
Operating expenses:		
Interest expense	4,493	3,974
General and administrative	258	295
Loan service fees	1,003	1,192
Consolidation rebate fees	1,604	1,797
Contracted services	503	517
Provision for loan losses	-	100
Total operating expenses	7,861	7,875
Operating income	2,551	3,050
Nonoperating income (expenses):		
Investment income	37	29
Contribution revenue/expense	(2,000)	(9,889)
Total nonoperating income (expenses)	(1,963)	(9,860)
Change in net position	588	(6,810)
Net position, July 1, 2016	25,225	32,035
Net position, June 30, 2017	\$ 25,813	\$ 25,225

CSLF's net position increased by \$588 for the fiscal year. The increase was due primarily to loan interest revenue net of \$2,000 contributed to CHESLA for the scholarship program authorized by the Board.

### Revenues

CSLF currently is not actively issuing new loans. Its purpose was to improve educational opportunity by originating and acquiring student loans and providing related services. CSLF also participates in the not-for-profit servicer program.

## Management's Discussion and Analysis (Continued)

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Interest income represents the largest operating revenue component. CSLF earns interest income, interest subsidies and special allowance on student loans. Interest income for fiscal year 2017 totaled \$10,224 (98.2%) compared to \$10,749 for fiscal year ended June 30, 2016. These revenue sources are variable in nature and are a direct function of market conditions. Interest rates for student borrowers in the CSLF portfolio have been fixed though the net interest to loan holders remains variable and, therefore, subject to market conditions. 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. During the fiscal year ended June 30, 2017, CSLF paid \$5,381 to the US Department of Education relating to excess yield compared to \$7,120 paid during fiscal year 2016.

The balance of CSLF revenues is the not-for-profit service fee of \$188 and 1.8% of revenues.

Significant changes from the prior year for revenues are as follows:

- Interest income on loans receivable is the largest component of operating revenues. Interest income totaled \$10,224, a decrease of \$525 from the prior year amount of \$10,749. The decrease is due to the reduction in the loan balances and the fact that CSLF is no longer issuing new loans.
- Not-for-profit servicing income totaled \$188 for the fiscal year ended 2017, an increase of \$12 as compared to fiscal year 2016. The increase is due to the change in the number of loans serviced in the program.

### **Expenses**

Expenses totaled \$7,861 for the fiscal year. The largest expense was for interest expense on the Auction Rate Certificates (ARCs) issued to raise money to make or acquire student loans. The interest rate on the ARCs 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. Interest expense totaled \$4,493 or 57.2%. Consolidation rebate fees paid to the U.S. Department of Education totaled \$1,604 or 20.4% of total expenses and loan service fees totaled \$1,003 or 12.8% of total expenses.

Nonoperating expenses of \$2,000 were for Board authorized contributions to CHESLA for a scholarship program.

Significant changes from the prior year are as follows:

- Bond interest expense increased in 2017 by \$519. The increase is due to the rising interest rates and the variable nature of the bonds during the fiscal year.
- Loan service fees decreased by \$189 reflecting the decrease in the number of loans serviced due to loan repayments.
- Consolidation rebate fees decreased by \$193 reflecting the decrease in the principal balance of federal consolidation loans outstanding as the portfolio matures.
- There was no change in the loan loss provision. CSLF has not disbursed new student loans since February 2010. As a result, with the maturing loan portfolio, more student loan borrowers are in active repayment status and the delinquency and loss rates have declined.
- Nonoperating expense decreased by \$7,897, relating to the contribution of investable assets to CHESLA. The amounts paid totaled \$2,000 in fiscal year 2017 and \$9,889 in fiscal year 2016.

## Management's Discussion and Analysis (Continued)

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### **Debt Administration**

#### **Long-term debt**

The change in long-term debt for CSLF was as follows:

<b>Bonds Payable (in thousands)</b>	<b>CSLF</b>	
	<b>2017</b>	<b>2016</b>
Revenue Bonds	\$ 232,050	\$ 274,800
Premiums/Discounts	(542)	(710)
Total Long-term liabilities	<u>\$ 231,508</u>	<u>\$ 274,090</u>

CSLF's decrease in long-term debt was due to the redemption of \$42,750 of bonds during the fiscal year.

CSLF maintains an AAA (senior debt) and AA+ (subordinate debt) rating from Standard & Poor's. CSLF maintains an AAA (senior debt) and AA (subordinate debt) rating from Fitch Ratings.

Additional information on long-term debt can be found in Exhibit D (II) D.

#### **Economic Factors**

General economic conditions have a smaller impact on CSLF. Due to the guarantee by the U.S. Department of Education (generally at 98% of principal and interest), CSLF does not experience significant loan losses in an economic downturn. Loan defaults and the resulting claim payments will accelerate repayment of the loan portfolio. In addition, interest rate risk is minimized as both the loan portfolio and the outstanding bonds have variable interest rates tied to market rates.

#### **Requests for Information**

This financial report is designed to familiarize our stakeholders and customers with CHEFA's finances and to demonstrate CHEFA's fiscal accountability for its operations. Questions concerning this report, or request for additional financial information, should be directed to Connecticut Health and Educational Facilities Authority at 10 Columbus Boulevard, Hartford, Connecticut 06106-19.

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# **Basic Financial Statements**

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**Connecticut Health and Educational Facilities Authority  
(A Component Unit of the State of Connecticut)**

**Statement of Net Position  
June 30, 2017  
(In Thousands)**

	Primary Government	Component Units		Total
	CHEFA	CHESLA	CSLF	
<u>Assets</u>				
Current assets				
Unrestricted assets				
Cash	\$ 767	\$ 1,362	\$ 598	\$ 2,727
Investments	7,588	2,835	-	10,423
Receivables (net of allowance for uncollectibles):				
Accounts	87	-	16	103
Related parties	31	-	-	31
Prepaid expenses and other assets	64	71	1	136
<b>Total unrestricted assets</b>	<b>8,537</b>	<b>4,268</b>	<b>615</b>	<b>13,420</b>
Restricted assets				
Investments				
Institutions	216,998	-	-	216,998
Bond indenture trusts	-	40,275	9,958	50,233
Other	-	3,785	-	3,785
Loans receivable	-	20,755	15,911	36,666
Interest receivable on investments	-	134	-	134
Loan interest receivable	-	416	4,129	4,545
<b>Total restricted assets</b>	<b>216,998</b>	<b>65,365</b>	<b>29,998</b>	<b>312,361</b>
<b>Total current assets</b>	<b>225,535</b>	<b>69,633</b>	<b>30,613</b>	<b>325,781</b>
Noncurrent assets				
Unrestricted assets				
Capital assets (net of accumulated depreciation)	81	-	-	81
Restricted assets				
Investments	6,845	21,416	-	28,261
Loans receivable (net of allowance for uncollectibles)	-	100,036	228,106	328,142
<b>Total noncurrent assets</b>	<b>6,926</b>	<b>121,452</b>	<b>228,106</b>	<b>356,484</b>
<b>Total assets</b>	<b>\$ 232,461</b>	<b>\$ 191,085</b>	<b>\$ 258,719</b>	<b>\$ 682,265</b>

**Connecticut Health and Educational Facilities Authority**  
**(A Component Unit of the State of Connecticut)**

**Statement of Net Position**  
**June 30, 2017**  
**(In Thousands)**

	Primary Government	Component Units		Total
	CHEFA	CHESLA	CSLF	
<u>Liabilities</u>				
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
Current portion of bonds payable	-	10,000	-	10,000
Total current liabilities	<u>217,177</u>	<u>10,880</u>	<u>1,398</u>	<u>229,455</u>
Noncurrent liabilities				
Bonds payable and related liabilities, net of current portion	-	150,702	231,508	382,210
Amount held for the State of Connecticut	2,176	-	-	2,176
Total noncurrent liabilities	<u>2,176</u>	<u>150,702</u>	<u>231,508</u>	<u>384,386</u>
Total liabilities	<u>219,353</u>	<u>161,582</u>	<u>232,906</u>	<u>613,841</u>
<u>Deferred Inflows of Resources</u>				
Unearned revenue	-	2,000	-	2,000
<u>Net Position</u>				
Net investment in 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	<u>13,108</u>	<u>27,503</u>	<u>25,813</u>	<u>66,424</u>
Total liabilities, deferred inflows of resources and net position	<u>\$ 232,461</u>	<u>\$ 191,085</u>	<u>\$ 258,719</u>	<u>\$ 682,265</u>

See Notes to Financial Statements.

**Connecticut Health and Educational Facilities Authority**  
**(A Component Unit of the State of Connecticut)**

**Statement of Revenues, Expenses and Changes in Fund Net Position**  
**For the Year Ended June 30, 2017**  
**(In Thousands)**

	Primary Government	Component Units		Total
	CHEFA	CHESLA	CSLF	
Operating revenues				
Interest income on loans receivable	\$ -	\$ 7,433	\$ 10,224	\$ 17,657
Administrative fees	7,458	655	-	8,113
General and administrative fees	234	-	-	234
Contribution from CSLF (scholarships)	-	1,889	-	1,889
Bond issuance fees	60	-	-	60
Not-for-profit servicing income	-	-	188	188
Other revenues	41	-	-	41
Total operating revenues	<u>7,793</u>	<u>9,977</u>	<u>10,412</u>	<u>28,182</u>
Operating expenses				
Interest expense	-	5,743	4,493	10,236
Salaries and related expenses	2,777	217	-	2,994
General and administrative	545	541	258	1,344
Refinance pilot program	-	201	-	201
Scholarships	-	1,887	-	1,887
Loan service fees	-	574	1,003	1,577
Consolidation rebate fees	-	-	1,604	1,604
Contracted services	129	37	503	669
Bond issuance costs	-	555	-	555
Provision for loan losses	-	73	-	73
Total operating expenses	<u>3,451</u>	<u>9,828</u>	<u>7,861</u>	<u>21,140</u>
Operating income	<u>4,342</u>	<u>149</u>	<u>2,551</u>	<u>7,042</u>
Nonoperating income (expenses)				
Investment income	84	283	37	404
Payment to State (legislative mandate)	(4,375)	-	-	(4,375)
Grants and child care subsidy expense	(1,226)	-	-	(1,226)
Contribution to CHESLA	-	-	(2,000)	(2,000)
Total nonoperating income (expenses)	<u>(5,517)</u>	<u>283</u>	<u>(1,963)</u>	<u>(7,197)</u>
Change in net position	<u>(1,175)</u>	<u>432</u>	<u>588</u>	<u>(155)</u>
Net position, July 1, 2016	<u>14,283</u>	<u>27,071</u>	<u>25,225</u>	<u>66,579</u>
Net position, June 30, 2017	<u>\$ 13,108</u>	<u>\$ 27,503</u>	<u>\$ 25,813</u>	<u>\$ 66,424</u>

See Notes to Financial Statements.

**Connecticut Health and Educational Facilities Authority**  
**(A Component Unit of the State of Connecticut)**

**Statement of Cash Flows**  
**For the Year Ended June 30, 2017**  
**(In Thousands)**

	Primary Government	Component Units	
	CHEFA	CHESLA	CSLF
Cash flows from operating activities			
Cash received from loan payments	\$ -	\$ 20,409	\$ 46,628
Interest received on loans	-	7,463	9,814
Fees received on loans	-	-	230
Contributions received from CSLF	-	2,000	-
Cash received for administrative fees	8,020	-	-
Cash received for recovery of loans	-	207	-
Cash received for general administrative fees	234	-	-
Cash received for not-for-profit servicing	-	-	188
Cash received for other revenues	41	-	-
Cash received for bond issuance fees	60	-	-
Cash payments for employee wages and benefits	(2,744)	(217)	-
Cash payments for interest on bonds	-	(5,768)	(4,325)
Cash payments for excess interest	-	-	(5,381)
Cash payments for loans issued	-	(23,927)	-
Cash payments for loans repurchased	-	-	(1,097)
Cash payments for loan servicing fees	-	(574)	(1,003)
Cash payments for consolidation fees	-	-	(1,604)
Cash payments for contracted services	(129)	(544)	(503)
Cash payments for refinance pilot program	-	(201)	-
Cash payments for other operating expenses	(481)	(821)	(262)
Cash payments for scholarships	-	(2,003)	-
Net cash provided by (used in) operating activities	<u>5,001</u>	<u>(3,976)</u>	<u>42,685</u>
Cash flows from noncapital financing activities			
Proceeds from bond sales	1,354,278	27,880	-
Proceeds from bond premiums	77,472	1,132	-
Proceeds from institutions	1,828	-	-
Proceeds from investment income			
for amounts held for others	1,793	-	-
Proceeds from amounts held on behalf of child care	2	-	-
Releases from amounts held for institutions	(1,537,067)	-	-
Cash paid to State (legislative mandate)	(4,375)	-	-
Cash paid to grantees and childcare subsidy	(1,226)	-	-
Payments of bond principal	-	(17,740)	(42,750)
Payment to refunded bond escrow agent	-	(5,460)	-
Contributions to CHESLA	-	-	(2,000)
Net cash provided by (used in) noncapital financing activities	<u>(107,295)</u>	<u>5,812</u>	<u>(44,750)</u>

**Connecticut Health and Educational Facilities Authority**  
**(A Component Unit of the State of Connecticut)**

**Statement of Cash Flows**  
**For the Year Ended June 30, 2017**  
**(In Thousands)**

	Primary Government	Component Units	
	CHEFA	CHESLA	CSLF
Cash flows from investing activities			
Proceeds from sale of investments	\$ 622,939	\$ 97,117	\$ 1,292
Purchase of investments	(520,091)	(100,317)	-
Investment income	84	254	37
Net cash provided by (used in) investing activities	<u>102,932</u>	<u>(2,946)</u>	<u>1,329</u>
Cash flows from capital and related financing activities			
Purchase of capital assets	(9)	-	-
Net increase (decrease) in cash	629	(1,110)	(736)
Cash (including restricted cash), July 1, 2016	138	2,472	1,334
Cash (including restricted cash), June 30, 2017	<u>\$ 767</u>	<u>\$ 1,362</u>	<u>\$ 598</u>
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities			
Operating income	\$ 4,342	\$ 149	\$ 2,551
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities			
Depreciation expense	52	-	-
Bond discount/premium amortization	-	(90)	168
Provision for loan losses	-	286	-
Interest on loans paid through loan advances	-	-	(5,331)
Loan advances to capitalize interest to loans	-	-	5,331
(Increase) decrease in:			
Accounts receivable	562	-	9
Accounts receivable - related party	(4)	-	-
Prepaid expenses and other assets	16	36	14
Loans receivable	-	(4,181)	40,241
Loan interest receivable	-	30	96
Increase (decrease) in:			
Accounts payable	(28)	(262)	(17)
Accrued expenses	61	(158)	(1)
Accrued interest payable	-	103	-
U.S. Department of Education payable	-	-	(50)
Trust Estate payable	-	-	(326)
Unearned revenue	-	111	-
Net adjustments to operating income (loss)	<u>659</u>	<u>(4,125)</u>	<u>40,134</u>
Net cash provided by (used in) operating activities	<u>\$ 5,001</u>	<u>\$ (3,976)</u>	<u>\$ 42,685</u>
Noncash activities:			
Issuance of loans receivable used to pay origination fees	<u>\$ -</u>	<u>\$ 655</u>	<u>\$ -</u>

See Notes to Financial Statements.

**Connecticut Health and Educational Facilities Authority  
(A Component Unit of the State of Connecticut)**

**Notes to Financial Statements  
June 30, 2017  
(In Thousands)**

**History and organization**

The Connecticut Health and Educational Facilities Authority (CHEFA or the "Authority") - CHEFA is a quasi-public agency and component unit of the State of Connecticut (the State). CHEFA was established pursuant to Chapter 187 of the General Statutes of Connecticut, Revision of 1958, as amended by Public Acts 93-102, 93-262 and 97-259 (the Act). CHEFA is constituted as a public instrumentality and political subdivision of the State whose board of directors is appointed by the Governor of the State of Connecticut. The purpose of CHEFA, as stated in the Act, is to assist certain health care institutions, institutions of higher education and qualified not-for-profit institutions in the financing and refinancing of projects to be undertaken in relation to the programs for these institutions. Debt issued by CHEFA is payable from the revenues of the institutions and is not an obligation of CHEFA or the State of Connecticut. Neither the State nor CHEFA is obligated for such debt (except for loans or bonds issued under the Child Care Facilities Loan Program, as discussed in Note II.F, and the Special Capital Reserve Fund Program. Under the Special Capital Reserve Fund Program, the State is obligated for replenishment of debt service reserve funds). The financial statements include Connecticut Higher Education Supplemental Loan Authority (CHESLA) and Connecticut Student Loan Foundation (CSLF) as component units.

**Reporting Entity**

CHESLA is a quasi-public agency established in 1982 pursuant to Section 4 of the Connecticut Higher Education Supplemental Loan Authority Act, Public Act 82-313 of the Connecticut General Assembly. CHESLA was established to assist students, their parents and institutions of higher education in financing the cost of higher education through its bond funds. CHESLA maintains separate financial statement accounts for its agency operating fund and two separate bond funds. The 1990 Bond Fund is governed by the 1990 Revenue Bond Resolution, as amended, supplemented and restated, pursuant to which all outstanding bonds were issued prior to 2003 and after 2007. The 2003 Bond Fund is governed by the 2003 Master Revenue Bond Resolution pursuant to which all outstanding bonds were issued between 2003 and 2007.

Public Act 12-149 statutorily consolidated CHESLA with CHEFA by making CHESLA a subsidiary of CHEFA. As a subsidiary of CHEFA, CHESLA retains its legal identity as a separate quasi-public authority, continues to be subject to suit and liability solely from its own assets, revenues and resources, and has no recourse to the general funds, revenues, resources or other assets of CHEFA or the State of Connecticut.

Public Act No. 14-217 statutorily consolidated CSLF with CHEFA by making CSLF a subsidiary of CHEFA. As a subsidiary of CHEFA, CSLF retains its legal identity as a separate quasi-public authority, continues to be subject to suit and liability solely from its own assets, revenues and resources, and has no recourse to the general funds, revenues, resources or other assets of CHEFA or the State of Connecticut.

**Connecticut Health and Educational Facilities Authority**  
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**Notes to Financial Statements**  
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**Reporting Entity**

CSLF was originally established as a Connecticut State chartered nonprofit corporation established pursuant to State of Connecticut Statute Chapter 187a and governed by Title IV, Part B of the Higher Education Act of 1965, as amended, for the purpose of improving educational opportunity. CSLF no longer originates or acquires student loans but continues to provide appropriate services incident to the administration of programs, which are established to improve educational opportunities.

CSLF has entered into an agreement to participate in the not-for-profit servicer program established under the Health Care and Education Reconciliation Act of 2010 (HCERA), Public Law 111-152.

**I. Summary of significant accounting policies**

**A. Financial statements**

The financial statements (i.e., the statement of net position and the statement of revenues, expenses and changes in fund net position) report information on all of the Authority's activities. The Authority relies to a significant extent on fees and charges for support.

As required by accounting principles generally accepted in the United States of America (GAAP), the financial statements of the reporting entity, CHEFA, include those of CHEFA (the primary government) and its component units (CHESLA and CSLF). In accordance with GAAP, the financial statements of the component units have been included in the financial reporting entity through a discrete presentation.

Discretely Presented Component Units - CHESLA and CSLF meet the criteria for discrete presentation and are presented separately from CHEFA in separate columns within these financial statements to clearly distinguish their balances and transactions from the primary government, CHEFA. CHEFA and its component units, CHESLA and CSLF are referred to together as the "Authority", throughout these financial statements when a common disclosure applies.

The financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

In accordance with GAAP, transactions between a primary government and discretely present component units are not eliminated from the financial statements. The fees charged by CHEFA to CHESLA and CSLF for administrative support and transfers of funds between entities are recorded in the same manner as unrelated entity transactions.

**Connecticut Health and Educational Facilities Authority  
(A Component Unit of the State of Connecticut)**

**Notes to Financial Statements  
June 30, 2017  
(In Thousands)**

**I. Summary of significant accounting policies**  
**B. Measurement focus, basis of accounting and financial statement presentation**

Proprietary funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Authority are charges to customers for administrative fees and interest on loan repayments. Operating expenses for the Authority include the cost of services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Administrative fees

CHEFA is self-supporting and charges an administrative fee to institutions with outstanding bond issues to cover its operating expenses. All issues, other than those under the Special Capital Reserve Fund Program for long-term care facilities, are charged an annual fee of nine basis points, billed semi-annually, in arrears, on the outstanding par amount of the bonds. Long-term care bonds issued under the Special Capital Reserve Fund Program are charged an annual fee of fourteen basis points, billed semi-annually, in arrears, on the outstanding par amount of the bonds.

Loan reserve fee revenue

CHESLA charges 3% reserve fee on loans governed by the 1990 Revenue Bond Resolution. This fee is recognized as an origination fee to the loans and is included in administrative fees on loans receivable on the statement of revenues, expenses and changes in fund net position.

Interest income on loans

For CHESLA and CSLF, interest income on loans is recognized based on the rates applied to principal amounts outstanding. For CHESLA, the accrual of interest income is generally discontinued when a loan is classified as nonperforming. Loans are currently considered nonperforming by management when the borrower has not made payments for the most recent 120 days. For CSLF, the accrual of interest income generally is discontinued when a claim is paid on a FFEL Program loan, or for alternative loans, when a loan is delinquent for 120 days.

**Connecticut Health and Educational Facilities Authority  
(A Component Unit of the State of Connecticut)**

**Notes to Financial Statements  
June 30, 2017  
(In Thousands)**

**I. Summary of significant accounting policies**  
**B. Measurement focus, basis of accounting and financial statement presentation**

Nonoperating activity

Activities not related to CHEFA's primary purpose are considered nonoperating. Nonoperating activities consist primarily of income on investments and expenses related to CHEFA's grant program. All of CHESLA's revenues and expenses are considered operating, except for income on investments. CSLF's nonoperating expenses relate to contributions to CHESLA as authorized by the Board of Directors.

When both restricted and unrestricted resources are available for use, it is the Authority's policy to use restricted resources first, then unrestricted resources as they are needed.

**C. Assets, liabilities, deferred inflows of resources and net position**

**1. Deposits and investments**

Deposits - The Authority's cash and cash equivalents consist of cash on hand, demand deposits, money market accounts and short-term investments with original maturities of three months or less from the date of acquisition.

Investments - The eligible investments are governed by each entity's enabling legislation (Connecticut Statutes) as follows:

CHEFA

In general, State of Connecticut Statutes allows CHEFA to invest in obligations of the United States of America or United States government sponsored corporations, in shares or other interests in any custodial arrangement, pool, or no-load, open-end management type investment company or investment trust (as defined), in obligations of any state or political subdivision rated within the top two rating categories of any nationally recognized rating service, or in obligations of the State of Connecticut or political subdivision rated within the top three rating categories of any nationally recognized rating service.

CHESLA

In general, State of Connecticut Statutes allows CHESLA to invest in (1) direct obligations of the United States or the State of Connecticut, (2) obligations as to which the timely payment of principal and interest is fully guaranteed by the United States or the State of Connecticut, and Connecticut Short-Term Investment Fund,

**Connecticut Health and Educational Facilities Authority  
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**Notes to Financial Statements  
June 30, 2017  
(In Thousands)**

**I. Summary of significant accounting policies**  
**C. Assets, liabilities, deferred inflows of resources and net position**

CHESLA

(3) obligations of the United States Export-Import Bank, Farmers Home Administration, Federal Financing Bank, Federal Housing Administration, General Services Administration, United States Maritime Administration, United States Department of Housing and Urban Development, Farm Credit System, Resolution Funding Corporation, federal intermediate credit banks, federal banks for cooperatives, federal land bank, federal home loan banks, Federal National Mortgage Association, Government National Mortgage Association and the Student Loan Marketing Association, (4) certificates of deposit or time deposits constituting direct obligations of any bank in the state, provided that investments may be made only in those certificates of deposit or time deposits in banks which are insured by the Federal Deposit Insurance Corporation if then in existence, (5) withdrawable capital accounts or deposits of federal chartered savings and loan associations which are insured by the Federal Savings and Loan Insurance Corporation, (6) other obligations which are legal investments for savings banks in the state, (7) investment agreements with financial institutions whose long-term obligations are rated within the top two rating categories of any nationally recognized rating service or of any rating service recognized by the Banking Commissioner or whose short-term obligations are rated within the top two rating categories of any nationally recognized rating service or of any rating service recognized by the Banking Commissioner, or investment agreements fully secured by obligations of, or guaranteed by, the United States or agencies or instrumentalities of the United States, and (8) securities or obligations which are legal investments for savings banks in Connecticut, subject to repurchase agreements in the manner in which such agreements are negotiated in sales of securities in the marketplace, provided CHESLA shall not enter into any such agreement with any securities dealer or bank acting as a securities dealer unless such dealer or bank is included in the list of primary dealers, as prepared by the Federal Reserve Bank of New York, effective at the time of the agreement. Any such securities may be purchased at the offering or market price thereof at the time of such purchase. All such securities so purchased shall mature or be redeemable on a date or dates prior to the time when, in the judgment of CHESLA, the funds so invested will be required for expenditure. The express judgment of CHESLA as to the time when any funds shall be required for expenditure or be redeemable is final and conclusive.

**Connecticut Health and Educational Facilities Authority  
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**Notes to Financial Statements  
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**I. Summary of significant accounting policies**  
**C. Assets, liabilities, deferred inflows of resources and net position**

CSLF

In general, State of Connecticut Statutes allows CSLF to invest in the Connecticut Short-Term Investment Fund and in such other investments and investment agreements as may be approved by resolution of the issuer. In connection with, or incidental to, the issuance or carrying of bonds, notes or other obligations, or acquisition or carrying of any investment or program of investment, the corporation may enter into any contract with any financial institution having a rating of at least "A", or into any contract secured by security so rated, which the issuer determines to be necessary or appropriate to place the obligation or investment of the issuer, as represented by the bonds, notes or other obligations, investment or program of investment and the contract or contracts, in whole or in part, on the interest rate cash flow or other basis desired by the issuer.

Investment policies

CHEFA's investment policy provides that the investment portfolio for its unrestricted investments be designed with the objective of regularly exceeding the average return of ninety-day U.S. Treasury Bills. The investment policy as it relates to restricted investments provides that all restricted accounts be invested in strict accordance with the bond issue trust indentures and with applicable Connecticut State law. Whenever possible, restricted investments are to be held to maturity and invested in an appropriate manner so as to ensure the availability for specified payment dates, planned construction draws and other intended purposes as set forth in the relevant trust indentures and agreements, and to ensure a rate of return at least equal to the restricted bond yield, all with minimal risk to capital.

CHESLA and CSLF's specific investment policy complies with the underlying bond resolution requirements. In addition, to minimize interest rate risk, the structuring of the investment portfolios is done so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell investments on the open market prior to maturity. Operating funds are primarily invested in shorter-term securities, money market mutual funds or similar investment pools.

**Connecticut Health and Educational Facilities Authority  
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**I. Summary of significant accounting policies**

**C. Assets, liabilities, deferred inflows of resources and net position**

Concentrations of credit risk

CHEFA, for unrestricted investments, places limits on the amount of investment in any one issuer. No issuer other than the United States Treasury or the Connecticut Short-Term Investment Fund shall constitute greater than 5% of unrestricted investments, except for qualified money market or mutual bond funds, none of which shall constitute greater than 50% of investments.

CHESLA and CSLF do not have a formalized investment policy that restricts investment in any one issuer that is in excess of 5% of total investments. The deposit and investment policies comply with the underlying bond resolution requirements as previously described.

Investment income is recorded in the fund in which it was earned.

Method used to value investments

Investments for the Authority are reported at fair value. Connecticut Short-Term Investment Fund is an investment pool managed by the State of Connecticut Office of the State Treasurer. Investments must be made in instruments authorized by Connecticut General Statutes 3-27a - 3-27c. Investment guidelines are adopted by the State Treasurer. The fair value of the position in the pool is the same as the value of the pool shares.

The Authority presents all investments at fair value, except for non-participating investment contracts, which are recorded at cost.

**2. Fees and loan receivables**

All receivables are shown net of an allowance for uncollectibles. The allowance is based upon a review of the outstanding receivables and past collection history.

**a. Loans receivable and allowance for loan losses**

CHESLA: Interest on loans receivable is accrued and credited to operations based upon the principal amount outstanding. Loans are placed on nonaccrual status when management believes principal or interest on such loans may not be collected in the normal course of business. The allowance for loan losses has been provided through charges against operations based on management's evaluation of the loan portfolio and maintained at a level believed adequate to absorb potential losses in the loan portfolio. Loans are typically written off against the allowance for loan losses (net of loan recoveries) in the period in which the loans become nonperforming and no payments have been made for 12 consecutive months. However, a loan may be written off at any time management believes the repayment of such loan is doubtful. Collections of loans previously written off are pursued until management believes that further recoveries are doubtful.

**Connecticut Health and Educational Facilities Authority  
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**I. Summary of significant accounting policies**

**C. Assets, liabilities, deferred inflows of resources and net position**

CSLF: The allowance for Federal Education Loan Program loan losses has been provided through charges against operations based on management's evaluation of the loan portfolio. Loans are typically written off against the allowance for loan losses (net of loan recoveries) at the point in which the guarantee has been paid and CSLF has a risk sharing component or it is determined that all recovery options have been exhausted and the loans have lost their Federal guarantee and are no longer eligible for reinstatement. Federal guarantees are reinstated if the lender or servicer successfully performs certain Federally prescribed "cure" procedures. In general, the lender has three years from the initial claim rejection date or the latest timely filing date if a claim has not been filed to cure a loan.

For alternative loans, periodic monitoring of loan performance has been established to ensure the adequacy of the reserve allowance. Loans are typically written off against the allowance for loan losses (net of recoveries) at 150 days delinquent.

**b. Nonperforming loans**

CHESLA currently defines nonperforming loans as defaulted loans in collections, whereby no payment has been made for 120 days, but have not been written off.

**3. Restricted assets**

Restricted assets are maintained under trust agreements in separate sub-funds for each debt issue in accordance with the requirements of the underlying bond issue documents.

CHEFA's restricted assets include assets held in construction and project funds for which CHEFA has fiduciary responsibility. Construction and project funds reflect the receipt of bond proceeds, costs of issuance and disbursement of monies for the payment of construction or renovation projects and equipment for the institutions.

The interest earned on restricted assets held for institutions is not reflected in the statement of revenues, expenses and changes in fund net position, as such income accrues to the benefit of the institutions.

The restricted investments classified as noncurrent include funds held by CHEFA as a result of its partnership with the State of Connecticut Department of Education (SDE), the Office of the State Treasurer, and banking institutions to provide childcare providers with access to financing under the following loan programs: the Tax-Exempt Pooled Bond Issue Program, the Guaranteed Loan Fund Program and the Small Revolving Direct Loan Program.

The State of Connecticut Department of Social Services (DSS) is responsible for paying a portion of the debt service on the Child Care Facilities Program Series F and G bonds and all of the debt service on the State Supported Child Care Revenue Bonds, subject to available appropriations and pursuant to a Memorandum of Understanding.

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**Notes to Financial Statements  
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(In Thousands)**

**I. Summary of significant accounting policies**

**C. Assets, liabilities, deferred inflows of resources and net position**

Guaranteed Loan Fund Program - The purpose of the Guaranteed Loan Fund Program is to guarantee loans for the expansion or development of childcare and child development centers in the State. CHEFA is responsible for guaranteeing 20% to 50% of each loan outstanding.

The DSS contributions to the Guaranteed Loan Fund Program and the Small Revolving Direct Loan Program, net of payouts and accrued expense, along with the amount of CHEFA's support to the Guaranteed Loan Fund Program, are recorded within restricted investments.

Pursuant to Public Act 09-110, which established the Connecticut Credit Union Student Loan Program, CHEFA was required to fund a first loss loan guarantee of 20% on the outstanding balance on each loan.

CHESLA's restricted assets include assets held by the individual bond funds as governed by the bond resolutions as previously described. Under the provisions of the bond resolutions, certain assets are restricted for the repayment of bond principal and interest and for the issuance of student loans. In accordance with the bond resolutions, each bond issue has separate accounts which include individual funds as defined by each bond resolution, including but not limited to combinations of some of the following: the Loan Fund, Revenue Fund, Debt Service Fund and Special Capital Reserve Fund.

The 2003 Bond Fund is governed by the 2003 Master Revenue Bond Resolution, pursuant to which the 2006 and 2007 Series A bonds were issued.

The 1990 Bond Fund is governed by the 1990 Revenue Bond Resolution pursuant to which all outstanding bonds were issued prior to the 2003 Series A and B bonds as well as the 2009, 2010, 2012, 2013, 2014, 2015, 2016 and 2017 Series A bonds.

CHESLA's restricted investments classified as current include the fund investments held by CHESLA pursuant to the bond resolutions in the individual Loan Fund, Revenue Fund and Debt Service Funds.

CHESLA's restricted investments classified as noncurrent include funds held by CHESLA pursuant to the bond resolutions in individual Special Capital Reserve Funds.

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**I. Summary of significant accounting policies**

**C. Assets, liabilities, deferred inflows of resources and net position**

Deficiencies, if any, in the Debt Service Fund balances within the CHESLA Bond Funds will be funded from the amount on deposit in the applicable Special Capital Reserve Fund. Both the Debt Service Fund and the Special Capital Reserve Fund are components of restricted investments. In accordance with Public Act 82-313, the State must deposit with the trustee monies necessary to restore the Special Capital Reserve Fund requirement. As of June 30, 2017, the State has not made nor was it required to make any such deposit.

CSLF's restricted assets include the Trust Estate net position, as follows:

Trust Estate - Includes assets and liabilities associated with the bond offerings as detailed in the Bond Indenture:

- Trust cash and investment accounts - The indenture created special trust accounts to be held by the Trustee to be used for recordkeeping and reporting purposes as defined by the indenture.
- The bonds included in the Trust Estate are special and limited obligations of CSLF, secured by and payable from the Trust Estate held under the indenture, without recourse to any other assets of CSLF. The bonds are secured by eligible student loans as identified in the indenture.
- Release of amounts from the Trust Estate - The indenture provides that CSLF may withdraw amounts from the Trust Estate under certain limited circumstances as defined in the indenture.
- Redemption and acceleration provisions - The indenture sets forth provisions for the redemption and acceleration of the bonds prior to maturity under certain circumstances.

**Connecticut Health and Educational Facilities Authority  
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**Notes to Financial Statements  
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(In Thousands)**

**I. Summary of significant accounting policies**

**C. Assets, liabilities, deferred inflows of resources and net position**

**4. Capital assets**

Capital assets, which include property, plant and equipment, are reported in the fund financial statements. Capital assets are defined by the Authority as assets with an initial, individual cost of more than \$2,500 for all assets. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized.

Property, plant and equipment of the Authority are depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Leasehold improvements	5 years
Computer equipment	3-5 years
Furniture and fixtures	10 years
Office equipment	3-6 years

**5. Amounts held for institutions**

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

**6. Amounts held on behalf of the State of Connecticut**

Amounts held on behalf of the State of Connecticut represent funds transferred to CHEFA under its agency relationship with SDE related to the childcare program pursuant to Public Act 97-259.

**7. Arbitrage rebate and excess loan yield liability**

Under the Internal Revenue Code of 1986 (the Code), CHESLA is required to rebate to the federal government certain excess earnings on investments from funds obtained with its tax-exempt bonds, as defined by the Code, or reduce its excess loan yield on student loans financed with tax-exempt bonds.

**Connecticut Health and Educational Facilities Authority  
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**I. Summary of significant accounting policies**

**C. Assets, liabilities, deferred inflows of resources and net position**

**8. Compensated absences**

Employees of the Authority earn sick leave, which can accumulate, and vacation leave based on the provisions of personnel policies. Vacation leave vests with the employee and is payable upon termination of employment.

**9. Long-term obligations**

In the financial statements, long-term debt and other long-term obligations are reported as liabilities in the statement of net position. Bond premiums and discounts are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenses.

**10. Deferred inflows of resources**

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The Authority reports a deferred inflow of resources related to unearned amounts received for the scholarship program that occurs in the subsequent fiscal year.

**11. Net position flow assumption**

Sometimes the Authority will fund outlays for a particular purpose from both restricted (e.g., restricted bond or grant proceeds) and unrestricted resources. In order to calculate the amounts to report as restricted - net position and unrestricted - net position in the proprietary fund financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the Authority's policy to consider restricted - net position to have been depleted before unrestricted - net position is applied.

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**I. Summary of significant accounting policies**

**C. Assets, liabilities, deferred inflows of resources and net position**

**12. Fund equity and net position**

In the fund financial statements, net position is classified into the following categories:

Net Investment in Capital Assets

This category presents the net position that reflect capital assets net of only the debt applicable to the acquisition or construction of these assets. Debt issued for non-capital purposes is excluded.

Restricted Net Position

This category presents the net position restricted by external parties (creditors, grantors, contributors or laws and regulations).

Unrestricted Net Position

This category presents the net position of the Authority, which is not restricted.

**13. Use of estimates**

The preparation of the financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities including disclosures of contingent assets and liabilities and reported revenues and expenses during the fiscal year. Accordingly, actual results could differ from those estimates.

**14. Comparative data/reclassifications**

Certain amounts presented in the prior year data have been reclassified in order to be consistent with the current year's presentation.

**Connecticut Health and Educational Facilities Authority  
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**II. Detailed notes**

**A. Cash and investments**

Deposits - Custodial Credit Risk - Custodial credit risk is risk that, in the event of a bank failure, the Authority's deposits may not be returned to it. The Authority does not have a deposit policy for custodial credit risk.

CHEFA

As of June 30, 2017, \$577 of CHEFA's bank balance of \$827 (including certificates of deposit and money market accounts classified as investments) was exposed to custodial credit risk as follows:

Uninsured and uncollateralized	\$ 494
Uninsured and collateral held by the pledging bank's trust department, not in CHEFA's name	<u>83</u>
Total amount subject to custodial credit risk	<u>\$ 577</u>

CHESLA

As of June 30, 2017, \$1,141 of CHESLA's bank balance of \$1,563 (including certificates of deposit and money market accounts classified as investments) was exposed to custodial credit risk as follows:

Uninsured and uncollateralized	\$ 1,002
Uninsured and collateral held by the pledging bank's trust department, not in CHESLA's name	<u>139</u>
Total amount subject to custodial credit risk	<u>\$ 1,141</u>

CSLF

As of June 30, 2017, \$350 of CSLF's bank balance of \$600 (including certificates of deposit and money market accounts classified as investments) was exposed to custodial credit risk as follows:

Uninsured and uncollateralized	\$ 290
Uninsured and collateral held by the pledging bank's trust department, not in CSLF's name	<u>60</u>
Total amount subject to custodial credit risk	<u>\$ 350</u>

**Connecticut Health and Educational Facilities Authority**  
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**A. Cash and investments**

Financial instruments that potentially subject the Authority to significant concentrations of credit risk consist primarily of cash. From time to time, the Authority's cash account balances exceed the Federal Deposit Insurance Corporation limit. The Authority reduces its credit risk by maintaining its cash deposits with major financial institutions and monitoring their credit ratings.

CHEFA's investments (including restricted investments) consisted of the following types and maturities. Specific identification was used to determine the maturities.

Type of Investment	Fair Value	Investment Maturities (In Years)			
		Less Than 1	1-5 Years	5-10 Years	Over 10
Mutual Funds:					
Government Agency Funds	\$ 188,659	\$ 188,659	\$ -	\$ -	\$ -
Short-Term U.S.					
Government Securities	21,761	21,761	-	-	-
Pooled Fixed Income	8,886	8,886	-	-	-
U.S. Government Securities	7,183	-	7,183	-	-
Municipal Bonds	4,942	4,121	395	-	426
Total	<u>\$ 231,431</u>	<u>\$ 223,427</u>	<u>\$ 7,578</u>	<u>\$ -</u>	<u>\$ 426</u>

CHESLA's investments (including restricted investments) consisted of the following types and maturities. Specific identification was used to determine the maturities.

Type of Investment	Fair Value	Investment Maturities (In Years)			
		Less Than 1	1-5 Years	5-10 Years	Over 10
Mutual Funds:					
Money Market	\$ 5	\$ 5	\$ -	\$ -	\$ -
Bond	2	-	-	-	2
Bank Money Market Funds	191	191	-	-	-
Pooled Fixed Income	53,950	53,950	-	-	-
U.S. Government Securities	7,006	-	-	-	7,006
Guaranteed Investment Contracts	7,157	-	1,857	5,300	-
Total	<u>\$ 68,311</u>	<u>\$ 54,146</u>	<u>\$ 1,857</u>	<u>\$ 5,300</u>	<u>\$ 7,008</u>

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**A. Cash and investments**

CSLF's investments (including restricted investments) consisted of the following types and maturities. Specific identification was used to determine the maturities.

Type of Investment	Fair Value	<u>Investment Maturities</u> (In Years)	
			Less Than 1
Short-Term U.S. Government Agency Securities	\$ 8,209	\$	8,209
Pooled Fixed Income	1,749		1,749
	<u>\$ 9,958</u>	<u>\$</u>	<u>9,958</u>

Fair value of investments

CHEFA measures and records its investments using fair value measurement guidelines established by GAAP. These guidelines recognize a three-tiered fair value hierarchy, as follows:

- Level 1: Quoted prices for identical investments in active markets;
- Level 2: Observable inputs other than quoted market prices; and
- Level 3: Unobservable inputs.

CHEFA had the following recurring fair value measurements:

<u>Investments by fair value level</u>	<u>Amount</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Government Agency Mutual Funds	\$ 188,659	\$ 188,659	\$ -	\$ -
Short-Term U.S. Government Securities	21,761	21,761	-	-
U.S. Government Securities	7,183	-	7,183	-
Municipal Bonds	4,942	-	4,942	-
Total investments by fair value level	222,545	<u>\$ 210,420</u>	<u>\$ 12,125</u>	<u>\$ -</u>
<u>Other Investments</u>				
Pooled Fixed Income	8,886			
Total Investments	<u>\$ 231,431</u>			

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**A. Cash and investments**

**CHESLA**

Investments by fair value level	Amount	Level 1	Level 2	Level 3
Money Market Mutual Funds	\$ 5	\$ 5	\$ -	\$ -
Bond Mutual Funds	2	2	-	-
U.S. Government Securities	7,006	-	7,006	-
Total investments by fair value level	7,013	\$ 7	\$ 7,006	\$ -

**Other Investments**

Money Market (bank)	191
Guaranteed Investment Contracts	7,157
Pooled Fixed Income	53,950
Total other investments	61,298
Total Investments	\$ 68,311

**CSLF**

Investments by fair value level	Amount	Level 1	Level 2	Level 3
Short-Term U.S. Government Agency Securities	\$ 8,209	\$ -	\$ 8,209	\$ -

**Other Investments**

Pooled Fixed Income	1,749
Total Investments	\$ 9,958

Securities classified in Level 1 are valued using prices quoted in active markets for those securities. Securities classified in Level 2 are valued using the following approaches:

- U.S. government securities, short-term U.S. government agency securities, and municipal bonds: quoted prices for identical securities in markets that are not active

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**II. Detailed notes**

**A. Cash and investments**

Interest rate risk

To minimize interest rate risk, CHEFA, CHESLA and CSLF's policy requires the structuring of the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities on the open market prior to maturity. Operating funds should primarily be invested in shorter-term securities, money market mutual funds or similar investment pools.

Credit risk

CHEFA has an investment policy that would further limit its investment choices beyond those limited by Connecticut State Statutes for both unrestricted and restricted investments. Investments that may be purchased with the written approval of an officer, provided the instrument has a maturity date of 365 days or less from the date of purchase, are as follows: obligations issued or guaranteed by the U.S. Government, including the Federal Deposit Insurance Corporation (FDIC); qualified money market funds or institutional money market funds investing in short-term securities as permitted by enabling legislation; the Connecticut Short-Term Investment Fund provided it maintains a "AAA" rating by Standard and Poor's; and qualified repurchase agreements secured by obligations issued or guaranteed by the U.S. Government. With approval by the Audit-Finance Committee or Board of Directors, the following unrestricted investments are also permissible: any otherwise permitted investment with a maturity greater than 365 days from purchase; obligations issued or guaranteed by the State of Connecticut, including the State's medium-term or long-term investment fund; other debt obligations which are statutorily permissible; and qualified guaranteed investment contracts complying with Connecticut General State Statutes 10a-180(s), Authority guidelines and applicable trust indentures.

CHESLA and CSLF follow Section 10a-238 of the Connecticut General Statutes for its investment policy, which allows investments as follows: obligations issued or guaranteed by the U.S. Government or the State of Connecticut; obligations which are legal investments for savings banks in the State of Connecticut including deposits which are insured by the Federal Deposit Insurance Corporation (FDIC); deposits with federal chartered savings and loan association which are insured by the Federal Savings and Loan Insurance Corporation; investment agreements with financial institutions whose long-term obligations are rated within the top two rating categories of any nationally recognized rating service or of any rating service recognized by the Banking Commissioner or whose short-term obligations are rated within the top two rating categories of any nationally recognized rating service or of any rating service recognized by the Banking Commissioner; investment agreements fully secured by obligations of, or guaranteed by, the United States or agencies or instrumentalities of the United States; and securities or obligations which are legal investments for savings banks in Connecticut, subject to repurchase agreements in the manner in which such agreements are negotiated in sales of securities in the market place, provided the authority shall not enter into any such agreement with any securities dealer or bank acting as a securities dealer unless such dealer or bank is included in the list of primary dealers, as prepared by the Federal Reserve Bank of New York, effective at the time of the agreement.

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**II. Detailed notes**

**A. Cash and investments**

CHEFA's investments subject to credit risk had average ratings by Standard & Poor's as follows:

Average Rating	Pooled Fixed Income	Municipal Bonds	Government Agency Mutual Funds
AAA	\$ 8,886	\$ 1,681	\$188,659
AA	-	2,461	-
<b>Total</b>	<b><u>\$ 8,886</u></b>	<b><u>\$ 4,942</u></b>	<b><u>\$188,659</u></b>

CHESLA's investments subject to credit risk had average ratings by Standard & Poor's as follows:

Average Rating	Pooled Fixed Income	Guaranteed Investment Contracts	Bond Mutual Funds	Money Market Mutual Funds
AAA	<u>\$ 53,950</u>	<u>\$ 7,157</u>	<u>\$ 2</u>	<u>\$ 5</u>

CSLF's investments subject to credit risk had average ratings by Standard & Poor's as follows:

Average Rating	Pooled Fixed Income	Short-Term U.S. Government Agency Securities
AAA	<u>\$ 1,749</u>	<u>\$ 8,209</u>

Custodial credit risk - custodial credit risk is the risk that, in the event of the failure of the counterparty, the Authority will not be able to recover the value of its investment or collateral securities that are in the possession of an outside party.

**Connecticut Health and Educational Facilities Authority  
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**II. Detailed notes**

**A. Cash and investments**

Certain investments are covered by the Securities Investor Protection Corporation ("SIPC") up to \$500,000, including \$250,000 of cash from sale or for purchase of investments, but not cash held solely for the purpose of earning interest. SIPC protects securities such as notes, stocks, bonds, debentures, certificates of deposit and money funds.

The following investments are held by the counterparty's trust department or agent but not in the entity's name and, therefore, are subject to custodial credit risk as follows:

CHEFA

	<u>Total</u>	<u>Less Insured Amounts</u>	<u>Amount Subject To Custodial Credit Risk</u>
Short Term U.S. Government Securities	\$ 21,761	\$ -	\$ 21,761
U.S. Government Securities	7,183	-	7,183
Municipal Bonds	4,942	500	4,442
<b>Total</b>	<b>\$ 33,886</b>	<b>\$ 500</b>	<b>\$ 33,386</b>

CHESLA

	<u>Total</u>	<u>Less Insured Amounts</u>	<u>Amount Subject To Custodial Credit Risk</u>
U.S. Government Securities	\$ 7,006	\$ 500	\$ 6,506

CSLF

	<u>Total</u>	<u>Less Insured Amounts</u>	<u>Amount Subject To Custodial Credit Risk</u>
Short-Term U.S. Government Agency Securities	\$ 8,209	\$ 500	\$ 7,709

**Connecticut Health and Educational Facilities Authority  
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**II. Detailed notes**

**A. Cash and investments**

Concentrations of credit risk - For unrestricted investments, CHEFA places limits on the amount of investment in any one issuer. No issuer other than the United States Treasury or the Connecticut Short-Term Investment Fund shall constitute greater than 5% of unrestricted investments, except for qualified money market or mutual bond funds, none of which shall constitute greater than 50% of investments. CHEFA places no limit on the amount of investment in any one issuer for restricted investments.

**B. Receivables**

Receivables as of June 30, 2017 for the Authority's financial statements by type are as follows:

CHESLA makes loans to students from the proceeds of bonds issued by CHESLA. CHESLA also refinances CHESLA and other lenders' student loans. Loans receivable as of June 30, 2017 are as follows:

	Active Loans	Loans in Collection	Total
Current portion	\$ 20,755	\$ -	\$ 20,755
Long-term portion	100,556	2,152	102,708
Less Allowance	(2,209)	(463)	(2,672)
Net Long-term portion	98,347	1,689	100,036
Total Net Receivables	\$ 119,102	\$ 1,689	\$ 120,791

During the fiscal year, CHESLA wrote off loans receivable of \$308 which had previously been provided for through the allowance for loan losses.

During the fiscal year, CHESLA recovered \$242 in loans receivable and other credits that were written off in previous years.

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**II. Detailed notes**

**B. Receivables**

CSLF, up until 2010, also made loans to students from the proceeds of bond issues.

	<u>FFELP</u>	<u>Alternative</u>	<u>Total</u>
Current portion	\$ 15,562	\$ 349	\$ 15,911
Long-term portion	223,785	5,198	228,983
Less Allowance	<u>(569)</u>	<u>(308)</u>	<u>(877)</u>
Net Long-term portion	<u>223,216</u>	<u>4,890</u>	<u>228,106</u>
Total Net Receivables	<u>\$ 238,778</u>	<u>\$ 5,239</u>	<u>\$ 244,017</u>

During the fiscal year, CSLF wrote off Federal loans receivable of \$172 (CSLF risk share only), and \$185 of private loans, which is net of \$112 in recoveries, which had previously been provided for through the allowance for loan losses.

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 thirty years. The interest rate on these loans varies and ranges from approximately 2.65% to 12%.

Alternative loans are student loans that are not insured by the U.S. Department of Education. Alternative loans are repaid monthly over a period of years ranging from 10 to 30 years. For loan applications received prior to April 1, 2008, the interest rate is variable, calculated to equal prime plus 2% with a 10% cap. Borrowers were charged a fixed non-refundable origination fee of \$150 and a 2% reserve fee. For loan applications received on or after April 1, 2008, the interest rate and reserve fee varied depending on the borrower's credit score. Interest rates range between prime and prime plus 4% with no cap and the reserve fee ranged from 2% to 6%. Interest rates on all Alternative loans are reset quarterly and origination fees, where applicable, were withheld from loan proceeds.

Student loans are classified as being "In-school" status during the period from the date the loan is made until a student graduates or leaves school. Loans are classified as being "In-grace" status from the time the student leaves school until repayment begins six months later. Subsequent to this period, student loans are classified as being in "repayment" status. "Deferral" and "forbearance" status are periods during the life of the loan where repayment is suspended for authorized purposes.

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**II. Detailed notes**

**B. Receivables**

CSLF Loan portfolio assets' scheduled maturities are summarized as follows:

June 30, 2018	\$	15,911
2019		16,953
2020		17,996
2021		19,103
2022		20,280
2023-2027		105,568
2028-2032		<u>49,083</u>
<b>Total</b>	<b>\$</b>	<b><u>244,894</u></b>

**C. Capital assets**

CHEFA capital asset activity for the year ended June 30, 2017 was as follows:

	<b>Balance July, 1 2016</b>	<b>Increases</b>	<b>Decreases</b>	<b>Balance June 30, 2017</b>
Capital assets being depreciated:				
Leasehold improvements	\$ 154	\$ 9	\$ (6)	\$ 157
Computer equipment	670	-	(415)	255
Furniture and fixtures	276	-	(20)	256
Office equipment	584	-	(203)	381
Total capital assets being depreciated	<u>1,684</u>	<u>9</u>	<u>(644)</u>	<u>1,049</u>
Less accumulated depreciation for:				
Leasehold improvements	152	4	(6)	150
Computer equipment	649	12	(415)	246
Furniture and fixtures	258	4	(20)	242
Office equipment	501	32	(203)	330
Total accumulated depreciation	<u>1,560</u>	<u>52</u>	<u>(644)</u>	<u>968</u>
Total capital assets being depreciated, net	<u>\$ 124</u>	<u>\$ (43)</u>	<u>\$ -</u>	<u>\$ 81</u>

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**II. Detailed notes****D. Changes in long-term obligations****1. Summary of changes**

The following is a summary of changes in long-term obligations for the year ended June 30, 2017:

**CHESLA**

Description	Original Amount	Date of Issue	Date of Final Maturity	Interest Rate	Balance			Amount Refunded	Balance June 30, 2017	Current Portion
					July 1, 2016	Additions	Deductions			
Bond 2006 A	\$33,270	8/17/2006	11/15/2022	3.9 - 4.8%	\$ 7,160	\$ -	\$ 1,700	\$ 5,460	\$ -	\$ -
Bond 2007 A	41,000	8/23/2007	11/15/2024	4.125 - 4.875%	16,340	-	2,850	-	13,490	2,180
Bond 2009 A	30,000	8/6/2009	11/15/2027	1.9 - 5.05%	16,070	-	2,185	-	13,885	1,130
Bond 2010 A	45,000	10/19/2010	11/15/2035	2.0 - 5.25%	32,695	-	3,425	-	29,270	2,310
Bond 2012 A	13,085	3/28/2012	11/15/2021	0.4 - 3.125%	2,670	-	1,480	-	1,190	640
Bond 2013 A	25,000	4/2/2013	11/15/2029	2.0 - 4.0%	21,365	-	1,805	-	19,560	1,040
Bond 2014 A	23,000	6/18/2014	11/15/2030	3.0 - 5.0%	22,505	-	1,385	-	21,120	700
Bond 2015 A	21,465	7/2/2015	11/15/2031	1.65 - 4.375%	18,980	-	2,910	-	16,070	1,600
Bond 2016 A	15,000	6/30/2016	11/15/2033	3.0 - 5.0%	15,000	-	-	-	15,000	400
Bond 2017 A	27,880	5/16/2017	11/15/2033	3.25 - 5.0%	-	27,880	-	-	27,880	-
<b>Total CHESLA</b>					<b>152,785</b>	<b>27,880</b>	<b>17,740</b>	<b>5,460</b>	<b>157,465</b>	<b>10,000</b>
Premiums					2,999	1,132	154	-	3,977	-
Discounts					(804)	-	(64)	-	(740)	-
<b>Total Bonds and related liabilities</b>					<b>\$ 154,980</b>	<b>\$ 29,012</b>	<b>\$ 17,830</b>	<b>\$ 5,460</b>	<b>\$ 160,702</b>	<b>\$ 10,000</b>

**CSLF**

Description	Original Amount	Date of Issue	Date of Final Maturity	Variable Interest Rate	Balance			Balance June 30, 2017	Current Portion
					July 1, 2016	Additions	Deductions		
Bond 04 A-3	\$ 75,000	10/15/2004	6/1/2034	0.264 - 2.639%	\$ 43,075	\$ -	\$ 19,250	\$ 23,825	\$ -
Bond 06 A-1	80,000	7/27/2006	6/1/2046	0.274 - 2.455%	72,925	-	-	72,925	-
Bond 06 A-2	100,000	12/14/2006	6/1/2046	0.274 - 2.455%	81,475	-	-	81,475	-
Bond 04 B	62,900	10/15/2004	6/1/2034	0.533 - 2.615%	57,350	-	23,500	33,850	-
Bond 06 B	20,000	7/27/2006	6/1/2046	0.523 - 2.624%	19,975	-	-	19,975	-
<b>Total Bonds</b>					<b>274,800</b>	<b>-</b>	<b>42,750</b>	<b>232,050</b>	<b>-</b>
Discounts					(710)	-	(168)	(542)	-
<b>Total bonds and related amounts</b>					<b>\$ 274,090</b>	<b>\$ -</b>	<b>\$ 42,582</b>	<b>\$ 231,508</b>	<b>\$ -</b>

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**II. Detailed notes**  
**D. Changes in long-term obligations**

The annual requirements to amortize bonds payable at June 30, 2017, are as follows:

CHESLA

<u>Fiscal Year Ended</u>	<u>Principal</u>	<u>Interest</u>
2018	\$ 10,000	\$ 6,153
2019	11,550	5,754
2020	12,330	5,301
2021	13,055	4,800
2022	13,490	4,255
2023-2027	57,065	13,073
2028-2032	32,645	4,029
2033-2037	7,330	380
Total	<u>\$ 157,465</u>	<u>\$ 43,745</u>

CSLF

The approximate future annual principal and interest payments are due as follows:

<u>Fiscal Year Ended</u>	<u>Principal</u>	<u>Interest</u>
2018	\$ -	\$ 4,078
2019	-	4,078
2020	-	4,078
2021	-	4,078
2022	-	4,078
2023-2027	-	20,389
2028-2032	-	20,389
2033-2037	57,675	17,279
2038-2042	-	15,346
2043-2047	174,375	12,021
Total	<u>\$ 232,050</u>	<u>\$ 105,814</u>

The interest rate payable to the bondholders for these issues are variable auction rate certificates ("ARCs"), which generally have interest rate reset periods of 28 days. The interest rates associated with the various bond issues at the last reset period prior to the June 30, 2017 year-end ranged from 1.506% to 2.639%.

**Connecticut Health and Educational Facilities Authority  
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**Notes to Financial Statements  
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**II. Detailed notes**

**D. Changes in long-term obligations**

The maximum rate on the ARCs is defined in each bond prospectus and is based on one of the following:

- The average of the 91-day United States Treasury Bill rate plus 1.2% or 1.5% or the LIBOR rate plus 1.5% depending on the bond's rating. It may not exceed 17.0%. The capital markets for student loans have experienced a significant disruption resulting in decreased marketability of student loans and related ARCs. The bonds are not callable if the auction period expires, as the bonds revert back to the existing bondholders prior to the auction.

Approximate future interest payments were estimated based on an average of the interest rates applicable during the most recent fiscal year.

**2. Conduit debt**

As of June 30, 2017, CHEFA had total outstanding principal balances of special obligation bonds of \$8,219,002. 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 and, therefore, not reported within the statement of net position. The significant loan programs that comprise the total outstanding bonds are as follows:

Bonds Outstanding by Sector

Assisted Living Facilities	\$ 14,890
Charter Schools	4,849
Child Care Facilities	53,580
Continuing Care Retirement Community	215,690
Cultural / Educational	11,349
Family Services	8,447
Higher Education	4,518,697
Hospitals	2,649,633
Human Services	8,685
Independent Living	30,920
Independent Schools	638,430
Nursing Homes	34,737
YMCA / YWCA	<u>29,095</u>
Total	<u>\$ 8,219,002</u>

Under terms of the agreement between the Authority and its borrowers, any costs associated with litigation related to bond issuance are the obligations of the borrowers. CHEFA is indemnified under the terms of the bond agreements.

**Connecticut Health and Educational Facilities Authority  
(A Component Unit of the State of Connecticut)**

**Notes to Financial Statements  
June 30, 2017  
(In Thousands)**

**II. Detailed notes**

**D. Changes in long-term obligations**

**3. Current year advance refunding**

In May 2017, CHESLA issued \$27,880 of revenue bonds with an interest rate of 3.25% to 5.00%. A portion of these bonds were issued to defease bonds issued in August 2006. The refunding resulted in an economic gain of \$184 with an overall total cost of \$34.

**4. Authorized/unissued debt**

At June 30, 2017, the amount of authorized unissued debt for CHESLA was \$9,155.

**5. Subsequent event**

In August 2017, CHESLA issued \$9,155 of revenue bonds with an interest rate of 4.00% to 5.00%. These bonds will be used to refund the 2007 Series A bonds.

**E. Restricted net position**

The amount of restricted net position, which was restricted by enabling legislation, totaled \$243 for CHEFA.

**F. Net position classification**

A summary of the components of net position is as follows:

	<u>CHEFA</u>	<u>CHESLA</u>	<u>CSLF</u>
Invested in capital assets	\$ 81	\$ -	\$ -
Restricted:			
Child care facilities loan program	4,320	-	-
Student loan guarantee program	243	-	-
Bond funds	-	19,076	-
Trust Estate	-	-	6,381
Total restricted	<u>4,563</u>	<u>19,076</u>	<u>6,381</u>
Unrestricted	<u>8,464</u>	<u>8,427</u>	<u>19,432</u>
Total net position	<u>\$ 13,108</u>	<u>\$ 27,503</u>	<u>\$ 25,813</u>

**Child Care Facilities Loan Program** - CHEFA's net position is restricted to be used for loan guarantees under this program, if borrowers default on their loans. As of June 30, 2017, outstanding loan balances totaled \$6,295.

CHEFA is under no obligation to provide additional funds for loan guarantees.

**Connecticut Health and Educational Facilities Authority  
(A Component Unit of the State of Connecticut)**

**Notes to Financial Statements  
June 30, 2017  
(In Thousands)**

**II. Detailed notes**

**F. Net position classification**

**Student Loan Programs** - Pursuant to Public Act 09-110, which established the Connecticut Credit Union Student Loan Program, CHEFA was required to fund a first loss loan guarantee of 20% on the outstanding balance on each loan. The current amount of the guarantee is \$243.

**Trust Estate** - For CSLF, the Bond Indenture requires that CSLF maintain a parity of 102.5% (Trust Estate asset to Trust Estate liability ratio), which represents its restricted net position. If parity exceeds 102.5%, CSLF is able, but not required, to transfer funds above the parity ratio to operations. At June 30, 2017, the ratio was 110.87%. At June 30, 2017, the Board has not authorized any funds to be transferred to operations; however, the amount available to transfer is \$16,000.

Both CHEFA and CHESLA Board of Director's have designated internal amounts for operations and the remainder for programs that are part of each entity's mission and purpose, as well as for contingencies.

**III. Other information**

**A. Risk management**

The Authority is exposed to various risks of loss including torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; natural disaster; and officer and director liability. The Authority generally obtains commercial insurance for these risks. The Authority has not had any claims against their commercial insurance in any of the past three years. There were no significant reductions in insurance coverage from coverage in the prior year.

**B. Related party transactions**

During the fiscal year, CHEFA charged CHESLA an annual fee of \$181 for providing management, accounting, legal and other services, sharing of rental space, and office equipment. CHEFA charged CSLF an annual fee of \$53 for providing management, accounting, legal and other services. In addition, CHESLA and CSLF reimbursed CHEFA directly for specific general and administrative expenses incurred. The amount due from CHESLA and CSLF at year end was \$18 and \$13 respectively. CSLF contributed \$2,000 to CHESLA for scholarships.

**Connecticut Health and Educational Facilities Authority  
(A Component Unit of the State of Connecticut)**

**Notes to Financial Statements  
June 30, 2017  
(In Thousands)**

**III. Other information**

**C. Operating leases**

CHEFA leases office space and other office equipment for use in operations. Lease expense was \$233. As of June 30, 2017, minimum future rental commitments of the leases are as follows:

2018	\$	244,080
2019		123,444

**D. Pension plan**

The Authority administers a single employer defined contribution plan, which covers certain employees of the Authority. The Board of Director's approved and adopted this plan on January 1, 1971, and they have the authority to make any subsequent amendments.

CHEFA maintains a defined contribution money purchase plan (the Plan) covering all employees with three months of continuous service and 1,000 anticipated hours of service annually. The Plan is administered by CHEFA and can be amended by the trustees of the Plan. CHEFA and CHESLA contribute annually to the Plan an amount equal to 10% of each qualified employee's annual salary. For the year ended June 30, 2017, there were no forfeitures and retirement plan expense was \$224.

There were 21 employees covered under the Plan. All employees can participate in the Plan after three months of service. A participant's employer contribution account fully vests after four years of service. At age 65, participants are entitled to begin receiving benefits based upon the option selected.

CHEFA also maintains a deferred compensation plan, which was established in 1991 in accordance with the Internal Revenue Code Section 457 and is available to CHEFA employees. Employees are permitted to defer a portion of their salaries, subject to certain limitations. CHEFA and CHESLA match up to \$1,500 of employee contributions. For the year ended June 30, 2017, there were no forfeitures and the plan expense was \$30.

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# **Supplemental Schedules**

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**Connecticut Health and Educational Facilities Authority**  
**(A Component Unit of the State of Connecticut)**

**Combining Schedule of Net Position - Connecticut Higher Education Supplemental Loan Authority**

**June 30, 2017**  
**(In Thousands)**

	Agency operating fund	Other program funds	Bond funds		Total CHESLA
			1990 resolution	2003 resolution	
<u>Assets</u>					
Current assets					
Unrestricted assets					
Cash	\$ 177	\$ 1,185	\$ -	\$ -	\$ 1,362
Investments	2,815	-	14	6	2,835
Prepaid expenses and other assets	50	-	-	21	71
Total unrestricted assets	3,042	1,185	14	27	4,268
Restricted assets					
Investments - bond indenture trusts	-	-	35,875	4,400	40,275
Investments - other	-	3,785	-	-	3,785
Current portion of loans receivable	-	237	17,922	2,596	20,755
Interest receivable on investments	-	9	101	24	134
Loan interest receivable	-	-	361	55	416
Total restricted assets	-	4,031	54,259	7,075	65,365
Total current assets	3,042	5,216	54,273	7,102	69,633
Noncurrent assets					
Restricted assets					
Restricted investments	-	-	18,616	2,800	21,416
Loans receivable, net of current portion and allowance	-	2,185	85,447	12,404	100,036
Total noncurrent assets	-	2,185	104,063	15,204	121,452
Total assets	\$ 3,042	\$ 7,401	\$ 158,336	\$ 22,306	\$ 191,085
<u>Liabilities</u>					
Current liabilities					
Accounts payable	\$ 6	\$ -	\$ 51	\$ 6	\$ 63
Accrued expenses	10	-	-	-	10
Accrued interest payable	-	-	724	83	807
Current portion of bonds payable	-	-	7,820	2,180	10,000
Total current liabilities	16	-	8,595	2,269	10,880
Noncurrent liabilities					
Bonds payable, net of current portion	-	-	139,556	11,146	150,702
Total liabilities	16	-	148,151	13,415	161,582
<u>Deferred Inflows of Resources</u>					
Unearned revenue	-	2,000	-	-	2,000
<u>Net Position</u>					
Restricted	-	-	10,185	8,891	19,076
Unrestricted	3,026	5,401	-	-	8,427
Total net position	3,026	5,401	10,185	8,891	27,503
Total liabilities, deferred inflows of resources and net position	\$ 3,042	\$ 7,401	\$ 158,336	\$ 22,306	\$ 191,085

**Connecticut Health and Educational Facilities Authority  
(A Component Unit of the State of Connecticut)**

**Combining Schedule of Revenues, Expenses and Changes in Net Position - Connecticut  
Higher Education Supplemental Loan Authority  
For the Year Ended June 30, 2017  
(In Thousands)**

	Agency operating fund	Other program funds	Bond funds		Eliminations	Total CHESLA
			1990 resolution	2003 resolution		
Operating revenues						
Interest income on loans receivable	\$ -	\$ 76	\$ 6,160	\$ 1,197	\$ -	\$ 7,433
Administrative fees	722	-	655	-	(722)	655
Contributions from CSLF	-	1,889	-	-	-	1,889
<b>Total operating revenues</b>	<b>722</b>	<b>1,965</b>	<b>6,815</b>	<b>1,197</b>	<b>(722)</b>	<b>9,977</b>
Operating expenses						
Interest expense	-	-	4,744	999	-	5,743
Salaries and related expenses	217	-	-	-	-	217
General and administrative	312	7	750	194	(722)	541
Refinance pilot program	201	-	-	-	-	201
Scholarships	-	1,887	-	-	-	1,887
Loan service fees	-	-	512	62	-	574
Contracted services	37	-	-	-	-	37
Bond issuance and insurance costs	10	-	507	38	-	555
Provision for loan losses (net of recoveries)	-	197	(93)	(31)	-	73
<b>Total operating expenses</b>	<b>777</b>	<b>2,091</b>	<b>6,420</b>	<b>1,262</b>	<b>(722)</b>	<b>9,828</b>
<b>Operating income (loss)</b>	<b>(55)</b>	<b>(126)</b>	<b>395</b>	<b>(65)</b>	<b>-</b>	<b>149</b>
Nonoperating income (expenses)						
Investment income	16	23	(44)	288	-	283
<b>Change in net position</b>	<b>(39)</b>	<b>(103)</b>	<b>351</b>	<b>223</b>	<b>-</b>	<b>432</b>
Transfers	-	-	(2,940)	2,940	-	-
Net position, July 1, 2016	3,065	5,504	12,774	5,728	-	27,071
<b>Net position, June 30, 2017</b>	<b>\$ 3,026</b>	<b>\$ 5,401</b>	<b>\$ 10,185</b>	<b>\$ 8,891</b>	<b>\$ -</b>	<b>\$ 27,503</b>

**Connecticut Health and Educational Facilities Authority  
(A Component Unit of the State of Connecticut)**

**Combining Schedule of Net Position - Connecticut Student Loan Foundation  
June 30, 2017  
(In Thousands)**

	Trust Estate	Operating	Eliminations	Total
<u>Assets</u>				
Current assets				
Unrestricted assets				
Cash	\$ -	\$ 598	\$ -	\$ 598
Receivables (net of allowance for uncollectibles)				
Accounts	-	16	-	16
Prepaid expenses and other assets	-	1	-	1
Total unrestricted assets	-	615	-	615
Restricted assets				
Investments				
Bond indenture trusts	9,958	-	-	9,958
Loans receivable	15,911	-	-	15,911
Loan interest receivable	4,129	-	-	4,129
Total restricted assets	29,998	-	-	29,998
Total current assets	29,998	615	-	30,613
Noncurrent assets				
Restricted assets				
Loans receivable (net of allowance for uncollectibles)	228,106	-	-	228,106
Total assets	\$ 258,104	\$ 615	\$ -	\$ 258,719
<u>Liabilities</u>				
Current liabilities				
Accounts payable	\$ -	\$ 47	\$ -	\$ 47
Accrued expenses	-	66	-	66
U.S. Department of Education payable	1,001	-	-	1,001
Trust Estate payable	284	-	-	284
Total current liabilities	1,285	113	-	1,398
Noncurrent liabilities				
Bonds payable and related liabilities	231,508	-	-	231,508
Total liabilities	232,793	113	-	232,906
<u>Net Position</u>				
Restricted	6,381	-	-	6,381
Unrestricted	18,930	502	-	19,432
Total net position	25,311	502	-	25,813
Total liabilities and net position	\$ 258,104	\$ 615	\$ -	\$ 258,719

**Connecticut Health and Educational Facilities Authority**  
**(A Component Unit of the State of Connecticut)**

**Combining Schedule of Revenues, Expenses and Changes in Net Position - Connecticut**  
**Student Loan Foundation**  
**For the Year Ended June 30, 2017**  
**(In Thousands)**

	Trust Estate	Operating	Eliminations	Total
Operating revenues				
Interest income on loans receivable	\$ 10,224	\$ -	\$ -	\$ 10,224
Not-for-profit servicing income	-	188	-	188
Administration fee	-	654	(654)	-
Total operating revenues	<u>10,224</u>	<u>842</u>	<u>(654)</u>	<u>10,412</u>
Operating expenses				
Interest expense	4,493	-	-	4,493
General and administrative	83	175	-	258
Loan service fees	1,003	-	-	1,003
Administration fee	654	-	(654)	-
Consolidation rebate fees	1,604	-	-	1,604
Contracted services	95	408	-	503
Total operating expenses	<u>7,932</u>	<u>583</u>	<u>(654)</u>	<u>7,861</u>
Operating income	<u>2,292</u>	<u>259</u>	<u>-</u>	<u>2,551</u>
Nonoperating income (expenses)				
Investment income	37	-	-	37
Contribution to CHESLA	(1,000)	(1,000)	-	(2,000)
Total nonoperating income (expenses)	<u>(963)</u>	<u>(1,000)</u>	<u>-</u>	<u>(1,963)</u>
Change in net position	1,329	(741)	-	588
Net position, July 1, 2016	<u>23,982</u>	<u>1,243</u>	<u>-</u>	<u>25,225</u>
Net position, July 1, 2017	<u>\$ 25,311</u>	<u>\$ 502</u>	<u>\$ -</u>	<u>\$ 25,813</u>