

# STATE OF CONNECTICUT



***AUDITORS' REPORT  
STATE OF CONNECTICUT HEALTH AND  
EDUCATIONAL FACILITIES AUTHORITY  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006***

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

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May 2, 2008

**AUDITORS' REPORT  
STATE OF CONNECTICUT HEALTH AND  
EDUCATIONAL FACILITIES AUTHORITY  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

We have examined the books, records and accounts of the Connecticut Health and Educational Facilities Authority, as provided in Section 2-90 and Section 1-122 of the General Statutes, for the fiscal year ended June 30, 2006.

**Scope of Audit:**

This audit was primarily limited to performing tests of the Connecticut Health and Educational Facilities Authority's (Authority) 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 the following areas:

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

We also considered the Connecticut Health and Educational Facilities 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 objects. Our consideration of internal control included the five areas identified above.

Our audit included a review of a representative sample of the Authority's activities during the fiscal year in the five areas identified above and a review of such other areas as we considered

necessary. The financial statement audit of the Connecticut Health and Educational Facilities Authority, for the fiscal year indicated above, was conducted by the Authority's independent public accountants.

This report on our examination consists of the Comments, Conditions of Records, 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 of the General Statutes, the State is contingently liable to provide annual debt service requirements for such bonds if the Authority's 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.

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. 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.

Members of the Authority Board of Directors as of June 30, 2006, were as follows:

Ex-Officio:

Denise L. Nappier, State Treasurer

Robert L. Genuario, Office of Policy and Management

Appointed by the Governor:

Barbara Rubin, Chairperson  
Patrick A. Colangelo, Vice Chairperson  
John M. Biancamano  
Steven Peter Blackburn  
William J. Cibes, Jr., PhD.  
Benson R. Cohn  
Bryan K. Pollard, Esq.  
Dory T. Sullivan, Ph.D.

Richard D. Gray served as Executive Director and Jeffrey A. Asher served as Managing Director/Chief Financial Officer for the Authority throughout the audited period.

**Significant Legislation:**

Public Act 05-187, of the January 2005 Regular Session, effective July 1, 2005, requires The Connecticut Health and Educational Facilities Authority to develop a loan program for the purpose of providing financial assistance to owners of chronic and convalescent nursing homes or rest homes with nursing supervisor.

**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 Fund 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. The General Fund also includes the following reserves: Focused Investment, Child Care Facilities Loan Program, Special Capital Reserve Fund, Operations, Legal Fees, Contingency and Early Childhood Education Research and Policy Council Funding.

**Construction and Project Funds** – The receipt and disbursement of monies 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 monies for the payment of 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 monies 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 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 monies 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.

**RÉSUMÉ OF OPERATIONS:**

From the inception of the Authority on July 1, 1965, through June 30, 2006, approximately 325 bond issuances have been authorized by the Authority in the aggregate amount of \$8,939,810,640, of which \$5,183,705,000 was outstanding at June 30, 2006.

The main sources of revenues for the Authority are the annual administrative fees paid by each institution for each issued bond series and the income from the Authority's investment in Short-Term Investment Funds (STIF). The Authority revenues totaled \$5,503,000. Total revenue increased by \$368,000 or eight percent. The amount of the annual fee is specified in each bond issue resolution. There were no Special Capital Reserve Fund (SCRF) Program issues 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 on the outstanding par amount was charged; all other issues were charged 9 basis points. In addition to the basis points, the Authority charges a bond issuance fee of \$15,000, of which \$5,000 is collected upon issuance of the bonds.

In accordance with Section 10a-194c of the General Statutes, the Authority instituted a grant program to finance low interest loans for child care and child development centers, family resource centers and Head Start programs during the 2002-2003 fiscal year. The purpose of the Authority's grant program is to provide essential health, educational, culture and childcare services to Connecticut residents in targeted geographic areas of Connecticut. The Authority awards Board-allocated funds to qualifying nonprofit organizations on a competitive basis. Since the inception of the Authority's grant program, the Authority and Board has awarded approximately \$8,500,000 in grants to nonprofit organizations. The Authority awarded grants totaling \$2,448,760 and \$2,216,579 during the 2004-2005 and 2005-2006 fiscal years, respectively.

Operating expenses of the Authority totaled \$6,055,000. This total excludes the trustee, accounting and special fees which are recovered from the various institutions as part of the bond issue expenses. Total expenses increased by \$552,000 or nine percent. This was due to an increase in legal fees associated with a nursing home sold from a court supervised receivership, as well as, an increase in grants to establish a Captive Insurance Grant Program that was mandated by Section 10a-194, subsection (f), of the General Statutes.

Based on the Authority's audited financial statements, below is a summary of the financial operations of the Authority for the year under review with 2005 (restated) fiscal year figures shown for comparative purposes:

	<b>Fiscal Year Ended June 30</b>	
	<b>(amount in thousands)</b>	
	<b><u>2006</u></b>	<b><u>2005</u></b>
	\$	\$
Revenue:		
Annual administrative fees	4,542	4,214
Investment income	844	454
Bond issuance fees income	87	63
Miscellaneous revenues	<u>26</u>	<u>10</u>
Total revenues	<u>5,499</u>	<u>4,741</u>
Expenses:		
Grant expenses	2,216	2,449
Salaries and related expenses	1,915	1,644
Other operating expenses	<u>1,924</u>	<u>1,410</u>
Total expenses	<u>6,055</u>	<u>5,503</u>
Change in net assets	(556)	(762)
Net assets, beginning of year	<u>19,527</u>	<u>20,289</u>
Net assets, end of year	<u>\$ 18,971</u>	<u>\$ 19,527</u>

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. The return on STIF for the fiscal year ended June 30, 2006 was 4.4 percent.

Outstanding bonds issued under the SCRF program (for which the State has a contingent liability) totaled \$377,510,000 as of June 30, 2006. During our audit period, a skilled nursing facility went into bankruptcy and was placed into a court supervised receivership. The court-appointed receiver sold the facility for approximately \$5,225,000 less than was owed. In accordance with Section 10a-186, subsection (c), of the General Statutes, the State Treasurer advanced CHEFA the additional funds needed to redeem the nursing facility's outstanding bonds. Due to the State Treasurer advancement of funds, CHEFA avoided using the Special Capital Reserve Funds (SCRF). The bonds were redeemed on November 1, 2006.

**CONDITION OF RECORDS**

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

**RECOMMENDATIONS**

*Prior Audit Recommendations:*

There were no recommendations developed for the prior report that covered the fiscal year ended June 30, 2005.

*Current Audit Recommendations:*

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

## **INDEPENDENT AUDITORS' CERTIFICATION**

As required by Section 2-90 and Section 1-122 of the General Statutes, we have conducted an audit of the State of Connecticut Health and Educational Facilities Authority's activities for the fiscal year ended June 30, 2006. 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 State of Connecticut Health and Educational Facilities Authority, for the fiscal year indicated above, was conducted by the Authority's independent public accountants.

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 State of Connecticut Health and Educational Facilities Authority complied in all material respects with the provisions of certain laws, regulations, contracts and grants and to obtain a sufficient understanding of the 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 State of Connecticut Health and Educational Facilities Authority is the responsibility of the Authority's management.

As part of obtaining reasonable assurance about whether the State of Connecticut Health and Educational Facilities 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, 2006, 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 State of Connecticut Health and Educational Facilities 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 provided a legal determination of the Connecticut Health and Educational Facilities 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.

Kathrine E. Williams  
Associate Auditor

Approved:

Kevin P. Johnston  
Auditor of Public Accounts

Robert G. Jaekle  
Auditor of Public Accounts