

**CONNECTICUT HIGHER EDUCATION
SUPPLEMENTAL LOAN AUTHORITY**

Financial Statements

June 30, 2007 and 2006

**CONNECTICUT HIGHER EDUCATION
SUPPLEMENTAL LOAN AUTHORITY
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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
**CONNECTICUT HIGHER EDUCATION
SUPPLEMENTAL LOAN AUTHORITY**
West Hartford, 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, 2007 and 2006, 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 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 financial position of the Connecticut Higher Education Supplemental Loan Authority as of June 30, 2007 and 2006, 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 25, 2007 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 should be considered in assessing the results of our audits.

Board of Directors

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The Management's Discussion and Analysis as listed in the table of contents is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Simone Massa & Larrano LLP

Rocky Hill, Connecticut

September 25, 2007

**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 State of 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, 2007 as compared to June 30, 2006. 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.

**CONNECTICUT HIGHER EDUCATION
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MANAGEMENT'S DISCUSSION AND ANALYSIS**

FINANCIAL POSITION SUMMARY

The Authority's fiscal year 2007 assets increased by \$14.7 million or 11.4% over fiscal year 2006 and liabilities increased by \$13.1 million or 11% over fiscal year 2006. Total assets exceeded liabilities by \$11.6 million in 2007 as compared to \$10.1 million for 2006, or a net increase of \$1.5 million.

	BALANCE SHEETS	
	(In Thousands)	
	2007	2006
ASSETS:		
Current unrestricted assets	\$ 14,843	\$ 15,788
Current restricted assets	32,571	32,102
Total Current Assets:	47,414	47,890
Non-Current assets:		
Restricted Investments	9,500	7,000
Loans receivable, net of current portion	84,474	72,040
Bond issuance costs, net	2,328	2,091
Total Non-Current Assets	96,302	81,131
TOTAL ASSETS	\$ 143,716	\$ 129,021
LIABILITIES:		
Current liabilities	\$ 8,897	\$ 7,037
Long-term liabilities	123,190	111,911
TOTAL LIABILITIES	132,087	118,948
NET ASSETS:		
Unrestricted	11,629	10,073
TOTAL LIABILITIES AND NET ASSETS	\$ 143,716	\$ 129,021

FINANCIAL HIGHLIGHTS

The following is an overview of significant changes within the Balance Sheets during the past fiscal year:

Assets

Current unrestricted assets decreased by \$945,000 or 6%. This was due primarily to the decrease of the current portion of loans receivable, which resulted from collections received in 2007, and the \$25.6 million of FY 2007 loan issuances being primarily long-term offset by existing loans becoming more current.

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MANAGEMENT'S DISCUSSION AND ANALYSIS**

FINANCIAL HIGHLIGHTS (Continued)

Current restricted assets increased by \$0.5 million or 1.5%. This increase was primarily the result of a net increase in cash and cash equivalents and investments of \$0.5 million from the 2006 bond series offset by loans issued in FY 2007.

Non-current assets increased by \$15.1 million or 18.7%. This was primarily due to:

- Loans receivable increased by \$12.4 million because of new loans associated with the 2005 and 2006 bond offerings having a greater non-current portion offset by existing loans becoming more current.
- Restricted investments increased by \$2.5 million because of the 2006 Series Special Capital Reserve required as part of the bond offering.

Liabilities

Current liabilities increased by \$1.9 million or 26.4% as compared to June 30, 2006, due primarily to the current payment obligations of bonds payable.

Long-term liabilities increased by \$11.3 million or 10.1% as compared to June 30, 2006, due to the issuance of the 2006 Series bonds offset by the refunding of the 1996 Series A bonds and required principal payments on existing bonds.

SUMMARY OF OPERATIONS AND CHANGES IN NET ASSETS

A summary of operations and changes in net assets for the fiscal year ended June 30, 2007, and the amount and percentage of change in relation to prior fiscal year amount is as follows:

STATEMENTS OF REVENUES, EXPENSES
AND CHANGES IN NET ASSETS
(In Thousands)
Fiscal Years Ending June 30,

	2007	2006	
Operating revenues	\$ 10,289	\$ 9,113	
Operating expenses	8,733	7,792	
Increase in Net Assets	\$ 1,556	\$ 1,321	

Operating revenues increased in fiscal year 2007 by \$1.2 million or 12.9% over fiscal year 2006, due primarily to the increase in interest earning on loans receivable due to the \$25.6 million in new loans issued during FY 2007. Interest earning on investments also contributed to the

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MANAGEMENT'S DISCUSSION AND ANALYSIS**

SUMMARY OF OPERATIONS AND CHANGES IN NET ASSETS (Continued)

operating revenue increase as newer investments associated with the 2006 Series earned a higher interest crediting rate.

Operating expenses also increased during fiscal year 2007 by \$0.9 million or 12.1% compared to fiscal year 2006. This was primarily due to an increase in interest expense and the provision for loan losses offset by a decrease in the arbitrage rebate expense.

SUMMARY OF REVENUE

A summary of revenues for the fiscal year ended June 30, 2007, and the amount and percentage of change in relation to prior fiscal year amounts is as follows:

	<u>2007</u>	<u>Percent of Total</u>	<u>2006</u>	<u>Increase/ (decrease) from 2006</u>	<u>Percent Increase/ (decrease)</u>
Operating:					
Interest income on loans receivable	\$ 7,034	68.4%	\$ 6,406	\$ 628	9.8%
Interest income on investments	2,417	23.5%	1,951	466	23.9%
Administrative fees	838	8.1%	741	97	13.1%
Other operating income	-	0.0%	16	(16)	100.0%
Total operating revenues	<u>10,289</u>	<u>100.0%</u>	<u>9,114</u>	<u>1,175</u>	
TOTAL REVENUES	<u>\$ 10,289</u>	<u>100.0%</u>	<u>\$ 9,114</u>	<u>\$ 1,175</u>	<u>12.9%</u>

The following discusses the major changes in operating revenues of the Authority:

- Interest income on loans receivable, which represents interest income from educational loans, increased by 8.6% or \$0.6 million due to the \$25.6 million in new loan issuances during FY 2007.
- Interest income on investments, increased by \$465,970 or 24% from fiscal year 2006. The increase is due to higher rates of return on investment balances in 2007.
- Administrative fees increased by \$97,281 or 13.1%. These fees are based on Authority income from a percentage of originations and principal outstanding from the various bond deals. The increase is due to the addition of the 2006 bond series as well as the increase of loan issuances in FY 2007.

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MANAGEMENT'S DISCUSSION AND ANALYSIS**

SUMMARY OF EXPENSES

A summary of expenses for the fiscal year ended June 30, 2007, and the amount and percentage of change in relation to prior fiscal year amounts is as follows:

	<u>2007</u>	<u>Percent of Total</u>	<u>2006</u>	<u>Increase/ (decrease) from 2006</u>	<u>Percent Increase/ (decrease)</u>
Operating:					
Interest expense	\$ 6,118	70.0%	\$ 5,648	\$ 470	8.3%
Administrative fees	838	9.6%	741	97	13.1%
Loan collection fees	602	6.9%	593	9	1.5%
Amortization of bond issuance costs	480	5.5%	354	126	35.6%
General and administrative expenses	287	3.3%	269	18	6.7%
Provision for loan losses	132	1.5%	(230)	362	-157.4%
Professional fees	121	1.4%	154	(33)	-21.4%
Salaries	116	1.3%	108	8	7.4%
Trustee fees	40	0.5%	38	2	5.3%
Arbitrage rebate expense	-	0.0%	117	(117)	100.0%
TOTAL OPERATING EXPENSES	<u>\$ 8,734</u>	<u>100.0%</u>	<u>\$ 7,792</u>	<u>\$ 942</u>	<u>12.1%</u>

The Authority's expenses increased from fiscal year 2006 to 2007 by approximately \$0.9 million or 12.1% in total. Notable differences between the years include:

- Interest expense increased by \$469,498 or 8.3% due to the 2006 bond deal.
- Administrative fees increased by \$97,281 or 13.1% primarily due to the loan issuances in FY 2007.
- Arbitrage rebate expense decreased by \$117,345 due to the decrease in the 2% yield liability as compared to June 30, 2006 and the refunding of a prior bond issue.
- Professional fees decreased by \$33,918 due primarily to no program audit for FY 2007 and a decrease in fees for the arbitrage calculations.
- Provision for loan losses increased by \$362,000 primarily due to historical collection results.
- Amortization of bond issuances costs increased by \$126,169 or 36% due to the amortization of the 2006 bond issuance costs.

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MANAGEMENT'S DISCUSSION AND ANALYSIS**

SUMMARY OF CASH FLOW ACTIVITIES

The following is a summary of the major sources and uses of cash and cash equivalents for the two most recent fiscal years. Cash equivalents are considered cash-on-hand, bank deposits and highly liquid investments with an original maturity of three months or less.

STATEMENTS OF CASH FLOWS		
(In Thousands)		
Fiscal Years Ending June 30,		
	2007	2006
Cash flows from operating activities	\$ (9,322)	\$ 1,773
Cash flows from investing activities	(1,814)	11,667
Cash flows from non-capital financing activities	12,208	(14,830)
Net increase (decrease) in cash and cash equivalents	1,072	(1,390)
Cash and cash equivalents:		
Beginning of year	7,034	8,423
End of year	\$ 8,106	\$ 7,034

The Authority's available cash and cash equivalents increased \$1.1 million from \$7 million at the end of fiscal year 2006 to \$8.1 million at the end of fiscal year 2007 due to:

- Cash flows from operating activities, which represent the net difference between cash received for loan payments and interest and loans disbursed to borrowers and cash paid to employees and vendors for goods and services. For fiscal year 2007, this net use of cash was \$11.1 million more than fiscal year 2006 and was mainly due to an increase in the amount of loans disbursed during FY 2007.
- Cash flows from investing activities, which represent the net difference between proceeds from maturing investments versus the purchase of investment securities. For fiscal year 2007, this net use of cash was \$13.5 million more than fiscal year 2006 and was mainly due to the purchase of investments associated with the 2006 bond issuance offset by sales of investments to facilitate loan disbursements.
- Cash flows from non-capital financing activities, which represent the net difference between total proceeds from bond issuances, versus the costs of issuance and scheduled payments on bond principal. For fiscal year 2007, this net source of cash was \$27 million higher than fiscal year 2006 and was mainly due to the issuance of the 2006 series bonds offset by the refunding of the 1996 Series bonds and regular principal payments on existing bonds.

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**BALANCE SHEETS
June 30, 2007 and 2006**

ASSETS	<u>2007</u>	<u>2006</u>
CURRENT ASSETS		
Unrestricted assets:		
Cash and cash equivalents	\$ 1,797,221	\$ 1,880,511
Current portion of loans receivable, net of allowances for loan losses of \$2,202,000 in 2007 and \$2,070,000 in 2006	12,424,590	13,360,451
Interest receivable on investments	273,161	226,112
Interest receivable on loans receivable	<u>348,226</u>	<u>321,408</u>
Total Unrestricted Assets	<u>14,843,198</u>	<u>15,788,482</u>
Restricted assets:		
Cash and cash equivalents	6,309,592	5,153,906
Investments	26,259,265	26,945,628
Connecticut Higher Education Trust	<u>2,330</u>	<u>2,154</u>
Total Restricted Assets	<u>32,571,187</u>	<u>32,101,688</u>
Total Current Assets	<u>47,414,385</u>	<u>47,890,170</u>
NON-CURRENT ASSETS		
Restricted investments	9,500,000	7,000,000
Loans receivable, net of current portion	84,474,024	72,040,403
Bond issuance costs, net of accumulated amortization of \$3,620,890 in 2007 and \$3,140,823 in 2006	<u>2,327,522</u>	<u>2,090,683</u>
Total Non-Current Assets	<u>96,301,546</u>	<u>81,131,086</u>
Total Assets	<u>\$ 143,715,931</u>	<u>\$ 129,021,256</u>

See notes to financial statements.

LIABILITIES AND NET ASSETS	<u>2007</u>	<u>2006</u>
CURRENT LIABILITIES		
Current portion of bonds payable	\$ 7,655,781	\$ 5,795,324
Accounts payable and accrued liabilities	92,615	89,635
Current portion of arbitrage rebate payable	19,481	117,345
Accrued interest payable	720,498	649,945
Current portion of deferred revenue	<u>408,387</u>	<u>384,846</u>
Total Current Liabilities	<u>8,896,762</u>	<u>7,037,095</u>
LONG-TERM LIABILITIES		
Bonds payable, net of current portion	120,684,989	109,663,204
Arbitrage rebate payable, net of current portion	121,923	47,493
Deferred revenue, net of current portion	<u>2,383,234</u>	<u>2,200,666</u>
Total Long-Term Liabilities	<u>123,190,146</u>	<u>111,911,363</u>
Total Liabilities	<u>132,086,908</u>	<u>118,948,458</u>
UNRESTRICTED NET ASSETS	<u>11,629,023</u>	<u>10,072,798</u>
 Total Liabilities and Net Assets	 <u>\$ 143,715,931</u>	 <u>\$ 129,021,256</u>

**CONNECTICUT HIGHER EDUCATION
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STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
YEARS ENDED JUNE 30, 2007 AND 2006

	2007	2006
OPERATING REVENUES		
Interest income on investments	\$ 2,416,856	\$ 1,950,683
Interest income on loans receivable	7,034,348	6,406,133
Administrative fees	837,904	740,623
Other operating income	-	15,822
	10,289,108	9,113,261
OPERATING EXPENSES		
Interest expense	6,117,742	5,648,244
Administrative fees	837,904	740,623
Loan collection fees	602,105	592,641
Amortization of bond issuance costs	480,067	353,900
General and administrative expenses	286,553	268,580
Provision for loan losses	132,000	(230,000)
Professional fees	120,552	154,470
Salaries	115,960	107,770
Trustee fees	40,000	38,054
Arbitrage rebate expense	-	117,345
	8,732,883	7,791,627
CHANGE IN NET ASSETS	1,556,225	1,321,634
NET ASSETS, beginning	10,072,798	8,751,164
NET ASSETS, ending	\$ 11,629,023	\$ 10,072,798

See notes to financial statements.

**CONNECTICUT HIGHER EDUCATION
SUPPLEMENTAL LOAN AUTHORITY**

**STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2007 AND 2006**

	2007	2006
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received for the following:		
Loan payments	\$ 14,626,590	\$ 15,430,451
Interest collected on loans	7,007,530	6,455,543
Interest collected on investments	2,369,807	2,159,781
Other income	837,904	756,445
Total cash received	24,841,831	24,802,220
Cash paid for the following:		
Loans disbursed	(25,692,827)	(15,007,202)
Bond interest	(6,113,377)	(5,951,767)
Other expenses	(2,357,500)	(2,069,837)
Total cash disbursed	(34,163,704)	(23,028,806)
Net Cash Provided by (Used in) Operating Activities	(9,321,873)	1,773,414
 CASH FLOWS FROM INVESTING ACTIVITIES		
Sale of restricted investments	31,922,186	11,667,396
Purchase of restricted investments	(33,735,999)	-
Net Cash Provided by (Used in) Investing Activities	(1,813,813)	11,667,396
 CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Issuance of bonds	33,236,000	-
Bond issuance costs	(827,918)	-
Payments on bond principal	(20,200,000)	(14,830,000)
Net Cash Provided by (Used in) Noncapital Financing Activities	12,208,082	(14,830,000)
Net increase (decrease) in cash and cash equivalents	1,072,396	(1,389,190)
CASH AND CASH EQUIVALENTS, Beginning	7,034,417	8,423,607
CASH AND CASH EQUIVALENTS, Ending	\$ 8,106,813	\$ 7,034,417

See notes to financial statements.

	<u>2007</u>	<u>2006</u>
RECONCILIATION OF CHANGE IN NET ASSETS TO NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES		
Change in net assets	\$ 1,556,225	\$ 1,321,634
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Amortization of bond issuance costs	480,067	353,901
Amortization of deferred amount on refunding	(26,571)	88,020
Amortization of bond discount	21,995	19,869
Amortization of bond premium	(38,170)	(38,170)
Provision for loan losses	132,000	(230,000)
Change in assets and liabilities:		
(Increase) decrease in loans receivable	(11,629,760)	585,766
(Increase) decrease in interest receivable on investments	(47,049)	209,098
Increase (decrease) in interest receivable on loans receivable	(26,818)	49,410
Increase (decrease) in accounts payable and accrued liabilities	2,980	(885)
Decrease in arbitrage rebate payable	(23,434)	(120,081)
Increase (decrease) in accrued interest payable	70,553	(373,242)
Increase (decrease) in deferred revenue	<u>206,109</u>	<u>(91,906)</u>
Net Cash Provided by (Used in) Operating Activities	\$ (9,321,873)	\$ 1,773,414

**RECONCILIATION OF CASH AND CASH EQUIVALENTS
TO THE STATEMENT OF NET ASSETS**

Cash and cash equivalents - unrestricted	1,797,221	1,880,511
Cash and cash equivalents - restricted	<u>6,309,592</u>	<u>5,153,906</u>
	\$ 8,106,813	\$ 7,034,417

SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION

Deferred amount on refunding recorded through reduction of bond issuance costs	<u>\$ 111,013</u>	<u>\$ -</u>
Discount on issuance of 2006 Bonds recorded through reduction of issuance of bonds	<u>\$ 34,001</u>	<u>\$ -</u>

**CONNECTICUT HIGHER EDUCATION
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NOTES TO FINANCIAL STATEMENTS**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity – The Connecticut Higher Education Supplemental Loan Authority (“Authority”) is a body politic and corporate established in 1982 pursuant to Section 4 of Connecticut Higher Education Supplemental Loan Authority Act, Public Act 82-313 of the Connecticut General Assembly (the Act). For purposes of financial reporting, the Authority is a component unit of the State of Connecticut and the Authority’s financial statements are included in the State’s Comprehensive Annual Financial Report. The Authority was established to assist students, their parents and institutions of higher education to finance the cost of higher education through its Bond funds.

The funds of the Authority are proprietary fund types. Proprietary funds are used to account for governmental activities that are similar to those found in the private sector where the determination of net income is necessary or useful for sound financial administration. The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. Proprietary funds are accounted for on a cost of services or “capital maintenance” measurement focus. This means that all assets and all liabilities (whether current or non-current) associated with their activity are included on their balance sheet. Accounting principles generally accepted in the United States of America (GAAP) used for proprietary funds are generally those applicable to businesses in the private sector. In accordance with Governmental Accounting Standards Board (GASB) Statement No. 20, the Authority applies all GASB pronouncements and all Financial Accounting Standards Board Statements, Interpretations, Accounting Principles Board Opinions and Accounting Research Bulletins issued on or before November 30, 1989, except those that conflict with GASB pronouncements.

Authority Operating Fund – The administrative functions of the Authority are accounted for in the Authority Operating Fund. Revenues in this fund consist of interest income and administrative fees.

Bond Funds – Under the Bond Funds, the Authority issues revenue bonds, the proceeds of which are used to provide loans directly to students or other borrowers to assist in the financing of higher education. Revenue in the Bond Funds is derived from interest earned on investments and loans receivable. The 2003 Bond Fund is governed by the 2003 Master Revenue Bond Resolution, pursuant to which the 2003 and 2005 Series A and B and 2006 Series A bonds were issued. The proceeds from the 2003 Series B bonds were used to refund the 1991 Series A bonds and the 2003 Series 1 bonds. The proceeds from the 2005 Series B bonds were used to refund the 1993 and 1994 Series A bonds. A portion of the proceeds from the 2006 Series A bonds was used to refund the 1996 Series A bonds. The 2003 Series 1 bonds were issued on May 15, 2003 to refund prior obligations of the Authority scheduled to be retired by special mandatory redemption on May 15, 2003. The Pre 2003 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 the 2003 Series A and B bonds. In accordance with the bond resolutions, the Authority internally accounts for each bond issue, which includes individual funds as defined by each bond resolution, including but not limited to combinations of some of the following:

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NOTES TO FINANCIAL STATEMENTS**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Bond Funds (Continued) –

Loan Fund, Revenue Fund, Debt Service Reserve Fund and the Special Capital Reserve Fund.

Prior to 1988, these loans were provided for the purpose of assisting in the financing of attendance at eligible colleges and universities in Connecticut under the Family Education Loan Program (CIFELP). In 1988, the program was expanded to include loans to Connecticut residents attending institutions outside the state.

Connecticut Higher Education Trust (CHET) – Under the CHET program, the Authority maintains trust accounts for students in the Authority's early college awareness program.

Use of Estimates – The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. A material estimate that is particularly susceptible to significant change relates to the determination of the allowance for loan losses. In connection with the determination of the allowance for loan losses, management has used historical loss experience to make predictions about future losses. As the loan portfolio matures, the Authority adjusts its estimate of expected default rates used to estimate loan losses.

Revenue Recognition – Interest income on loans is recognized based on the rates applied to principal amounts outstanding. The accrual of interest income is generally discontinued when a loan is classified as non-performing (see Note 3). Loans are currently considered to be non-performing by management when the borrower has defaulted and not made payments for the most recent three months.

Cash and Cash Equivalents – For purposes of the statement of cash flows, the Authority considers all highly liquid investments with an original maturity of three months or less to be cash equivalents. Cash equivalents consisted of short-term investments in the State Treasurer's Short-Term Investment Fund, which totaled \$7,786,413 and \$6,391,586 as of June 30, 2007 and 2006, respectively.

The State Treasurer's Short-Term Investment Fund is an investment pool managed by the State Treasurer's Office. The fair value of the Authority's position in the pool is the same as the value of the pool shares.

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NOTES TO FINANCIAL STATEMENTS**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investments – In accordance with Governmental Accounting Standards Board Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, the Authority presents all investments at fair value, except for non-participating interest earning investment contracts, which are carried at amortized cost.

The Authority maintains guaranteed investment contracts with AIG Matched Funding Corporation, MBIA, Inc., FGIC Capital Market Services, IXIS Funding (formerly known as CDC Funding Corporation), Society Generale, Berkshire Hathaway, Inc., Westdeutsche Landesbank, FSA Capital Management Services and Rabobank International. Under these agreements, all investment transactions must be authorized investments, defined by the bond resolutions as including primarily securities issued or guaranteed by the United States Government, corporate debt obligations having a bond rating of “A” or higher, mortgage participation certificates issued by the Federal Home Loan Mortgage Corporation and mortgage pass-through certificates issued by the Federal National Mortgage Association.

There were no significant investment losses for the years ended June 30, 2007 and 2006.

Loans Receivable and Allowance for Loan Losses – Interest on loans receivable is accrued and credited to operations based upon the principal amount outstanding. Loans are placed on non-accrual 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 non-performing 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.

Restricted Assets – Under provisions of the bond resolutions, certain assets are restricted for the repayment of bond principal and interest, for the issuance of student loans, and anticipated operating costs.

Bond Issuance Costs – Bond issuance costs are amortized over the term of the related bonds.

Arbitrage Rebates – Under the Internal Revenue Code of 1986 (the Code), the Authority 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. The Authority is also presently required to reduce the yield on loans made with the proceeds of certain of its tax-exempt bonds. The Authority accrues or adjusts for this liability as incurred.

**CONNECTICUT HIGHER EDUCATION
SUPPLEMENTAL LOAN AUTHORITY
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Deferred Revenue – The Authority charges a 3 percent reserve fee on loans governed by the 2003 Master Revenue Bond Resolution and a 2 percent reserve fee on loans governed by the 1990 Revenue Bond Resolution. The fee, net of origination costs, is deferred and recognized over the life of the loan.

Income Taxes – The Authority is exempt from state and federal income taxes.

NOTE 2 – CASH DEPOSITS AND INVESTMENTS

Cash Deposits – Governmental Accounting Standards Board Statement No. 3, *Deposits with Financial Institutions, Investments, and Repurchase Agreements*, requires governmental organizations to categorize their cash deposits into three levels of risk. Category 1 includes amounts, which are insured or collateralized with securities held by the Authority or by its agent in the Authority's name. Category 2 includes amounts, which are collateralized with securities held by the pledging financial institution's trust department or agent in the name of the Authority. Category 3 includes amounts, which are uninsured and uncollateralized, including any bank balance that is collateralized with securities held by the pledging financial institutions, or by its trust department or agent, but not in the name of the Authority.

For purposes of this disclosure, cash deposits include bank deposits and exclude cash equivalents (see Note 1). As of June 30, 2007 and 2006, the carrying amount of the Authority's unrestricted and restricted cash deposits totaled \$320,399 and \$642,831, respectively. As of June 30, 2007, the bank balance totaled \$23,554, which was insured by the Federal Deposit Insurance Corporation (Category 1).

Investments – In accordance with the provisions of Statement No. 3 of the Governmental Accounting Standards Board, the Authority's investments, including cash equivalents, must be categorized to give an indication of the level of risk assumed at year-end. Category 1 includes investments that are insured or registered in the Authority's name or are held by the Authority or its agent in the Authority's name. Category 2 includes uninsured and unregistered investments, which are held by a counter party's trust department or by its agent in the Authority's name. Category 3 includes uninsured or unregistered securities, which are held by a counter party, its trust department or by its agent, but not held in the Authority's name.

**CONNECTICUT HIGHER EDUCATION
SUPPLEMENTAL LOAN AUTHORITY
NOTES TO FINANCIAL STATEMENTS**

NOTE 2 – CASH DEPOSITS AND INVESTMENTS (Continued)

The Authority's investments consist of guaranteed investment contracts, which are not required to be classified under GASB Statement No. 3 because they are direct contractual investments, and are not securities. The State of Connecticut Short-Term Investments Funds, which are presented as cash equivalents, are pooled investments and are not required to be classified under GASB Statement No. 3.

NOTE 3 – LOANS RECEIVABLE

Under the Bond Fund Program, the Authority makes loans to individuals from the proceeds of bonds issued by the Authority. Loans receivable by outstanding bond series as of June 30, 2007 are as follows:

Bond Series	Number	Balance	Interest Rate (%)
1998A&B	942	\$ 6,016,112	7.50
1999A	550	4,537,258	7.50
1999B	242	1,545,921	7.50
2000A	808	6,959,037	7.25
2000B	305	2,404,728	7.25
2001A*	1,210	12,876,814	6.7 & 9.7
2003A	1,090	13,036,664	4.99
2003B**	809	6,763,704	4.99 & 9.2
2005 A&B***	2,811	28,834,243	5.5, 8.25, & 8.4
2006 A****	1,769	14,054,017	6.1, 8.1
	<u>10,536</u>	<u>97,028,498</u>	
Add: Non-performing loans		2,072,116	
Less: Allowance for loan losses		<u>(2,202,000)</u>	
		<u>\$ 96,898,614</u>	

* Includes loans issued under the 1990 Series A bonds which were refunded by the 2001 Series A bonds.

** Includes loans issued under the 1991 Series A bonds which were refunded by the 2003 Series B bonds.

*** Includes loans issued under the 1993 and 1994 Series A bonds which were refunded by the 2005 Series B bonds.

**** Includes loans issued under the 1996 Series A bonds which were refunded by the 2006 Series A Bonds.

Outstanding loans receivable bear interest at rates ranging from 4.99% to 9.7%.

**CONNECTICUT HIGHER EDUCATION
SUPPLEMENTAL LOAN AUTHORITY
NOTES TO FINANCIAL STATEMENTS**

NOTE 3 – LOANS RECEIVABLE (Continued)

The Authority currently defines non-performing loans as those on which the borrower has defaulted and not made payments for the most recent three months. As of June 30, 2007 and 2006, non-performing loans totaled \$2,072,116 and \$1,545,784, respectively, for which interest income of approximately \$142,135 and \$111,286, respectively, was not accrued.

The Authority has a policy to write-off uncollectible loans against the allowance for loan losses when certain criteria are met (see Note 1). In connection with this policy, the Authority wrote-off loans receivable of \$93,847 and \$486,412 for the years ended June 30, 2007 and 2006, respectively, which had been previously provided for through the allowance for loan losses. The Authority recovered \$197,727 and \$296,324 in fiscal 2007 and 2006, respectively, in loans receivable and other credits written-off in previous years.

NOTE 4 – BONDS PAYABLE

The following is a summary of changes in bonds payable for the years ended June 30, 2007 and 2006.

	<u>Balance at June 30, 2005</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance at June 30, 2006</u>	
Bonds payable - principal	\$ 130,218,809	\$ -	\$ 14,760,281	\$ 115,458,528	
	<u>Balance at June 30, 2006</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance at June 30, 2007</u>	<u>Amount Due Within One Year</u>
Bonds payable - principal	\$ 115,814,999	\$ 33,270,001	\$ 20,200,000	\$ 128,885,000	\$ 7,750,000
Discount	(577,758)	(34,001)	(21,995)	(589,764)	(21,995)
Premium	553,590	-	38,170	515,420	38,170
Deferred amount on refunding	(332,303)	(246,112)	(108,529)	(469,886)	(110,394)
	<u>\$ 115,458,528</u>	<u>\$ 32,989,888</u>	<u>\$ 20,107,646</u>	<u>\$ 128,340,770</u>	<u>\$ 7,655,781</u>

The bonds of the Authority bear interest at rates, varying between 1.7% and 6%. Future amounts needed to pay principal and interest on bonds outstanding at June 30, 2007 is as follows:

**CONNECTICUT HIGHER EDUCATION
SUPPLEMENTAL LOAN AUTHORITY
NOTES TO FINANCIAL STATEMENTS**

NOTE 4 – BONDS PAYABLE (Continued)

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>
2008	7,750,000	5,607,570
2009	6,415,000	5,329,652
2010	7,990,000	5,039,617
2011	10,240,000	4,650,452
2012	11,210,000	4,186,930
2013-2017	50,955,000	13,894,081
2018-2022	31,725,000	4,022,054
2023-2027	2,600,000	62,400
	<u>\$ 128,885,000</u>	<u>\$ 42,792,756</u>

Outstanding principal of each bond issue at June 30, 2007 and 2006 is as follows:

	<u>Original Amount</u>	<u>Outstanding June 30, 2007</u>	<u>Outstanding June 30, 2006</u>
1996 Series A, 4.75%-5.875%, due serially from November 15, 2001 to November 15, 2017	25,000,000	-	7,355,000
1998 Series A, 4.10%-5.15%, due serially from November 15, 2002 to November 15, 2016	15,000,000	3,695,000	3,765,000
1998 Series B, 4%-4.875%, due serially from November 15, 2001 to November 15, 2010	3,560,000	2,110,000	2,935,000
1999 Series A, 4.7%-6%, due serially from November 15, 2002 to November 15, 2017	12,500,000	3,810,000	3,850,000
1999 Series B, 4.5%-6%, due serially from November 15, 2002 to November 15, 2012	4,390,000	3,050,000	3,995,000
2000 Series A, 4.625%-5.5%, due serially from November 15, 2008 to November 15, 2020	16,410,000	6,360,000	7,915,000
2000 Series B, 4.75%-5.2%, due serially from November 15, 2001 to November 15, 2012	5,975,000	2,245,000	3,035,000
2001 Series A, 4.25%-5.25%, due serially from November 15, 2010 to November 15, 2021	25,000,000	18,395,000	19,740,000

**CONNECTICUT HIGHER EDUCATION
SUPPLEMENTAL LOAN AUTHORITY
NOTES TO FINANCIAL STATEMENTS**

NOTE 4 – BONDS PAYABLE (Continued)

	Original Amount	Outstanding June 30, 2007	Outstanding June 30, 2006
2003 Series A, 1 7%-4.5%, due serially from November 15, 2004 to November 15, 2020	18,000,000	15,750,000	16,300,000
2003 Series B, 2%-5%, due serially from November 15, 2004 to November 15, 2017	12,915,000	8,920,000	10,570,000
2005 Series A, 2.5%-4.375% due serially from November 15, 2005 to November 15, 2021	31,455,000	25,380,000	30,455,000
2005 Series B, 4% due serially from November 15, 2008 to 2010	5,900,000	5,900,000	5,900,000
2006 Series A, 3.9%-4.8% due serially from November 15, 2007 to 2022	33,270,000	33,270,000	-
	<u>\$ 209,375,000</u>	<u>\$ 128,885,000</u>	<u>\$ 115,815,000</u>

Each Series A bond is subject to a special mandatory redemption in whole or in part from excess loan payments. During the year ended June 30, 2007 and 2006, the Authority redeemed bonds in the following amounts:

	2007	2006
1996 Series A	600,000	1,755,000
1998 Series A	-	1,565,000
1999 Series A	-	1,295,000
2000 Series A	1,555,000	2,085,000
2001 Series A	1,345,000	2,835,000
2005 Series A	3,875,000	-
	<u>\$ 7,375,000</u>	<u>\$ 9,535,000</u>

Debt Refunding – During the year ended June 30, 2007, the Authority issued \$33,270,000 of 2006 Series A bonds with an average interest rate of approximately 4.4% and utilized \$1,750,000 of proceeds from previous bond offerings to refund \$6,755,000 of 1996 Series A bonds with an average interest rate of approximately 5.3%. The primary purpose of the refunding was to refinance current obligations of the Authority on a long-term basis. The refunding decreased the Authority's total debt service payments over the next 11 years by approximately \$1,750,000 and resulted in an economic gain (difference between the present values of the debt service payments of the old and new bonds) of approximately \$798,674. The reacquisition price exceeded the carrying amount of the old bonds by \$246,113. This amount is being netted against the new

**CONNECTICUT HIGHER EDUCATION
SUPPLEMENTAL LOAN AUTHORITY
NOTES TO FINANCIAL STATEMENTS**

NOTE 4 – BONDS PAYABLE (Continued)

bonds and amortized over the remaining original life of the 1996 Series A bonds, which is shorter than the remaining life of the newly issued bonds.

NOTE 5 – STATE OF CONNECTICUT DEPOSIT REQUIREMENT

Deficiencies, if any, in the Debt Service Reserve Fund balances within the Bond Funds will be funded from the amount on deposit in the applicable Special Capital Reserve Fund. Both the Debt Service Reserve Fund and the Special Capital Reserve Fund are components of restricted investments. In accordance with the Act, the State must deposit with the Trustee monies necessary to restore the Special Capital Reserve Fund requirement (i.e., an amount equal to the maximum amount of principal and interest becoming due by reason of maturity in any one succeeding calendar year or some lesser amount specified by the Authority in its resolution authorizing the issuance of any such bonds.) As of June 30, 2007 and 2006, the State has not made nor was it required to make any such deposit.

NOTE 6 – RELATED PARTY TRANSACTIONS

The Authority shares rental space, office supplies, office equipment and utilities with and shares the services of the Vice President of the Connecticut Conference of Independent Colleges (CCIC). Currently, the executive director of CHESLA serves as Vice President of CCIC. Fees charged to the Authority by CCIC for providing administrative services were \$102,000 for each of the years ended June 30, 2007 and 2006. In addition, the Authority reimbursed CCIC directly for actual general and administrative expenses incurred.

NOTE 7 – EMPLOYEE BENEFIT PLANS

The Authority has a Simplified Employee Pension Plan (the Plan). Under the provisions of the Plan, the Authority will make annual contributions directly to the individual retirement accounts (IRA) of all eligible employees, equal to eight percent of the employee's salary. Employees have the right to withdraw amounts from the IRA in accordance with the terms and conditions of the IRA. In 2007 and 2006, the Authority made contributions of \$9,037 and \$8,624, respectively, to the Plan.

NOTE 8 – DESIGNATED NET ASSETS

The Board of Directors has designated \$1,000,000 of its unrestricted net assets to be used to maintain future operations required to monitor the loan portfolio should the Authority cease to issue new loans.

**CONNECTICUT HIGHER EDUCATION
SUPPLEMENTAL LOAN AUTHORITY
NOTES TO FINANCIAL STATEMENTS**

NOTE 9 – RISK MANAGEMENT

The Authority is exposed to various risks of loss related to torts, theft of, damage to, or destruction of assets, errors or omissions, injuries to employees, or acts of God. The Authority purchases commercial insurance to mitigate loss from these risks. Neither the Authority nor its insurers have settled any claims that have exceeded insurance coverage in the last three years. There was no reduction in insurance coverage from that of the prior year.

NOTE 10 - SUBSEQUENT EVENT

In August 2007, the Authority closed the 2007 Series A bond deal. The 2007 Series A bonds are subject to the 2003 Master Revenue Bond Resolution. The 2007 Series A bonds raised proceeds of \$41,000,000.

INDEPENDENT AUDITORS' REPORT ON SUPPLEMENTARY INFORMATION

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

Our report on our audits of the basic financial statements of Connecticut Higher Education Supplemental Loan Authority for the years ended June 30, 2007 and 2006 appears on page 1. These audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information contained on pages 25 to 27 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audits of the basic financial statements, and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Simone Masera & Larroo LLP

Rocky Hill, Connecticut
September 25, 2007

CONNECTICUT HIGHER EDUCATION SUPPLEMENTAL LOAN AUTHORITY
COMBINING BALANCE SHEETS

JUNE 30, 2007 AND 2006

(See Independent Auditors' Report on Supplementary Information)

ASSETS	June 30, 2007			June 30, 2006			
	AUTHORITY OPERATING FUND	BOND FUNDS		AUTHORITY OPERATING FUND	BOND FUNDS		TOTAL
		PRE 2003	2003		PRE 2003	2003	
CURRENT ASSETS							
Unrestricted assets:							
Cash and cash equivalents	\$ 1,797,221	\$ -	\$ -	\$ 1,880,511	\$ -	\$ -	\$ 1,880,511
Current portion of loans receivable, net of allowances for loan losses of \$2,202,000 in 2007 and \$2,070,000 in 2006	-	4,422,371	8,002,219	-	7,392,367	5,968,084	13,360,451
Interest receivable on investments	8,074	50,989	214,098	7,470	69,918	148,724	226,112
Interest receivable on loans receivable	-	134,744	213,482	-	199,264	122,144	321,408
Total Unrestricted Assets	<u>1,805,295</u>	<u>4,608,104</u>	<u>8,429,799</u>	<u>1,887,981</u>	<u>7,661,549</u>	<u>6,238,952</u>	<u>15,788,482</u>
Restricted assets:							
Cash and cash equivalents	267	872,326	5,436,999	-	1,176,194	3,977,712	5,153,906
Investments	-	6,248,470	20,010,795	-	7,639,672	19,305,956	26,945,628
Connecticut Higher Education Trust	2,330	-	-	2,154	-	-	2,154
Total Restricted Assets	<u>2,597</u>	<u>7,120,796</u>	<u>25,447,794</u>	<u>2,154</u>	<u>8,815,866</u>	<u>23,283,668</u>	<u>32,101,688</u>
Total Current Assets	<u>1,807,892</u>	<u>11,728,900</u>	<u>33,877,593</u>	<u>1,890,135</u>	<u>16,477,415</u>	<u>29,522,620</u>	<u>47,890,170</u>
NON-CURRENT ASSETS							
Restricted investments	-	1,800,000	7,700,000	-	1,800,000	5,200,000	7,000,000
Loans receivable, net of current portion	-	30,223,770	54,250,254	-	40,218,003	31,822,400	72,040,403
Bond issuance costs, net of accumulated amortization of \$3,620,890 in 2007 and \$3,140,823 in 2006	1,247,614	114,546	965,362	1,109,009	309,433	672,241	2,090,683
Total Non-Current assets	<u>1,247,614</u>	<u>32,138,316</u>	<u>62,915,616</u>	<u>1,109,009</u>	<u>42,327,436</u>	<u>37,694,641</u>	<u>81,131,086</u>
Total Assets	<u>\$ 3,055,506</u>	<u>\$ 43,867,216</u>	<u>\$ 96,793,209</u>	<u>\$ 2,999,144</u>	<u>\$ 58,804,851</u>	<u>\$ 67,217,261</u>	<u>\$ 129,021,256</u>

CONNECTICUT HIGHER EDUCATION SUPPLEMENTAL LOAN AUTHORITY
COMBINING BALANCE SHEETS (CONTINUED)

JUNE 30, 2007 AND 2006

(See Independent Auditors' Report on Supplementary Information)

	June 30, 2007			June 30, 2006			
	AUTHORITY OPERATING FUND	BOND FUNDS		AUTHORITY OPERATING FUND	BOND FUNDS		TOTAL
		PRE 2003	2003		PRE 2003	2003	
LIABILITIES AND NET ASSETS							
CURRENT LIABILITIES							
Current portion of bonds payable	\$ -	\$ 3,075,000	\$ 4,580,781	\$ 7,655,781	\$ 2,445,000	\$ 3,350,324	\$ 5,795,324
Accounts payable and accrued liabilities	43,188	11,717	37,710	92,615	17,517	20,233	89,635
Current portion of arbitrage rebate payable	-	19,481	-	19,481	117,345	-	117,345
Accrued interest payable	-	248,010	472,488	720,498	334,205	315,740	649,945
Due to/(from) other funds	(390,577)	(6,573,923)	6,964,500	2,000,000	(3,905,115)	4,159,498	-
Current portion of deferred revenue	-	271,155	137,232	408,387	302,205	82,641	384,846
Total Current Liabilities	(347,389)	(2,948,560)	12,192,711	8,896,762	(688,843)	7,928,436	7,037,095
LONG-TERM LIABILITIES							
Bonds payable, net of current portion	-	36,590,000	84,094,989	120,684,989	50,145,000	59,518,204	109,663,204
Arbitrage rebate payable, net of current portion	-	21,456	100,467	121,923	47,493	-	47,493
Deferred revenue, net of current portion	-	1,188,510	1,194,724	2,383,234	1,459,666	741,000	2,200,666
Total Long-Term Liabilities	-	37,799,966	85,390,180	123,190,146	51,652,159	60,259,204	111,911,363
Total Liabilities	(347,389)	34,851,406	97,582,891	132,086,908	50,963,316	68,187,640	118,948,458
UNRESTRICTED NET ASSETS	3,402,895	9,015,810	(789,682)	11,629,023	7,841,535	(970,379)	10,072,798
TOTAL LIABILITIES AND NET ASSETS	\$ 3,055,506	\$ 43,867,216	\$ 96,793,209	\$ 143,715,931	\$ 58,804,851	\$ 67,217,261	\$ 129,021,256

CONNECTICUT HIGHER EDUCATION SUPPLEMENTAL LOAN AUTHORITY
COMBINING STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

JUNE 30, 2007 AND 2006

(See Independent Auditors' Report on Supplementary Information)

	June 30, 2007			June 30, 2006			
	AUTHORITY OPERATING FUND	BOND FUNDS		AUTHORITY OPERATING FUND	BOND FUNDS		TOTAL
		PRE 2003	2003		PRE 2003	2003	
OPERATING REVENUES							
Interest income on investments	\$ 92,772	\$ 419,189	\$ 1,904,895	\$ 2,416,856	\$ 111,949	\$ 643,418	\$ 1,195,316
Interest income on loans receivable	-	2,959,208	4,075,140	7,034,348	-	4,411,575	1,994,558
Administrative fees	837,904	-	-	837,904	740,623	-	740,623
Other operating income	-	-	-	-	-	-	15,822
Total Operating Revenues	<u>930,676</u>	<u>3,378,397</u>	<u>5,980,035</u>	<u>10,289,108</u>	<u>852,572.00</u>	<u>5,054,993</u>	<u>3,205,696</u>
OPERATING EXPENSES							
Interest expense	-	2,013,360	4,104,382	6,117,742	-	3,029,670	2,618,574
Administrative fees	-	240,903	597,001	837,904	-	351,828	388,795
Loan collection fees	-	264,665	337,440	602,105	-	378,142	214,499
Amortization of bond issuance costs	225,198	83,874	170,995	480,067	160,895	58,236	134,769
General and administrative expenses	267,713	(1,680)	20,520	286,553	251,726	7,891	8,963
Provision for loan losses	-	(421,000)	553,000	132,000	-	(290,000)	60,000
Professional fees	120,552	-	-	120,552	154,470	-	-
Salaries	115,960	-	-	115,960	107,770	-	-
Trustee fees	-	24,000	16,000	40,000	-	30,054	8,000
Arbitrage rebate expense	-	-	-	-	-	117,345	-
Total Operating Expenses	<u>729,423</u>	<u>2,204,122</u>	<u>5,799,338</u>	<u>8,732,883</u>	<u>674,861</u>	<u>3,683,166</u>	<u>3,433,600</u>
CHANGE IN NET ASSETS	201,253	1,174,275	180,697	1,556,225	177,711	1,371,827	(227,904)
NET ASSETS, beginning	<u>3,201,642</u>	<u>7,841,535</u>	<u>(970,379)</u>	<u>10,072,798</u>	<u>3,023,931</u>	<u>6,469,708</u>	<u>(742,475)</u>
NET ASSETS, ending	<u>\$ 3,402,895</u>	<u>\$ 9,015,810</u>	<u>\$ (789,682)</u>	<u>\$ 11,629,023</u>	<u>\$ 3,201,642</u>	<u>\$ 7,841,535</u>	<u>\$ (970,379)</u>
							<u>\$ 10,072,798</u>

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING
STANDARDS***

To the Board of Directors of the
**CONNECTICUT HIGHER EDUCATION
SUPPLEMENTAL LOAN AUTHORITY**
West Hartford, 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, 2007 and 2006, and have issued our report thereon dated September 25, 2007. 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.

INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing our audits, we considered the Authority's internal control over financial reporting for designing our auditing procedures for the purpose of expressing our opinions on the basic financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Authority's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Authority's financial statements that is more than inconsequential will not be prevented or detected by the Authority's internal control.

A material weakness is a significant deficiency, or combination of control deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Authority's internal control.

Our consideration of the internal control over financial reporting was for the purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any

deficiencies in internal control over financial reporting that we consider to be material weaknesses as defined above.

COMPLIANCE AND OTHER MATTERS

As part of obtaining reasonable assurance about whether the Authority's basic financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, and contracts, noncompliance with which could have a direct and material effect on the determination of basic financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audits, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the board of directors and management of the Authority and the State of Connecticut Office of the Comptroller and is not intended to be and should not be used by anyone other than these specified parties.

Sirione Messa & Larrano LLP

Rocky Hill, Connecticut
September 25, 2007