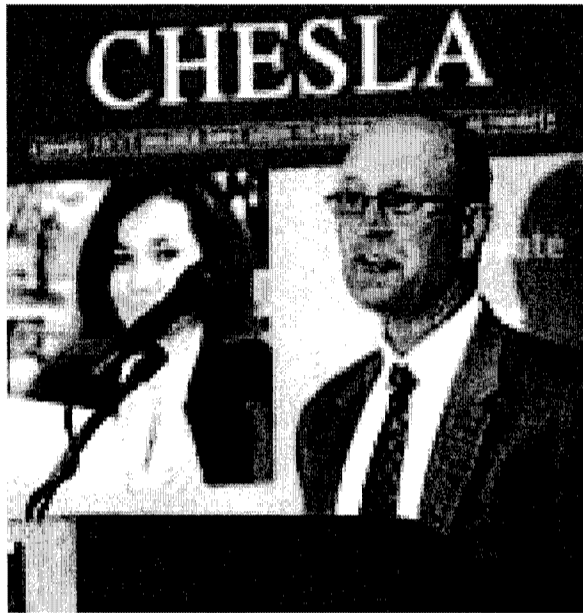


Connecticut Higher Education Supplemental Loan Authority (CHESLA)

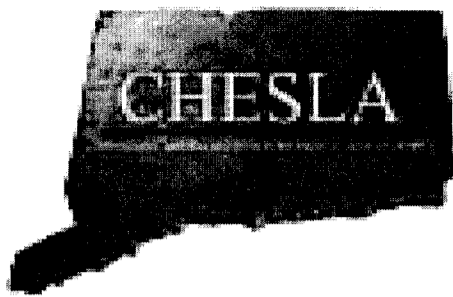
2010 Annual Report



CHESLA Loan Program

www.chesla.org

**“Celebrating Twenty-Eight Years of Helping Students and their Families
Finance a College Education”**



Connecticut Higher Education Supplemental Loan Authority

CHESLA
21 Talcott Notch Rd. Suite 1
Farmington, Connecticut 06032

Phone: (860) 678-7788 In-State: (800) 252-FELP
FAX (860) 678-0006
www.chesla.org

Email: Gloria F. Ragosta - ragostag@theccic.org
Samuel E. Rush - chesla1@chesla.org
Susan W. Harlan - chesla2@chesla.org



Providing Access for Students

CHESLA (the “Authority”) 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.

Authority Members

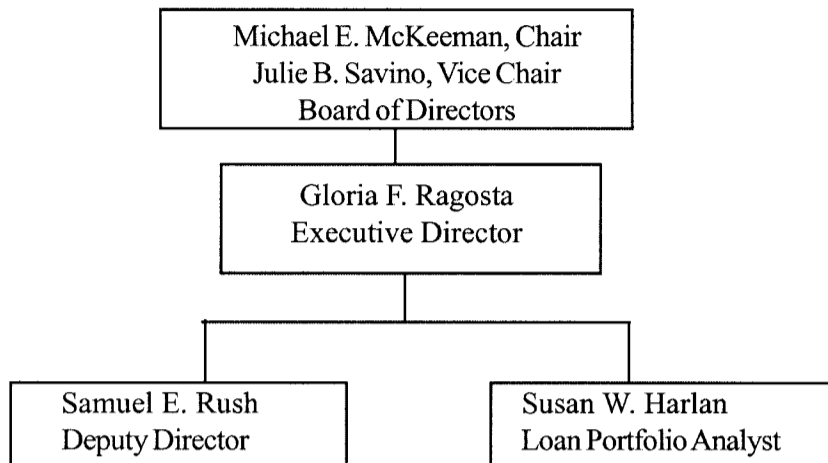
The State Treasurer Denise Nappier, Secretary of the Office of Policy and Management (OPM) Robert L. Genuario and Commissioner of Higher Education Michael Meotti serve as ex-officio members of the Authority. The remaining five members are appointed by the Governor based on their qualifications in the area of higher education and/or public finance, as specified in Section 4 of the Act.

During the year ended June 30, 2010, the following individuals served as Authority members:

<u>Name</u>	<u>Expiration of Term</u>	<u>Statutory Qualifications</u>
William J. Pizzuto	2012	Employee of constituent unit of state higher education system
Julie B. Savino	2011	Experience in higher education loan finance
Kathleen Woods	2011	Experience in higher education loan finance
Delores P. Graham	2015	Retired employee/trustee of institution for higher education
Michael E. McKeeman	2014	Experience in state and municipal finance

CHESLA Chair and Staff

On March 16, 1999, Governor John G. Rowland nominated Mr. Michael McKeeman for appointment as Chairman of the Authority. This appointment was confirmed by the General Assembly during its 1999 Regular Session. Mr. McKeeman was nominated for reappointment by Governor M. Jodi Rell and confirmed during the 2009 Regular Session.



Authority Activities

Between July 1, 2009 and June 30, 2010, the Authority held four regular meetings

At its meeting on September 22, 2009:

- The Authority approved \$5,000 from the Early Awareness budget line for CHESLA's sponsorship of Graduate!CT's college fair.
- Ms. Savino was re-appointed as Vice Chair of the Authority.
- The Authority approved its 2009 Annual Report.
- The Authority held an audit committee meeting in compliance with the CHESLA Sarbanes-Oxley policy regarding audit practices.
- The Authority approved its FY 2009 CHESLA Financial Statements and Management and Discussion Analysis.
- The Authority approved the renewal of Firstmark's servicing contract for another five years.
- The Authority approved the Financial Advisor Selection Committee's recommendation to retain PFM for two-years with an optional one-year renewal.
- The Authority approved the Accountant Selection Committee's recommendation to retain Beers Hamerman for a three-year contract to provide accounting services to the Authority.
- The Authority approved a Resolution ratifying the 2009 Bond deal.
- The Authority approved a motion to include Ms. Graham and Mr. Cieccko as members of the Personnel Committee

At its meeting on December 15, 2009:

- The Authority approve its 2010 Advisory Committee members.
- The Authority approved its 2010 Board meeting dates.
- The Authority approved the Bond Committee's selection of RBC Capital Markets as Senior Managing Underwriter and Bank of America Merrill Lynch as Co-Managing Underwriter to the Authority for a period not to exceed three years.
- The Authority approved a resolution appointing the 2010 Bond Committee including authorization for up to \$600,000 for the cost of issuance to lower the interest rate if needed for CHESLA loans.

At its meeting on March 23, 2010

- The Authority approved the \$25,750 invoice for the cost of programming the three new Federal disclosure requirements.
- The Authority approved a motion to authorize the payment of \$2,000 to Firstmark for its 2009 SAS-70 report to be paid from the Authority's Bond Revenue accounts.
- The Authority approved a revised vacation policy for its staff.
- The Authority authorized \$1,500 for Sacred Heart and \$500 for CSU from the marketing budget to purchase ads for their scholarship programs.

At its meeting on June 15, 2010

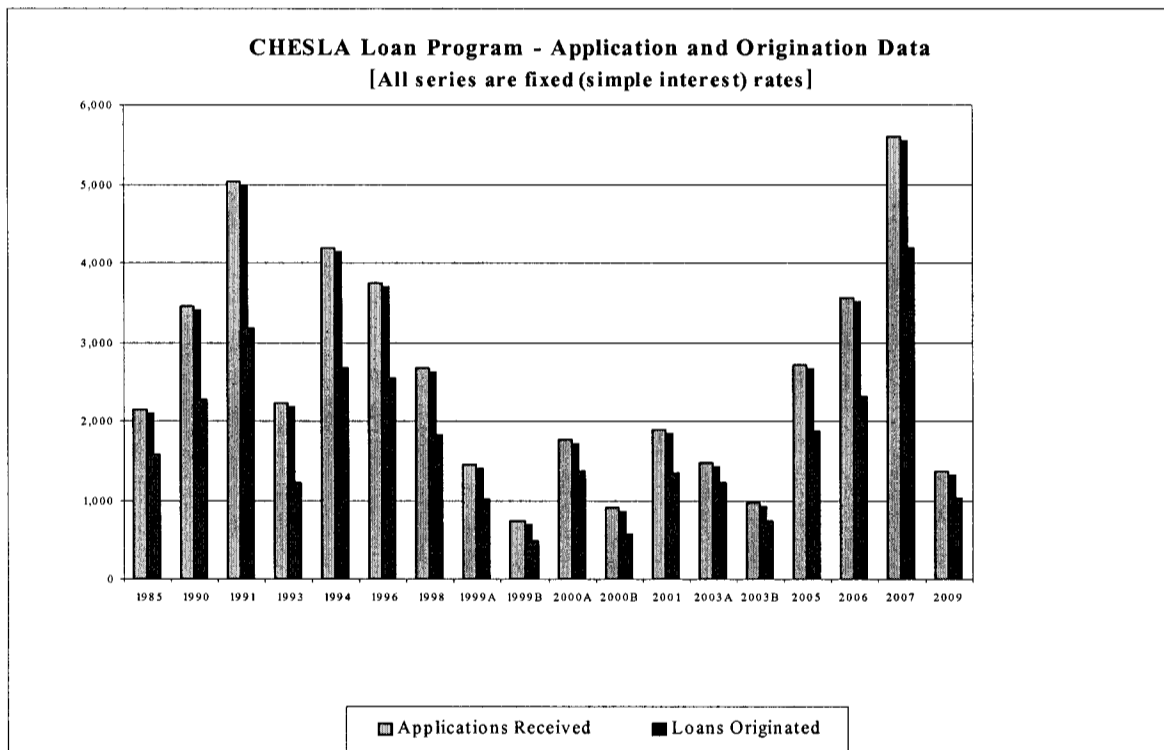
- The Authority approved a bond resolution including authorization for up to \$600,000 to be used for cost of issuance.
- The CHESLA Budget and Plan of Operations for FY 2011 was approved.
- The Authority approved a new Management and Planning Committee

Administrative Activities

The Act requires the Authority to appoint an Advisory Committee of up to 15 persons to meet with members of the Authority at least once a year. During the year ended June 30, 2010, the following individuals served as members of the Advisory Committee: Catherine Boone, Martin L. Budd, Frank R.A. Resnick, Arthur Shahverdian, Richard Savage and Joe Popevis. The Advisory Committee met with the Authority on December 15, 2009 as required by the Act. The Authority retained the firm of Simone Macca & Larrow to be its independent auditor for the Fiscal Year Ended June 30, 2010. (The audit is attached as Exhibit A.)

Financial Assistance Activities

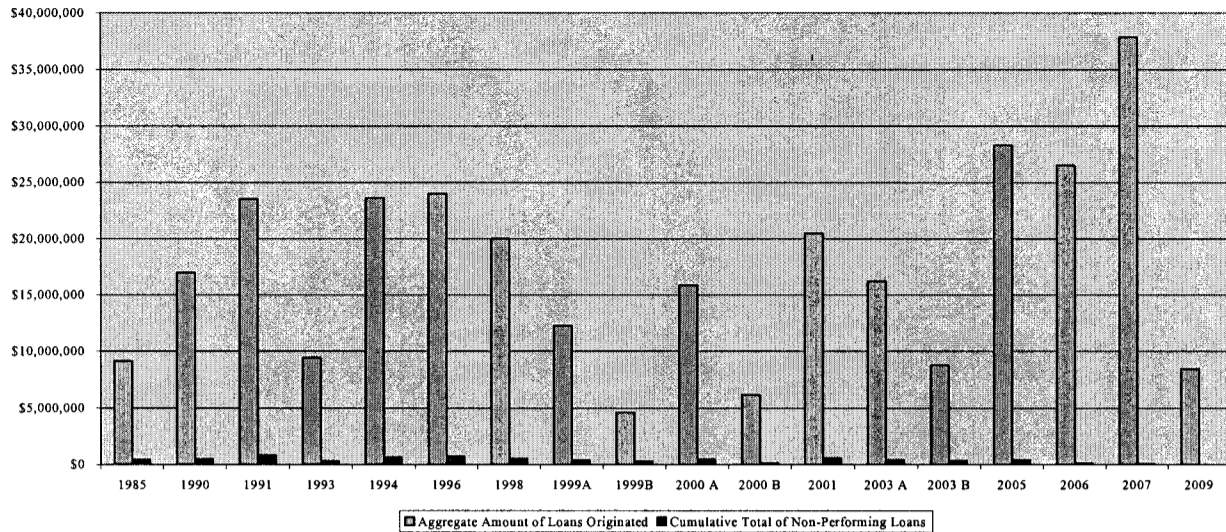
Funding for the CHESLA Loan Program



Applications Received - 1985 (2,150), 1990 (3,462), 1991(5,022), 1993 (2,226), 1994 (4,193), 1996 (3,737), 1998 (2,681), 1999A (1,460), 1999B (739), 2000A (1,771), 2000B (915), 2001 (1,900), 2003A (1,484) 2003B (964) 2005 (2,710) 2006 (3,552) 2007 (5,607) and 2009 (1,372).

Loans Originated - 1985 (1,575), 1990 (2,275), 1991 (3,181), 1993 (1,215), 1994 (2,676), 1996 (2,542), 1998 (1,840), 1999A (1,014), 1999B (475), 2000A (1,360), 2000B (564), 2001 (1,341), 2003A (1,225), 2003B (743), 2005 (1,866) 2006 (2,308) 2007 (4,188) and 2009 (1,026).

CHESLA Loan Program Origination Amount and Non-Performing Loans



Aggregate Amount of loans Originated - 1985 (\$9,138,627), 1990 (\$16,978,127), 1991 (\$23,509,883), 1993 (\$9,457,002), 1994 (\$23,601,441), 1996 (\$24,002,867), 1998 (\$19,989,330), 1999A (\$12,283,780), 1999B (\$4,628,969), 2000A (\$15,853,387), 2000B (\$6,200,067), 2001 (\$20,433,303), 2003A (\$16,212,316), 2003B (\$8,813,427) 2005 (\$28,321,052) 2006 (\$26,527,184) 2007 (\$37,871,341) and 2009 (\$8,458,989).

Cummulative Total of Non-Performing Loans - 1985 (\$443,646), 1990 (\$497,431), 1991 (\$842,169), 1993 (\$323,072), 1994 (\$659,037), 1996 (\$746,477), 1998 (\$522,966), 1999A (\$396,984), 1999B (\$285,193), 2000A (\$467,634) 2000B (\$180,343), 2001A (\$597,654), 2003A (\$359,191), 2003B (\$290,240), 2005 (\$337,265), 2006 (\$69,859) and 2007 (\$21,192). Total non-performing loans \$7,040,354.

Non-Performing loan Rate - 1985 (4.85%), 1990 (2.93%), 1991 (3.58%), 1993 (3.42%), 1994 (2.79%), 1996 (3.11%), 1998 (2.62%), 1999A (3.23%), 1999B (6.16%), 2000A (2.95%), 2000B (2.91%), 2001 (2.92%), 2003A (2.22%), 2003B (3.29%), 2005A(1.19%), 2006 (0.26)% and 2007 (0.08%). Total net non-performing loan rate (2.39%)

Financial assistance activity information was compiled from student loans originated as follows:

- 1985 Series A Bonds - October 1, 1985 to October 30, 1988;
- 1990 Series A Bonds - August 22, 1990 to September 6, 1991
- 1991 Series A Bonds - September 12, 1991 to August 5, 1993;
- 1993 Series A Bonds - August 12, 1993 to August 20, 1994;
- 1994 Series A Bonds - August 26, 1994 to September 20, 1996;
- 1996 Series A Bonds - October 5, 1996 to September 5, 1998;
- 1998 Series A & B Bonds - September 11, 1998 to June 30, 1999;
- 1999 Series A & B Bonds - October 27, 1999 to November 24, 2000;
- 2000 Series A & B Bonds - December 15, 2000 to May 1, 2002; and
- 2001 Series A Bonds - May 5, 2002 to Aug. 11, 2004 (includes recycling)
- 2003 Series A & B Bonds - July 23, 2003 to August 10, 2005
- 2005 Series A& B Bonds - August 10, 2005 to June 30, 2006
- 2006 Series A Bonds - August 17, 2006 to June30, 2007
- 2007 Series A Bonds - August 23, 2007 to June 30, 2008
- 2009 Series A Bonds - August 4, 2009 to June 30, 2010

Of the 1,575 students receiving loans disbursed from the proceeds of the 1985 bond sale, 1,499 students attended in-state institutions and received a total of \$8,510,327. Seventy-six students attended out-of-state institutions and received a total of \$628,300. A table showing the total number and amounts of loans disbursed from proceeds of the 1990 through 2009 bond sales is attached as Exhibit B.

A copy of the 2010 CHESLA Loan Program Manual is attached as Exhibit C.

Bond Issuance

The Authority issued new bonds on August 6, 2009. The 2009 Bonds were sold through a negotiated underwriting with Goldman Sachs as the underwriter and PFM as the Authority's financial advisor.

As of June 30, 2010, the Authority had issued Revenue Bonds and Revenue Refunding Bonds in the aggregate principal amount of \$396.840 million. The principal amounts of the Authority's outstanding bonds totalled \$157.035 million, including:

<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	\$ 810,000
1998 Series B - \$ 3,560,000	\$ 395,000
1999 Series A - \$12,500,000	\$ 1,920,000
1999 Series B - \$ 4,390,000	\$ 1,120,000
2000 Series A - \$16,410,000	\$ 2,760,000
2000 Series B - \$ 5,975,000	\$ 1,725,000
2001 Series A - \$25,000,000	\$15,245,000
2003 Series A - \$18,000,000	\$10,015,000
2003 Series B - \$12,915,000	\$ 6,975,000
2005 Series A - \$31,455,000	\$20,055,000
2005 Series B - \$ 5,900,000	\$ 2,500,000
2006 Series A - \$33,270,000	\$24,630,000
2007 Series A - \$41,000,000	\$38,885,000
2009 Series A - \$30,000,000	\$30,000,000
Total \$396,840,000	\$157,035,000

The State's contingent liability, in connection with the 1996, 1998, 1999, 2000, 2001, 2003, 2005 A, 2006A, 2007 and 2009 Bonds, is the Special Capital Reserve Fund requirement for such Bonds, as defined in Connecticut General Statutes Section 10a-232, funded as of June 30, 2010 in the aggregate amount of \$15.340 million.

Projected Activities

The Authority provided assistance in the form of Education Loans from the remaining proceeds of its 2009 Series Bonds in the amounts of approximately \$9.3 million during the remainder of the fiscal year through June 2010 under the CHESLA Loan Program. The Authority plans to issue \$45 million in new bonds in October, 2010 with approximately \$37 million in loan funds for 2010.

Affirmative Action

The Authority's affirmative action policy statement, as required by Connecticut General Statutes Section 10a-224(h)(2):

It is the policy of CHESLA to provide equal employment opportunity at all times in accordance with State Statutes. Equal employment opportunity is defined as the administration of all personnel policies - employment applications; job qualifications; job specifications; recruitment practices; job structuring; orientation; grievance procedures; evaluation; layoffs and termination - so that there is no discrimination based on race, ethnicity, religion, age, gender, sexual orientation, marital status, civil union status, national origin, ancestry, mental disabilities or any other disability that does not prevent successful job performance.

Notwithstanding the foregoing, it shall be the policy of CHESLA to take positive action, with conviction and effort, to achieve the full and fair participation of protected class persons.

In addition to its non-discrimination policies and practices, the Connecticut Higher Education Supplemental Loan Authority shall require a statement of non-discrimination from all entities with which it enters into contractual or other business arrangements.

As of June 30, 2010, CHESLA had two employees: an Associate Director (1 African-American male) and a Loan Portfolio Analyst (1 Caucasian female).

Community Service Activities



The Authority participated in one early college awareness program (Graduate!CT) in the State. In addition, CHESLA sponsored four GEAR UP students awarding each student a \$2,500 "Morrison Beach Scholarship." The total award per student equals \$10,000 over four years of college. The students attended the following institutions: the University of Connecticut, (1); Southern Connecticut State University (2), and one attended the University of New Haven. Annual scholarships are based on academic performance and enrollment.

Payments in Excess of \$5,000

Firms paid in excess of \$5,000 in payments of loans, grants, services (excluding loans for education):

Amtec	-	Loan Yield/Arbitrage Rebate
Beers, Hamerman & Co., P.C.	-	Accountant
EOSCCA	-	Collection Agency
Connecticut Conference of Independent Colleges	-	Personal Services/Shared Office Space
Education Finance Council	-	Professional Membership
Firstmark Services	-	Origination/Loan Servicing
Day Pitney LLP	-	Legal/Bond Counsel
R.C. Knox & Co., Inc.	-	Insurance Broker/Insurance Fees
Simione Macca & Larrow	-	Auditor
Small Business Services	-	Health Insurance
U.S. Bank National Association	-	Trustee
Vanguard Fiduciary Trust Co.	-	Pension Plan
Shipman & Goodwin	-	Trustee Counsel
Fitch Rating	-	Rating Agency
Moody's	-	Rating Agency
PFM Group	-	Financial Advisor
Goldman Sachs	-	Underwriter
Ernst & Young	-	Underwriter Auditor
Pullman & Comley	-	Underwriter Counsel

Exhibit A

Financials



**CONNECTICUT HIGHER EDUCATION
SUPPLEMENTAL LOAN AUTHORITY**

Financial Statements

June 30, 2010 and 2009

**CONNECTICUT HIGHER EDUCATION
SUPPLEMENTAL LOAN AUTHORITY
TABLE OF CONTENTS**

INDEPENDENT AUDITORS' REPORT	1	
MANAGEMENT'S DISCUSSION AND ANALYSIS	3	
FINANCIAL STATEMENTS		
Balance Sheets.....	9	
Statements of Revenues, Expenses, and Changes in Net Assets.....	11	
Statements of Cash Flows	12	
Notes to Financial Statements	14	
INDEPENDENT AUDITORS' REPORT ON SUPPLEMENTARY INFORMATION		26
Combining Balance Sheets.....	27	
Combining Statements of Revenues, Expenses, and Changes in Net Assets.....	29	
Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	30	

Simione Macca & Larrow^{LLP}



CERTIFIED PUBLIC ACCOUNTANTS AND BUSINESS ADVISORS

"On Balance, We Offer You More."

INDEPENDENT AUDITORS' REPORT

To the Board of Directors
**CONNECTICUT HIGHER EDUCATION
SUPPLEMENTAL LOAN AUTHORITY**
Farmington, Connecticut

We have audited the accompanying basic financial statements of the Connecticut Higher Education Supplemental Loan Authority ("Authority"), a component unit of the State of Connecticut, as of and for the years ended June 30, 2010 and 2009, as listed in the table of contents. These basic financial statements are the responsibility of the Authority's management. Our responsibility is to express opinions on these basic financial statements based on our audits.

We conducted our audits 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 of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinions.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the respective financial position of the Connecticut Higher Education Supplemental Loan Authority as of June 30, 2010 and 2009, and the respective changes in financial position and cash flows, thereof for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated September 21, 2010 on our consideration of the Authority's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and important for assessing the results of our audits.

4130 Whitney Avenue ▲ Hamden, CT 06518
Phone: (203) 281-0540 ▲ Fax: (203) 287-6788

175 Capital Boulevard ▲ Rocky Hill, CT 06067
Phone: (860) 529-5600 ▲ Fax: (860) 529-5605

Toll-free: (800) 493-5605
www.smlcpas.com

Board of Directors
CONNECTICUT HIGHER EDUCATION
SUPPLEMENTAL LOAN AUTHORITY
Page 2

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 8 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.

Simione Macca & Larrow LLP

Rocky Hill, Connecticut
September 21, 2010

**CONNECTICUT HIGHER EDUCATION
SUPPLEMENTAL LOAN AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS**

The Connecticut Higher Education Supplemental Loan Authority (CHESLA) is a public instrumentality and political subdivision of the State of Connecticut (the "State"). CHESLA provides financial assistance in the form of education loans to students in or from the State, their parents or others responsible for the cost of their education and provides an alternative method to enable institutions of higher education in the State to assist qualified students to attend such institutions. 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. CHESLA, in connection with the issuance of its bonds, has made certain covenants with respect to such loans, including a covenant to do or cause to be done all such acts and things necessary to receive and collect all revenues due with respect to such loans. CHESLA bonds are further secured by a special capital reserve fund.

The following Management's Discussion and Analysis (MD&A) of the Connecticut Higher Education Supplemental Loan Authority ("the Authority") activities and financial performance provides an introduction to the audited financial statements for the fiscal year ended June 30, 2010 as compared to June 30, 2009. Following the MD&A are the basic financial statements of the Authority together with the notes thereto, which are essential to a full understanding of the data contained in the financial statements.

