CONNECTICUT HIGHER EDUCATION SUPPLEMENTAL LOAN AUTHORITY

Financial Statements

June 30, 2005 and 2004

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 year ended June 30, 2005, 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 audit. The basic financial statements of the Authority as of June 30, 2004, were audited by other auditors whose report dated September 3, 2004 expressed an unqualified opinion on those statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosure 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 audit provides 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, 2005, and the changes in its financial position and its cash flows for the year 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 9, 2005 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 audit.

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.

Rocky Hill, Connecticut
September 9, 2005

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. CHELSA, 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, 2005 as compared to June 30, 2004. 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 SUPPLEMENTAL LOAN AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS

FINANCIAL POSITION SUMMARY

The Authority's fiscal year 2005 assets increased by $16.5 million or 13.1% over fiscal year 2004 and liabilities increased by $14.3 million or 11.9% over fiscal year 2004. Total assets exceeded liabilities by $8.8 million in 2005 as compared to $6.5 million for 2004, or a net increase of $2.3 million.

BALANCE SHEETS
(In Thousands)

	2005	2004
ASSETS:		
Current unrestricted assets	$ 19,309	$ 17,500
Current restricted assets	45,493	26,952
Total current assets:	64,802	44,452
Non-current assets:		
Restricted Investments	7,000	8,500
Loans receivable, net of current portion	68,799	71,502
Bond issuance costs, net	2,445	2,058
Total non-current assets	78,244	82,060
TOTAL ASSETS	$ 143,046	$ 126,512
LIABILITIES:		
Current liabilities	$ 6,899	$ 6,089
Long-term liabilities	127,396	113,896
TOTAL LIABILITIES	134,295	119,985
NET ASSETS:		
Unrestricted	8,751	6,527
TOTAL LIABILITIES AND NET ASSETS	$ 143,046	$ 126,512

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 $1.8 million or 10.3%. This was due primarily to the decrease of loan losses in 2005 and 2004.

Current restricted assets increased by $18.5 million or 68.8%. This increase was primarily the result of an increase in investments of $29.4 million due to the issuance of the 2005 bonds.

FINANCIAL HIGHLIGHTS (Continued)

Non-current assets decreased by $3.8 million or 4.6%. This was primarily due to:

- Loans receivable decreased by $2.7 million as a result of the collection of principal on outstanding education loans
- Bond issuance costs increased by $386,622 due to issuance cost related to 2005 Series A and B Bonds, net of amortization expense.

Liabilities
Current liabilities increased by $.8 million or 13.3% as compared to June 30, 2004, due primarily to the current payment obligations of the new 2005 Series A and B bonds.

Long-term liabilities increased by $13.5 million or 11.8% as compared to June 30, 2004, due to the issuance of 2005 Series A and B Bonds, less scheduled principal reductions and mandatory redemptions 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, 2005, 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,

	2005	2004
Operating revenues	$ 10,139	$ 9,099
Operating expenses	7,915	7,790
Increase in Net Assets	$ 2,224	$ 1,309

Operating revenues increased in fiscal year 2005 by $1.04 million or 11.4% over fiscal year 2004, due primarily to the increase in interest earning assets and higher earnings on loans receivable.

Operating expenses also increased during fiscal year 2005 by $125,000 or 1.6% compared to fiscal year 2004. This was primarily due to an increase in loan collection fees, a decrease in interest expense, and a decrease in the provision for loan losses.

SUMMARY OF REVENUE

A summary of revenues for the fiscal year ended June 30, 2005, and the amount and percentage of change in relation to prior fiscal year amounts is as follows:

	2005	Percent of Total	2004	Increase/ (decrease) from 2004	Percent Increase/ (decrease)
Operating:					
Interest income on loans receivable	$ 7,986	78.8%	$ 7,178	$ 808	11.3%
Interest income on investments	1,455	14.4%	1,236	219	17.7%
Administrative fees	698	6.9%	631	67	10.6%
Other operating income	-	0.0%	54	(54)	-100.0%
Total operating revenues	10,139	100.0%	9,099	1,040	11.4%
TOTAL REVENUES	$ 10,139	100.0%	$ 9,099	$ 1,040	11.4%

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 11.2% or $807,391.

- Interest income on investments, increased by $219,337 or 17.7% from fiscal year 2004. The increase is due to a higher amount of investments on hand during the year.

- Administrative fees increased by $66,684 or 10.6%. These fees are based on Authority income from a percentage of originations and principal outstanding from the various bond deals.

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

SUMMARY OF EXPENSES

A summary of expenses for the fiscal year ended June 30, 2005, and the amount and percentage of change in relation to prior fiscal year amounts is as follows:

	2005	Percent of Total	2004	Increase/ (decrease) from 2004	Percent Increase/ (decrease)
Operating:					
Interest expense	$ 5,593	70.7%	$ 6,032	$ (439)	-7.3%
Administrative fees	698	8.8%	631	67	10.6%
Loan collection fees	756	9.6%	426	330	77.5%
General and administrative expenses	327	4.1%	313	14	4.5%
Amortization of bond issuance costs	340	4.3%	362	(22)	-6.1%
Professional fees	204	2.6%	172	32	18.6%
Provision for loan losses	(300)	-3.8%	(400)	100	-25.0%
Salaries	99	1.3%	99	-	0.0%
Trustee fees	44	0.6%	43	1	2.3%
Arbitrage rebate expense	154	1.9%	112	42	37.5%
TOTAL OPERATING EXPENSES	$ 7,915	100.0%	$ 7,790	$ 125	1.6%

The Authority's expenses increased from fiscal year 2004 to 2005 by $125,000 or 1.6% in total. Notable differences between the years include:

- Interest expense decreased by $439,461 or 7.3% due to the replacement of higher interest debt with lower interest debt.
- Administrative fees increased by $66,684 or 10.6% primarily due to higher activity in the current year in terms of education loans disbursed.
- Arbitrage rebate expense increased by $42,415 due to the increase in the 2% yield liability as compared to June 30, 2004.
- Professional fees increased by $31,888 due primarily to the services of a Financial Advisor due to a new bond series issued during the year.
- Provision for loan losses decreased by $100,000 or 25% primarily due to historical collection results, CHESLA's reduction in write offs and its increase in recoveries in recent years which support a reduction in the overall allowance for loan losses.
- Loan collection fees increased largely due to the inclusion of the costs paid for deconversion and conversion related to the change in loan service providers during 2005.

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,

	2005	2004
Cash flows from operating activities	$ 2,616	$ 6,572
Cash flows from investing activities	(27,900)	(2,312)
Cash flows from non-capital financing activities	14,161	197
Net (decrease) increase in cash and cash equivalents	(11,123)	4,457
Cash and cash equivalents:		
Beginning of year	19,546	15,089
End of year	$ 8,423	$ 19,546

The Authority's available cash and cash equivalents decreased $11.1 million from $19.5 million at the end of fiscal year 2004 to $8.4 million at the end of fiscal year 2005 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 2005, this net source of cash was $4 million less than fiscal year 2004 and was mainly due to an increase in loan disbursements.

- Cash flows from investing activities, which represent the net difference between proceeds from maturing investments versus the purchase of investment securities. For fiscal year 2005, this net use of cash was $25.6 million more than fiscal year 2004 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 2005, this net source of cash was $14 million higher than fiscal year 2004 and was mainly due to the proceeds from the 2005 Series A and B bond issuances exceeding scheduled payments on bond principal.

CONNECTICUT HIGHER EDUCATION SUPPLEMENTAL LOAN AUTHORITY

BALANCE SHEET

June 30, 2005 and 2004

ASSETS	2005	2004
CURRENT ASSETS		
Unrestricted assets:		
Cash and cash equivalents	$ 1,545,601	$ 1,809,257
Current portion of loans receivable, net of allowances for loan losses of $2,300,000 in 2005 and $2,600,000 in 2004	16,957,639	15,066,397
Interest receivable on investments	435,210	137,869
Interest receivable on loans receivable	370,818	486,263
Total unrestricted assets	19,309,268	17,499,786
Restricted assets:		
Cash and cash equivalents	6,878,006	17,737,215
Investments	38,613,093	9,212,834
Connecticut Higher Education Trust	2,085	2,715
Total restricted assets	45,493,184	26,952,764
Total Current Assets	64,802,452	44,452,550
NON-CURRENT ASSETS		
Restricted investments	7,000,000	8,500,000
Loans receivable, net of current portion	68,798,981	71,501,591
Bond issuance costs, net of accumulated amortization of $2,786,922 in 2005 and $2,426,520 in 2004	2,444,584	2,057,962
Total Non-Current Assets	78,243,565	82,059,553
	$ 143,046,017	$ 126,512,103

See notes to financial statements.

LIABILITIES	2005	2004
CURRENT LIABILITIES		
Current portion of bonds payable	$ 5,225,280	$ 4,846,352
Accounts payable and accrued liabilities	90,520	105,391
Current portion of arbitrage rebate payable	154,183	29,667
Accrued interest payable	1,023,187	692,549
Current portion of deferred revenue	405,384	414,766
Total Current Liabilities	6,898,554	6,088,725
LONG-TERM LIABILITIES		
Bonds payable, net of current portion	124,993,529	110,374,261
Arbitrage rebate payable, net of current portion	130,736	1,216,224
Deferred revenue, net of current portion	2,272,034	2,305,428
Total Long-Term Liabilities	127,396,299	113,895,913
Total Liabilities	134,294,853	119,984,638
UNRESTRICTED NET ASSETS	8,751,164	6,527,465
	$ 143,046,017	$ 126,512,103

CONNECTICUT HIGHER EDUCATION SUPPLEMENTAL LOAN AUTHORITY

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

Years Ended June 30, 2005 and 2004

	2005	2004
OPERATING REVENUES		
Interest income on investments	$ 1,455,380	$ 1,236,043
Interest income on loans receivable	7,985,977	7,178,586
Administrative fees	697,588	630,900
Other operating income	-	53,550
Total operating revenues	10,138,945	9,099,079
OPERATING EXPENSES		
Interest expense	5,592,934	6,032,395
Administrative fees	697,588	630,900
Loan collection fees	755,965	426,269
General and administrative expenses	327,124	313,162
Amortization of bond issuance costs	340,657	361,301
Professional fees	204,088	172,200
Arbitrage rebate expense	154,183	111,768
Salaries	98,615	98,660
Trustee fees	44,092	42,948
Provision for loan losses	(300,000)	(400,000)
Total operating expenses	7,915,246	7,789,603
CHANGE IN NET ASSETS	2,223,699	1,309,476
NET ASSETS, beginning	6,527,465	5,217,989
NET ASSETS, ending	$ 8,751,164	$ 6,527,465

See notes to financial statements.

CONNECTICUT HIGHER EDUCATION SUPPLEMENTAL LOAN AUTHORITY

STATEMENTS OF CASH FLOWS

Years Ended June 30, 2005 and 2004

	2005	2004
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received for the following:		
Loan payments	$ 18,318,094	$ 17,165,829
Interest collected on loans	8,101,422	7,430,386
Interest collected on investments	1,158,039	1,265,369
Other income	697,588	620,481
Total cash received	28,275,143	26,482,065
Cash paid for the following:		
Loans disbursed	(17,917,527)	(11,983,046)
Bond Interest	(5,445,055)	(6,133,503)
Other expenses	(2,296,544)	(1,793,248)
Total cash disbursed	(25,659,126)	(19,909,797)
Net Cash Provided by Operating Activities	2,616,017	6,572,268
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of restricted investments	(27,900,259)	(2,311,878)
Net Cash Used in Investing Activities	(27,900,259)	(2,311,878)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Issuance of bonds	37,355,000	18,195,414
Bond issuance costs	(1,368,623)	(853,375)
Payments on bond principal	(21,825,000)	(17,145,000)
Net Cash Provided by Noncapital Financing Activities	14,161,377	197,039
Net (decrease) increase in cash and cash equivalents	(11,122,865)	4,457,429
CASH AND CASH EQUIVALENTS, Beginning	19,546,472	15,089,043
CASH AND CASH EQUIVALENTS, Ending	$ 8,423,607	$ 19,546,472

See notes to financial statements.

	2005	2004
RECONCILIATION OF CHANGE IN NET ASSETS TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Change in net assets	$ 2,223,699	$ 1,309,476
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Amortization of bond issuance costs	340,657	361,301
Amortization of deferred amount on refunding	111,220	20,224
Amortization of bond discount	5,795	9,149
Amortization of bond premium	(6,827)	(44,757)
Provision for loan losses	(300,000)	(400,000)
Change in assets and liabilities:		
Decrease in loans receivable	1,111,368	5,182,783
(Increase) decrease in interest receivable on investments	(297,341)	29,326
Decrease in interest receivable on loans receivable	115,445	99,743
(Decrease) increase in accounts payable and accrued liabilities	(14,889)	58,869
(Decrease) increase in arbitrage rebate payable	(960,972)	8,324
Increase (decrease) in accrued interest payable	330,638	(18,575)
Decrease in deferred revenue	(42,776)	(43,595)
Net Cash Provided by Operating Activities	$ 2,616,017	$ 6,572,268

RECONCILIATION OF CASH AND CASH EQUIVALENTS TO THE STATEMENT OF NET ASSETS		
Cash and cash equivalents - unrestricted	1,545,601	1,809,257
Cash and cash equivalents - restricted	6,878,006	17,737,215
	$ 8,423,607	$ 19,546,472

SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Deferred amount on refunding recorded through reduction of bond issuance costs	$ -	$ 74,417

See 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 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 proceeds from the 2005 Series B bonds were used to refund the 1993 and 1994 Series A 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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Bond Funds (Continued) –

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.

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 $7,947,798 and $18,789,187 as of June 30, 2005 and 2004, 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.

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, 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, 2005 and 2004.

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. Collection 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.

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 to 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, 2005 and 2004, the carrying amount of the Authority's unrestricted and restricted cash deposits totaled $457,969 and $757,285, respectively. As of June 30, 2005, the bank balance totaled $184,872, 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.

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, 2005 are as follows:

Bond Series	Number	Balance	Interest Rate (%)
1993A	474	$ 1,216,246	8.40
1994A	1,275	5,717,880	8.25
1996A	1,390	8,701,186	8.10
1998A&B	1,167	9,176,950	7.50
1999A	663	6,568,067	7.50
1999B	295	2,307,604	7.50
2000A	1,015	10,347,798	7.25
2000B	383	3,534,137	7.25
2001A*	1,570	15,360,382	6.7 & 9.7
2003A	1,073	13,632,625	4.99
2003B**	1,418	9,700,444	4.99 & 9.2
	10,723	86,263,319	
Add: Non-performing loans		1,793,301	
Less: Allowance for loan losses		(2,300,000)	
		$ 85,756,620	

* 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%.

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, 2005 and 2004, non-performing loans totaled $1,793,301 and $1,247,853, respectively, for which interest income of approximately $134,200 and $102,900 respectively, was not accrued.

NOTE 3 – LOANS RECEIVABLE (Continued)

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 $285,392 and $364,337 for the years ended June 30, 2005 and 2004, respectively, which had been previously provided for through the allowance for loan losses. The Authority recovered $392,583 and $425,929 in fiscal 2005 and 2004, 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, 2005 and 2004.

	Balance at June 30, 2003	Increases	Decreased	Balance at June 30, 2004
Bonds payable - principal	$ 114,260,000	$ 31,035,997	$ 30,075,384	$ 115,220,613

	Balance at June 30, 2004	Increases	Decreased	Balance at June 30, 2005	Amount Due Within One Year
Bonds payable - principal	$ 115,115,000	$ 37,355,000	$ 21,825,000	$ 130,645,000	$ 5,295,000
Discount	(272,393)	(331,030)	(5,795)	(597,628)	(19,870)
Premium	499,349	99,236	6,825	591,760	38,170
Deferred amount on refunding	(121,343)	(338,978)	(39,998)	(420,323)	(88,020)
	$ 115,220,613	$ 36,784,228	$ 21,786,032	$ 130,218,809	$ 5,225,280

The bonds of the Authority bear interest at rates, varying between 1.7% and 6.4%. Future amounts needed to pay principal and interest on bonds outstanding at June 30, 2005 is as follows:

Year Ending June 30,	Principal	Interest
2006	$ 5,295,000	$ 6,043,591
2007	6,860,000	5,565,930
2008	7,815,000	5,277,659
2009	6,615,000	4,980,849
2010	7,865,000	4,671,326
2011-2015	55,410,000	15,791,543
2016-2020	33,785,000	4,946,381
2021-2025	7,000,000	291,688
	$ 130,645,000	$ 47,568,967

NOTE 4 – BONDS PAYABLE (Continued)

Outstanding principal of each bond issue at June 30, 2005 and 2004 is as follows:

	Original Amount	Outstanding June 30, 2005	Outstanding June 30, 2004
1993 Series A, 4.4%-5.875%, due serially November 15, 1997 to November 15, 2013	$ 10,000,000	$ -	$ 2,510,000
1994 Series A, 4.9%-6.4%, due serially November 15, 1998 to November 15, 2014	25,000,000	-	8,230,000
1996 Series A, 4.75%-5.875%, due serially from November 15, 2001 to November 15, 2017	25,000,000	9,820,000	12,035,000
1998 Series A, 4.10%-5.15%, due serially from November 15, 2002 to November 15, 2016	15,000,000	5,615,000	7,880,000
1998 Series B, 4%-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	5,440,000	7,300,000
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	10,000,000	12,095,000
2000 Series B, 4.75%-5.2%, due serially from November 15, 2001 to November 15, 2012	5,975,000	3,845,000	4,645,000
2001 Series A, 4.25%-5.25%, due serially from November 15, 2010 to November 15, 2021	25,000,000	22,575,000	22,575,000
2003 Series A, 1.7%-4.5%, due serially from November 15, 2004 to November 15, 2020	18,000,000	17,000,000	18,000,000
2003 Series B, 2%-5%, due serially from November 15, 2004 to November 15, 2017	12,915,000	12,065,000	12,915,000
2005 Series A, 2.5%-4.375% due serially from November 15, 2005 to November 15, 2021	31,455,000	31,455,000	-
2005 Series B, 4% due serially from November 15, 2008 to 2010	5,900,000	5,900,000	-
	$ 132,545,000	$ 130,645,000	$ 115,115,000

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, 2005 and 2004, the Authority redeemed bonds in the following amounts:

	2005	2004
1991 Series A	$ -	$ 1,800,000
1993 Series A	235,000	580,000
1994 Series A	765,000	1,900,000
1996 Series A	1,555,000	2,300,000
1998 Series A	1,990,000	2,610,000
1999 Series A	1,670,000	2,140,000
2000 Series A	2,095,000	1,685,000
2001 Series A	-	1,045,000
	$ 8,310,000	$ 14,060,000

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 with a stated interest rate of 7.2% and $8,000,000 of Series 1 bonds which were a short-term interim refinancing of various bonds with rates ranging from 5.625% to 8.40%. 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 10 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 life of the refunded 1991 Series A bonds, which is shorter than the remaining life of the new bonds issued.

During the year ended June 30, 2005, the Authority issued $5,900,000 of 2005 Series B bonds with an average interest rate of approximately 4% and utilized $2,670,000 of proceeds from previous bond offerings to refund $2,020,000 of 1993 Series A bonds and $6,650,000 of 1994 Series A bonds with an average interest rate of approximately 6.06%. 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 10 years by approximately $2,770,000 and resulted in an economic gain (difference between the present values of the debt service payments of the old and new bonds) of approximately $2,424,010. The reacquisition price exceeded the carrying amount of the old bonds by $338,978. This amount is being netted against the new bonds and amortized over the life of the 2005 Series B bonds, which is shorter than the remaining life of the refunded 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, 2005 and 2004, 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, 2005 and 2004. 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 2005 and 2004, the Authority made contributions of $8,231 and $7,890, 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.

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 financial statements of Connecticut Higher Education Supplemental Loan Authority for the year ended June 30, 2005 appears on page 1. This audit was conducted for the purpose of forming an opinion on the financial statements taken as a whole. The supplementary information contained on pages 24 to 26 is presented for purposes of additional analysis and is not a required part of the combined financial statements. Such information has been subjected to the auditing procedures applied in the audits of the combined financial statements, and, in our opinion, is fairly stated in all material respects in relation to the combined financial statements taken as a whole.

The accompanying supplementary information for the year ended June 30, 2004 was audited by other auditors, whose report dated September 3, 2004 expressed an unqualified opinion on those statements.

Rocky Hill, Connecticut
September 9, 2005

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, 2005, and have issued our report thereon dated September 9, 2005. 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*.

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.

Rocky Hill, Connecticut
September 9, 2005

CONNECTICUT HIGHER EDUCATION SUPPLEMENTAL LOAN AUTHORITY
COMBINING BALANCE SHEETS
JUNE 30, 2005 AND 2004

	JUNE 30, 2005				JUNE 30, 2004			
	AUTHORITY OPERATING	BOND FUNDS			AUTHORITY OPERATING	BOND FUNDS		
ASSETS	FUND	PRE 2003	2003	TOTAL	FUND	PRE 2003	2003	TOTAL
CURRENT ASSETS								
Unrestricted assets:								
Cash and cash equivalents	$ 1,545,601	$ -	$ -	$ 1,545,601	$ 1,809,257	$ -	$ -	$ 1,809,257
Current portion of loans receivable, net of allowances for loan losses of $2,300,000 in 2005 and $2,600,000 in 2004	-	11,138,227	5,819,412	16,957,639	-	12,639,773	2,426,624	15,066,397
Interest receivable on investments	3,859	62,606	368,745	435,210	1,756	102,119	33,994	137,869
Interest receivable on loans receivable	-	260,800	110,018	370,818	-	433,056	53,207	486,263
Total unrestricted assets	1,549,460	11,461,633	6,298,175	19,309,268	1,811,013	13,174,948	2,513,825	17,499,786
Restricted assets:								
Cash and cash equivalents	-	3,115,382	3,762,624	6,878,006	-	5,046,059	12,691,156	17,737,215
Investments	-	7,851,535	30,761,558	38,613,093	-	6,557,220	2,655,614	9,212,834
Connecticut Higher Education Trust	2,085	-	-	2,085	2,715	-	-	2,715
Total restricted assets	2,085	10,966,917	34,524,182	45,493,184	2,715	11,603,279	15,346,770	26,952,764
Total current assets	1,551,545	22,428,550	40,822,357	64,802,452	1,813,728	24,778,227	17,860,595	44,452,550
NON-CURRENT ASSETS								
Restricted investments	-	1,800,000	5,200,000	7,000,000	-	6,300,000	2,200,000	8,500,000
Loans receivable, net of current portion	-	45,141,342	23,657,639	68,798,981	-	59,938,858	11,562,733	71,501,591
Bond issuance costs, net of accumulated amortization of $2,786,922 in 2005 and $2,426,520 in 2004	1,269,905	367,669	807,010	2,444,584	1,157,728	609,942	290,292	2,057,962
Total non-current assets	1,269,905	47,309,011	29,664,649	78,243,565	1,157,728	66,848,800	14,053,025	82,059,553
Total Assets	$ 2,821,450	$ 69,737,561	$ 70,487,006	$ 143,046,017	$ 2,971,456	$ 91,627,027	$ 31,913,620	$ 126,512,103

CONNECTICUT HIGHER EDUCATION SUPPLEMENTAL LOAN AUTHORITY
COMBINING BALANCE SHEETS (CONTINUED)
JUNE 30, 2005 AND 2004

	JUNE 30, 2005				JUNE 30, 2004			
	AUTHORITY OPERATING FUND	BOND FUNDS			AUTHORITY OPERATING FUND	BOND FUNDS		
LIABILITIES		PRE 2003	2003	TOTAL		PRE 2003	2003	TOTAL
CURRENT LIABILITIES								
Current portion of bonds payable	$ -	$ 2,100,000	$ 3,125,280	$ 5,225,280	$ -	$ 2,995,000	$ 1,851,352	$ 4,846,352
Accounts payable and accrued liabilities	52,004	18,871	19,645	90,520	2,715	85,171	17,505	105,391
Current portion of arbitrage rebate payable	-	154,183	-	154,183	-	29,667	-	29,667
Accrued interest payable	-	429,784	593,403	1,023,187	-	549,282	143,267	692,549
Due to/(from) other funds	(254,485)	(3,822,984)	4,077,469	-	(100,509)	(774,876)	875,385	-
Current portion of deferred revenue	-	352,837	52,547	405,384	-	376,736	38,030	414,766
Total current liabilities	(202,481)	(767,309)	7,868,344	6,898,554	(97,794)	3,260,980	2,925,539	6,088,725
LONG-TERM LIABILITIES								
Bonds payable, net of current portion	-	62,125,000	62,868,529	124,993,529	-	81,205,000	29,169,261	110,374,261
Arbitrage rebate payable, net of current portion	-	130,736	-	130,736	-	1,216,224	-	1,216,224
Deferred revenue, net of current portion	-	1,779,426	492,608	2,272,034	-	2,035,882	269,546	2,305,428
Total long-term liabilities	-	64,035,162	63,361,137	127,396,299	-	84,457,106	29,438,807	113,895,913
Total liabilities	(202,481)	63,267,853	71,229,481	134,294,853	(97,794)	87,718,086	32,364,346	119,984,638
UNRESTRICTED NET ASSETS	3,023,931	6,469,708	(742,475)	8,751,164	3,069,250	3,908,941	(450,726)	6,527,465
	$ 2,821,450	$ 69,737,561	$ 70,487,006	$ 143,046,017	$ 2,971,456	$ 91,627,027	$ 31,913,620	$ 126,512,103

CONNECTICUT HIGHER EDUCATION SUPPLEMENTAL LOAN AUTHORITY
COMBINING STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
JUNE 30, 2005 AND 2004

	JUNE 30, 2005				JUNE 30, 2004			
	AUTHORITY OPERATING FUND	BOND FUNDS PRE 2003	BOND FUNDS 2003	TOTAL	AUTHORITY OPERATING FUND	BOND FUNDS PRE 2003	BOND FUNDS 2003	TOTAL
OPERATING REVENUES								
Interest income on investments	$ 38,505	$ 772,059	$ 644,816	$ 1,455,380	$ 22,009	$ 873,084	$ 340,950	$ 1,236,043
Interest income on loans receivable	-	6,468,163	1,517,814	7,985,977	-	6,295,021	883,565	7,178,586
Administrative fees	697,588	-	-	697,588	630,900	-	-	630,900
Other operating income	-	-	-	-	-	-	53,550	53,550
	736,093	7,240,222	2,162,630	10,138,945	652,909	7,168,105	1,278,065	9,099,079
Total operating revenues								
OPERATING EXPENSES								
Interest expense	-	3,989,528	1,603,406	5,592,934	-	4,946,755	1,085,640	6,032,395
Administrative fees	-	483,306	214,282	697,588	-	539,323	91,577	630,900
Loan collection fees	-	591,883	164,082	755,965	-	346,047	80,222	426,269
General and administrative expenses	256,970	67,968	2,186	327,124	262,848	43,039	7,275	313,162
Amortization of bond issuance costs	221,739	56,495	62,423	340,657	194,781	102,443	64,077	361,301
Professional fees	204,088	-	-	204,088	172,200	-	-	172,200
Arbitrage rebate expense	-	154,183	-	154,183	-	111,768	-	111,768
Salaries	98,615	-	-	98,615	98,660	-	-	98,660
Trustee fees	-	36,092	8,000	44,092	-	42,948	-	42,948
Provision for loan losses	-	(700,000)	400,000	(300,000)	-	(800,000)	400,000	(400,000)
Total operating expenses	781,412	4,679,455	2,454,379	7,915,246	728,489	5,332,323	1,728,791	7,789,603
CHANGE IN NET ASSETS	(45,319)	2,560,767	(291,749)	2,223,699	(75,580)	1,835,782	(450,726)	1,309,476
NET ASSETS, beginning	3,069,250	3,908,941	(450,726)	6,527,465	3,144,830	2,073,159	-	5,217,989
NET ASSETS, ending	$ 3,023,931	$ 6,469,708	$ (742,475)	$ 8,751,164	$ 3,069,250	$ 3,908,941	$ (450,726)	$ 6,527,465