

**CONNECTICUT HIGHER EDUCATION
SUPPLEMENTAL LOAN AUTHORITY**
(A Component Unit of the State of Connecticut)

**BASIC FINANCIAL STATEMENTS
AND SUPPLEMENTAL INFORMATION
AS OF JUNE 30, 2004 AND 2003**

**TOGETHER WITH
INDEPENDENT AUDITORS' REPORTS**

**CONNECTICUT HIGHER EDUCATION
SUPPLEMENTAL LOAN AUTHORITY
TABLE OF CONTENTS
JUNE 30, 2004 AND 2003**

	<u>Page</u>
MANAGEMENT'S DISCUSSION AND ANALYSIS	1
INDEPENDENT AUDITORS' REPORT	6
BASIC FINANCIAL STATEMENTS	
Balance Sheet	8
Statements of Revenues, Expenses and Changes in Net Assets	9
Statements of Cash Flows	10
Notes to Financial Statements	12
SUPPLEMENTAL INFORMATION	
Combining Balance Sheets	22
Combining Statements of Revenues, Expenses and Changes in Net Assets	24
INTERNAL CONTROL AND COMPLIANCE REPORT	
Report on Internal Control over Financial Reporting and on Compliance and Other Matter Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	25

MANAGEMENT'S DISCUSSION AND ANALYSIS

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 provide an introduction to the audited financial statements for the fiscal year ended June 30, 2004 as compared to June 30, 2003. Following this 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.

FINANCIAL POSITION SUMMARY

The Authority's fiscal year 2004 assets increased by \$2.275 million or 1.8% over fiscal year 2003 and liabilities increased by \$966,000 or .8%. Total assets exceeded liabilities by \$6.5 million in 2004 as compared to \$5.2 million for 2003, or a net increase of \$1.3 million.

BALANCE SHEETS

(In Thousands)

	<u>2004</u>	<u>2003</u> (Restated)
ASSETS:		
Current unrestricted assets	\$ 17,500	\$ 17,435
Current restricted assets	<u>26,952</u>	<u>20,138</u>
Total current assets	<u>44,452</u>	<u>37,573</u>
Non-current assets:		
Restricted Investments	8,500	8,100
Loans receivable, net of current portion	71,502	76,924
Bond issuance costs, net	<u>2,058</u>	<u>1,640</u>
Total non-current assets	<u>82,060</u>	<u>86,664</u>
TOTAL ASSETS	<u>\$ 126,512</u>	<u>\$ 124,237</u>
LIABILITIES:		
Current liabilities	\$ 6,089	\$ 12,346
Long-term liabilities	<u>113,896</u>	<u>106,673</u>
TOTAL LIABILITIES	<u>119,985</u>	<u>119,019</u>
NET ASSETS:		
Unrestricted	<u>6,527</u>	<u>5,218</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 126,512</u>	<u>\$ 124,237</u>

FINANCIAL HIGHLIGHTS

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

ASSETS

Current unrestricted assets increased by 65,000 or .4%. This was due primarily to the decrease of loan losses in 2004 from 2003.

Current restricted assets increased by \$6.8 million or 33.8%. This increase was primarily the result of an increase in cash and cash equivalents of \$4.9 million due to increased funding of the debt service funds.

Non-current assets decreased by \$4.6 million or 5.3%. This was primarily due to:

- Loans receivable decreased by \$5.4 million as a result of the collection of principal on outstanding education loans
- Bond issuance costs increased by \$418,000 due to issuance cost related to 2003 Series A & B Bonds, net of amortization expense.

LIABILITIES

Current liabilities decreased by \$6.3 million or 50.7% as compared to June 30, 2003, due primarily to the refinancing of short-term debt with long-term bonds payable.

Long-term liabilities increased by \$7.2 million or 6.8% as compared to June 30, 2003, due to the issuance of 2003 Series A and B Bonds, less scheduled principal reductions on existing bonds payable.

SUMMARY OF OPERATIONS AND CHANGES IN NET ASSETS

A summary of operations and changes in net assets for the fiscal year ended June 30, 2004, and the amount and percentage of change in relation to prior fiscal year amounts is as follows:

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

	<u>2004</u>	<u>2003</u> <u>(Restated)</u>
Operating revenues	\$ 9,099	\$ 9,882
Operating expenses	<u>7,790</u>	<u>9,230</u>
Increase in Net Assets	<u>\$ 1,309</u>	<u>\$ 652</u>

Operating revenues decreased in fiscal year 2004 by \$783,000 or 7.9% over fiscal year 2003, due primarily to the decrease in interest earning assets and the lower earnings on loans receivable.

Operating expenses also decreased during fiscal year 2004 by \$1.4 million or 15.6% compared to fiscal year 2003. This was due primarily to decreased interest expense, the reduction in the allowance for loan losses and the decrease in arbitrage rebate expense.

SUMMARY OF REVENUES

A summary of revenues for the fiscal year ended June 30, 2004, and the amount and percentage of change in relation to prior fiscal year amounts is as follows:

	<u>2004</u>	<u>Percent of Total</u>	<u>2003</u> <u>(Restated)</u>	<u>Increase/ (decrease) from 2003</u>	<u>Percent Increase/ (decrease)</u>
Operating:					
Interest income on loans receivable	\$ 7,178	78.9%	\$ 7,620	\$ (442)	(5.8)%
Interest income on investments	1,236	13.6%	1,478	(242)	(16.4)%
Administrative fees	631	6.9%	784	(153)	(19.5)%
Other operating income	<u>54</u>	<u>.6%</u>	<u>0</u>	<u>54</u>	<u>100%</u>
Total operating revenues	<u>9,099</u>	<u>100.0%</u>	<u>9,882</u>	<u>(783)</u>	<u>(7.9)%</u>
TOTAL REVENUES	\$ 9,099	100.0%	\$ 9,882	\$ (783)	(7.9)%

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

Interest income on loans receivable, which represents interest income from educational loans, decreased by 5.8% or \$442,000. This decrease is tied to the decrease in outstanding loans receivable as well as lower interest rates on newly issued loans.

Interest income on investments, decreased by \$242,000 or 16.4% from fiscal year 2003 to 2004. The decrease is due to lower income on investments on hand during the year.

Administrative fees decreased by \$153,000 or 19.5%. These fees are based on Authority activity and declined due to the lower number of new loans disbursed during fiscal year 2004.

SUMMARY OF EXPENSES

A summary of expenses for the fiscal year ended June 30, 2004, and the amount and percentage of change in relation to prior fiscal year amounts is as follows:

	2004	Percent of Total	2003 (Restated)	Increase/ (decrease) from 2003	Percent Increase/ (decrease)
Operating:					
Interest expense	\$ 6,032	77.4%	\$ 6,385	\$ (353)	(5.5)%
Administrative fees	631	8.1%	784	(153)	(19.5)%
Loan collection fees	426	5.5%	256	170	66.4%
General and administrative fees	363	4.7%	273	90	33.0%
Amortization of bond issuance costs	362	4.6%	247	115	46.6%
Professional fees	122	1.6%	193	(71)	(36.8)%
Provision for loan losses	(400)	-5.1%	108	(508)	(470.4)%
Salaries	99	1.3%	94	5	5.3%
Trustee fees	43	.6%	67	(24)	(35.8)%
Arbitrage rebate expense	112	1.4%	823	(711)	(86.4)%
TOTAL OPERATING EXPENSES	\$ 7,790	100.0%	\$ 9,230	\$ 1,440	(15.6)

The Authority's expenses decreased from fiscal year 2003 to 2004 by \$1.4 million or 15.6% in total. Notable differences between the years include:

Interest expense decreased by \$353,000 or 5.5% primarily due to lower interest rates on bonds outstanding during the current year and the refunding of the 1991 bond issue.

Administrative fees decreased \$153,000 or 19.5% primarily due to lower activity in the current year in terms of education loans disbursed.

Arbitrage rebate expense decreased by \$711,000 due to the small incremental increase in the 2% yield liability as compared to June 30, 2003.

General and administrative expenses increased by \$90,000 or 33% due to increased overhead costs, insurance and employee benefits, including an increase in professional development.

Professional fees decreased by \$71,000 due primarily to the elimination of a Financial Advisor from the operating budget due to a new contract with a firm that is paid from bond proceeds only if a bond series is issued during the year.

Provision for loan losses decreased by \$400,000 or 470.4% primarily due to historical collection results, CHESLA's reduction in write offs and its increase in recoveries in recent years which supports a reduction in the overall allowance for loan losses.

SUMMARY OF CASH FLOW ACTIVITIES

The following is a summary of the major sources and uses of cash and cash equivalents for the past two 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,

	<u>2004</u>	2003 <u>(Restated)</u>
Cash flows from operating activities	\$ 6,572	\$ 3,845
Cash flows from investing activities	(2,312)	(546)
Cash flows from non-capital financing activities	<u>197</u>	<u>(10,038)</u>
Net increase (decrease) in cash and cash equivalents	4,457	(6,740)
Cash and cash equivalents:		
Beginning of year	<u>15,089</u>	<u>21,829</u>
End of year	<u>\$ 19,546</u>	<u>\$ 15,089</u>

The Authority's available cash and cash equivalents increased \$4.5 million from \$15.1 million at the end of fiscal year 2003 to \$19.5 million at the end of fiscal year 2004 due to:

Cash flows from operating activities which represent the net difference between cash received for loan payments and interest and cash paid to borrowers and to employees and vendors for goods and services. For fiscal year 2004, this net source of cash was \$2.7 million higher than fiscal year 2003 and was mainly due to loan repayments exceeding loan disbursements and a decrease in other expenses.

Cash flows from investing activities which represent the net difference between proceeds from maturing investments versus the purchase of investment securities. For fiscal year 2004, this net use of cash was \$1.8 million more than fiscal year 2003 and was mainly due to significant purchases of investments in the current year.

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 2004, such activities provided a small source of cash whereas in fiscal year 2003 the Authority experienced a \$10 million use of cash due to scheduled payments on bond principal exceeding proceeds from new bond issues.

INDEPENDENT AUDITORS' REPORT



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INDEPENDENT AUDITORS' REPORT

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, 2004 and 2003, as listed in the table of contents. These basic financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these basic financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits 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 opinion.

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, 2004 and 2003, and the changes in its financial position and its cash flows 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 our report dated September 3, 2004 on our consideration of the Authority's internal control over financial reporting and on 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.

The accompanying 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.

WORCESTER

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Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplemental information as of and for the years ended June 30, 2004 and 2003, listed in the table of contents, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to auditing procedures applied in our 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.

Carlin, Charon & Rosen, LLP

Glastonbury, Connecticut
September 3, 2004

BASIC FINANCIAL STATEMENTS

**CONNECTICUT HIGHER EDUCATION
SUPPLEMENTAL LOAN AUTHORITY
BALANCE SHEET
JUNE 30, 2004 AND 2003**

ASSETS

	2004	2003 (Restated)
CURRENT ASSETS		
Unrestricted assets:		
Cash and cash equivalents	\$ 1,809,257	\$ 2,254,790
Current portion of loans receivable, net of allowances for loan losses of \$2,600,000 in 2004 and \$3,000,000 in 2003	15,066,397	14,426,940
Interest receivable on investments	137,869	167,195
Interest receivable on loans receivable	486,263	586,006
Total unrestricted assets	17,499,786	17,434,931
Restricted assets:		
Cash and cash equivalents	17,737,215	12,834,253
Investments	9,212,834	7,301,216
Connecticut Higher Education Trust	2,715	2,455
Total restricted assets	26,952,764	20,137,924
Total current assets	44,452,550	37,572,855
NON-CURRENT ASSETS		
Restricted investments	8,500,000	8,100,000
Loans receivable, net of current portion	71,501,591	76,923,831
Bond issuance costs, net of accumulated amortization of \$2,599,933 in 2004 and \$2,164,215 in 2003	2,057,962	1,640,305
Total non-current assets	82,059,553	86,664,136
	\$ 126,512,103	\$ 124,236,991
LIABILITIES		
CURRENT LIABILITIES		
Current portion of bonds payable	\$ 4,846,352	\$ 11,085,000
Accounts payable and accrued liabilities	105,391	46,522
Arbitrage rebate payable	29,667	103,444
Accrued interest payable	692,549	711,124
Current portion of deferred revenue	414,766	399,793
Total current liabilities	6,088,725	12,345,883
LONG-TERM LIABILITIES		
Bonds payable, net of current portion	110,374,261	103,175,000
Arbitrage rebate payable	1,216,224	1,134,123
Deferred revenue, net of current portion	2,305,428	2,363,996
Total long-term liabilities	113,895,913	106,673,119
Total liabilities	119,984,638	119,019,002
UNRESTRICTED NET ASSETS	6,527,465	5,217,989
	\$ 126,512,103	\$ 124,236,991

The accompanying notes are an integral part of these financial statements

**CONNECTICUT HIGHER EDUCATION
SUPPLEMENTAL LOAN AUTHORITY
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
FOR THE YEARS ENDED JUNE 30, 2004 AND 2003**

	<u>2004</u>	<u>2003</u> (Restated)
OPERATING REVENUES		
Interest income on investments	\$ 1,236,043	\$ 1,478,048
Interest income on loans receivable	7,178,586	7,619,830
Administrative fees	630,900	783,725
Other operating income	<u>53,550</u>	<u>-</u>
Total operating revenues	<u>9,099,079</u>	<u>9,881,603</u>
OPERATING EXPENSES		
Interest expense	6,032,395	6,384,812
Administrative fees	630,900	783,725
Loan collection fees	426,269	256,366
General and administrative expenses	363,162	273,203
Amortization of bond issuance costs	361,301	246,589
Professional fees	122,200	193,342
Arbitrage rebate expense	111,768	823,082
Salaries	98,660	94,199
Trustee fees	42,948	66,736
Provision for loan losses	<u>(400,000)</u>	<u>107,512</u>
Total operating expenses	<u>7,789,603</u>	<u>9,229,566</u>
CHANGE IN NET ASSETS	1,309,476	652,037
NET ASSETS, beginning of year	<u>5,217,989</u>	<u>4,565,952</u>
NET ASSETS, end of year	<u>\$ 6,527,465</u>	<u>\$ 5,217,989</u>

The accompanying notes are an integral part of these financial statements

**CONNECTICUT HIGHER EDUCATION
SUPPLEMENTAL LOAN AUTHORITY
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2004 AND 2003**

	2004	2003 (Restated)
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received for the following:		
Loan payments	\$ 17,165,829	\$ 16,594,548
Interest collected on loans	7,430,386	7,731,307
Interest collected on investments	1,265,369	1,493,537
Other income	620,481	871,594
Total cash received	26,482,065	26,690,986
Cash paid for the following:		
Loans disbursed	(11,983,046)	(14,331,082)
Bond interest	(6,133,503)	(6,509,979)
Other expenses	(1,793,248)	(2,005,460)
Total cash disbursed	(19,909,797)	(22,846,521)
Net cash provided by operating activities	6,572,268	3,844,465
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of restricted investments	(2,311,878)	(660,130)
Net proceeds from short-term investments	-	114,013
Net cash used in investing activities	(2,311,878)	(546,117)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Issuance of bonds	18,195,414	8,000,000
Bond issuance costs	(853,375)	(12,961)
Payments on bond principal	(17,145,000)	(18,025,000)
Net cash provided by (used in) noncapital financing activities	197,039	(10,037,961)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	4,457,429	(6,739,613)
CASH AND CASH EQUIVALENTS, beginning of year	15,089,043	21,828,656
CASH AND CASH EQUIVALENTS, end of year	\$ 19,546,472	\$ 15,089,043

The accompanying notes are an integral part of these financial statements

**CONNECTICUT HIGHER EDUCATION
SUPPLEMENTAL LOAN AUTHORITY
STATEMENTS OF CASH FLOWS (CONTINUED)
FOR THE YEARS ENDED JUNE 30, 2004 AND 2003**

	<u>2004</u>	<u>2003</u> (Restated)
RECONCILIATION OF CHANGE IN NET ASSETS TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Change in net assets	\$ 1,309,476	\$ 652,037
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Amortization of bond issuance costs	361,301	246,589
Amortization of deferred amount on refunding	20,224	-
Amortization of bond discount	9,149	-
Amortization of bond premium	(44,757)	-
Provision for loan losses	(400,000)	107,512
Change in assets and liabilities:		
Decrease in loans receivable	5,182,783	2,263,466
Decrease in interest receivable on investments	29,326	15,489
Decrease (Increase) in interest receivable on loans receivable	99,743	(12,805)
Decrease in arbitrage refund receivable	-	87,869
Decrease in prepaid expenses	-	13,405
Increase (Decrease) in accounts payable and accrued liabilities	58,869	(99,860)
Increase in arbitrage rebate payable	8,324	823,082
Decrease in accrued interest payable	(18,575)	(125,100)
Decrease in deferred revenue	(43,595)	(127,219)
	<u>6,572,268</u>	<u>3,844,465</u>
Net cash provided by operating activities	\$ <u>6,572,268</u>	\$ <u>3,844,465</u>
 RECONCILIATION OF CASH AND CASH EQUIVALENTS TO THE STATEMENT OF NET ASSETS		
Cash and cash equivalents - unrestricted	\$ 1,809,257	\$ 2,254,790
Cash and cash equivalents - restricted	<u>17,737,215</u>	<u>12,834,253</u>
	\$ <u>19,546,472</u>	\$ <u>15,089,043</u>
 SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Deferred amount on refunding recorded through reduction of bond issuance costs	\$ 74,417	\$ -

The accompanying notes are an integral part of these financial statements

**CONNECTICUT HIGHER EDUCATION
SUPPLEMENTAL LOAN AUTHORITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004 AND 2003**

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 the 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 propriety 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.

**CONNECTICUT HIGHER EDUCATION
SUPPLEMENTAL LOAN AUTHORITY
NOTES TO FINANCIAL STATEMENTS (Continued)
JUNE 30, 2004 AND 2003**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

BOND FUNDS (Continued)

The 2003 Bond Fund is governed by the 2003 Master Revenue Bond Resolution, pursuant to which the 2003 Series A and B 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 (*see Note 4*). 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: 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 (CTFELP). 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.

**CONNECTICUT HIGHER EDUCATION
SUPPLEMENTAL LOAN AUTHORITY
NOTES TO FINANCIAL STATEMENTS (Continued)
JUNE 30, 2004 AND 2003**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 \$18,789,187 and \$6,250,062 as of June 30, 2004 and 2003, respectively, and U.S. Treasury Bills which totaled \$8,017,055 as of June 30, 2003.

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.

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, FGIC Capital Market Services, CDC Funding Corporation, Society Generale, Berkshire Hathaway Inc, West Deutsche Landesbank, 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, 2004 and 2003.

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 had 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. Collection of loans previously written-off are pursued until management believes that further recoveries are doubtful.

**CONNECTICUT HIGHER EDUCATION
SUPPLEMENTAL LOAN AUTHORITY
NOTES TO FINANCIAL STATEMENTS (Continued)
JUNE 30, 2004 AND 2003**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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.

RECLASSIFICATIONS

Certain reclassifications have been made to the 2003 financial statements to conform to the current year presentation.

**CONNECTICUT HIGHER EDUCATION
SUPPLEMENTAL LOAN AUTHORITY
NOTES TO FINANCIAL STATEMENTS (Continued)
JUNE 30, 2004 AND 2003**

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 institution, 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, 2004 and 2003, the carrying amount of the Authority's unrestricted and restricted cash deposits totaled \$757,285 and \$821,926, respectively. As of June 30, 2004, the bank balance totaled \$594,218, of which \$143,170 was insured by the Federal Deposit Insurance Corporation (Category 1). The balance of the deposits of \$451,048 were uninsured and uncollateralized (Category 3), as defined by Governmental Accounting Standards Board Statement No. 3. However, all bank deposits were in qualified public institutions as defined by state statute. Under this statute, any bank holding public deposits must at all times maintain, segregated from its other assets, eligible collateral in an amount equal to at least a certain percentage of its public deposits. The applicable percentage is determined based on the bank's risk-based capital ratio. The amount of the public deposits is determined based on either the public deposits reported on the most recent quarterly call report, or the average of the public deposits reported on the four most recent quarterly call reports, whichever is greater. The collateral is kept in the custody of either the trust department of the pledging bank or in another bank in the name of the pledging bank.

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.

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.

**CONNECTICUT HIGHER EDUCATION
SUPPLEMENTAL LOAN AUTHORITY
NOTES TO FINANCIAL STATEMENTS (Continued)
JUNE 30, 2004 AND 2003**

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, 2004 are as follows:

Bond Series	Number	Balance	Interest Rate (%)
1993A	597	\$ 1,881,597	8.4
1994A	1,508	7,737,908	8.25
1996A	1,585	10,827,063	8.10
1998A	979	8,632,578	7.5
1998B	336	2,648,197	7.5
1999A	778	8,167,736	7.5
1999B	336	2,775,515	7.5
2000A	1,143	12,133,851	6.7 & 7.25
2000B	432	4,143,535	7.25
2001A*	1,726	14,693,851	6.7 & 9.7
2003A	355	4,721,830	4.99
2003B**	1,828	9,556,474	4.99 & 9.2
	<u>11,603</u>	<u>87,920,135</u>	
Add: Non-performing loans		1,247,853	
Less: Allowance for loan losses		2,600,000	
		<u>\$ 86,567,988</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

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

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, 2004 and 2003, non-performing loans totaled \$1,247,853 and \$1,275,518, respectively, for which interest income of approximately \$102,900 and \$105,200, 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 \$364,337 and \$615,908 for the years ended June 30, 2004 and 2003, respectively, which had been previously provided for through the allowance for loan losses. The Authority recovered \$425,929 and \$508,396 in fiscal 2004 and 2003, respectively, in loans receivable and other credits written-off in previous years.

**CONNECTICUT HIGHER EDUCATION
SUPPLEMENTAL LOAN AUTHORITY
NOTES TO FINANCIAL STATEMENTS (Continued)
JUNE 30, 2004 AND 2003**

NOTE 4 - BONDS PAYABLE

The following is a summary of changes in bonds payable for the years ended June 30, 2003 and 2004.

	Balance at June 30, 2002	Increases	Decreased	Balance at June 30, 2003	
Bonds payable - principal	\$ 124,285,000	\$ 8,000,000	\$ 18,025,000	\$ 114,260,000	

	Balance at June 30, 2003	Increases	Decreased	Balance at June 30, 2004	Amount Due Within One Year
Bonds payable - principal	\$ 114,260,000	\$ 30,915,000	\$ 30,060,000	\$ 115,115,000	\$ 4,845,000
Discount	-	(281,542)	(9,149)	(272,393)	(16,165)
Premium	-	544,106	44,757	499,349	37,741
Deferred amount on refunding	-	(141,567)	(20,224)	(121,343)	(20,224)
	<u>\$ 114,260,000</u>	<u>\$ 31,035,997</u>	<u>\$ 30,075,384</u>	<u>\$ 115,220,613</u>	<u>\$ 4,846,352</u>

The bonds of the Authority bear interest at rates, varying between 1.7% and 6.4% percent. Future amounts needed to pay principal and interest on bonds outstanding at June 30, 2004 is as follows:

Year Ending June 30,	Principal	Interest
2005	\$ 4,845,000	\$ 5,445,055
2006	5,735,000	5,222,483
2007	7,015,000	4,948,566
2008	7,560,000	4,623,006
2009	6,845,000	4,289,220
2010-2014	48,750,000	14,989,000
2015-2019	30,365,000	4,139,225
2020-2022	4,000,000	221,788
	<u>\$ 115,115,000</u>	<u>\$ 43,878,343</u>

**CONNECTICUT HIGHER EDUCATION
SUPPLEMENTAL LOAN AUTHORITY
NOTES TO FINANCIAL STATEMENTS (Continued)
JUNE 30, 2004 AND 2003**

NOTE 4 - BONDS PAYABLE (Continued)

Outstanding principal of each bond issue at June 30, 2004 and 2003 is as follows:

	Original Amount	Outstanding June 30, 2004	Outstanding June 30, 2003
1991 Series A, 6%-7.2%, due serially November 15, 1996 to November 15, 2010 (refunded July 22, 2003)	\$ 25,000,000	\$ -	\$ 6,715,000
1993 Series A, 4.4%-5.875%, due serially November 15, 1997 to November 15, 2013	10,000,000	2,510,000	3,400,000
1994 Series A, 4.9%-6.4%, due serially November 15, 1998 to November 15, 2014	25,000,000	8,230,000	11,005,000
1996 Series A, 4.75%-5.875%, due serially from November 15, 2001 to November 15, 2017	25,000,000	12,035,000	14,985,000
1998 Series A, 4.10% -5.15%, due serially from November 15, 2002 to November 15, 2016	15,000,000	7,880,000	10,745,000
1998 Series B, 4.0% -4.875%, due serially from November 15, 2001 to November 15, 2010	3,560,000	2,935,000	2,935,000
1999 Series A, 4.7%-6%, due serially from November 15, 2002 to November 15, 2017	12,500,000	7,300,000	9,635,000
1999 Series B, 4.5%-6%, due serially from November 15, 2002 to November 15, 2012	4,390,000	3,995,000	3,995,000
2000 Series A, 4.625%-5.5%, due serially from November 15, 2008 to November 15, 2020	16,410,000	12,095,000	13,780,000
2000 Series B, 4.75%-5.2%, due serially from November 15, 2001 to November 15, 2012	5,975,000	4,645,000	5,445,000
2001 Series A, 4.25%-5.25%, due serially from November 15, 2010 to November 15, 2021	25,000,000	22,575,000	23,620,000
2003 Series 1, 1.25%, due February 12, 2004 (refunded July 22, 2003)	8,000,000	-	8,000,000
2003 Series A, 1.7%-4.5%, due serially from November 15, 2004 to November 15, 2020	18,000,000	18,000,000	-
2003 Series B, 2%-5%, due serially from November 15, 2004 to November 15, 2017	12,915,000	12,915,000	-
	<u>\$ 206,750,000</u>	<u>\$ 115,115,000</u>	<u>\$ 114,260,000</u>

**CONNECTICUT HIGHER EDUCATION
SUPPLEMENTAL LOAN AUTHORITY
NOTES TO FINANCIAL STATEMENTS (Continued)
JUNE 30, 2004 AND 2003**

NOTE 4 - BONDS PAYABLE (Continued)

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, 2004 and 2003, the Authority redeemed bonds in the following amounts:

	2004	2003
1991 Series A	\$ 1,800,000	\$ 1,335,000
1993 Series A	580,000	675,000
1994 Series A	1,900,000	2,195,000
1996 Series A	2,300,000	2,835,000
1998 Series A	2,610,000	2,590,000
1999 Series A	2,140,000	1,700,000
2000 Series A	1,685,000	1,795,000
2001 Series A	1,045,000	1,355,000
	\$ 14,060,000	\$ 14,480,000

DEBT REFUNDING

During the year ended June 30, 2004, the Authority issued \$12,915,000 of 2003 Series B bonds with an average interest rate of approximately 3.85% to refund \$4,915,000 of 1991 Series A bonds and \$8,000,000 of 2003 Series I bonds with an average interest rate of approximately 3.43%. The primary purpose of the refunding was to refinance current obligations of the Authority on a long-term basis. The refunding increased the Authority's total debt service payments over the next 15 years by approximately \$2,250,000 and resulted in an economic gain (difference between the present values of the debt service payments of the old and new bonds) of approximately \$909,000. The reacquisition price exceeded the carrying amount of the old bonds by \$141,567. This amount is being netted against the new bonds and amortized over the remaining life of the refunded 1991 Series A bonds, which is shorter than the life of the new bonds issued.

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, 2004 and 2003, the State has not made nor was it required to make any such deposit.

**CONNECTICUT HIGHER EDUCATION
SUPPLEMENTAL LOAN AUTHORITY
NOTES TO FINANCIAL STATEMENTS (Continued)
JUNE 30, 2004 AND 2003**

NOTE 6 - RELATED PARTY TRANSACTIONS

The Authority shares rental space, office supplies, office equipment and utilities with and also 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, 2004 and 2003. 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 2004 and 2003, the Authority made contributions of \$7,890 and \$5,711, 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.

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 - RESTATEMENT

During the year ended June 30, 2004, the Authority discovered that its previously issued 2003 financial statements had overstated accrued interest on investments and understated deferred revenue and the arbitrage rebate liability as of June 30, 2003. The accompanying financial statements for 2003 have been restated to reflect the proper recording of these accounts and the related interest income and arbitrage rebate expense. The effect of this restatement was to decrease the change in net assets for the year ended June 30, 2003 by \$1,220,207.

SUPPLEMENTAL INFORMATION

**CONNECTICUT HIGHER EDUCATION
SUPPLEMENTAL LOAN AUTHORITY
COMBINING BALANCE SHEETS
JUNE 30, 2004 AND 2003**

	June 30, 2004		June 30, 2003 (Restated)	
	Authority Operating Fund	Bond Funds Pre 2003 2003	Authority Operating Fund	Bond Fund
ASSETS				
CURRENT ASSETS				
Unrestricted assets:				
Cash and cash equivalents	\$ 1,809,257	\$ -	\$ 1,809,257	\$ -
Current portion of loans receivable, net of allowances for loan losses of \$2,600,000 in 2004 and \$3,000,000 in 2003	-	2,426,624	-	14,426,940
Interest receivable on investments	1,756	33,994	-	167,195
Interest receivable on loans receivable	-	53,207	-	586,006
Total unrestricted assets	<u>1,811,013</u>	<u>2,513,825</u>	<u>2,254,790</u>	<u>17,434,931</u>
Restricted assets:				
Cash and cash equivalents	-	5,046,059	-	12,834,253
Investments	-	6,557,220	-	7,301,216
Connecticut Higher Education Trust	2,715	-	2,455	2,455
Total restricted assets	<u>2,715</u>	<u>11,603,279</u>	<u>2,455</u>	<u>20,137,924</u>
Total current assets	<u>1,813,728</u>	<u>24,778,227</u>	<u>2,257,245</u>	<u>37,572,855</u>
NON-CURRENT ASSETS				
Restricted investments	-	6,300,000	-	8,100,000
Loans receivable, net of current portion Bond issuance costs, net of accumulated amortization of \$2,599,933 in 2004 and \$2,164,215 in 2003	-	59,938,858	-	76,923,831
Total non-current assets	<u>1,157,728</u>	<u>66,848,800</u>	<u>853,500</u>	<u>86,664,136</u>
	<u>1,157,728</u>	<u>14,053,025</u>	<u>853,500</u>	<u>85,810,636</u>
	<u>2,971,456</u>	<u>91,627,027</u>	<u>3,110,745</u>	<u>121,126,246</u>
	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>
		<u>31,913,620</u>	<u>126,512,103</u>	<u>124,236,991</u>

**CONNECTICUT HIGHER EDUCATION
SUPPLEMENTAL LOAN AUTHORITY
COMBINING BALANCE SHEETS (CONTINUED)
JUNE 30, 2004 AND 2003**

	June 30, 2004		June 30, 2003 (Restated)		Total
	Authority Operating Fund	Bond Funds	Authority Operating Fund	Bond Fund	
LIABILITIES					
CURRENT LIABILITIES					
Current portion of bonds payable	\$ -	\$ 2,995,000	\$ -	\$ 11,085,000	\$ 11,085,000
Accounts payable and accrued liabilities	2,715	85,171	-	44,067	46,522
Arbitrage rebate payable	-	29,667	2,455	103,444	103,444
Accrued interest payable	-	549,282	-	711,124	711,124
Due to/(from) other funds	(100,509)	(774,876)	(36,540)	36,540	-
Current portion of deferred revenue	-	376,736	-	399,793	399,793
Total current liabilities	(97,794)	3,260,980	(34,085)	12,379,968	12,345,883
LONG-TERM LIABILITIES					
Bonds payable, net of current portion	-	81,205,000	-	103,175,000	103,175,000
Arbitrage rebate payable	-	1,216,224	-	1,134,123	1,134,123
Deferred revenue, net of current portion	-	2,035,882	-	2,363,996	2,363,996
Total long-term liabilities	-	84,457,106	-	106,673,119	106,673,119
Total liabilities	(97,794)	87,718,086	(34,085)	119,053,087	119,019,002
UNRESTRICTED NET ASSETS					
	3,069,250	3,908,941	3,144,830	2,073,159	5,217,989
	2,971,456	91,627,027	3,110,745	121,126,246	124,236,991

**CONNECTICUT HIGHER EDUCATION
SUPPLEMENTAL LOAN AUTHORITY
COMBINING STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
FOR THE YEARS ENDED JUNE 30, 2004 AND 2003**

	June 30, 2004		June 30, 2003 (Restated)		Total	June 30, 2003 (Restated)		Total
	Authority Operating Fund	Bond Funds Pre 2003	Bond Funds 2003	Total		Authority Operating Fund	Bond Fund	
OPERATING REVENUES								
Interest income on investments	\$ 22,009	\$ 873,084	\$ 340,950	\$ 1,236,043	\$ 31,561	\$ 1,446,487	\$ 1,478,048	
Interest income on loans receivable	-	6,295,021	883,565	7,178,586	-	7,619,830	7,619,830	
Administrative fees	630,900	-	-	630,900	783,725	-	783,725	
Other operating income	-	-	53,550	53,550	-	-	-	
Total operating revenues	652,909	7,168,105	1,278,065	9,099,079	815,286	9,066,317	9,881,603	
OPERATING EXPENSES								
Interest expense	-	4,946,755	1,085,640	6,032,395	-	6,384,812	6,384,812	
Administrative fees	-	539,323	91,577	630,900	-	783,725	783,725	
Loan collection fees	-	346,047	80,222	426,269	-	256,366	256,366	
General and administrative expenses	312,848	43,039	7,275	363,162	236,700	36,503	273,203	
Amortization of bond issuance costs	194,781	102,443	64,077	361,301	113,156	133,433	246,589	
Professional fees	122,200	-	-	122,200	193,342	-	193,342	
Arbitrage rebate expense	-	111,768	-	111,768	-	823,082	823,082	
Salaries	98,660	-	-	98,660	94,199	-	94,199	
Trustee fees	-	42,948	-	42,948	-	66,736	66,736	
Provision for loan losses	-	(800,000)	400,000	(400,000)	-	107,512	107,512	
Total operating expenses	728,489	5,332,323	1,728,791	7,789,603	637,397	8,592,169	9,229,566	
CHANGE IN NET ASSETS	(75,580)	1,835,782	(450,726)	1,309,476	177,889	474,148	652,037	
NET ASSETS, beginning of year	3,144,830	2,073,159	-	5,217,989	2,966,941	1,599,011	4,565,952	
NET ASSETS, end of year	\$ 3,069,250	\$ 3,908,941	\$ (450,726)	\$ 6,527,465	\$ 3,144,830	\$ 2,073,159	\$ 5,217,989	

INTERNAL CONTROL AND COMPLIANCE REPORT



CCR

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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 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 year ended June 30, 2004, and have issued our report thereon dated September 3, 2004. 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.

INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing our audit, we considered the Authority's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the basic financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable 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 misstatements caused by error or fraud in amounts that would be material in relation to the basic financial statements 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 the internal control over financial reporting and its operation that we consider to be material weaknesses.

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 audit, 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*.

WORCESTER

BOSTON

NEWTON

PROVIDENCE

GLASTONBURY

GROTON

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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.

Caillin, Charon & Rosen, LLP

Glastonbury, Connecticut
September 3, 2004