

# STATE OF CONNECTICUT

**AUDITORS' REPORT  
STATE OF CONNECTICUT HEALTH AND  
EDUCATIONAL FACILITIES AUTHORITY  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

**AUDITORS OF PUBLIC ACCOUNTS**  
KEVIN P. JOHNSTON ♦ ROBERT G. JAEKLE

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January, 18, 2006

**AUDITORS' REPORT  
STATE OF CONNECTICUT HEALTH AND  
EDUCATIONAL FACILITIES AUTHORITY  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

We have made an examination of the financial records of the State of Connecticut Health and Educational Facilities Authority for the fiscal year ended June 30, 2004. We have relied on the opinions of Carlin, Charron and Rosen, LLP, Certified Public Accountants who performed the financial and compliance audits of the Authority for the fiscal year. In addition to relying on the opinions of the independent public accountants, we reviewed the Authority's compliance with State statutory annual reporting requirements and the minutes of the Board of Directors. We conducted our audit in accordance with generally accepted government auditing standards for financial related audits. This report on our examination consists of the "Comments" and "Recommendations" which follow.

**COMMENTS**

**Foreword:**

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

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

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

### **Board of Directors:**

The Authority operates under a ten person Board of Directors that includes the State Treasurer and the Secretary of the Office of Policy and Management as ex-officio members and eight residents of the State who are appointed by the Governor as determined by Section 10a-179 of the General Statutes.

As of June 30, 2004, the members of the Board of Directors of the Authority were as follows:

#### Ex-Officio:

Denise L. Nappier, State Treasurer

Marc S. Ryan, Secretary, Office of Policy and Management

#### Appointed by the Governor:

Barbara Rubin, Chairman

Patrick A. Colangelo, Vice Chairman

John M. Biancamano

William J. Cibes, Jr., PhD.

Benson R. Cohn

Laurence R. Smith, Jr.

Dori T. Sullivan, PhD.

Vacancy

Richard D. Gray was appointed Executive Director on May 23, 1996, and served in that capacity throughout the audited period. Jeffrey A. Asher was appointed Managing Director/Chief Financial Officer on June 30, 1997, and served in that capacity throughout the audited period.

### **Significant Legislation:**

Section 2 of Public Act 03-133, effective July 1, 2004, authorizes the Auditors of Public Accounts to annually conduct a compliance audit of each quasi-public agency's activities during the preceding agency fiscal year or contract with a person, firm or corporation for any such audit or audits.

### **Accounting Policies:**

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

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

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

**Debt Service and Bond Funds** – These funds account for the receipt and disbursement of moneys for the payment bond or note interest and principal.

**Debt Service Reserve Funds** – These funds record the receipt of a portion of the bond proceeds held in reserve to comply with the various bond resolutions. The balances are generally required to be maintained at an amount equal to the greatest amount of principal and interest payable in the then current or any future bond year.

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

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

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

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

**Loan Reserve Funds** – These funds are used to repay the principal and interest of the institutions’ repayment schedule.

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

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

**Working Capital Reserve Funds** – The trustee shall transfer amounts on deposit in the Working

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

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

### **Financial Audit:**

As required by Section 10a-194 of the General Statutes, the books and accounts of the Authority were audited by certified public accountants. We accepted the financial statements as audited. We also accepted the opinion of the certified public accountants on the financial statements of the Authority, which stated that the basic financial statements were presented fairly in all material respects in conformity with accounting principles generally accepted in the United States of America.

There were no recommendations submitted in the audit report for the fiscal year ended June 30, 2004.

### **RÉSUMÉ OF OPERATIONS:**

From the inception of the Authority on July 1, 1965, through June 30, 2004, approximately 289 bond issuances have been authorized by the Authority in the aggregate amount of \$7,717,920,000, of which \$4,666,725,000 was outstanding at June 30, 2004. From its inception, through July 1, 1979, the Authority issued general obligation bonds for which the Authority is ultimately responsible for payment. As of June 30, 2003, \$1,960,000 of those general obligation bonds remained outstanding. On July 1, 2003, payments of principal and interest of \$1,960,000 and \$49,000 respectively, were made on these general obligation bonds. As a result, no more general obligation bonds remain outstanding.

Below is a summary of the operating revenue of the Authority of \$4,484,523 for the fiscal year ended June 30, 2004, with the operating revenue for the fiscal year ended June 30, 2003 presented for comparative purposes:

	<b>Fiscal Year Ended June 30,</b>	
	<b><u>2003</u></b>	<b><u>2004</u></b>
	\$	\$
Annual administrative fees	4,261,393	4,145,541
Bond issuance fees income	42,670	94,322
Investment income	<u>324,761</u>	<u>244,560</u>
<b>Total</b>	<b><u>\$4,628,824</u></b>	<b><u>\$4,484,523</u></b>

The primary source of revenues for the Authority is an annual administrative fee paid by each institution for each bond series issued and outstanding. The amount of the annual fee is specified in each bond issue resolution. No Special Capital Reserve Fund (SCRF) Program issues were made during the audited period because such issues were restricted by Section 10a-186a, subsection (b), of the General Statutes. However, for those SCRf issues that were outstanding during the audited period, an annual fee of 14 basis points (reduced from 15), on the outstanding par amount was charged; all other issues were charged 9 basis points (reduced from 10). The reductions in basis points were approved by the Board of Directors in June 2003 and became effective July 1, 2003. In addition, the Authority charges a bond issuance fee of \$15,000 of which \$5,000 is collected at issuance.

During the fiscal year ended June 30, 2004, operating expenses of the Authority totaled \$4,171,973 as summarized below with operating expenses for the fiscal year ended June 30, 2003, presented for comparative purposes. These totals exclude the trustee, accounting and special fees which are recovered from the various institutions as part of the bond issue expenses. Total expenses decreased by \$164,015 (approximately four percent) primarily due to grants that were approved by the Board of Directors in fiscal year 2003 but were awarded and disbursed in fiscal year 2004.

	<b>Fiscal Years Ended June 30,</b>	
	<b><u>2003</u></b>	<b><u>2004</u></b>
	\$	\$
Personal services	1,219,340	1,303,959
Employee benefits	274,913	276,244
Rent	196,493	177,131
Fees for outside professional Services	57,951	44,933
Insurance	93,779	98,064
Office supplies and expenses	119,458	112,412
Travel, conferences and seminars	27,082	43,128
Depreciation expenses	71,317	81,644
Issuance costs	20,311	23,598
Provision for uncollectible accounts	5,745	60,189
Child care funding reserve	228,606	330,999
Contributions	368,745	40,729
Grants	782,211	1,556,918
Client grant expense	1,370,483	-
All other expenses	<u>(168,446)</u>	<u>22,025</u>
<b>Total Expenses</b>	<b><u>\$4,335,988</u></b>	<b><u>\$4,171,973</u></b>

The retained earnings of the Authority's General Fund increased during the audited period. A summary of the changes in the General Fund balance for the fiscal year ended June 30, 2004, with June 30, 2003, presented for comparative purposes, follows:

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	<u>2003</u>	<u>2004</u>
	\$	\$
Revenues	4,628,824	4,484,523
Expenses	<u>4,335,988</u>	<u>4,171,973</u>
Excess of Revenues over Expenses	292,836	312,550
Retained Earnings, beginning of year	<u>19,586,232</u>	<u>19,879,068</u>
<b>Retained Earnings, end of year</b>	<b><u>19,879,068</u></b>	<b><u>20,191,618</u></b>

During the audited period the cash balance of the Authority's General Fund was invested in the State of Connecticut's "Short Term Investment Fund" (STIF) account.

Outstanding bonds issued under the SCRF program for which the State has a contingent liability totaled \$374,415,000, as of June 30, 2004. There are no loans in default as of June 30, 2004.

**CONDITION OF RECORDS**

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

**RECOMMENDATIONS**

*Prior Audit Recommendations:*

There were no recommendations developed for the prior report that covered the fiscal years ended June 30, 2002 and 2003.

*Current Audit Recommendations:*

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

As required by Section 2-90 and Section 1-122 of the General Statutes, we have conducted an audit of the Authority's activities for the fiscal year ended June 30, 2004. This audit was primarily limited to performing tests of the Authority's compliance with certain provisions of laws, regulations, contracts and grants, including but not limited to a determination of whether the Authority has complied with its regulations concerning affirmative action, personnel practices, the purchase of goods and services, the use of surplus funds and the distribution of loans, grants and other financial resources, and to understanding and evaluating the effectiveness of the Authority's internal control policies and procedures for ensuring that the provisions of certain laws, regulations, contracts and grants applicable to the Authority are complied with. The financial statement audit of the Authority, for the fiscal year indicated above, was conducted by the Authority's independent public accountants.

We conducted our audit in accordance with the requirements of Section 2-90 and Section 1-122 of the General Statutes. In doing so, we planned and performed the audit to obtain reasonable assurance about whether the Authority complied in all material respects with the provisions of certain laws, regulations, contracts and grants and to obtain a sufficient understanding of internal control to plan the audit and determine the nature, timing and extent of tests to be performed during the conduct of the audit.

### **Compliance**

Compliance with the requirements of laws, regulations, contracts and grants applicable to the Authority is the responsibility of the Authority's management.

As part of obtaining reasonable assurance about whether the Authority complied with laws, regulations, contracts and grants, noncompliance with which could result in significant unauthorized, illegal, irregular or unsafe transactions or could have a direct and material effect on the results of the Authority's financial operations for the fiscal year ended June 30, 2004, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, including but not limited to the following areas:

- Affirmative action
- Personnel practices
- Purchase of goods and services
- Use of surplus funds
- Distribution of loans, grants and other financial resources

Our examination included reviewing all or a representative sample of the Authority's activities in those areas and performing such other procedures as we considered necessary in the circumstances. The results of our tests disclosed no instances of noncompliance.

## **Internal Control**

The management of the Authority is responsible for establishing and maintaining effective internal control over its financial operations and compliance with the requirements of laws, regulations, contracts and grants applicable to the Authority. In planning and performing our audit, we considered the Authority's internal control over its financial operations and its compliance with requirements that could have a material or significant effect on the Authority's financial operations in order to determine our auditing procedures for the purpose of evaluating the Authority's financial operations and compliance with certain provisions of laws, regulations, contracts and grants, and not to provide assurance on the internal control over those control objectives. Our consideration of internal control included, but was not limited to, the following areas:

- Affirmative action
- Personnel practices
- Purchase of goods and services
- Use of surplus funds
- Distribution of loans, grants and other financial resources

Our consideration of the internal control over the Authority's financial operations and over compliance would not necessarily disclose all matters in the internal control that might be material or significant weaknesses. A material or significant weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with certain provisions of laws, regulations, contracts, and grants that would be material in relation to the Authority's financial operations or noncompliance which could result in significant unauthorized, illegal, irregular or unsafe transactions to the Authority being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving internal control that we consider to be material or significant weaknesses.

This report is intended for the information of the Governor, the State Comptroller, the Appropriations Committee of the General Assembly and the Legislative Committee on Program Review and Investigations. However, this report is a matter of public record and its distribution is not limited. Users of this report should be aware that our audit does not provide a legal determination of the Authority's compliance with the provisions of the laws, regulations, contracts and grants included within the scope of this audit.

**CONCLUSION**

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

Wendell M. Hinds  
Associate Auditor

Approved:

Kevin P. Johnston  
Auditor of Public Accounts

Robert G. Jaekle  
Auditor of Public Accounts